



Halesowen College

## **Annual Members' Report and Financial Statements 2015/16**

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**For the year ended  
31 July 2016**

Report of the Members of the Corporation  
and Financial Statements for the period  
1 August 2015 to 31 July 2016

## **Key Management Personnel, Board of Governors and Professional Advisers**

### **Key Management Personnel**

Key management personnel are defined as members of the College Executive and were represented by the following in 2015/16:

Keith Bate, Principal and Chief Executive/Accounting Officer

Jacqueline Carman, Director of Finance and Corporate Services

Joanne Williams, Director of Learning and Teaching

### **Board of Governors**

A full list of Governors is provided on pages 25-26 of these financial statements.

### **Professional Advisers**

#### **Financial Statements Auditors and Reporting Accountants**

RSM UK Audit LLP  
St Philips Point  
Temple Row  
Birmingham  
B2 5AF

#### **Bankers**

Lloyds Bank  
Corporate  
2<sup>nd</sup> Floor  
125 Colmore Row  
Birmingham  
B3 3SF

#### **Internal Auditors**

TIAA Ltd  
53-55 Gosport Business Centre  
Aerodrome Road  
Gosport  
Hampshire  
PO13 0FQ

#### **Solicitors**

Shakespeare Martineau  
No 1 Colmore Square  
Birmingham  
B4 6AA

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## **MEMBERS' REPORT**

### **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 Halesowen College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011. The Education Act 2011 introduced new legislative freedoms for Colleges, however, Halesowen College has not changed its legal status as a result of this legislation.

The Corporation was incorporated as Halesowen College.

### **Mission**

The 2015-2020 strategic plan supported an overarching mission approved by the members

*'to be the leading choice for post 16 education and training'.*

### **Public Benefit**

Halesowen College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page pages 25 and 26.

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.

The College first adopted a Public Benefit Statement in April 2013 which has since been reviewed annually. In delivering its mission, the College provides identifiable public benefits through the advancement of education. The College is accountable to its learners, the wider community it serves and other stakeholders; adding value to the social, economic and wellbeing of the community it serves.

The provision at Halesowen College meets the public benefit principles in as much as there are identifiable benefits to the public/section of the public.

The purpose of the College is the delivery of high quality education and training that maximises student opportunities and success. This will be achieved through a framework to:

- design and promote services to fulfil clients' requirements and needs;
- provide a wide range of high quality learning programmes;
- ensure that the College actively seeks to improve quality, efficiency and effectiveness in all its activities.

Each year the Corporation formally review its activities to ensure that they meet the public benefit definition and that they are within its powers.

## **Implementation of Strategic Plan**

The College adopted a strategic plan for the period 1 August 2015 to 31 July 2020. As part of the strategic planning process the College has a property strategy and prepares annual risk management and financial plans. The Corporation monitors the performance of the College against its strategic objectives with the Chief Accounting Officer/Principal providing an update at each meeting of the Corporate Board. Measurable annual targets covering all key aspects of College activities are established and monitored. It is a fundamental responsibility of the Corporation to approve the quality strategy and the College has an accountability cycle to set and monitor targets and standards and ensure continuous improvement. The College has reviewed its approach to self-assessment to reflect the current Ofsted model. The College operates on a yearly cycle corresponding with the academic year which involves a complex combination of processes to achieve institutional success and external scrutiny.

The strategic plan '*Leading Education and Learning for the Future*' aims to enable continued success and development at outstanding levels of performance and recognition. The key components within the plan were subject to consultation with staff, students, partners and the wider community. In defining core and enabling strategies and associated aims the College has evaluated current and emerging strengths and challenges encompassing a broad range of factors including education, economic, financial and demographic.

In order to provide a clear direction for staff, students, partners and the wider community the new plan has been structured based on three core strategies supported by three enabling strategies:

### *Core Strategies*

- Deliver the most extensive range of high quality 14-25 learning and progression opportunities.
- Lead in diverse, inclusive and innovative learning, teaching and assessment.
- Drive strong collaborative learning partnerships in meeting the needs of the economy, education and the community.

### *Enabling Strategies*

- A reputation and brand as the outstanding College of choice that leads to local learning.
- Be an exemplary employer recognised for the most capable committed and caring staff.
- Ensure financial strength and stability to deliver excellent facilities and resources.

Each core comprises a set of aims within which there are two defining aims.

- Recognise the individual needs of learners and put in place support and direction through the delivery of an inclusive portfolio of provision from entry level to higher education.
- Establishing the College as a leading centre for training in education and learning within the region.

The College is on target for achieving these objectives. Throughout the period of a Strategic Plan it is essential that the attainment of priorities is kept under scrutiny to ensure that the College achieves its full potential. Priorities will be continuously reviewed through the planning and accountability cycle and to inform the annual review.

The strategic plan provides a fundamental platform to attain challenging ambitions over a five year period. The underpinning core and enabling strategies are reviewed annually within the planning cycle based on a clear set of targets to put in place the vision for the College in 2020. These form the annual plan which itemises areas for specific development and actions/outcomes required.

The College operates on a Corporate Board model rather than a committee structure. The approach to reporting has been enhanced to focus on key issues affecting the strategic overview of the College. This is based on items falling within the risk framework set out in the plan and emerging developments.

The College's specific targets for 2015/16 and achievement of these objectives is addressed in the table below.

### Core/Enabling Strategies

<b>[1] Deliver the most extensive range of high quality 14-25 learning and progression opportunities</b>	
<b>Action/Outcome</b>	<b>Progress to Date</b>
Implement new curriculum and assessment strategy to ensure that the curriculum framework is fully in place to deliver study programmes through curriculum changes 2015/16.	Curriculum strategy is in place and will be reviewed in September 2016.
Revise the College self-assessment and operational review structure to correspond with new common inspection framework.	Following external review in June 2016 a new self assessment format has been developed with corresponding changes to operational reviews. This builds on changes made in September 2015 and the introduction of the new Common Inspection Framework.
Introduce new digital learning strategy to enhance delivery and performance in learning across the College.	A digital learning strategy is now in place and will be fully embedded in teaching, learning and assessment from September 2016 onwards.
Ensure the College achieves an excellent outcome to the higher education review.	Successful outcome from Higher Education Review in November 2015. Action plan will be monitored and developments with new Review method updated.

<b>[2] Lead in diverse, inclusive and innovative learning, teaching and assessment</b>	
<b>Action/Outcome</b>	<b>Progress to Date</b>
Ensure that new enrolment and assessment systems are put in place to provide individual profiling of students through the new three week extended induction.	<p>Initial Assessment undertaken by all students during three week induction in 2015/16 and will be undertaken during first week of term 2016/17.</p> <p>Diagnostics for English and Maths re-sit students to be done during three weeks induction. Enrolment improved by transferring student data from iTracker.</p> <p>Funding Agency Learner Record for qualifications captured 90%.</p>

<b>[2] Lead in diverse, inclusive and innovative learning, teaching and assessment</b>	
<b>Action/Outcome</b>	<b>Progress to Date</b>
Implement new approach to the delivery of GCSEs English and Maths incorporating digital development and high level monitoring and reporting.	<p>English and maths uptake of GCSEPOD was variable and needs to be more consistent in the future.</p> <p>Reporting to English and Maths Tracking Group on attendance and achievement of mocks – more forensic reporting required in 2016/17.</p> <p>New structure in place for 2016/17 to lead maths and English based on external review recommendations.</p>
Implement PREVENT strategy.	All staff have undertaken PREVENT training.
Implement new approach to assessing supporting and monitoring higher needs student.	<p>Higher Need Tracking Group meetings bi-weekly ensure that students are identified.</p> <p>Looked After Children and Higher Needs students tracked and progression monitored.</p> <p>Review Panel implemented for new admissions.</p> <p>EHCPs documented and reviewed on a regular basis.</p> <p>Team structure now in place.</p>

<b>[3] Drive strong collaborative learning partnerships in meeting the needs of the local economy, education and the community</b>	
<b>Action/Outcome</b>	<b>Progress to Date</b>
Implement new careers education dimension to school liaison/partnerships through seven partner schools.	The careers education dimension has been implemented to verifying degrees with the partner schools. The College is part of the King Edward VI and Halesowen Colleges' Multi Academy Trust with Ridgewood School. The development of the Multi Academy Trust and changing structures within partner schools will require further changes in approach in 2016/17.
Increase higher education numbers and apprenticeships by 20% in 2016/17.	Numbers in HE and Apprenticeships have increased, particularly by the development of new courses and higher level apprenticeships. Growth is on track to meet 20% target in 2016/17.
Increase the volume of events and participants in community activities by 15% in 2015/16.	The volume of events has increased considerably in 2015/16 – most notably the development of two WI groups and the creation of the Civic Society. The community units are also now extending to the curriculum – examples include Leasowes Walled Garden, Canal Trust and Black Country Housing.

<b>[4] E1 - A reputation and brand as the outstanding College of choice that leads local learning</b>	
<b>Action/Outcome</b>	<b>Progress to Date</b>
High profile launch of plan throughout the community and with key partners.	Following consultation the Strategic Plan was launched in September 2015 outlining challenging ambitions over a five year period. Underpinning the plan, a clear set of annual targets were put in place to focus on specific developments and actions required.
Put in place programme of high profile activities for 2016 to	The College began the 50th Celebrations at the 1960s themed Open Day in March 2016 with a programme of events celebrating fifty years of delivering education. This included the

<b>[4] E1 - A reputation and brand as the outstanding College of choice that leads local learning</b>	
<b>Action/Outcome</b>	<b>Progress to Date</b>
correspond with the College's 50th anniversary at Whittingham site.	launch of the Fitness Trail linked with a charity event for Sports Relief as well as exhibitions, music, retro catering and community involvement. A Facebook page has been established and future events are planned such as the celebration tea party and official launch of Block 13 by Lord Cobham.
Implement investment in new Advanced Science and Technology Centre and meet LEP growth target for higher apprenticeships.	The Centre was officially launched in November 2015 with a visit from Sajid Javid MP. Extensive refurbishment was carried out to create a high quality learning environment for STEM subjects with a particular focus on higher apprenticeships. This capital investment was supported by a contribution from the Local Growth Fund through the Black Country LEP. The College is on target to deliver the outcomes required as a condition of this funding.
Construct new Block 13 performance centre for delivery in 2016/17.	The new performance centre was completed in August 2016. This provides outstanding facilities for performing arts students and allow the College to consolidate its activities onto the Whittingham site rather than using an external venue. The block is available for teaching in the autumn term and the project was completed on time and within budget. An official opening on 2 September 2016 launched and promoted the facilities.

<b>[5] Be an exemplary employer, recognised for the most capable, committed and caring staff</b>	
<b>Action/Outcome</b>	<b>Progress to Date</b>
Implement new strategy and meet CPD/staff targets 2015/16.	The organisational development strategy has been launched and shared through briefings, development sessions and digitally with both staff and governors. All of the actions identified for 2015/16 have made progress including re-accreditation for Leaders in Diversity, completion of a staff survey and the introduction of a new support staff appraisal scheme. On average, staff have participated in 9.66 CPD sessions this year which exceeds the target of 8.
Implement new digital communication and development framework for all staff.	The creation of a new digital communication and development framework for all staff was an ambitious target which proved to be unrealistic within the timescales. However the communications group has met regularly throughout the year and there has been some positive progress in clarifying the College chains of communication through the development of a new people system, which alongside the development of a staff internal communications strategy will inform future plans.
Review and implement an extended learning and technical staff base to support digital learning.	There has been an increase in the involvement of extended learning and technical staff in the classroom and in the curriculum. The library staff have been instrumental in the migration of courses between Moodle versions and this momentum is being maintained through the development of resources for student learning and staff development purposes including the development of the new online induction course. A more cohesive approach to the role of the curriculum technicians is currently underway through a review, the resulting recommendations will be considered.



<b>[5] Be an exemplary employer, recognised for the most capable, committed and caring staff</b>	
<b>Action/Outcome</b>	<b>Progress to Date</b>
Implement new publicity and marketing strategy incorporating plans for new website 2017.	The website has been shared with staff and students in May 2016 and feedback invited. Comments shared have informed the final aesthetics of the new site which is due to be launched in October 2017. A revised approach to the creation of the prospectus and the way in which course details are stored and maintained will facilitate the accessibility and the accuracy of course information.

<b>[6] Ensure financial strength and stability to deliver excellent facilities and resources</b>	
<b>Action/Outcome</b>	<b>Progress to Date</b>
Implement new HR finance and student record systems with new reporting framework.	A new student record system was successfully launched in September 2015 alongside the central repository for reports and data analysis. These developments provide an excellent basis from which to enhance and standardise student tracking and monitoring, and management reporting. The finance Open Accounts system went live on 1 August 2016. My.halesowen, a bespoke people system has been introduced and new arrangements are in place for payroll.
Fully implement new Moodle virtual learning platform across all areas for full-time courses as a core vehicle for new digital learning strategy.	A new digital learning strategy designed to strengthen the quality, flexibility and accessibility of learning through technology has been approved by the Corporation. The objectives include creation of online and blended learning experiences, developing staff and student digital competence, and enhancing the student experience. In year Moodle has been upgraded and staff development provided for all curriculum areas.
Revised College financial strategy 2016-20 in the light of Government policy announcement Autumn 2015.	The financial strategy has been reviewed and a revised plan has been approved by the Corporation. This medium term plan reflects current government policy such as the National Living Wage and changes to National Insurance and pension contributions, and funding levels and agency methodologies. The College can retain its outstanding financial health in 2016/17. Efficiencies to pay and non-pay have been identified whilst ensuring that resources are still available for further investment in learning resources and accommodation.
Revise Accommodation and Environment Strategy.	A new property and investment strategy was approved by the Corporation in June 2016. The aim of the strategy is to ensure that the environment is cutting edge with high profile, professional and inspiring facilities. Key factors influencing this strategy are student numbers, inclusivity individual needs, safeguarding, student voice, curriculum change and the digital learning strategy, together with the requirements of employers and partners. The approach is a combination of updating and maximising the existing estate whilst sourcing off-site facilities for alternative provision and curriculum development.

At each meeting of the Corporate Board the Accounting Officer/Principal presents a strategic update together with monthly performance information against predetermined annual targets which have been approved by the Corporation. The report shows comparative month by month performance, a risk rating and direction of travel. Any comments or interventions required are narrated. The targets include:

▪ **Finance**

- current ratio
- surplus/deficit as a percentage of income
- cash days in hand
- operating surplus/deficit against budget
- borrowing as a percentage of income
- debt charges as a percentage of income
- gearing ratio
- performance ratio
- levels of bad debt
- financial health grade

▪ **Students Learning and Teaching**

- recruitment, retention and attendance
- success rates and achievement
- average class size
- lesson observation grade profile
- levels of income for HE and apprenticeship
- room deployment
- punctuality to lessons
- progression

▪ **Staff**

- absence
- deployment
- pay as a percentage of income
- participation in continuous professional development

▪ **Digital**

- network capacity
- number of workstations
- hardware replacement

▪ **Estates and Environment**

- condition of the estate
- costs per m<sup>2</sup>
- carbon footprint
- recycling

## Financial Objectives

In order to assist the College in achieving its strategic objectives, the governing body sets annually financial targets which are coterminous with those financial objectives set out in the College's strategic plan. The purpose of setting and monitoring such objectives is to establish limits within which the College can operate and achieve its overarching strategies. The College regularly compares its performance against published averages from various sources and, has developed a set of key performance indicators, which focus on the core areas of activity. It is helpful to review actual performance against plan and to review the targets. The College operates on a Corporate Board model and has developed a finance dashboard as part of the monthly performance monitoring. There is also a formal report each month showing College performance against annual targets. The actual performance is shown alongside the comparison from the previous period. The distance of travel is highlighted and each performance criteria RAG rated to demonstrate risk. Each month the finance dashboard is updated to report performance against targets and core ratios in graphical format so trends are easily highlighted. A link is provided to the full management accounts pack. The Corporation consider targets for the year ahead to ensure that they remain appropriate; achievable, yet challenging. A more long term set of aims preserves the financial profile of the College ensuring that the organisation remains a going concern and is sufficiently robust to achieve its strategic objectives. It is useful to compare College achievement with those of equivalent institutions and to monitor trends over time. Targets and effective financial management have been established to ensure liquidity, profitability/viability, constraint of costs and gearing.

The financial targets for Halesowen College in 2015/16 were as follows:

### Liquidity

A current ratio of at least 5 (actual 5.86).

Cash days in hand great than 180 (actual 203).

### Profitability/Viability

Operating surplus as a percentage of income (excluding release of deferred capital grants) of at least 4%. (Actual surplus before other gains and losses was 6.81% of income).

Historic cost surplus as a percentage of income at least 6% of income. (Actual – under FRS102 this is not calculated).

Performance ratio is the adjusted operating surplus (adjusted for pension adjustments and depreciation) divided by income less deferred capital grant release and should be at least 10%. (Actual 11.53%)

### Gearing

Gearing is a term describing a financial ratio that compares equity (or capital) to borrowed funds. Gearing is a measure of financial leverage, demonstrating the degree to which activities are funded by College funds versus those of a creditor. A high gearing ratio represents a high proportion of debt to equity, and a low gearing ratio represents a low proportion of debt to equity. As such a high gearing ratio is indicative of a great deal of leverage, where debt is being used to pay for its continuing operations. In a period of downturn, such organisations may have difficulty in meeting their debt repayment schedules which would have a range of adverse consequences; ultimately bankruptcy. A low gearing ratio may be indicative of

conservative financial management, but would also indicate that the College cannot afford to become overextended in a period of on-going financial challenge and decreasing surplus.

The College's gearing ratio should be no more than 20%. (Actual excluding defined benefit obligations 16.28%).

The College's debt charges, excluding approved bridging loans, should be no higher than 2.5% of income and be reflective of the level of borrowing. (Actual 0.72%)

Total borrowing as a percentage of income and total debts as a percentage of reserves and debt should be less than 27%. (Actual 23.66%)

### **Constraint of Costs**

The College's pay bill should be met within 61% of income (excluding the release of deferred capital grants) after accounting for extraordinary items. (Actual 58.87%)

The year on year percentage increase in pay must be consistent with the inflationary pay award, projected incremental drift and approved volume changes (after accounting for FRS102 pension adjustments). This was achieved.

The year on year percentage increase in non-pay (excluding depreciation) must be consistent with the inflationary price increases and approved volume changes. This was achieved.

### **Changes in Levels of Activity**

The year on year change in income should be determined annually based on financial projections. Expenditure levels should be maintained within the income figure to maintain the budgeted surplus.

### **Performance Indicators**

The College is committed to observing the importance of the measures and indicators, and use the FE choices website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Skills Funding Agency (SFA). The College is assessed by the SFA as having an outstanding financial health grading. The current rating of outstanding as calculated via the financial plan is considered a positive outcome.

## **FINANCE POSITION**

### **Financial Results**

The Group generated a surplus before other gains and loans in the year of £1,608,000 (2014/15 – surplus of £1,020,000 restated).

The Group has accumulated total reserves of £19,273,000 of which £17,417,000 relates to general reserve (excluding pension reserve), and cash balances of £1,306,000 (and short term investments which can be liquidated of £12,189,000).

The College's cash and investments includes a bond held with Lloyds Bank on behalf of Walsall Council to provide the required security for a growth fund capital grant provided by the

Black Country Local Enterprise Partnership. This grant would be repayable should output targets not be achieved.

Tangible fixed asset additions during the year amounted to £4,111,000. This was split between land and buildings acquired of £3,052,000 (less £2,276,000 in progress) and equipment purchased of £1,059,000. This related in part to the completion of refurbishment of the Coombs Wood campus to provide a centre for science and technology linking with the delivery of higher apprenticeships. This capital project was supported by a growth deal grant from the Black Country Local Enterprise Partnership. There has also been refurbishment works, investment in digital resources and the commencement of Block 13 which provides performance space and teaching accommodation.

There is a significant reliance on the Skills Funding Agency and Education Funding Agency for principal funding sources, largely from recurrent grants. In 2015/16 funding body and agency grants comprised of 82.54% of the Group total income.

The College has one wholly owned subsidiary company, Halesowen College Enterprises Limited (HCE). The principal activities of HCE are the provision of retail outlets offering students a range of pre-prepared hot and cold foods, drinks, snacks and Starbucks coffee. The company also deals with for-profit activities such as room hire, bespoke training, the sale of study aids and other retail goods. For 2015/16 HCE has transferred under Gift Aid the surplus generated to The Halesowen Foundation; a registered charity reference 1130576. Whilst The Halesowen Foundation is a separate legal entity the College and HCE are significant stakeholders. The charitable objects are:

- To advance the education and training within Halesowen College and the wider community and to develop the talents and abilities of students by providing training, equipment or facilities including but not restricted to grants, loans, scholarships, bursaries and prizes not usually provided for by the statutory authorities.
- To support such charitable purposes as the Directors may determine.

The operating profit generated by HCE was £105,514.

The turnover of the company is consistent with budget and the previous period.

The College is also a partner in South Black Country Education Limited alongside King Edward VI Form College. This is a shared services company and had not commenced trading at the accounting date. The College owns fifty percent of the share capital (two £1 ordinary shares).

## **Treasury Policies and Objectives**

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

The College has a separate treasury management policy in place.

The College now has facility to lodge investments with four banks:

- NatWest
- Barclays
- Bank of Scotland/Lloyds
- HSBC

There is no short term borrowing for temporary revenue purposes, however any such borrowing for temporary revenue purposes would be authorised by the Accounting Officer. All other borrowing requirements shall be authorised by the Corporation.

## **Cashflows and Liquidity**

Operating cash inflow is strong. In 2006/07 the College consolidated its borrowing; with additional borrowing of £1.25m drawn in March 2009 at a fixed rate of 5.55%, £1.25m drawn in November 2010 at a variable rate of 1.50% above LIBOR and £1.32m drawn in August 2011 at a variable rate of 1.50% above LIBOR.

In 2015/16 net cashflow from operating activities is £1,608,000 and the movement in cash in the period is a decrease of £1,864,000.

As stated above capital projects have been financed from College reserves. The College has not taken any additional borrowing to finance these final stages of the property strategy. The ongoing investment strategy will impact on future cashflows. The capital grant of £1.059m from the LEP has been used to part finance the advanced science and technology centre.

Currently the College has a strong liquidity position.

The size of the College's total borrowing and its approach to interest rates has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow. During the year this margin was comfortably exceeded.

The College is fully compliant with all loan covenants.

## **Reserves Policy**

The Corporation on behalf of Halesowen College reviews the levels of reserves monthly as part of the management accounts review. The College is dependent on agency funding from the Education Funding Agency and Skills Funding Agency and must ensure sufficient reserves to sustain outstanding financial health allowing the College to achieve its strategic objectives and realise ongoing investment to provide an outstanding learning experience so that the College remains the leading choice for post 16 education and training.

The reserves policy of Halesowen College is to maintain sufficient levels of reserves to enable operating activities to be maintained, taking account of potential risks and contingencies that may arise from time to time. The policy is reviewed annually by the Corporation.

Reserves are that part of the College's unrestricted funds that is freely available to spend on any allowable purposes. This definition excludes restricted income funds and endowment funds, although holding such funds may influence this reserves policy. Reserves will also normally exclude tangible fixed assets held for the College's use and amounts designated for essential future spending.

Any restrictions on the use of the funds must be explained to the Corporation. Budgets and future plans need to be considered, in particular any uncertainty over future income or the risk of unexpected expenditure.

Reserves are held to help the College operate effectively.

Charity law requires any income received by a charity (including an exempt charity) to be spent within a reasonable period of receipt. The College must hold a level of reserves which is coterminous with the financial targets established annually.

## **CURRENT AND FUTURE DEVELOPMENTS AND PERFORMANCE**

### **Student Numbers**

In 2015/16 the College saw a decrease in the number of 16-18 students and did not achieve the EFA contractual targets. At the funding point R04 the College had 3575 16-18 students compared to contractual target of 3968. This will be reflected in the lagged funding for 2016/17. To ensure the ongoing viability of the College, efficiencies will be realised in both pay and non-pay. As a result of this action the College can sustain its outstanding financial health in 2016/17.

In terms of the SFA contract the College has performed well above contract in 2015/16 for classroom based learning. Growth funds were received for apprenticeships linking with the activity targets in the LEP contract. There will be clawback of SFA income despite the classroom based over performance as adult apprenticeships have not reached maximum contract value.

### **Student Achievements**

Students at Halesowen College continue to achieve and progress to higher/further education or employment. The success rate target for 2015/16 was 88% and actual performance 88.51% (2014/15 86.46%).

### **Curriculum Developments**

The College has a curriculum which is broad in terms of range of subjects and levels. Methods of learning, teaching and assessment are under continuous review and development to ensure that the curriculum makes a positive contribution to the local community and provides a valuable resource to local groups, organisations, individuals and employers. The College also aims to extend opportunities for students to follow personalised pathways which ensure they reach their full potential and take the next positive step. In 2015/16 the College has continued to respond to government priorities and the needs of local employers by developing higher apprentice frameworks. This links with the priorities identified by the Local Enterprise Partnership. The launch of a commercial salon will provide more industry experience for students. For 2016/17 the College is continuing to build capacity in its apprentice provision and extending the range of HE options. English and maths continue to be a priority for 16-18 study programmes and adult skills. Within the Black Country the percentage of people with no qualifications exceed the national average. Also only 22.4% of the population held a Level 4 qualification compared to 37.1% nationally. In addressing this need the College is developing an Access Centre to facilitate HE study and focus on basic skills which are essential in the workplace.

The College has launched its digital learning strategy and is investing resources for development using technology. The College will implement Moodle 3 as an updated virtual learning environment. Staff development has focused on implementing the learning, teaching and assessment strategy and will contribute to raising of standards.

Recruitment to 16-18 provision draws from over thirty feeder secondary schools. Approximately 70% of students follow a vocational programme ranging from entry level to advanced programmes. Only 27% of the College intake comes from schools performing at or above the national level. Therefore the College focuses on individual choice and puts in place high levels of support. As a response to government priorities the College has focused on improving standards of literacy and numeracy and employability skills. Work experience is a key part of vocational study programmes.

The College has a statutory and moral responsibility for safeguarding including Prevent and, as part of this agenda, has introduced a cyber-safety qualification as part of the tutorial framework. Across all areas clear progression pathways are in place and the College has developed courses to respond to the needs of individuals with mental health issues and those requiring training and employment skills. Links with universities provide additional options for students looking to continue studying past Level 3. The College continues to develop its own range of higher level courses. The Steps to Success programme enables the student to develop study techniques, become an independent learner and focus on the next step into further/higher education and/or employment.

The College has excellent links with local employers and community groups.

The College is continuing to link with schools to support the 14-19 agenda.

The College has an Associate College Model with University of Worcester.

## 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 agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2015 to 31 July 2015 the College paid 95% of its invoices within 30 days. The College incurred no interest charges from commercial debtors in respect of late payment for this period. Calculated creditor days averaged at 28.87 over the period. The College has monitored performance against this target, in terms of value and volume, for a number of years and reports monthly on compliance as part of the management accounts available to senior management and governors.

## Post Balance Sheet Events

Halesowen College Enterprises is the wholly owned subsidiary of Halesowen College and has committed to providing an interest bearing loan of up to £40,000 to South Black Country Education; a shared services company, in order to provide start up working capital.

## Future Prospects

The College's key source of income is from contracts with the SFA/EFA. Income from EFA for 2016/17 (as stated in the finance plan) is as follows:

<b>EFA Income</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Main grant	15,097,836	15,172,983	13,555,877
Retention Factor	-769,990	-728,303	-677,794
PCWF	988,621	1,141,130	1,004,491
High level ALS	96,000	96,000	96,000
Disadvantage	2,083,418	2,168,922	1,862,569
Large programme factor	0	0	1,600
Core maths early adopters	11,250	0	0
<b>Sub Total</b>	<b>17,507,135</b>	<b>17,850,732</b>	<b>15,842,743</b>
Bursary	550,187	554,698	420,377
Free FE meals	207,599	164,495	165,057
Subtotal	757,786	719,193	585,434
<b>TOTAL EFA</b>	<b>18,264,921</b>	<b>18,569,925</b>	<b>16,428,177</b>



The Education Funding Agency income disclosed in Note 2 excludes the bursary funding as the College is effectively a paymaster for these funds.

The table shows a comparison year on year in funding. There will be a decrease to income in 2016/17 due to a reduction in the number of students who enrolled in 2015/16. There is a decline in the demographic and increased competition from other colleges, schools, sixth forms and apprenticeship options. The application profile for 2016/17 demonstrates a positive trend and the financial plan assumes a modest recovery position of EFA funding which will be realised through the lagged model.

The College has an adult education budget of £1,063,540 of which a proportion is earmarked for adult apprenticeships.

Despite a decline in EFA income the College will maintain a strong financial base over the forthcoming period.

Efficiencies have been made to both the pay and non-pay budgets to ensure financial resilience and maintenance of outstanding financial health.

The summary from the financial plan in the table below demonstrates the forecast position.

	Year ended 2017	Year ended 2018
	£000s	£000s
Income	21,939	22,600
Expenditure	(20,477)	(20,582)
Surplus before interest, tax, depreciation and amortisation costs	1,462	2,018
Adjusted Current Ratio	7.52	7.79
Gearing Ratio	14.76%	12.99%
Performance Ratio	6.15%	8.47%
EBITDA as a percentage of income	6.33%	8.67%

This financial profile provides assurance that the College is a going concern and corresponds with the revised targets adopted by the Corporation to ensure financial stability in the short/medium term. These financial targets fully incorporate the impact of transition to new UK GAAP 'FRS102'.

The Corporation will need to continue to address

- changes in Government policy and its impact on funding;
- finance targets and the investment strategy;
- recommendations from Area Reviews of post-16 education.

The Black Country review is now complete and eight challenges have been identified. Halesowen College will continue to work collaboratively as part of Black Country College to deliver the targets and recommendations.

Currently the College position is one of financial strength and this is forecast to continue despite the reduction in EFA funding in 2016/17. This will ensure the continued financial viability of the organisation whilst at the same time maintaining high levels of quality and the achievement of the strategic objectives.

The College has the ability to continue to function as a tertiary college offering its range of education and training for the medium term. Despite the impact of cuts and efficiencies, the College has a strong financial base and will be responsive to the continued challenges ahead. As such, as stated above, these accounts are prepared on the assumption that the College is a going concern.

## **RESOURCES**

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

Tangible resources include the main College sites of Whittingham Road, Coombs Wood and Shenstone House.

### **Financial**

The Group has £19.273 million of net assets (including pension liability) and long term debt.

### **People**

The Group employs 413.57 people (expressed as full time equivalents), of whom 240.46 are teaching staff.

### **Reputation**

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and developing external relationships. The College aims to ensure marketing and promotional activities are positively managed to further enhance this excellent reputation and emphasise positive messages.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

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

The Risk Management Policy is subject to annual review and the Corporation has determined an overarching risk appetite, ie the amount of risk the College is prepared to accept, tolerate or be exposed to at any point in time. It is important to understand the level of acceptable risks. Looking at risk without considering any of the controls in place gives the level of inherent risk whereas to establish the residual risk the control environment and other mitigating factors must be taken into account. The overall risk appetite is set at balanced; ie:

- Willing to consider a range of options and adapt strategic aims and devolved management structure to move the organisation forward.
- Prepared to make decisions where there is an element of risk, provided appropriate controls are in place.
- Innovation and systems development supported within overarching strategic objectives/ designated projects.

- Technological development encouraged to enhance quality and efficiency.
- Resources allocated to capitalise on developments and potential opportunities.

Risks are assessed using a 5 point scoring system for likelihood of occurrence and materiality. In order to derive the overall risk score these two numbers are multiplied together; for example a risk having a medium likelihood of occurrence but a significant impact would score 3 (medium) multiplied by 4 (significant) hence the overall risk score would be 12.

For a balanced risk appetite the maximum risk score is 12.

For risks scoring 12 or more a risk plan is produced and any that have a net risk outside of the appetite a traffic light system of red and amber is applied. Red risks could present serious challenges for the College and must be monitored at the highest level with an appropriate level of scrutiny. The Corporation consider and accept such risks. The concept of contra risk has been incorporated into the risk management approach.

Based on the strategic plan and associated annual plan, a comprehensive review of the risks to which the College is exposed was undertaken. This identifies systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, any risks which may arise as a result of a new area of work being undertaken by the College are considered. For all risks scoring 12 or more the sources of assurance are documented.

A risk register is maintained at the College level which is reviewed formally at least annually by the Audit and Assurance Committee. Risks are also reviewed throughout the year. The risk register identifies and categorises the key risks, the likelihood of those risks occurring and their potential impact on the College. For significant risks the actions being taken to reduce and mitigate the risks are noted. Risks are prioritised using a consistent scoring system.

Following the completion of the 2016/17 risk register an action plan was produced to address key factors. This will be monitored via the Audit and Assurance Committee. In addition as part of the risk exercise relevant legislation is considered to ensure compliance.

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

## **Government Funding**

The College has considerable reliance on continued government funding through the EFA and to a lesser extent the SFA. In 2015/16, 82.54% of the Group's revenue was ultimately public funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms. Indeed for 2016/17 the College's EFA allocation has been reduced. The College also faces increased competition from local providers and there is a declining demographic. The financial position and forecast is wholly dependent on maintaining student numbers and indeed a modest recovery against EFA profiles.

The College acknowledges failure to respond to the needs of students, employers and to adhere to the government's agenda are risks. Moreover, adverse financial impact due to changes in funding methodologies/resource allocation is a high scoring risk in the register.

Significant changes to remission rules and the increase in student loans for 19-23 year olds on Level 3+ courses increases the risk of student debt.

This risk is mitigated by ensuring the College is rigorous in delivering high quality education and training hence meeting stakeholder expectations. The College is focused on delivering in priority sectors which continue to benefit from public funding.

### **Tuition Fee Policy**

Ministers have confirmed that the fee assumption remains at 50% for 2016/17.

Halesowen College will apply tuition fees in accordance with the fee assumptions. As stated above significant changes to remission rules and the increase of 19+ learning loans will impact on the College and transfer risk from the agency to the provider. The price elasticity of adult learning is changeable. The risk for the College is that students will be unable and/or unwilling to afford to pay fees especially in the ongoing macroeconomic climate and be unwilling to incur debt in the form of a student loan. This will impact on the strategy of the College.

This risk is mitigated by ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students and closely monitoring the demand for courses. The College has held workshops for students to offer advice and guidance together with practical support to enable students to invest in their future.

### **Maintain Adequate Funding for Pension Liabilities**

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS102.

### **Risks Identified in the Risk Register**

The key themes include competition, curriculum changes, increasing volume of students with high needs and finance plus external factors such as a new Common Inspection Framework and the impact of governance policy.

Key themes can be summarised as follows:

- Significant curriculum changes and potential impact on learning, teaching and assessment.
- Failure of digital systems impeding the digital learning strategy and adverse impact on the core activities of the College.
- Failure to effectively track and monitor students and produce data to inform decision making.
- Delivering maths and English in the 16-18 study programme and associated funding conditions particularly given the 9 to 1 GCSE.
- Demographic decline/increased competition and impact on student numbers and funding, hence a need for ongoing quality improvement and investment in resources.
- Impact of external factors such as area based review, EU referendum, government policy and Prevent responsibilities.
- Failure to make the required savings for pay and non-pay to maintain the financial objectives of the College.

- Failure to provide effective student support especially given the increased and complex individual needs of students; in particular mental health.
- Failure to sustain at least good in an Ofsted inspection given the challenges of the new Common Inspection Framework.
- Failure of performance management and effective management of change.
- Opportunities and risk arising from change such as shared services and new ventures.

## **Fraud and Corruption**

Failure to detect fraud and corruption and/or prevent bribery can be a risk.

Failure to detect fraud arises when there is a poor control environment and/or when staff have no mechanisms for reporting concerns. Fraud can be planned or opportunistic, and may be a one-off event or ongoing over a period of time. The risk of failing to detect fraud inevitably leads to financial loss plus other less tangible adverse effects such as staff morale. The overarching risk is to the College's reputation should the incident be serious.

In order to combat this risk the College has:

- a robust system of internal control and whenever problems are identified uses audit services to help facilitate remedial action;
- implemented a Whistleblowing Policy, and Anti-Fraud Policy and Response Plan;
- anti-money laundering regulations in place and implemented a procedure to safeguard against money laundering and enhance controls on safe key handling;
- an effective Audit and Assurance Committee;
- an anti-bribery policy;
- a new approach to assurance which is prepared using a risk based approach and approved by the Audit and Assurance Committee;
- annual anti-fraud self-assessment which is reported to the Audit and Assurance Committee.

## **STAKEHOLDER RELATIONSHIPS**

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

- Students
- Education sector funding bodies
- FE Commissioner
- Staff
- Local employers (with specific links)
- Local Authorities
- Local Enterprise Partnerships
- The local community
- Other FE institutions
- HE institutions
- Trade unions
- Professional bodies

- Local schools
- The Halesowen Foundation
- South Bank Country Education Limited

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**

Halesowen College is committed to ensuring equality of opportunity for all who learn and work at the College. The College respects and values positively differences under the protected characteristics defined in the Equality Act 2010. Thus, strives vigorously to remove conditions which place people at a disadvantage and actively combats bigotry. This policy will be resourced, implemented and monitored on a planned basis. The College has published data required under the Act. An Equality and Diversity Consultative Forum has been established and is chaired by the Accounting Officer/Principal demonstrating the College's commitment at the highest level. The group has considered the implications of the Equality Act 2010 and ensured compliance. A thorough site survey has been undertaken by DisabledGo with whom the College continues to work.

The College's Equality documents are published on the College's website. These policies incorporate all protected characteristics.

The College considers all applications from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion, which are, as far as possible, identical to those for other employees. Halesowen College participates in the double tick scheme.

The College has been accredited under the Leaders in Diversity scheme.

The College holds the values of commitment, learning, partnership, respect, standards and trust are central to its mission in placing the student experience at the heart of all College policies and procedures. Accordingly this places great emphasis on access to education and aims to remove barriers in order to create a culture of inclusiveness that is committed to challenging discrimination in all aspects of its work.

The College is determined to create an ethos where the diversity of staff and students is both promoted and valued. It sees diversity as being key to widening participation in education and enriching the College experience for all. Hence it seeks to promote positive practice with all external agencies such as government bodies, employers, contractors etc.

### **Disability Statement**

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

- As part of its property strategy the College has updated its access audit. Experts in this field conducted a full access audit and the results of this have informed capital projects.
- The College has a team that co-ordinates the provision of information and advice and arrangements of support where necessary for students with disabilities.

- There is specialist equipment which the College can make available for use by students and assistive technology is available in the library.
- The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy. The College has a responsibility and statutory duty in relation to students who have or may have special educational needs or disabilities.
- The College has made a significant investment in the appointment of specialist staff to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
- Counselling and welfare services are available and promoted in College Student information.
- The College has submitted information to the Local Authority to form part of the Local Offer bringing together health, education and social care for young people.

The College is aware of and complies with its duties under the Equality Act 2010.

### **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 auditors are aware of that information.

**Approved by order of the members of the Corporation on 30 November 2016 and signed on its behalf by**

**Leslie Williams**  
**Chair**



## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2015 to 31 July 2016 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. in full accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ('the 'Code'); and
- iii. having due regard to the UK Corporate Governance Code 2014 insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College/Board has adopted and complied with the Code.

In the opinion of the Governors, the College complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 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.

The Corporation resolved to adopt the Code of Good Governance for English Colleges from 1 August 2015, noting one area of variance on length and terms of office.

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.

As stated previously the Corporation has adopted a Public Benefit Statement. The College is accountable to its learners, to the wider community it serves and other stakeholders. The Public Benefit Statement describes how Halesowen College adds value to the social, economic and wellbeing of the community it serves.



## The Corporation

The members who served on the Corporation during the year and up to the date of signature of this report were as listed in the table below. (Attendance is given for 1 August 2015 to 31 July 2016).

### Governors Serving on the College Board 2015/16

Name	Date of Appointment	Term of Office	Date of Resignation	Status of Appointment	Committees Served	Corporation Members Attendance
Keith Bate			30/09/2016	Accounting Officer / Principal	Search and Governance	12/12
Jane Chan	24/10/2013 – 31/07/2014 01/08/2014 – 31/07/2017	< 1 yr 3 yrs		▪ Member		5/12
Karen Cocker	24/09/2014 – 31/07/2015 01/08/2015 – 31/07/2018	< 1yr 3 yrs		▪ Co-optee ▪ Member		12/12
Geoffrey Elliott	01/01/2014 – 31/07/2014 01/08/2014 – 31/07/2017	< 1 yr 3 yrs		▪ Co-optee ▪ Member		7/12
Andrew Hanson	09/2005 10/2009 01/10/2013 – 31/07/2016	4 yrs 4 yrs 3 yrs	Completed term 31/07/2016	▪ Business ▪ Member	Audit and Assurance	11/12
Ian Jewkes	11/2011 11/2012 01/08/2013 – 31/07/2016 01/08/2016 – 31/07/19	1 yr 1yr 3 yrs 3 yrs		▪ Co-optee ▪ Member	Vice Chair of Corporation Search and Governance	10/12
Mark Johnson	24/09/2014 – 31/07/2015 01/08/2015 – 31/07/2018	< 1 yr 3 yrs		▪ Audit and Assurance Co-optee ▪ Member	Audit and Assurance Search and Governance	10/12
Helene Jones	01/08/2015 – 31/07/2016 01/08/2016 – 31/07/19	1 yr 3 yrs		▪ Co-optee ▪ Member	Search and Governance	10/12
Allison Matthews	11/2013 – 11/2015 27/11/2015 – 26/11/2017	2 yrs		▪ Staff		11/12
Peter Mitchell	11/2011 11/2012 01/10/2013 – 31/07/2014 01/08/2014 – 31/07/2015 01/08/2015 – 31/07/18	1 yr 1yr 1 yr 1 yr 3 yrs		▪ Co-optee ▪ Member	Audit and Assurance	4/12
Harvey Owen	01/03/2016 – 31/07/2016 01/08/2016 – 31/07/2019	< 1yr 3 yrs		▪ Co-optee ▪ Member	Audit and Assurance	2/5
Alison Perks	11/1999 10/2003 10/2007 10/2011 – 09/2015 10/2015 – 31/07/2016	4 yrs 4 yrs 4 yrs 4 yrs < 1 yr	Completed term 31/07/2016	▪ Community ▪ Member	Search and Governance	10/12

Name	Date of Appointment	Term of Office	Date of Resignation	Status of Appointment	Committees Served	Corporation Members Attendance
Claire Simmonds	24/09/2014 – 31/07/2015 01/08/2015 – 31/07/2016 01/08/2016 – 31/07/18	< 1 yr 1 yr 2 yrs		▪ Audit Co-optee		2/3 Audit and Assurance
Rianna Soley	01/08/2015 – 31/07/2016	Academic Year 2015/16	Completed term 31/07/2016	▪ Student		2/12
Laurence Washbrook	01/08/2015 – 31/07/2016	1 yr	15/12/2015	▪ Co-optee		2/4
Joanne Williams	1/10/2016			Interim Principal / Accounting Officer	Search and Governance	n/a
Leslie Williams	12/2005 12/2009 01/12/2013 – 31/07/2016 01/08/2016 – 31/07/2017	4 yrs 4 yrs 3 yrs 1 yr		▪ Business ▪ Member	Chair of Corporation Search and Governance	10/12
Monika Zilionyte	01/08/2016 – 31/07/2017	Academic Year 2016/17		▪ Student		n/a
Jennifer Sunter	Clerk to the Corporation					

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and human resources related matters such as health and safety and environmental issues. The Corporation meets several times each year on a monthly cycle of business.

The Corporation conducts its business through a Corporate Board model and retains only the statutory committees of Search and Audit. Each committee has terms of reference, which have been approved by the Corporation. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the clerk to the Corporation at:

Halesowen College  
Whittingham Road  
Halesowen  
West Midlands  
B63 3NA

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

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

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

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

There is a clear division of responsibility in that the roles of the Chair and Accounting Officer/Principal 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 and Governance, consisting of five current members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not usually exceeding three years. However, new appointments are made for a one year term of office in the first instance. The student governor is appointed for one year and the staff governor for two years.

### **Corporation Performance**

Success measures agreed by the Corporation are intended to provide a further means to review effectiveness in governance, performance and delivery of the strategic plan and objectives. The Search and Governance Committee review progress. The measures themselves are reviewed and updated to reflect the changing environment within which the College operates.

#### **Governance – Success Measures**

- Clear progress in delivering the next year of the Strategic Plan for the period 2015 to 2020 by successful implementation of the Annual Plan.
- Definable progress towards achieving an Outstanding rating at the next Ofsted inspection, including further external review and preparation of the Governors for inspection.
- Completion of securing access to an appropriate skill base in Governors, set against the Skills matrix, with recruitment of digital media experience and replacement of those governors leaving.
- Achievement of an appropriate outcome from the Area Based Review, within the terms of the mandate agreed at the January 2016 Residential.
- Active collaboration with other Black Country Colleges and local schools to strengthen the educational offer and long term sustainability of the College.

#### **Performance of the College – High Level Success Measures**

- Maintenance of levels of student applications consistent with achieving sustainability and continued development of the College.
- College to meet financial targets each year.

- Range of provision to remain inclusive and to be expanded.
- Student results to improve on previous year's levels.
- Proportion of students progressing to further or higher education, or appropriate employment/career path to increase on previous year's level.

**Strategic Plan Objectives** - Delivery of 2016/17 Key Performance Indicators against Core and Enabling Strategies as being developed by the College Executive.

### **Remuneration Committee**

Halesowen College does not operate a Remuneration Committee. The remuneration and benefits of the Accounting Officer/Principal and other key management personnel are determined by the Corporation.

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

### **Audit and Assurance Committee**

The Audit and Assurance Committee comprises of three members and a co-opted member to the Corporation (excluding the Accounting Officer/Principal and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

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

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

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

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

The Audit and Assurance Committee is responsible for advising the Corporation on the assurance framework and will set out their opinion in their annual report.

### **Search and Governance Committee**

The College has a Search and Governance Committee to oversee the effectiveness of the search and appointment; monitor the arrangements for induction, training and self-assessment; monitor the arrangements for appraisal of the Clerk, senior post holders and the Accounting Officer/Principal, and oversee governance arrangements. The Committee comprises four current members.

## 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/Principal, 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 Halesowen College and the funding bodies. The Principal is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

### *The purpose of the system of internal control*

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Halesowen College for the year ended 31 July 2016 and up to the date of approval of the annual report and accounts.

### *Capacity to handle risk*

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2016 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

### *The risk and control framework*

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts
- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- the adoption of formal project management disciplines, where appropriate.

Halesowen College has an internal audit service, which operates in accordance with the requirements of the EFA and SFA Joint Audit Code of Practice. The work of the internal audit service is part of the College's overall assurance model which maps the key performance indicators, as defined in the strategic plan, against risks to identify areas where the Corporation require external scrutiny/additional assurance. The audit plan forms part of this framework and is approved by the Corporation on the recommendation of the Audit and Assurance Committee.

The appointed internal audit service centre their work on key financial controls. Specialist providers are engaged for other aspects of the assurance plan. Given this change to the assurance model the Audit and Assurance Committee have received several alternative reports on this assurance activity which included:

- assurance gap analysis
- risk management report including risk appetite, risk plans, sources of assurance, early warning indicators and contra risk
- anti-fraud self-assessment
- regularity audit checklist and associated evidence
- accountability review evaluation to replace the FMCE

as well as the annual opinion of the external auditor, a report on key financial controls from the internal audit service and reports on student records from a specialist audit firm.

#### *Review of effectiveness*

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

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

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

The Accounting Officer/Principal and 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 faculties and reinforced by risk awareness training. The Accounting Officer/Principal and senior management team and the Audit and Assurance Committee also receive reports from internal audit and other sources of assurance which include recommendations for improvement. The Audit and Assurance 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 and Assurance Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its September 2016 meeting, the Corporation 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 and Assurance Committee and the Accounting Officer/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 considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing financial statements.

Approved by order of the members of the Corporation on 30 November 2016 and signed on its behalf by:



**Leslie Williams**  
**Chair**

DATE: 30 NOVEMBER 2016



**Joanne Williams**  
**Accounting Officer/Interim Principal**


DATE: 30 NOVEMBER 2016

## **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 (SFA) of material irregularity, impropriety and non-compliance with SFA terms and conditions of funding, under the financial memorandum in place between the College and the SFA. As part of the 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 its knowledge, we are able to identify any material irregular or improper use of the funds by the College, or material non-compliance with the SFA 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 SFA.



**Leslie Williams**  
Chair

Date: 30 November 2016



**Joanne Williams**  
Accounting Officer/Interim Principal

Date: 30 November 2016



## STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE CORPORATION

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

The law applicable to charities in England and the terms and conditions of the Financial Memorandum between the Skills Funding Agency and the Corporation of the College, requires the Corporation of the College to prepare financial statements and the Members' Report for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions the annual Accounts Direction issued jointly by the Skills Funding Agency and the Education Funding Agency, and applicable United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and which give a true and fair view of the state of affairs of the College and of the College's surplus/deficit of income over expenditure for that period.

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

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

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 Charities Act 2011 and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

Members of the Corporation are responsible for ensuring that funds from the Skills Funding Agency are used only in accordance with the authorities that govern them as defined by and in accordance with Further and Higher Education Act 1992, subsequent legislation and related regulations and the Financial Memorandum with the Skills Funding Agency and any other conditions that may be prescribed from time to time.

Approved by order of the members of the Corporation on 30 November 2016 and signed on its behalf by:



**Leslie Williams, Chair**

Date: 30 November 2016

## INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF HALESOWEN COLLEGE

We have audited the Group and College financial statements ("the Financial Statements") set out on pages 37 to 68. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) upholding FRS102 'The International Standard applicable in the UK and Republic of Ireland' as set out in our engagement letter.

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

### ***Respective Responsibilities of the Corporation of Halesowen College and Auditor***

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 33, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with the terms of our engagement letter, Joint Audit Code of Practice issued by the Skills Funding Agency and Education Funding Agency and International Standards on Auditing (UK and Ireland). The International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>

### ***Opinion on financial statements***


In our opinion the Financial Statements:

- give a true and fair view of the state of the Groups' and the College's affairs as at 31 July 2016 and of the Group's surplus of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Joint Audit Code of Practice issued jointly by the Skills Funding Agency and the Education Funding Agency requires us to report to you if, in our opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations required for our audit.



**RSM UK AUDIT LLP**  
Chartered Accountants  
St Philips Point  
Temple Row  
Birmingham  
B2 5AF

Date: 15 October 2016

## **INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF HALESOWEN COLLEGE AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH THE SKILLS FUNDING AGENCY**

In accordance with the terms of our engagement letter and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether the expenditure disbursed and income received by Halesowen college during the period 1 August 2015 to 31 July 2016 have been applied to the purposes identified by Parliament and the financial transactions 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 Halesowen College and the Secretary of State for Education acting through 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 Halesowen College and the Secretary of State for Education acting through the 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 Halesowen College and the Secretary of State for Education acting through the Skills Funding Agency for our work, for this report, or for the conclusion we have formed.

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

The corporation of Halesowen College is responsible, under the financial memorandum and 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 1 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.

### **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 and our engagement letter.

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.

Our work included identification and assessment of the design and operational effectiveness of the controls, policies and procedures that have been implemented to ensure compliance with the framework of authorities including high level financial control areas where we identified areas where a material irregularity is likely to arise. We undertook detailed testing, based on our identification of the areas where a material irregularity is likely to arise where such areas are in respect of controls, policies and procedures that apply to classes of transactions. This work was integrated with our audit on the financial statements to the extent evidence from the conduct of that audit supports the regularity conclusion.

### **Conclusion**

In the course of our work nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 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.

### **RSM UK AUDIT LLP**

Chartered Accountants  
St Philips Point  
Temple Row  
Birmingham  
B2 5AF

Date:

## Halesowen College

### Consolidated Statements of Comprehensive Income

	Notes	Year ended 31 July 2016		Year ended 31 July 2015	
		Group	College	Group	College
		£'000	£'000	£'000	£'000
<b>INCOME</b>					
Funding body grants	2	19,767	19,767	19,609	19,609
Tuition fees and education contracts	3	2,110	2,110	1,747	1,747
Other grants and contracts	4	59	59	20	20
Other income	5	1,934	1,186	1,766	1,032
Investment income	6	79	78	80	79
Donations and endowments	7	0	0	0	0
<b>Total income</b>		<b>23,949</b>	<b>23,200</b>	<b>23,222</b>	<b>22,487</b>
<b>EXPENDITURE</b>					
Staff costs	8	13,895	13,895	13,829	13,829
Fundamental restructuring costs	8	0	0	0	0
Other operating expenses	9	6,817	6,174	6,922	6,293
Depreciation	12	1,277	1,277	1,121	1,121
Interest and other finance costs	10	352	352	330	330
<b>Total expenditure</b>		<b>22,341</b>	<b>21,698</b>	<b>22,202</b>	<b>21,573</b>
<b>Surplus before other gains and losses</b>		<b>1,608</b>	<b>1,502</b>	<b>1,020</b>	<b>914</b>
Loss on disposal of assets	12	0	0	0	0
<b>Surplus before tax</b>		<b>1,608</b>	<b>1,502</b>	<b>1,020</b>	<b>914</b>
Taxation	11	0	0	0	0
<b>Surplus for the year</b>		<b>1,608</b>	<b>1,502</b>	<b>1,020</b>	<b>914</b>
Unrealised surplus on revaluation of assets		0	0	0	0
Actuarial loss in respect of pensions schemes	26	(3,377)	(3,377)	(839)	(839)
<b>Total Comprehensive Income for the year</b>		<b>(1,769)</b>	<b>(1,875)</b>	<b>181</b>	<b>75</b>

**Halesowen College**  
**Consolidated and College Statement of Changes in Reserves**

	Income and Expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
<b>Group</b>			
<b>Restated balance at 1st August 2014</b>	19,117	1,956	21,073
Surplus from the income and expenditure account	1,020	0	1,020
Other comprehensive income	(839)	0	( 839)
Transfers between revaluation and income and expenditure reserves	50	(50)	0
Gift Aid	( 106)	0	( 106)
<b>Balance at 31st July 2015</b>	19,242	1,906	21,148
Surplus from the income and expenditure account	1,608	0	1,608
Other comprehensive income	(3,377)	0	(3,377)
Transfers between revaluation and income and expenditure reserves	50	(50)	0
Gift Aid	( 106)	0	( 106)
<b>Total comprehensive income for the year</b>	(1,825)	(50)	(1,875)
<b>Balance at 31st July 2016</b>	<b>17,417</b>	<b>1,856</b>	<b>19,273</b>
<b>College</b>			
<b>Restated balance at 1st August 2014</b>	19,123	1,956	21,079
Surplus from the income and expenditure account	914	0	914
Other comprehensive income	(839)	0	(839)
Transfers between revaluation and income and expenditure reserves	50	(50)	0
<b>Balance at 31st July 2015</b>	19,248	1,906	21,154
Surplus from the income and expenditure account	1,502	0	1,502
Other comprehensive income	(3,377)	0	(3,377)
Transfers between revaluation and income and expenditure reserves	50	(50)	0
<b>Total comprehensive income for the year</b>	(1,825)	(50)	(1,875)
<b>Balance at 31st July 2016</b>	<b>17,423</b>	<b>1,856</b>	<b>19,279</b>

**Halesowen College**  
**Balance sheets as at 31 July 2016**

	Notes	Group 2016 £'000	College 2016 £'000	Group Restated 2015 £'000	College Restated 2015 £'000
<b>Fixed assets</b>					
Tangible fixed assets	12	26,281	26,281	23,447	23,447
Investments	13	0	0	0	0
		<b>26,281</b>	<b>26,281</b>	<b>23,447</b>	<b>23,447</b>
<b>Current assets</b>					
Stocks		40	33	39	33
Debtors	14	1,095	1,245	789	963
Investments	15	12,189	12,189	11,125	11,125
Cash and cash equivalents	21	1,306	1,045	3,170	2,880
		<b>14,630</b>	<b>14,512</b>	<b>15,123</b>	<b>15,001</b>
<b>Less: Creditors – amounts falling due within one year</b>	16	(2,843)	(2,719)	(2,467)	(2,339)
<b>Net current assets</b>		<b>11,787</b>	<b>11,793</b>	<b>12,656</b>	<b>12,662</b>
<b>Total assets less current liabilities</b>		<b>38,068</b>	<b>38,074</b>	<b>36,103</b>	<b>36,109</b>
Less: Creditors – amounts falling due after more than one year	17	(9,906)	(9,906)	(9,678)	(9,678)
<b>Provisions</b>					
Defined benefit obligations	19	(8,734)	(8,734)	(5,123)	(5,123)
Other provisions	19	(155)	(155)	(154)	(154)
<b>Total net assets</b>		<b>19,273</b>	<b>19,279</b>	<b>21,148</b>	<b>21,154</b>
<b>Unrestricted reserves</b>					
Income and expenditure account		17,417	17,423	19,242	19,248
Revaluation reserve		1,856	1,856	1,906	1,906
<b>Total unrestricted reserves</b>		<b>19,273</b>	<b>19,279</b>	<b>21,148</b>	<b>21,154</b>

The financial statements on pages 37 to 68 were approved and authorised for issue by the Corporation on 30 November 2016 and were signed on its behalf on that date by:

  
 \_\_\_\_\_  
**Leslie Williams**  
**Chair**

  
 \_\_\_\_\_  
**Joanne Williams**  
**Accounting Officer**

# Halesowen College

## Consolidated Statement of Cash Flows

	Notes	2016 £'000	Restated 2015 £'000
<b>Cash inflow from operating activities</b>			
Surplus for the year		1,608	1,020
<b>Adjustment for non cash items</b>			
Depreciation		1,277	1,121
(Increase)/decrease in stocks		(1)	10
(Increase) in debtors		(306)	(367)
Increase/(decrease) in creditors		365	(323)
Increase in provisions		1	-
Pensions costs less contributions payable		234	144
Gift aid distribution		(106)	106
Deferred capital grants released to income		(347)	(220)
Taxation		0	0
<b>Adjustment for investing or financing activities</b>			
Investment income		(79)	(80)
Interest payable		169	168
Taxation paid		0	0
Loss on sale of fixed assets		0	0
		<u>2,815</u>	<u>1,579</u>
<b>Net cash flow from operating activities</b>			
<b>Cash flows from investing activities</b>			
Proceeds from sale of fixed assets		0	0
Disposal of non-current asset investments		0	0
Investment income		79	80
Withdrawal of deposits		0	0
New deposits		(1,064)	(5)
Payments made to acquire fixed assets		(4,111)	(1,221)
Capital grants received		936	0
		<u>(4,160)</u>	<u>(1,146)</u>
<b>Cash flows from financing activities</b>			
Interest paid		(169)	(168)
Interest element of finance lease rental payments		0	0
New unsecured loans		0	0
Repayments of amounts borrowed		(350)	(341)
Capital element of finance lease rental payments		0	0
		<u>(519)</u>	<u>(509)</u>
<b>(Decrease) in cash and cash equivalents in the year</b>		<u>(1,864)</u>	<u>(76)</u>
Cash and cash equivalents at beginning of the year	21	3,170	3,286
Cash and cash equivalents at end of the year	21	1,306	3,170



# NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 AUGUST 2015 TO 31 JULY 2016

## Note 1 Accounting Policies

### General Information

Halesowen College is a corporation established under the Further and Higher Education Act 1992 as an English general college of further education. The address of the College's principal place of business is given on page 26. The nature of the College's operations are set out in the Members' Report.

### Basis of Accounting

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"* (FRS102) under the historical cost convention modified to include the revaluation of freehold properties. The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS102.

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been applied consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS102 are disclosed in Note 29.

These consolidated and company financial statements are the first consolidated and company financial statements of Halesowen College prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS102). The consolidated financial statements of Halesowen College for the year ended 31 July 2015 were prepared in accordance with previous UK GAAP. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Comparative figures have been restated to reflect the adjustments made, except to the extent that the College has taken advantage of exemptions to retrospective application of FRS102 permitted by FRS102 Chapter 35 'Transition to this FRS'. Adjustments are recognised directly in reserves at the transition date.

The consolidated financial statements are presented in sterling which is also the functional currency of the College.

Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

### Basis of Consolidation

The consolidated financial statements include the College and its subsidiaries, Halesowen College Enterprises Limited, controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of any subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales, profits and balances are eliminated fully on consolidation. In accordance with FRS102, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2016.

All intra-group transactions, balances and unrealised gains on transactions between group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

## Going Concern

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

The College currently has £4,566,000 of loans outstanding with bankers on terms negotiated between 2006 and 2011. A summary of loans is included in the table below:

Date	Value Drawn	Term	Type	Rate	Bank
May 2006	£1,525,000	20 years	Variable	0.45% + base	Natwest
May 2006	£1,525,000	20 years	Fixed	6.08%	Natwest
March 2009	£1,250,000	20 years	Fixed	5.55%	Natwest
Nov 2010	£1,250,000	20 years	Variable	1.5% + LIBOR	Natwest
Aug 2011	£1,320,000	20 years	Variable	1.5% + LIBOR	Natwest

The College's forecasts and financial projections indicate that it will be able to finance loans and meet covenants for the foreseeable future.

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

## Recognition of Income

### Grants – government and non-government

Government revenue grants are accounted for under the accrual model and are recognised where a reliable estimate of the fair value of the asset received or receivable can be made on a systematic basis over the periods in which the related costs for which the grant compensates are recognised.

Funding body recurrent grants are measured in line with best estimates for the year of what is receivable and depend on the particular income stream involved. Any under achievement of 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. Where this process involves negotiations in respect of over achievement or adjustment to claw back in respect of underachievement, where negotiations are subsequent to the year end, they are not reflected in the income recognised.

16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments and is recognised when receivable.

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is recognised when received or receivable.

Grants from non-government sources, including grants relating to assets, are recognised in income when the College has met the performance-related conditions and the grant will be received. Income received in advance of performance related conditions being met is recognised as a liability.

Government capital grants for assets, other than land, are accounted for under the accrual model. The grant income received or receivable will be recognised over the expected useful life of the asset, with any amount of the asset-related grant that is deferred being recognised as deferred income. The deferred income is allocated between creditors due within one year and those due after more than one year.

### **Other Income**

Income from the supply of services is recognised at fair value of the consideration received or receivable and represents the value of services to the extent there is a right to consideration. Income from tuition fees is recognised over the period for which it is received.

All income from short-term deposits is accrued in the period in which it is earned on a receivable basis.

### **Retirement Benefits**

Retirement benefits to employees of the College are principally provided by Teachers' Pensions Scheme (TPS) and the Local Government Pension Scheme (LGPS), which are multi-employer defined benefit plans.

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 the Government Actuary on the basis of valuations using a projected unit method. The TPS is a multi-employer scheme but sufficient information is not available to use defined benefit accounting and therefore it is accounted for as a defined contribution scheme, with the amount charged to the statement of comprehensive income being the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

The LGPS is a funded scheme, and the assets of the scheme are held separately. Pension schemes are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. 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. The net interest cost on the net defined benefit liability/asset is charged to comprehensive income and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

### **Short Term Employment Benefits**

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the College. The cost of any unused holiday entitlement the College expects to pay in future periods is recognised in the period the employees' services are rendered.

## **Enhanced Pensions**

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

## **College**

Interests in subsidiaries and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses in the separate financial statements of the college.

Interests in subsidiaries and jointly controlled entities are assessed for impairment at each reporting date. Any impairment losses or reversals of impairment losses are recognised immediately in comprehensive income.

## **Group**

### **Jointly Controlled Entities**

Entities in which the Group has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities. Jointly controlled entities are accounted for using the equity method, as described in the accounting policy for associates above.

## **Other Investments**

Listed investments are stated at fair value through the profit or loss. Investments comprising unquoted equity instruments whose fair values cannot be measured reliably are measured at cost less impairment.

## **Tangible Fixed Assets**

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

### *Land and buildings*

Freehold buildings are depreciated on a straight line basis over their expected useful lives which is usually 50 years.

Freehold land is not depreciated.

The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 10 and 50 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred income account within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

On adoption of FRS102, the College followed the transitional provision to retain the book value of land and buildings, which were not revalued. The College has adopted a policy of no revaluation of these properties in the future unless there is belief that the carrying value is materially different from the fair value at the end of each accounting period.

#### *Assets under construction*

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July. They are not depreciated until they are brought into use.

#### *Subsequent expenditure on existing fixed assets*

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to the College, in which case it is capitalised and depreciated on the relevant basis.

#### *Equipment*

Equipment costing less than £5,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

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

■ technical equipment	4 years
■ motor vehicles	5 years
■ computer equipment	4 years
■ other	4-10 years

#### *Other*

Assets which are used collectively for one purpose may be grouped.

Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal, for the asset as if it were at the age and in the condition expected at the end of its useful life.

Subsequent costs, including replacement parts, are only capitalised when it is probable that such costs will generate future economic benefits. Any replaced parts are then derecognised. All other costs of repairs and maintenance are expenses as incurred.

### **Impairments of Fixed Assets**

An assessment is made at each reporting date of whether there are indications that a fixed asset may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, an estimate is made of the recoverable amount of the asset.

Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use, are recognised as impairment losses. Impairment of revalued assets, are treated as a revaluation loss. All other impairment losses are recognised in comprehensive income.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Reversals of impairment losses are recognised in comprehensive income or, for revalued assets, as a revaluation gain. On reversal of an impairment loss, the depreciation

or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

### **Borrowing Costs**

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

### **Leased Assets**

#### ***Operating Leases***

All other leases are operating leases and annual rents are charged to comprehensive income on a straight line basis over the lease term.

### **Stock**

Stock is valued at the lower of cost and estimated selling price less costs to complete and sell. Where necessary, provision is made for obsolete, slow-moving and defective items.

### **Financial Instruments**

The Group has chosen to adopt Sections 11 and 12 of FRS102 in full in respect of financial instruments.

#### ***Financial Assets and Liabilities***

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

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

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets measured at fair value through the profit or loss, which are initially measure at fair value (which is normally the transaction price excluding transaction costs), unless arrangement constitutes a financing transaction. A financial asset or financial liability that is payable or receivable in one year is measured at the undiscounted amount expected to be received or paid net of impairment, unless it is a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and financial liabilities are offset only when there is a current legally enforceable right to set off the recognised amounts and the intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

### **Taxation**

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

The College is partially exempt in respect of Value Added Tax, so that it can only recover a nominal amount of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

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

## **Provisions and Contingent Liabilities**

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

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the statement of comprehensive income in the period it arises.

A contingent liability arises from a past event that gives the College a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but are disclosed in the notes to the financial statements.

## **Agency Arrangements**

The College acts as an agent in the collection and payment of discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

## **Critical Accounting Judgements and Estimation Uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### ***Critical areas of judgement***

In preparing these financial statements, management have made the following judgements:

#### ***Critical accounting estimates and assumptions***

##### **■ *Tangible fixed assets***

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking 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, maintenance programmes, economic utilisation and physical condition of the assets are taken into account. Residual value assessments consider such issues such as future market conditions and the remaining life of the asset.

#### ■ *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 the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in Note 26, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 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.

#### ■ *Impairment of fixed assets*

The group considers whether tangible fixed assets are impaired. Where an indication of impairment is identified the estimation of the recoverable amount of the asset or the recoverable amount of the cash-generating unit is required. These will require an estimation of the future cash flow and selection of an appropriate discount rate in order to calculate the net present value of those cash flows.

### **Reserves Policy**

The Corporation on behalf of Halesowen College reviews the levels of reserves monthly as part of the management accounts review. The College is dependent on agency funding from the Education Funding Agency and Skills Funding Agency and must ensure sufficient reserves to sustain outstanding financial health allowing the College to achieve its strategic objectives and realise ongoing investment to provide an outstanding learning experience so that the College remains the leading choice for post 16 education and training.

The reserves policy of Halesowen College is to maintain sufficient levels of reserves to enable operating activities to be maintained, taking account of potential risks and contingencies that may arise from time to time. The policy is reviewed annually by the Corporation.

Reserves are that part of the College's unrestricted funds that is freely available to spend on any allowable purposes. This definition excludes restricted income funds and endowment funds, although holding such funds may influence this reserves policy. Reserves will also normally exclude tangible fixed assets held for the College's use and amounts designated for essential future spending.

Any restrictions on the use of the funds must be explained to the Corporation. Budgets and future plans need to be considered, in particular any uncertainty over future income or the risk of unexpected expenditure.

Reserves are held to help the College operate effectively.

Charity law requires any income received by a charity (including an exempt charity) to be spent within a reasonable period of receipt. The College must hold a level of reserves which is coterminous with the financial targets established annually.

The College's policy on the holding of reserves will be included in the annual members report which accompanies the financial statements.



**Halesowen College**  
**Notes to the Accounts (continued)**

**2 Funding body grants**

	Year ended 31 July 2016		Year ended 31 July 2015	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
<b>Recurrent grants</b>				
Skills Funding Agency	1,352	1,352	1,525	1,525
Education Funding Agency	17,996	17,996	17,579	17,579
Higher Education Funding Council	106	106	84	84
<b>Specific Grants</b>				
Skills Funding Agency	110	110	213	213
Releases of government capital grants	203	203	208	208
HE grant	0	0	0	0
<b>Total</b>	<b>19,767</b>	<b>19,767</b>	<b>19,609</b>	<b>19,609</b>

**3 Tuition fees and education contracts**

	Year ended 31 July 2016		Year ended 31 July 2015	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Adult education fees	196	196	132	132
Apprenticeship fees and contracts	30	30	20	20
Fees for FE loan supported courses	574	574	480	480
Fees for HE loan supported courses	600	600	399	399
European (excluding UK) students	0	0	0	0
International students fees	0	0	0	0
Total tuition fees	1,400	1,400	1,031	1,031
Education contracts	710	710	716	716
<b>Total</b>	<b>2,110</b>	<b>2,110</b>	<b>1,747</b>	<b>1,747</b>

**4 Other grants and contracts**

	Year ended 31 July 2016		Year ended 31 July 2015	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Erasmus	0	0	0	0
UK-based charities	0	0	0	0
European Commission	0	0	0	0
Other grants and contracts	59	59	20	20
<b>Total</b>	<b>59</b>	<b>59</b>	<b>20</b>	<b>20</b>

**Halesowen College**  
**Notes to the Accounts (continued)**

**5 Other income**

	Year ended 31 July		Year ended 31 July	
	2016	2016	2015	2015
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	68	68	67	67
Other income generating activities	1,722	974	1,687	953
Other grant income	0	0	0	0
Non government capital grants	144	144	12	12
Miscellaneous income	0	0	0	0
<b>Total</b>	<b>1,934</b>	<b>1,186</b>	<b>1,766</b>	<b>1,032</b>

**6 Investment income**

	Year ended 31 July		Year ended 31 July	
	2016	2016	2015	2015
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Income from bank deposits	79	78	80	79
Other interest receivable	0	0	0	0
	79	78	80	79
Pension finance income (note 26)	0	0	0	0
	79	78	80	79

**7 Donations - College only**

	Year ended 31 July	
	2016	2015
	£'000	£'000
Unrestricted donations	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

# Halesowen College

## Notes to the Accounts (continued)

### 8 Staff costs - Group and College

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

	2016 No.	2015 No.
Teaching staff	240.46	260.26
Non teaching staff	173.11	169.08
	<b>413.57</b>	<b>429.34</b>
<b>Staff costs for the above persons</b>		
	2016 £'000	2015 £'000
Wages and salaries	11,396	11,472
Social security costs	832	768
Other pension costs	1,667	1,589
<b>Payroll sub total</b>	<b>13,895</b>	<b>13,829</b>
Contracted out staffing services	0	0
	<b>13,895</b>	<b>13,829</b>
Fundamental restructuring costs - contractual	0	0
non contractual	0	0
	<b>13,895</b>	<b>13,829</b>

### Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Executive which comprises the Principal, Director of Finance and Corporate Services and Director of Learning and Teaching. Staff costs include compensation paid to personnel for loss of office.

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

	2016 No.	2015 No.
The number of key management personnel including the Accounting Officer was:	3	3

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

	Key management personnel		Other staff	
	2015/16 No.	2014/15 No.	2015/16 No.	2014/15 No.
£60,001 to £70,000	0	0	0	0
£70,001 to £80,000	0	0	0	0
£80,001 to £90,000	2	2	0	0
£ 90,001 to £ 100,000	0	0	0	0
£ 100,001 to £ 110,000	0	0	0	0
£ 110,001 to £ 120,000	0	0	0	0
£ 120,001 to £ 130,000	1	1	0	0
	<u>3</u>	<u>3</u>	<u>0</u>	<u>0</u>

## Halesowen College

### Notes to the Accounts (continued)

#### 8 Staff costs - Group and College

Key management personnel (including the Accounting Officer) emoluments are made up as follows:

	2016 £'000	2015 £'000
Salaries	293	288
National insurance	35	33
Benefits in kind	0	0
	<u>328</u>	<u>321</u>
Pension contributions	37	38
	<u>365</u>	<u>359</u>
<b>Total emoluments</b>	<b>365</b>	<b>359</b>

There were no amounts due to key management personnel that were waived in the year, nor any salary sacrifice arrangements in place except that the Principal waived his entitlement to the mutual dividend payment.

The above emoluments include amounts payable to the Accounting Officer (who is also the highest paid of key management personnel) of:

	2016 £'000	2015 £'000
Salaries	129	128
National insurance	16	15
Benefits in kind	0	0
	<u>145</u>	<u>143</u>
Pension contributions	14	18
	<u>159</u>	<u>161</u>
<b>Total emoluments</b>	<b>159</b>	<b>161</b>

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

	2016 £	2015 £
Compensation paid to the former post-holder - contractual	0	0
Estimated value of other benefits, including provisions for pension benefits	0	0
	<u>0</u>	<u>0</u>

**Halesowen College**  
**Notes to the Accounts (continued)**

**9 Other operating expenses**

	Year ended 31 July		Year ended 31 July	
	2016	2016	2015	2015
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	3,941	3,941	3,560	3,560
Non teaching costs	1,662	1,019	1,832	1,203
Premises costs	1,214	1,214	1,530	1,530
<b>Total</b>	<b>6,817</b>	<b>6,174</b>	<b>6,922</b>	<b>6,293</b>

<b>Surplus before taxation is stated after charging:</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Auditors' remuneration:		
Financial statements audit (College £18,000 2016, £18,000 2015)	20	20
Internal audit (College £7,000 2016, £5,000 2015)	7	5
Other services provided by the financial statements	0	0
Other services provided by the internal auditors	1	1
Losses on disposal of tangible fixed assets	0	0
Hire of asset under operating leases	0	57
Cost of stock recognised as an expense	0	0
	<u>0</u>	<u>0</u>

**Halesowen College**  
**Notes to the Accounts (continued)**

**10 Interest payable - Group and College**

	2016 £'000	2015 £'000
On bank loans, overdrafts and other loans	169	168
	<u>169</u>	<u>168</u>
On finance leases	0	0
Pension finance costs (note 26)	183	162
	<u>183</u>	<u>162</u>
<b>Total</b>	<b><u>352</u></b>	<b><u>330</u></b>

**11 Taxation - Group**

	2016 £'000	2015 £'000
United Kingdom corporation tax	0	0
Provision for deferred corporation tax in the accounts of the subsidiary company	0	0
	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>0</u></b>	<b><u>0</u></b>

**Halesowen College**  
**Notes to the Accounts (continued)**

**12 Tangible fixed assets (Group)**

	Land and buildings		Equipment	Assets in the Course of Construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>					
At 1 August 2015	32,016	0	7,354	14	39,384
Additions	776	0	1,059	2,276	4,111
Disposals	0	0	0	0	0
<b>At 31 July 2016</b>	<b>32,792</b>	<b>0</b>	<b>8,413</b>	<b>2,290</b>	<b>43,495</b>
<b>Depreciation</b>					
At 1 August 2015	8,954	0	6,983	0	15,937
Charge for the year	840	0	437	0	1,277
Elimination in respect of disposals	0	0	0	0	0
<b>At 31 July 2016</b>	<b>9,794</b>	<b>0</b>	<b>7,420</b>	<b>0</b>	<b>17,214</b>
<b>Net book value at 31 July 2016</b>	<b>22,998</b>	<b>0</b>	<b>993</b>	<b>2,290</b>	<b>26,281</b>
<b>Net book value at 31 July 2015</b>	<b>23,062</b>	<b>0</b>	<b>371</b>	<b>14</b>	<b>23,447</b>



**Halesowen College**  
**Notes to the Accounts (continued)**

**12 Tangible fixed assets (College only)**

	Land and buildings		Equipment	Assets in the Course of Construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>					
At 1 August 2015	32,016	0	7,344	14	39,374
Additions	776	0	1,059	2,276	4,111
Disposals	0	0	0	0	0
<b>At 31 July 2016</b>	<b>32,792</b>	<b>0</b>	<b>8,403</b>	<b>2,290</b>	<b>43,485</b>
<b>Depreciation</b>					
At 1 August 2015	8,954	0	6,973	0	15,927
Charge for the year	840	0	437	0	1,277
Elimination in respect of disposals	0	0	0	0	0
<b>At 31 July 2016</b>	<b>9,794</b>	<b>0</b>	<b>7,410</b>	<b>0</b>	<b>17,204</b>
<b>Net book value at 31 July 2016</b>	<b>22,998</b>	<b>0</b>	<b>993</b>	<b>2,290</b>	<b>26,281</b>
Net book value at 31 July 2015	23,062	0	371	14	23,447

**Halesowen College**  
**Notes to the Accounts (continued)**

**12 Tangible fixed assets (College only) (continued)**

The net book value of tangible fixed assets includes an amount of £0 (2014-15 £0) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £0 (2014-15 £0).

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

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

**13 Non current investments**

	College 2016 £	College 2015 £
Investments in subsidiary companies	2	2
Investments in shared services company	1	-
<b>Total</b>	<b>3</b>	<b>2</b>

The College owns 100% of the issued ordinary £1 shares of Halesowen College Enterprises Limited, a company incorporated in England and Wales. The principal business activity of Halesowen College Enterprises Limited is running the College shops and other profit generating activities, for example room hire.

During the year, the College acquired £1 ordinary share in South Black Country Education Limited, a shared services company.

**Note 14**

**Debtors**

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Amounts falling due within one year:				
Trade debtors	882	877	251	243
Amounts owed by group undertakings:				
Subsidiary undertakings	0	155	0	182
Prepayments and accrued income	183	183	395	395
Amounts owed by the Skills Funding Agency/EFA	30	30	21	21
Other	0	0	122	122
<b>Total</b>	<b>1,095</b>	<b>1,245</b>	<b>789</b>	<b>963</b>

## Halesowen College

### Notes to the Accounts (continued)

#### 15 Current asset investments

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Short term deposits and bank bond	12,189	12,189	11,125	11,125
<b>Total</b>	<b>12,189</b>	<b>12,189</b>	<b>11,125</b>	<b>11,125</b>

Deposits are held with banks operating in the London market and licensed by the Financial Conduct Authority. These investments are liquid and can be withdrawn at any time albeit penalties may be incurred. The interest rates for these deposits are fixed for the duration of the deposit at time of placement.

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

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Bank loans and overdrafts	362	362	351	351
Obligations under finance leases				-
Trade creditors	1,053	1,047	526	519
Amounts owed to group undertakings:				
Subsidiary undertakings	0	0	0	0
Associate undertakings	0	0	0	0
Corporation tax				
Other taxation and social security	444	432	413	399
Accruals and deferred income	586	480	712	605
Deferred income - government capital grants	347	347	347	347
Deferred income - government revenue grants	0	0	0	0
Amounts owed to the Skills Funding Agency/EFA	51	51	118	118
<b>Total</b>	<b>2,843</b>	<b>2,719</b>	<b>2,467</b>	<b>2,339</b>

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

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Bank loans	4,198	4,198	4,559	4,559
Obligations under finance leases	0	0	0	0
Deferred income - capital grants	5,708	5,708	5,119	5,119
<b>Total</b>	<b>9,906</b>	<b>9,906</b>	<b>9,678</b>	<b>9,678</b>

**Halesowen College**  
**Notes to the Accounts (continued)**

**18 Maturity of debt**

**(a) Bank loans and overdrafts**

Bank loans and overdrafts are repayable as follows:

	<b>Group</b>	<b>College</b>	<b>Group</b>	<b>College</b>
	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
In one year or less	362	362	351	351
Between one and two years	373	373	362	362
Between two and five years	1,122	1,122	1,155	1,155
In five years or more	2,703	2,703	3,042	3,042
<b>Total</b>	<b><u>4,560</u></b>	<b><u>4,560</u></b>	<b><u>4,910</u></b>	<b><u>4,910</u></b>

Bank loans are secured against the Whittingham Road site.

At 31 July 2016 the College had the following loans:

£3,050,000 taken over a 20 year term with NatWest bank at May 2006 as follows:

£1,525,000 variable rate 0.45% above base;

£1,525,000 fixed rate of 6.08%

£1,250,000 taken over a 20 year term with NatWest bank at March 2009 fixed rate 5.55%

£1,250,000 taken over a 20 year term with NatWest bank at November 2010 variable rate 1.50% above LIBOR

£1,320,000 taken over a 20 year term with NatWest bank at August 2011 variable rate 1.50% above LIBOR

**Halesowen College**  
**Notes to the Accounts (continued)**

**19 Provisions**

	Defined benefit Obligations £'000	Restructuring £'000	Group and College Enhanced pensions £'000	Other £'000	Total £'000
At 1 August 2015	5,123	0	154	0	5,277
Amounts utilised	0	0	(12)	0	(12)
Additions in the period charged to income and expenditure account	3,611	0	13	0	3,624
<b>At 31 July 2016</b>	<b>8,734</b>	<b>0</b>	<b>155</b>	<b>0</b>	<b>8,889</b>

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 26.

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

The principal assumptions for this calculation are:

	2016	2015
Price Inflation	1.30%	1.70%
Discount rate	2.30%	3.50%

**20 Financial Instruments**

The group have the following financial instruments:

	Group	
	2016 £'000	2015 £'000
<b>Financial assets:</b>		
Debt instruments measured at amortised cost	882	251
<b>Financial liabilities:</b>		
Financial liabilities measured at amortised cost	5,613	5,436

**21 Cash and cash equivalents**

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Cash and cash equivalents	1,306	1,045	3,170	2,880
Overdrafts	0	0	0	0
<b>Total</b>	<b>1,306</b>	<b>1,045</b>	<b>3,170</b>	<b>2,880</b>

**22 Capital commitments**

	Group and College	
	2016 £'000	2015 £'000
Commitments contracted for at 31 July	1,216	2,870

## Halesowen College

### Notes to the Accounts (continued)

#### 23 Lease Obligations

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

	Group and College	
	2016	2015
	£'000	£'000
<b>Future minimum lease payments due</b>		
<b>Land and buildings</b>		
Not later than one year	0	0
Later than one year and not later than five years	0	0
later than five years	0	0
	<u>0</u>	<u>0</u>
<b>Other</b>		
Not later than one year	0	0
Later than one year and not later than five years	0	0
later than five years	0	0
	<u>0</u>	<u>0</u>

#### 24 Contingent liabilities

The College has been in receipt of significant income from the European Social Fund (ESF) in recent years and continues to take all reasonable steps to ensure compliance with terms of these grants. College recognises that this is a complex area and there is a risk that some funding could become repayable as a result of a possible inspection by the funding provider or ESF Verification and Audit Section.

The College, together with the subsidiary Halesowen College Enterprises Ltd, form a VAT group. The College under this arrangement is liable for any unpaid liabilities of it's subsidiary in relation to this group scheme. The group VAT liability at 31 July 2016 was £14,181 (2015: £16,562).

The College has received a capital grant of £1.059m from the Local Enterprise Partnership to create an Advanced Science and Technology Centre at the Coombs Wood campus. This is secured with a charge over cash held in a bond with Lloyds Bank payable should the College fail to deliver the outputs defined in the grant agreement.

#### 25 Events after the reporting period

Halesowen College Enterprises is committed to providing an interest bearing loan of up to £40,000 to South Black Country Education; a shared services company, in order to provide a start up working capital.

**Halesowen College**  
**Notes to the Accounts (continued)**

**26 Retirement benefits**

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

Total pension cost for the year	2016 £'000	2015 £'000
Teachers Pension Scheme: contributions paid	1,121	1,014
Local Government Pension Scheme:		
Contributions paid	595	450
FRS 102 (28) charge	234	287
Charge to the Statement of Comprehensive Income	829	737
Enhanced pension charge to Statement of Comprehensive Income	0	0
<b>Total Pension Cost for Year</b>	<b>1,950</b>	<b>1,751</b>

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

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

**Teachers' Pension Scheme**

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pensions Regulations 2014. 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.

Not less than every 4 years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions. Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors.

The latest actuarial valuation 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 in June 2014. The key results of the valuation and subsequent consultation are:

- . Total scheme liabilities for service (pensions currently payable and the estimated cost of future benefits) of £191.5 billion
- . Value of notional assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) of £176.6 billion
- . Value of notional assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) of £176.6 billion
- . Notional past service deficit of £14.9 billion
- . Assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings
- . Rate of real earnings growth is assumed to be 2.75%
- . Assumed nominal rate of return is 5.06%

The new employer contribution rate was 14.1% until 1 September 2015, when it increased to 16.48% (including a 0.08% administration fee), with an employer cost cap of 10.9% of pensionable pay. The employer contribution rate will be payable until the next valuation as at March 2016, whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.

The pension costs paid to TPS in the year amounted to £1,121,000 (2015: £1,014,000).

The TPS is a multi-employer pension plan and there is insufficient information to account for the scheme on as a defined benefit plan so it is accounted for as a defined contribution plan.

## Halesowen College

### Notes to the Accounts (continued)

#### 26 Defined benefit obligations (continued)

##### Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Wolverhampton Local Authority. The total contribution made for the year ended 31 July 2016 was £777,000, of which employer's contributions totalled £595,000 and employees' contributions totalled £182,000. The agreed contribution rates for future years are 11.40 % for employers and range from 5.5% to 12.5% cent for employees, depending on salary.

##### Principal Actuarial Assumptions

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

	At 31 July 2016	At 31 July 2015
Rate of increase in salaries	3.75%	3.95%
Future pensions increases	2.00%	2.20%
Discount rate for scheme liabilities	2.60%	3.80%
Inflation assumption (CPI)	2.00%	2.20%

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
<i>Retiring today</i>		
Males	23.00	23.00
Females	25.70	25.60
<i>Retiring in 20 years</i>		
Males	25.30	25.20
Females	28.10	28.00



**Halesowen College**  
**Notes to the Accounts (continued)**

**26 Defined benefit obligations (continued)**

**Local Government Pension Scheme (Continued)**

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

	<b>Fair Value at 31 July 2016</b>	<b>Fair Value at 31 July 2015</b>
	<b>£'000</b>	<b>£'000</b>
Equities	7,345	6,260
Bonds	1,918	1,906
Property	985	890
Cash	794	508
Other	1,335	1,027
<b>Total fair value of plan assets</b>	<b><u>12,377</u></b>	<b><u>10,591</u></b>
<b>Actual return on plan assets</b>	<b><u>1,246</u></b>	<b><u>964</u></b>

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

	<b>2016 £'000</b>	<b>2015 £'000</b>
Fair value of plan assets	12,377	10,591
Present value of plan liabilities	(21,111)	(15,714)
<b>Net pensions (liability) (Note 19)</b>	<b><u>(8,734)</u></b>	<b><u>(5,123)</u></b>

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

	<b>2016 £'000</b>	<b>2015 £'000</b>
Current service cost	640	566
Net interest on the net defined benefit pension liability	183	162
Administration expenses	6	9
<b>Total</b>	<b><u>829</u></b>	<b><u>737</u></b>

**Halesowen College**  
**Notes to the Accounts (continued)**

**26 Defined benefit obligations (continued)**

**Local Government Pension Scheme (Continued)**

**Movement in net defined benefit (liability) during the year**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
(Deficit) in scheme at 1 August	(5,123)	(4,004)
Movement in year:		
Current service cost	(640)	(566)
Employer contributions	595	450
Administration expenses	(6)	(9)
Net interest on the defined (liability)/asset	(183)	(162)
Actuarial gain or (loss)	(3,377)	(832)
<b>Net defined benefit (liability) at 31 July</b>	<b><u>(8,734)</u></b>	<b><u>(5,123)</u></b>

**Asset and Liability Reconciliation**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
<b>Changes in the present value of defined benefit obligations</b>		
<b>Defined benefit obligations at start of period</b>	<b>15,714</b>	<b>13,189</b>
Current Service cost	640	566
Interest cost	596	567
Contributions by Scheme participants	182	184
Experience gains and losses on defined benefit obligations	0	0
Changes in financial assumptions	4,210	1,391
Estimated benefits paid	(231)	(183)
Past service cost	0	0
Curtailments and settlements	0	0
<b>Defined benefit obligations at end of period</b>	<b><u>21,111</u></b>	<b><u>15,714</u></b>

**Reconciliation of Assets**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
<b>Fair value of plan assets at start of period</b>	<b>10,591</b>	<b>9,185</b>
Interest on plan assets	413	405
Return on plan assets	833	559
Administration fee	(6)	(9)
Employer contributions	595	450
Contributions by Scheme participants	182	184
Estimated benefits paid	(231)	(183)
<b>Fair value of plan assets at end of period</b>	<b><u>12,377</u></b>	<b><u>10,591</u></b>

## Halesowen College

### Notes to the Accounts (continued)

#### 27 Related party transactions

The Accounting Officer and the staff member only receive remuneration in respect of services they provide undertaking their roles of Principal and staff member under contracts of employment and not in respect of their roles as governors. The other members of the Corporation did not receive any payments from the College in respect of their roles as governors.

During the year total expenses of £291.20 (2015: £62.20) were paid to or on behalf of governors in respect of travel and subsistence and other out of pocket expenses incurred in the course of their duties.

In this financial year the College has made a grant payment to the Students Union of £1,000.

There were no transactions in this financial year relating to the joint venture company.

#### 28 Amounts disbursed as agent

##### Learner support funds

	2016 £'000	2015 £'000
Funding body grants	794	818
Interest earned	0	1
	<u>794</u>	<u>819</u>
Disbursed to students	(848)	(887)
Administration costs	0	0
Balance at 31 July	<u>(54)</u>	<u>(68)</u>

##### Apprenticeship grants for employers

Funding body grants: AGE	55	60
Disbursed to employers	( 55)	( 60)
Balance at 31 July	<u>0</u>	<u>0</u>

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the Statement of Comprehensive Income.

**Halesowen College**  
**Notes to the Accounts (continued)**

**29 Transition to FRS 102 and the 2016 FE HE SORP**

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

Untaken leave should be quantified and recorded as a liability. A simple algorithm has been used to calculate this value which was not material. The leave year continues to run 1 September to 31 August.

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

FRS102 permits recognising grants on a performance or accruals model. Under the performance model the income is recognised when the performance condition is met ie on receipt and amortisation of grant over the useful life of the asset is not permitted. Under the accruals model the grant is recognised as income on a systematic basis over the period where related costs are charged.

Corporation paper April 2016 clarified that the accruals concept was to be maintained.

**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 of £152,000 has been mirrored by a reduction in the actuarial losses presented within Other Comprehensive Income.

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

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