



**Hereford College of Arts**

**Annual Report and Financial  
Statements**

**Year ended 31 July 2021**

## **Index**

	<b>Page</b>
Reference and administrative details	2
Strategic Report	3
Statement of Corporate Governance and Internal Control	14
Statement of Regularity, Propriety and Compliance	21
Statement of the Responsibilities of the Members of the Corporation	22
Independent Auditor's Report on the Financial Statements	23
Independent Reporting Accountant's Report on Regularity	27
Statement of Comprehensive Income and Expenditure	29
Statement of Changes in Reserves	30
Balance Sheets as at 31 July 2021	31
Statement of Cash Flows	32
Notes to the Financial Statement	33

## Reference and Administrative Details

### Senior Leadership Team (also key management personnel)

Abigail Appleton Principal and Chief Executive Officer; Accounting Officer

Tim Williams Finance Director

Ben Gamble Head of Further Education(until 31<sup>st</sup> October 2020)

Justin Gregory Head of Higher Education

Xaviere Hughes Head of Further Education(from 1<sup>st</sup> October 2020)

Kate Howe Head of Communications & Marketing

### Board of Governors

A full list of Governors is given on page 17 & 18 of these financial statements.

Linda Watkins acted as Clerk to the Corporation throughout the period.

### Principal and Registered Office

Hereford College of Arts, Folly Lane, Hereford HR1 1LT

### Professional Advisers

#### Financial Statement auditors and reporting accountants:

Mazars LLP, 90 Victoria Street, Bristol, BS1 6DP

#### Internal Auditors:

RSM Risk Assurance Services LLP, St. Philips Point, Temple Row, Birmingham, B2 5AF

#### Bankers:

HSBC Bank, 35 High Town, Hereford, HR1 2AQ

#### Solicitors:

Harrison Clark Rickerbys (inc Gordon Lutton), Thorpe House, 29 Broad Street, Hereford HR4 9AR

## Strategic Report

### Objectives and Strategy

The Governing Body present their annual report together with the financial statements and auditor's report for Hereford College of Arts (HCA) for the year ended 31 July 2021.

#### Legal Status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Hereford College of Arts. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

#### Mission

"To empower creativity and enrich our world through transformative arts education."

#### Public Benefit

Hereford College of Arts is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 17 and 18.

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

In delivering its mission, the college provides the following identifiable public benefits through the advancement of education:

- High-quality teaching
- Widening participation and tackling social exclusion
- Strong progression to further study and employment
- Strong student support systems
- Links with employers, industry and commerce
- Links with Local Enterprise Partnerships (LEPs)
- Benefits to the residents of Hereford and the wider county through HCA supporting the promotion of public arts events
- Benefit to Hereford and the wider county through the support HCA can provide for community arts groups

The delivery of public benefit is covered throughout the Strategic Report.

## Strategic Report

### Implementation of Strategy

The College's Vision and Values are:

#### Vision

Our vision of success looks like this:

- Hereford College of Arts is widely recognised as a leading arts school, rooted in place but connected to the world.
- Students are empowered with skills for life and work, to succeed in education, employment and entrepreneurship, and to have a positive impact on the world.
- A vibrant creative community, we welcome a rich diversity of people, with different experiences and perspectives.
- We make an inspiring contribution to the cultural and economic life of the region and beyond.

#### Values

We support students and staff to be:

- **Collaborative:** we believe creative collaboration gives people the power to change the world.
- **Inquisitive:** we urge our students to question, seek the wider context, think critically and use arts to engage with society.
- **Brave:** we support and challenge individuals to achieve their ambitions, to tackle important issues and to take bold creative risks.
- **Inventive:** we encourage an appetite to take on problems and a resourceful creative approach to solving them.
- **Individual:** we respect the individual needs and interests of all members of our creative community, and provide a safe space for unique creative voices to develop and thrive.

The College approved four Strategic Pillars underpinning the College's Strategic Plan in July 2018.

#### Strategic Pillars

##### 1. Curriculum

- 1.1 Create more inter-disciplinary pathways at Further and Higher Education and through our short courses.
- 1.2 Expand our digital curriculum to enable students to work creatively in a world full of new digital possibilities.
- 1.3 Launch new BA and MA programmes to attract talent and establish Hereford's national reputation as a destination for specialist higher education.

##### 2. Community

- 2.1 Deliver a college wellbeing strategy focused on building confidence, empathy and connection.
- 2.2 Instigate ambitious research projects on the role of creative practice in contributing to wider community wellbeing.
- 2.3 Curate a holistic student experience promoting social, play and volunteering experiences as well as formal learning.
- 2.4 Ensure all students are challenged to engage creatively with diverse cultures, viewpoints and opinions: locally, nationally and internationally.

## Strategic Report

### 3. Creative Spaces and Places

- 3.1 Support all our students to explore our city and county, for the benefit of their creative practice and personal wellbeing.
- 3.2 Deepen HCA engagement in our city and county: amplify current projects and develop ambitious new partnerships with cultural organisations and businesses, to attract more people to live, work, study, and visit Hereford and our region.
- 3.3 Extend access to our campus through more weekend and holiday opening for academic and short course students, as well as hosting more public events.

### 4. Student Careers and Enterprise

- 4.1 Launch a digital showcase to promote recent HCA alumni and make it easy for businesses and other clients to connect with new talent.
- 4.2 Work with partners to develop more start-up support for new creative businesses in Hereford and the region (e.g. graduate studios, co-working and incubation spaces).
- 4.3 Develop a co-ordinated network of business mentors for students and recent alumni.

The Governing Body will monitor the performance of the College against the plan and against other key performance indicators including the College's Financial Plan.

### Financial objectives

The financial objective is to maintain a Financial Health category of Good or Better. The Education & Skills Funding Agency (ESFA), the College's regulatory body, will assess the financial health category by means of an assessment of the College's financial statements and the submission of an annual Finance Record. It is anticipated that the assessment will confirm that the College has an Outstanding financial health score for 2020/21 (2019/20: Requires Improvement). The expectation is that the Financial Health score will decrease to Requires Improvement in 2021/22. This is part of a planned strategy for improving the Colleges sustainability in the long-term and was not unexpected. This strategy has been communicated with the ESFA. The strategy returns the College to at least Good financial health in 2023/24.

## Financial Position

### Financial Results

The Corporation has generated a deficit before other gains and losses in the year of £218,000 (2019/20 -- deficit of £945,000), with total comprehensive deficit of £164,000 (2019/20 - deficit of £2,316,000).

The Corporation has accumulated reserves of £(487,000), (2019/20 - £(341,000)) and cash balances of £2,635,000 (2019/20: £2,123,000)

Tangible fixed asset additions during the year amounted to £269,000 (2019/20: £130,000).

The Corporation has significant reliance on the education sector funding bodies (ESFA and Office for Students) for its principal funding sources mainly but not exclusively from recurrent grants. The Corporation received £2.8 million or 46% of its total income directly from these agencies in the form of a recurrent grant. (2019/20: £2.3m or 41%).

## Strategic Report

### Treasury Management

Treasury Management is the management of the Corporation's cash flows, banking and money market transactions; the effective control of risks associated with these activities; and the pursuit of optimum performance consistent with the associated risks.

The Corporation has a separate Treasury Management policy in place. Short term borrowing for temporary purposes is authorised by the Accounting Officer (Principal). All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

### Cash Flows

The Corporation had a cash inflow of £774,000 from operating activities (2019/20 outflow of £403,000).

### Reserves Policy

The College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities. The College can operate at a deficit, drawing on unrestricted funds, on condition that it is a temporary measure and that a credible plan is in place to recover the financial position of the College.

At the balance sheet date the Income and Expenditure reserve has a negative balance of £487,000 (2019/20: £(341,000)). If the Pension Reserve is removed this becomes a positive reserve of £3.9million (2019/20: £3.7million). The Governing Body expectation is that £1million of cash reserves should be retained for regular cashflow and emergencies. Reserves will be increased through the generation of annual operating surpluses.

### Going Concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future (at least 12 months from the signing of the annual accounts). For this reason, the Corporation continues to adopt the going concern basis in preparing the financial statements.

Though cash reserves are expected to decrease over the year, they are decreasing steadily and will not be lower than the £1m minimum level the Board has set. Both HE and FE enrolments are higher than budget and this should reduce the fall in cash over the next 12 months.

Covid-19 has appeared to not have a significant impact on the College's enrolments. Evening and short courses were temporarily suspended during 2020-21, but have now recommenced. These courses are a small part of the Colleges income. Covid-19 did impact some College costs, such as cleaning costs, but other costs decreased, such as travel costs.



## Strategic Report

### Current and Future Development and Performance

The 2020/21 saw growth in further education and higher education numbers slightly higher than budget. Overall the College did exceed its budgeted EBITDA targets for the year.

Covid-19 impacted the Spring Term when the second national lockdown took place. However students were able to return in person to College in March 2021. Unlike 2020-21, students this time were able to complete their final major projects and display their work at a Summer Show.

Though Covid-19 had some negative financial impacts they were limited in nature and were counteracted by positive variances in some cost lines.

### Student numbers

The College enrolled 487 ESFA funded students as well as 37 students who were funded by Advanced Learning Loans.

Higher Education students are partly funded by the Office for Students (OfS) and partly by student tuition fee loans. In 2020/21 the College enrolled 303 full-time and 19 part time undergraduate HE students. 37 postgraduate MA students were also enrolled.

The College would usually run a series of full cost recovery courses, including evening courses and short courses, but such provision was severely limited by Covid-19. The priority of the College was to ensure further education and higher education students completed their courses.

### Student achievements

Achievement levels were consistently high on the main FE programmes, with healthy rates of progression into higher education and employment.

Overall achievement rates for FE courses in 2020/21 were 92% (2019/20: 95%). This level of achievement exceeds corresponding national averages. Main programmes with achievement rates of 95% or over included Foundation Diploma in Art & Design (95%), Level 2 Diploma in Performing Arts (100%), Level 3 Diploma in Performing Arts (100%), Level 3 Diploma in Digital Futures (96%), Extended Diploma in Digital Futures (100%) and Level 2 Diploma in Music (100%).

The College had a short inspection from Ofsted in October 2017. The overall conclusion of this inspection was that the College “continues to be good”. A copy of the inspection report can be found at this link: <https://reports.ofsted.gov.uk/inspection-reports/find-inspection-report/provider/ELS/130714>

The College’s self-assessment grade for 2021 will be Good.

In Higher Education final year BA(Hons) students were awarded 39 Firsts, 33 Upper Seconds, 15 Lower Seconds and 3 Thirds (2019/20: 33 Firsts, 30 Upper Seconds, 16 Lower Seconds and 2 Thirds). Nationally and within the context of the Herefordshire Post 16 sector, the Corporation has a well established reputation for academic excellence and extracurricular activities. Methods of teaching and learning are subject to continuous review and development in order to ensure that the curriculum meets the needs of the local students.



## **Strategic Report**

### **Curriculum Developments**

At higher education level the Corporation will introduce new 2 year Foundation Degrees, BA (Honours) degrees and Masters degrees.

### **Future prospects**

The Corporation aims as part of its strategic plan to increase its Higher Education student numbers, partly by increasing the student numbers on each higher education course but also by increasing the number of higher education courses being delivered. This will require continued investment in the higher education facilities, increased marketing and recruitment activity and provision of additional student accommodation in order to attract and retain new students to Hereford, for which the Board has approved an appropriate strategy.

A new dedicated student accommodation block has been delivered at Station Approach, Hereford. This building will accommodate 178 students. This was available for the 2021/22 intake of students who enrolled in September 2021.

Dedicated student accommodation is seen as a major part of increasing enrolments at Hereford College of Arts.

### **Post-balance sheet events**

There are no post-balance sheet events to report.

### **Resources**

The Corporation has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include the main college site at Folly Lane, Hereford. The Corporation also leases its College Road campus in Hereford that houses its Higher Education provision.

### **Financial**

The Corporation has £604,000 of net assets (including a £4.4million pension liability) and no long-term debt.

### **People**

The Corporation employs 113 people (expressed as full time equivalents), of whom 65 were teaching staff.

### **Reputation**

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

## Strategic Report

### Principal Risks and Uncertainties

The system of internal control maintained by the Corporation includes financial, operational and risk management which is designed to protect the College's assets and reputation.

The College's Risk Management policy and associated procedures support a risk register maintained at College level, which is reviewed at each meeting of the Audit Committee and the full Board, and on a regular basis by the Senior Leadership Team. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the Corporation and the actions being taken to reduce and mitigate the risk. Risks are prioritised using a consistent scoring system.

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

#### 1 Impact of Covid-19 on recruitment and delivery during 2021/22

Covid-19 impacting negatively on recruitment and retention of students, causes significant financial issues through loss of income and additional costs which in turn impacts on the college financial sustainability and cashflows.

The risk is mitigated in a number of ways:

- Detailed on site risk assessments to plan and manage return to campus
- Good and regular communication with new and returning students prior to enrolment
- Following government guidance and ensuring Covid-19 mitigation measures are effective.
- Clear communication for students, visitors and staff on site to manage the Covid-19 impact and ensure government guidance is followed.

#### 2 Government funding

The Corporation has considerable reliance on continued government funding through the further education funding bodies and OfS. In 2020/21, 93% (2019/20 89%), of revenue was ultimately publicly funded, and this level of requirement is expected to continue. There can be no assurance that government policy and practice will remain the same, or that public funding will continue at the same level or on the same terms.

The Corporation is aware of the following issues that may impact on future funding;

- Future potential changes in the funding methodology which may result in a further reduction in ESFA funding for 16 to 18 year olds.
- The reduction of the Adult Education Budget (AEB)
- The reduction of the Office for Students (OfS) funding grant
- The possible reduction in students taking arts based subjects in year 10 as the result of the introduction of EBacc and other school performance measures.
- Stronger competition from other local providers.
- Changes in emphasis to vocational education arising from the Government Skills Plan.
- The Augar Review into post-18 education.

## Strategic Report

The risk is mitigated in a number of ways:

- By ensuring the Corporation is rigorous in delivering high quality education and training.
- Considerable focus and investment is placed on maintaining and managing key relationships with the funding bodies.
- Ensuring the Corporation is focussed on those priorities which will continue to benefit from public funding.
- Regular dialogue with the Funding Agencies and the Local Authority.
- The increased focus on growth in further and higher education student numbers.

### 3 Increase student numbers

The College is small for the sector, so it is crucial to protect current student numbers and increase these where possible. This will help to mitigate the changes in funding but allow the College to develop and invest for the future and increase educational opportunities within Herefordshire and beyond. The Corporation as part of its strategy plans to increase both FE and HE student numbers over the period of the strategy. The strategy includes increasing the number of courses that are delivered as well as increasing the number of enrolments on existing courses.

As part of the implementation of the strategy the Corporation is investing some of its reserves into curriculum development, improved infrastructure including additional key staff appointments and other investments to increase the level of applications to the College and increase student numbers.

The HE sector is very competitive and though increasing student numbers is an opportunity it is also a significant risk given the competitive environment.

The College is aware that Brexit may impact the number of EU students coming to the UK to study. This could further reduce the overall student pool from which to recruit.

### 4 Maintenance of adequate funding of pension liabilities

The financial statements report the share of the Local Government Pension Scheme (LGPS) deficit on the College's balance sheet in line with the requirements of FRS 102.

The risk is mitigated by an agreed deficit recovery plan with Worcestershire County Council Local Government Pension Scheme. The LGPS employer's contribution increased from 13.6% to 17.9% on the 1<sup>st</sup> April 2020. The rates and the deficit recovery plan are subject to a triennial review.

A revaluation of the Teachers Pensions Scheme (TPS) has taken place and the employer contribution rate increased from 16.48% to 23.68% in September 2019. The increase in contributions was funded by the Department of Education and this is expected to be the case until the 31<sup>st</sup> March 2025.

### 5 Failure to maintain financial viability of the College

The College's current financial health grade is classified as "Outstanding". The expectation is that this will decrease in 2021/22 to "Requires Improvements". The main driver for this decrease is the College's financial health score for EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) will fall to zero. The College's financial health score for current asset ratio and gearing both have a maximum financial health score of 100. With a strong balance sheet, the zero EBITDA score is not an issue in the short term as cash reserves and a strong balance sheet can mitigate this shortfall. The College's strategy and Financial Plan expect the College financial health grade to stay at Requires Improvement for both 2021/22 and 2022/23.

## Strategic Report

As the strategy is implemented, the Corporation will need to closely monitor the implementation of the strategy to ensure that it is on track to deliver its outcomes. The continuing challenge to the College will be improving the Colleges financial position whilst improving student experience. This risk can be mitigated in a number of ways:

- By rigorous budget setting procedures and sensitivity analysis
- Regular in year budget monitoring
- Robust financial controls
- Exploring ongoing procurement efficiencies

## 6 Brexit

Brexit is a potential risk to the enrolment of students as potentially less EU students move to Britain to study further or higher education courses. This may directly impact the College as the College recruits fewer higher education students from the EU and indirectly as competition for UK based students becomes more fierce.

In addition to this there are risks around the supply of goods and services to the UK that could be affected and potentially also lead to price increases in the UK. The College is monitoring and implementing, where appropriate, using the advice and guidance published by the Association of Colleges (AoC), the Department of Education and the UK Government.

## Stakeholder Relationships

In line with other Corporations and with universities, Hereford College of Arts has many stakeholders. These include:

- Students;
- Parents and carers;
- FE Education sector funding bodies including the Education and Skills Funding Agency (ESFA);
- FE Commissioner;
- HE Education sector funding body and regulator: the Office for Students (OfS);
- HE validating university: University of Wales Trinity St. David;
- Staff;
- Local employers (with specific links);
- Local authorities;
- Local Enterprise Partnerships (LEPs);
- The local community;
- Other FE institutions;
- Trade unions;
- Professional bodies.

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

## Strategic Report

### Equality

The Corporation is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, disability, religion or belief and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis.

The Corporation considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. 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, as far as possible, provide identical opportunities to those of non-disabled employees.

### Disability statement

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

- a) As part of its accommodation strategy, the Corporation updated its access audit and the results of this formed the basis of funding capital projects aimed at improving access.
- b) The College will provide information, advice and arrange support where necessary for students with disabilities.
- c) There is a list of specialist equipment, including assistive technology, which the College can make available for use by students.
- d) The admissions policy for all students is available on the College website. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- e) The College has made a significant investment in the appointment of specialists to support students with learning difficulties and/or disabilities. There are a number of learning support assistants who can provide a variety of support for learning.
- f) Counselling and welfare services are described on the College student intranet along with the Complaints and Disciplinary Procedure.

### Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the College to publish information on facility time arrangements for trade union officials at the College.

During the period covered by this Members' Report, the College did not have any trade union officials and therefore there is no facility time to report for that period.

## Strategic Report


### Events after the reporting period

There were no significant post balance sheet events.

### Disclosure of information to auditors

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

**Approved by order of the members of the Corporation on 13<sup>th</sup> December 2021 and signed on its behalf by:**



.....

**Mervyn Jones**  
**Chair**

## Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the Corporation to obtain a better understanding of its governance and legal structure. This statement covers the period from 1<sup>st</sup> August 2020 to 31<sup>st</sup> July 2021 and up to the date of approval of the annual report and financial statements.

The Corporation endeavours to conduct its business:

- in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- 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

In the opinion of the Governors, the Corporation complies with all the provisions of the Code and it has complied throughout the year ended 31 July 2021. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted on 13 July 2015.

### The Corporation

The composition of the Corporation is set out on pages 17 and 18.

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

The Corporation is provided with regular and timely information on the overall financial performance of the College, together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The Corporation meets at least once each term.

The Corporation conducts its business through a number of Committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Finance & General Purposes (F&GP), Search and Governance (S&G), Academic Quality and Standards (AQ&S) and Audit. Full minutes of all Corporation meetings, except those deemed to be confidential by the Corporation, are available on the College website at [www.hca.ac.uk](http://www.hca.ac.uk), or from the Clerk to the Corporation at:

Hereford College of Arts,  
Folly Lane,  
Hereford  
HR1 1LT.

The Clerk to the Corporation maintains a register of financial and personal interests of the Governors, which 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 of 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 and



## Statement of Corporate Governance and Internal Control

Committee meetings. Briefings are provided on an ad-hoc briefings basis.

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

There is a clear division of responsibility in that the roles of the Chair of the Corporation and the 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 Committee comprising the Accounting Officer (Principal), the Chair of the Corporation and four other members, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Committee also recommends Co-opted committee members to the Board for appointment. The Corporation is responsible for ensuring that appropriate training is provided as required. Members of the Corporation are appointed for a term not exceeding four years, upon which they may be re-elected for a further term. Co-opted Committee members are appointed to the relevant committee and have the same terms of office as Corporation members.

### Corporation Performance

The Corporation carried out a self-assessment of its own performance for the year ended 31<sup>st</sup> July 2021 and graded itself as Good on the Ofsted scale.

### Remuneration Committee

Throughout the year ending 31 July 2021 the Remuneration Committee comprised three members of the corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other senior postholders.

The College has adopted the Association of Colleges' Senior Staff Remuneration Code.

Details of remuneration of these post-holders and other key management personnel for the year ended 31<sup>st</sup> July 2021 are set out in note 6 of the financial statements.

### Audit Committee

The Audit Committee comprises at least three members of the Corporation (excluding the Accounting Officer (Principal) and Chair) and operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal and external (financial statements and regularity) 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 funding bodies as they affect the College's business.

The Audit Committee reviews and approves the Annual Internal Audit Report, the external auditors Audit Completion Report and the Annual Report and Financial Statements. The Audit Committee also prepares an Annual Report for submission to the Corporation.

The College's internal auditors review the systems of internal control, risk management controls and

## **Statement of Corporate Governance and Internal Control**

governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

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

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

### **Membership of the Corporation**

See over page.

## Statement of Corporate Governance and Internal Control

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

Name	Date of First Appointment	Date of Resignation	End of Current Term	Committees Served during the year ended 31 <sup>st</sup> July 2021	Attendance percentage*
Jennette Arnold OBE	19.10.20		21.08.24	AQ&S, Audit	80%
Professor Robin Baker OBE	24.04.17		31.08.25	F&GP, S&G	20%
Peta Darnley	10.02.20		31.08.24	F&GP, Rem	40%
Joe Hedges	10.02.20		31.08.24	Audit	100%
Clive Hodgeman	10.02.20		31.08.24	F&GP, Rem	80%
Mervyn Jones (Chair)	14.07.16		31.08.24	F&GP, S&G, Rem	100%
Kate Murrie	01.09.21		21.08.25	AQ&S	N/A
Timothy Newsholme (Vice Chair)	20.03.14		30.03.22	AQ&S, S&G, Rem	100%
John Nicol	01.01.13		31.08.22	AQ&S	80%
Scott Rolfe	24.05.12	31.08.21	31.08.21	F&GP, Rem	60%
John M. Rookes	24.03.11	31.08.21	31.08.21	Audit, AQ&S	80%
Kay Sandford-Beal	13.12.16		31.08.24	Audit, AQ&S	80%
Katie Seekings	14.12.15		31.08.23	S&G, AQ&S	80%
<b>Staff Member</b>					
Stevie-Jane Callender	09.07.18		31.08.22		80%
Oliver Cameron-Swan	18.10.21		31.08.25		N/A
Daniel Fox	22.10.18	31.08.21	31.08.22		80%
Dr. Mia Gordon	11.12.18		31.08.22		83%
<b>Student Member</b>					
Ellie Arbuthnott	19.10.20	31.07.21	31.07.21	AQ&S	80%
Victor Barratt	18.10.21		31.07.22	AQ&S	N/A
Andrew Jones	18.10.21		31.07.22	AQ&S	N/A
Hannah Jones	01.09.18		31.07.22	AQ&S	80%
Jordan Knight	19.10.20	31.07.21	31.07.21	AQ&S	100%

Statement of Corporate Governance and Internal Control

Principal and Chief Executive					
Abigail Appleton	22.10.15		Ex-officio	AQ&S, F&GP, S&G	100%
Co-opted Member Committee Only					
Judy Balderson JP	01.09.21		31.08.22	Audit	N/A
Graham Briscoe	20.10.11	31.08.21	31.08.21	Audit	100%
Lynn Forrester-Walker	01.09.18	31.08.20	31.08.20	F&GP	N/A
Dr Joanne Horton	01.09.21		31.08.22	AQ&S	N/A
Emma Lewis	12.02.19	31.03.21	31.08.23	Audit	50%
Kate Murrie	01.12.16	31.08.21	31.08.21	AQ&S	100%
Scott Rolfe	01.09.21		31.08.22	F&GP	N/A
John M Rookes	01.09.21		31.12.21	Audit	N/A
Independent Clerk					
Linda Watkins	01.10.97		On leaving		N/A

Key to Committees

'AQ&S' – Academic Quality & Standards Committee

'F&GP' – Finance & General Purposes Committee.

'S&G' – Search & Governance Committee.

'REM' – Remuneration Committee

\* Attendance Percentage relates to Governing Body meetings only, with the exception of Co-opted members where attendance relates to the Committee they are on.

## Statement of Corporate Governance and Internal Control

### 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 to business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Corporation has delegated day to day responsibility to the 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 she is personally responsible, in accordance with the responsibilities assigned to her in the Funding Agreement between Hereford College of Arts and the funding bodies. She is also responsible for reporting to the Corporation any significant weaknesses or breakdowns in internal control.

#### 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 Hereford College of Arts for the year ended 31<sup>st</sup> July 2021 and up to the date of approval of the annual report and accounts.

#### Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the year ended 31<sup>st</sup> July 2021 and up to the date of approval of the annual report and accounts. The process is regularly reviewed by the Corporation.

#### The risk and control framework

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

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

Hereford College of Arts has an internal audit service, which operates in accordance with the requirements of the ESFA's *Post-16 Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the



## Statement of Corporate Governance and Internal Control

Corporation on the recommendation of the Audit Committee. At minimum, annually, the Head of Internal Audit (HIA) provides the Corporation with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

### Review of effectiveness

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


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

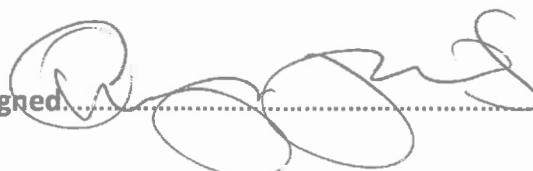
The Accounting Officer (Principal) has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the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

The Senior Leadership Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the College and reinforced by risk awareness training. The Senior Leadership Team and the Audit Committee also receive regular reports from internal audit which include recommendations for improvement. The Audit Committee's role in this area is 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 Leadership Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2021 meeting, the Corporation carried out the annual assessment for the year ended 31<sup>st</sup> July 2021 by considering documentation from the Senior Leadership Team and internal audit, and taking account of events since 31<sup>st</sup> July 2021.

Based on the advice of the Audit 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 safeguarding of their assets"*.

Approved by order of the members of the Corporation on 13th December 2021 and signed on its behalf by:

Signed.......... Abigail Appleton  
Accounting Officer (Principal)

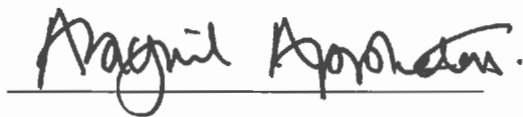
Signed.......... Mervyn Jones  
Chair of the Corporation

## Statement on the College's Regularity, Propriety and Compliance

The Corporation has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding under the College's grant funding agreement and contracts with the ESFA. As part of its consideration, the Corporation has due regard to the requirements of the grant funding agreements and contracts with ESFA.

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

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



**Abigail Appleton**  
**Accounting Officer (Principal)**



**Mervyn Jones**  
**Chair of the Corporation**

**Date: 13<sup>th</sup> December 2021**



## Statement of Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the College's grant funding agreements and contracts with the ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education*, *ESFA's college accounts direction* and the *UK's Generally Accepted Accounting Practice*, and which give a true and fair view of the state of affairs of the College and its deficit of expenditure over income for the year.

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

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


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

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

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

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

Approved by order of the members of the Corporation on 13<sup>th</sup> December 2021 and signed on its behalf by:



Mervyn Jones Chair of the Corporation

## **Independent auditor's report to the members of Hereford College of Arts**

### **Opinion**

We have audited the financial statements of Hereford College of Arts ("the College") for the year ended 31 July 2021, which comprise the Statement of Comprehensive Income and Expenditure, the Statement of Changes in Reserves, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education.

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2021 and of the College's deficit of expenditure over income for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

### **Basis for opinion**

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

### **Conclusions relating to going concern**

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

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

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

### **Other information**

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

## **Independent auditor's report to the members of Hereford College of Arts**

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

We have nothing to report in this regard.

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

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

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

### **Responsibilities of the Corporation**

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 22, the Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporation is responsible for assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Corporation either intend to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Independent auditor's report to the members of Hereford College of Arts

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the College and its industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with the ESFA funding agreements, the OfS regulatory framework, the OFSTED regulatory framework, safeguarding, pensions legislation, employment regulation and health and safety regulation, anti-bribery, corruption and fraud, money laundering, non-compliance with implementation of government support schemes relating to COVID-19, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements.

We evaluated the Members of the Corporation and management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loss reserves, and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- Discussing with the Members of the Corporation and management their policies and procedures regarding compliance with laws and regulations;
- Communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the College which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the Members of the Corporation and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

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



## Independent auditor's report to the members of Hereford College of Arts

### Other required reporting

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

In our opinion, in all material respects:

- funds provided by the OfS have been applied in accordance with the relevant terms and conditions attached to them; and
- the requirements of the OfS' accounts direction have been met.

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

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

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

### Use of the audit report

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

  
Mazars LLP (Dec 21, 2021 15:50 GMT)

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

Date: Dec 21, 2021

**Independent Reporting Accountant's Report on Regularity to the Corporation of Hereford College of Arts and Secretary of State for Education acting through the Education and Skills Funding Agency ('ESFA')**

In accordance with the terms of our engagement letter and further to the requirements and conditions of funding in the ESFA's grant funding agreements and contracts, or those of any other public funder, we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest, in all material respects, the expenditure disbursed and income received by Hereford College of Arts during the period 1 August 2020 to 31 July 2021 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post-16 Audit Code of Practice ("the Code") issued by the ESFA and in any relevant conditions of funding concerning adult education notified by a relevant funder. 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) data returns, for which the ESFA has other assurance arrangements in place.

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

**Respective responsibilities of Hereford College of Arts and the reporting accountant**

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Code. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2020 to 31 July 2021 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

**Approach**

We conducted our engagement in accordance with the Code issued by the ESFA. We performed a limited assurance engagement as defined in that framework.

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

**Independent Reporting Accountant's Report on Regularity to the  
Corporation of Hereford College of Arts and Secretary of State for Education  
acting through the Education and Skills Funding Agency ('ESFA')**

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 Corporation's income and expenditure.

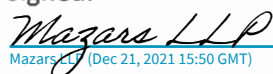
The work undertaken to draw to our conclusion includes:

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

**Conclusion**

In the course of our work nothing has come to our attention which suggests that in all material respects, the expenditure disbursed and income received during the period 1 August 2020 to 31 July 2021 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Signed:

  
Mazars LLP (Dec 21, 2021 15:50 GMT)

Mazars LLP

Chartered Accountants and Statutory Auditor  
90 Victoria Street, Bristol, BS1 6DP

Date: Dec 21, 2021



# Statement of Comprehensive Income and Expenditure

	Notes	2021 £'000	2020 £'000
<b>INCOME</b>			
Funding body grants	2	2,755	2,271
Tuition fees and education contracts	3	3,256	3,138
Other income	4	105	172
Investment income	5	-	10
<b>Total Income</b>		<b>6,116</b>	<b>5,591</b>
<b>EXPENDITURE</b>			
Staff costs	6	4,151	4,156
Other operating expenses	7	1,718	1,904
Depreciation	10	402	424
Interest and other finance costs	9	63	52
		<b>6,334</b>	<b>6,536</b>
<b>(Deficit) before other gains and losses</b>		<b>(218)</b>	<b>(945)</b>
Gain/(Loss) on disposal of assets		-	-
<b>(Deficit) before tax</b>		<b>(218)</b>	<b>(945)</b>
Taxation	8	-	-
<b>(Deficit) for the year</b>		<b>(218)</b>	<b>(945)</b>
Actuarial gain/(loss) in respect of pension scheme	24	54	(1,371)
<b>Total Comprehensive Income for the year</b>		<b>(164)</b>	<b>(2,316)</b>
<b>Represented by:</b>			
Restricted comprehensive income		-	-
Unrestricted comprehensive income		(164)	(2,316)
		<b>(164)</b>	<b>(2,316)</b>

## Statement of Changes in Reserves

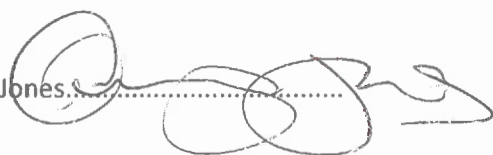
	Income & Expenditure Account £'000	Revaluation Reserve £'000	Total £'000
<b>Balance at 1<sup>st</sup> August 2019</b>	<b>1,957</b>	<b>1,130</b>	<b>3,087</b>
(Deficit) from the Income & Expenditure account	(945)	-	(945)
Other comprehensive income	(1,371)	-	(1,371)
Transfers between Revaluation and Income & Expenditure account	18	(18)	-
Total comprehensive income for the year	(2,298)	(18)	(2,316)
<b>Balance at 31<sup>st</sup> July 2020</b>	<b>(341)</b>	<b>1,112</b>	<b>771</b>
(Deficit) from the Income & Expenditure account	(218)	-	(218)
Other comprehensive income	54	-	54
Transfers between Revaluation and Income & Expenditure account	18	(18)	-
Total comprehensive income for the year	(146)	(18)	(164)
<b>Balance at 31<sup>st</sup> July 2021</b>	<b>(487)</b>	<b>1,094</b>	<b>607</b>

## Balance Sheet as at 31 July 2021

	<u>Notes</u>	<b>2021</b> <b>£'000</b>	<b>2020</b> <b>£'000</b>
<b>Non Current assets</b>			
Tangible fixed assets	10	3,440	3,572
		<b>3,440</b>	<b>3,572</b>
<b>Current assets</b>			
Stocks	12	8	13
Debtors	13	170	163
Cash at bank and in hand	17	2,635	2,123
<b>Total Current assets</b>		<b>2,813</b>	<b>2,299</b>
<b>Less: Creditors</b>			
- amounts falling due within one year	14	(893)	(694)
<b>Net current assets</b>		<b>1,920</b>	<b>1,605</b>
<b>Total assets less current liabilities</b>		<b>5,360</b>	<b>5,177</b>
<b>Creditors</b>			
- amounts falling due after more than one year	15	(388)	(316)
<b>Provisions</b>			
Defined benefit obligation	16/24	(4,365)	(4,090)
<b>Total Net Assets</b>		<b>607</b>	<b>771</b>
<b>Unrestricted Reserves</b>			
Income & expenditure account		(487)	(341)
Revaluation reserve		1,094	1,112
<b>Total Unrestricted Reserves</b>		<b>607</b>	<b>771</b>

The financial statements on pages 29 to 52 were approved and authorised by the Corporation on 13<sup>th</sup> December 2021 and were signed on its behalf on that date by:

Mervyn Jones  
Chair



Abigail Appleton:

Accounting Officer (Principal)



## Statement of Cashflows

	2021 £'000	2020 £'000
<b>Cashflow from operating activities:</b>		
(Deficit) for the year	(218)	(945)
	<b>(218)</b>	<b>(945)</b>
<b>Adjustment for non-cash items:</b>		
Depreciation	402	424
Decrease in stocks	5	-
(Increase)/Decrease in debtors	(7)	21
Increase/(Decrease) in creditors due within one year	199	(159)
Increase/(Decrease) in creditors due after one year	71	(32)
Increase /(Decrease) in provisions	-	-
Pension costs less contributions payable	266	236
Taxation	-	-
<b>Adjustment for investing or financing activities:</b>		
Investment income	-	-
Interest/finance costs payable	63	52
Taxation paid	-	-
Loss on sale of fixed assets	-	-
<b>Net cashflow from operating activities</b>	<b>781</b>	<b>(403)</b>
<b>Cashflows from investing activities</b>		
Investment income	-	-
Payments made to acquire fixed assets	(269)	(130)
	<b>(269)</b>	<b>(130)</b>
<b>Cashflows from financing activities</b>		
Interest paid	-	-
Interest element of finance lease rental payments	-	-
	<b>-</b>	<b>-</b>
<b>Increase/(Decrease) in cash and cash equivalents</b>	<b>512</b>	<b>(533)</b>
	2021 £'000	2020 £'000
Cash and cash equivalents at the beginning of the year	2,123	2,656
Cash and cash equivalents at the end of the year	2,635	2,123
	<b>512</b>	<b>(533)</b>

## Notes to the Financial Statements for the year ended 31 July 2021

### 1. STATEMENT OF ACCOUNTING POLICIES:

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

#### **Basis of Preparation**

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2019 (the 2019 FE HE SORP), the College Accounts Direction for 2020 to 2021 and in accordance with the Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

#### **Basis of Accounting**

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

#### **Going Concern**

The activities of the College, together with factors likely to affect its future development and performance are set out in the Strategic Report. The financial position of the College, its cashflow, liquidity and borrowings are described in the financial statements and accompanying notes.

The College has no loans or overdrafts.

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

#### **Recognition of Income**

##### *Revenue grant funding*

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Education Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

The recurrent grant from Office for Students (OfS) represents the funding allocations attributable to the current financial year and is credited direct to the Statement of Comprehensive Income.

## Notes to the Financial Statements for the year ended 31 July 2021

Where part of a government grant is deferred, the deferred element is recognised as deferred income within creditors and allocated between creditors due within one year and creditors due after more than one year as appropriate.

Grants (including research grants) from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

### *Capital grant funding*

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS 102. Other, non-governmental, capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met. Income received in advance of performance related conditions being met is recognized as deferred income within creditors on the Balance Sheet and released to income as conditions are met.

### *Fee income*

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

### *Investment income*

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

### *Agency arrangements*

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

## **Accounting for post-employment benefits**

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

### *Teachers' Pension Scheme (TPS)*

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method.

The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

### *Worcestershire County Council Local Government Pension Scheme (LGPS)*

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The

## Notes to the Financial Statements for the year ended 31 July 2021

actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred.

Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

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

### Short term Employment benefits

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognized as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the college expects to pay as a result of the unused entitlement.

### Non-Current Assets – Tangible Fixed Assets

Tangible fixed assets are stated at cost or deemed 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.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

### *Land & Buildings*

Land and buildings inherited from the local education authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis.

Freehold land is not depreciated as it is considered to have an infinite useful life.

Freehold buildings are depreciated over their expected useful economic life to the College of between 15 and 40 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life.

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.



## Notes to the Financial Statements for the year ended 31 July 2021

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

### *Subsequent expenditure on existing fixed assets*

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

### *Assets under construction*

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

### *Equipment*

Equipment costing less than £1,000 or with an expected life of twelve months or less is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

All equipment is generally depreciated on a straight line basis over its remaining useful economic life of between 3 and 10 years.

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

### **Leased assets**

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

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

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as an obligation under finance leases. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

## Notes to the Financial Statements for the year ended 31 July 2021

### Cash and cash equivalents

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

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

### Stocks

The only stocks held at the end of 2019/20 were stocks from the library shop. Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective costs.

### Foreign Currency Translations

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

### Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010, and therefore 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 not registered for Value Added Tax and receives no major exemption in respect of VAT, with only a few items being exempt by virtue of its charitable status. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

### Provisions and contingent liabilities

Provisions are recognized

- 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
- 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

## Notes to the Financial Statements for the year ended 31 July 2021

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.

The College currently has no provisions except for the obligations with regard to the Local Government Pension Scheme and no contingent liabilities.

### Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the group's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

#### *Other key sources of estimation uncertainty*

- *Tangible fixed assets*

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 23, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2019. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

## Notes to the Financial Statements for the year ended 31 July 2021

## 2. Funding Body Grants

	2021 £'000	2020 £'000
<b>Recurrent grants</b>		
Education and Skills Funding Agency – adult	14	20
Education and Skills Funding Agency - 16-18	2,353	1,845
Office for Students	151	202
<b>Specific Grants</b>		
Teacher Pension Scheme contribution grant	127	109
Release of deferred capital grant	70	95
ESFA Other	40	-
	<b>2,755</b>	<b>2,271</b>

## 3. Tuition Fees and Education Contracts

	2021 £'000	2020 £'000
Further Education Fees students	80	135
High Needs Income	118	191
Advanced Learning Loans	184	114
UK Higher Education Students	218	240
UK Higher Education Loans	2,600	2,408
Non-EU Higher Education Fees	40	44
Other	16	6
	<b>3,256</b>	<b>3,138</b>

## 4. Other Income

	2021 £'000	2020 £'000
Other Income Generating Departments	12	19
Other income	93	153
	<b>105</b>	<b>172</b>

## 5. Investment Income and Interest

	2021 £'000	2020 £'000
Bank interest receivable	-	10
	<b>-</b>	<b>10</b>

## Notes to the Financial Statements for the year ended 31 July 2021

### 6. Staff Costs

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

	2021 fte's	2020 fte's
Teaching staff	65	67
Non teaching staff	48	52
	<b>113</b>	<b>119</b>

#### Staff costs for the above persons:

	2021 £'000	2020 £'000
Wages & salaries	3,029	3,127
Social security costs	194	202
Pension costs	635	591
Pension FRS 102 cost	266	236
	<b>4,124</b>	<b>4,156</b>
External employees	-	-
	<b>4,124</b>	<b>4,156</b>
Exceptional restructuring costs	27	-
<b>Total staff costs</b>	<b>4,151</b>	<b>4,156</b>

#### Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling activities of the college and are represented by the Accounting Officer (Principal) and holders of other senior posts whom the Corporation have selected for the purposes of the Articles of Government of the College. Decisions relating to such appointments are made by the Governors.

No compensation has been paid to key management personnel for loss of office.

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

	2021	2020
The number of key management personnel including the Accounting Officer (Principal) was	5	5

## Notes to the Financial Statements for the year ended 31 July 2021

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

	Key management personnel		Other staff	
	2021	2020	2021	2020
	No.	No.	No.	No.
£10,001 - £20,000	1	-	N/A	N/A
£20,001 - £30,000	-	1	N/A	N/A
£30,001 - £40,000	1	-	N/A	N/A
£40,001 - £50,000	1	-	N/A	N/A
£50,001 - £60,000	2	3	N/A	N/A
£60,001 - £70,000	-	-	-	-
£90,001 - £100,000	1	1	-	-
	<b>6</b>	<b>5</b>	<b>-</b>	<b>-</b>

Key management personnel compensation is made up as follows:

	2021 £'000	2020 £'000
Salary – gross of salary sacrifice and waived emoluments	303	283
Employers National Insurance	36	34
Employers Pension contributions	60	51
<b>Total key management personnel compensation</b>	<b>399</b>	<b>368</b>

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

	2021 £'000	2020 £'000
Salary	100	100
Employers' Pension contributions	18	15
<b>Total emoluments</b>	<b>118</b>	<b>115</b>

The governing body has adopted the AoC's Senior Staff Remuneration Code in April 2019 and will assess pay in line with its principles in the future. The remuneration package of senior post holders, including the Principal and Chief Executive, is subject to annual review by the Remuneration Committee of the governing body who use benchmarking information to provide objective guidance.

The College used the College Senior Pay Survey 2020, focusing on the analysis of West Midlands colleges and colleges with comparable income, less than £10m. Remuneration was significantly lower than the West Midlands benchmarks and in line with the less than £10m turnover benchmarks. No pay award was made during the year.



## Notes to the Financial Statements for the year ended 31 July 2021

The Principal and Chief Executive reports to the Chair of the Governing body, who undertakes an annual review of her performance against the College's overall objectives using qualitative and quantitative measures of performance.

### Relationship of Principal/Chief Executive pay and remuneration expressed as a multiple:

	2021	2020
Principal's basic salary as a multiple of the median of all staff	4.12	4.2
Principal and CEO's total remuneration as a multiple of the median of all staff	4.86	4.8

Employer pension contributions in respect of the Accounting Officer (Principal) and key management personnel are paid at the same rate as for other employees. No compensation for loss of office was paid to key management personnel.

With the exception of the Accounting Officer (Principal) and two Staff Governors, the members of the Corporation do not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

### 7. Other Operating Expenses

	2021 £'000	2020 £'000
Teaching Departments	240	317
Teaching Support Services	270	263
Other Support Services	12	12
Administration and Central Services	466	468
General Education	71	62
Premises Costs	472	609
Planned Maintenance	74	74
Student Support Funds	98	86
Other Expenses	15	13
	<b>1,718</b>	<b>1,904</b>

#### Other operating expenses include:

Auditors' remuneration included above -

Financial Statement Audit	25	17
Internal Audit	14	13
Operating lease costs	239	398

## Notes to the Financial Statements for the year ended 31 July 2021

**7a. Access and Participation spending**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Access Investment	64	92
Financial Support	62	79
Disability Support	27	40
Research and Evaluation	18	18
	<b>171</b>	<b>229</b>

Staff costs relating to Access and Participation total £109K (2019-20: £147K) and are included in the above breakdown and disclosed within note 6.

Full details of the Access and Participation plan for Hereford College of Arts is published on the website and can be found at: <https://www.hca.ac.uk/wp-content/uploads/2019/10/access-and-participation-plan.pdf>

**8. Taxation**

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

**9. Interest and other finance costs**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Pension finance costs	63	52
	<b>63</b>	<b>52</b>

## Notes to the Financial Statements for the year ended 31 July 2021

## 10. Tangible Fixed Assets

	Freehold £000	New buildings and property improvements £000	Equipment & Vehicles £000	Total £000
<b>Costs or valuation</b>				
<b>At 1<sup>st</sup> August 2020</b>	<b>1,595</b>	<b>5,459</b>	<b>1,832</b>	<b>8,885</b>
Additions	-	137	132	269
Disposals	-	-	-	-
	<b>1,595</b>	<b>5,596</b>	<b>1,964</b>	<b>9,154</b>
<b>At 31<sup>st</sup> July 2021</b>				
<b>Depreciation</b>	<b>484</b>	<b>3,158</b>	<b>1,671</b>	<b>5,313</b>
<b>At 1<sup>st</sup> August 2020</b>				
Charge for year	18	250	134	402
Elimination - disposals	-	-	-	-
	<b>502</b>	<b>3,408</b>	<b>1,805</b>	<b>5,715</b>
<b>At 31<sup>st</sup> July 2021</b>				
<b>Net Book Value at 31<sup>st</sup> July 2021</b>	<b>1,093</b>	<b>2,188</b>	<b>159</b>	<b>3,440</b>
<b>Net Book Value at 31<sup>st</sup> July 2020</b>	<b>1,111</b>	<b>2,301</b>	<b>160</b>	<b>3,572</b>

Inherited land and buildings were valued for the 1994 financial statements at depreciated replacement cost by Hereford and Worcester County Council. No revaluation has taken place since then. If inherited land and buildings had not been valued on Incorporation, they would have been included in the accounts at a historic value of zero.

## 11. Investments

Cash was held at HSBC. There were no investments in any other institutions during the year.

## 12. Stocks

	2021 £'000	2020 £'000
Arts supplies held by College Shop	8	13
	<b>8</b>	<b>13</b>

## Notes to the Financial Statements for the year ended 31 July 2021

## 13. Debtors: amounts falling due with one year

	2021	2020
	£'000	£'000
Trade debtors	62	4
Prepayments and accrued income	108	159
	<b>170</b>	<b>163</b>

## 14. Creditors: amounts falling due within one year

	2021	2020
	£'000	£'000
Trade creditors	52	50
Other taxation, social security and pensions	109	53
Accruals and other creditors	411	303
Accruals – employee annual leave	136	136
Grants received in advance	123	96
Deferred income – government capital grants	62	56
	<b>893</b>	<b>694</b>

## 15. Creditors: amounts falling due after one year

	2021	2020
	£'000	£'000
Deferred income – government capital grants	388	316
	<b>388</b>	<b>316</b>

## 16. Provisions

	Defined Benefit Obligation	Total
	£'000	£'000
<b>At 1 August 2020</b>	<b>4,090</b>	<b>4,090</b>
Expenditure in the period	(276)	(276)
Additions in the period	551	551
<b>At 31 July 2021</b>	<b>4,365</b>	<b>4,365</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 24.

**Notes to the Financial Statements for the year ended 31 July 2021**

**17. Cash and cash equivalents**

	<b>At 1 August 2020</b>	<b>Cashflows</b>	<b>At 31 July 2021</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	2,123	512	2,635
	<b>2,123</b>	<b>512</b>	<b>2,635</b>

**18. Capital and other commitments**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Commitment contracted for at 31 July	86	49
	<b>86</b>	<b>49</b>

In July 2019 the College entered into a nominations agreement for student accommodation at Station Approach, Hereford. The nominations agreement guarantees that the College will underwrite occupancy of 89 of the 178 rooms for the first three years and 100% for a minimum of the next 17 years. The delivery of the student accommodation was originally planned for September 2020 but has been delivered in September 2021 because of Covid-19. In certain circumstances, the College can be released from the nominations agreement.

**19. Lease obligations**

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

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Land and building</b>		
Not later than one year	214	214
Later than one year and not later than five years	232	446
Over five years	-	-
	<b>446</b>	<b>660</b>
<b>Other</b>		
Not later than one year	3	-
Later than one year and not later than five years	5	10
Over five years	-	-
	<b>8</b>	<b>10</b>

The land and building lease commitment, relates to the College Road Campus. The other leases are for photocopiers and franking machine.

**20. Contingent liabilities**

The College is not aware of any issues that could give rise to a contingent liability.

## Notes to the Financial Statements for the year ended 31 July 2021

**21. Learner Support Funds**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Balance held at 1 August	39	17
ESFA 16-19 Student Bursary Grant	62	49
ESFA Residential Grant	25	25
Advanced Learner Loans Bursary	7	7
Funding clawback	(23)	(14)
	<b>110</b>	<b>84</b>
Disbursed to Students	(51)	(41)
Administration Costs	(4)	(4)
<b>Balance unspent as at 31 July, included in creditors</b>	<b>55</b>	<b>39</b>

Funding body grants are available only 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.

**22. Related Party Transactions (FRS 8)**

Due to the nature of the College's operations and the composition of the board of governors being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All such transactions are conducted at arms' length, in accordance with the College's financial regulations and normal procurement procedures.

The total travel expenses paid to or on behalf of the Governors during the year were £1k (2019/20 £4k). This represents travel and subsistence expenses and out of pocket expenses incurred in attending Governor meetings, college events, training courses and conferences.

No Governor has received any remuneration or waived payments from the College during the year (2019/20 none).

**23. Post Balance Sheet Events**

There have been no events since the balance sheet date that would materially affect the results for the year.



## Notes to the Financial Statements for the year ended 31 July 2021

## 24. Defined pension obligations

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

## Total pension cost for the year

	2021	2020
	£'000	£'000
Teachers' Pension Scheme:		
- Employers' contributions	359	344
Local Government Pension Scheme:		
- Employer's contributions	228	201
- Employer's additional contribution	48	46
- FRS 102 (28) net service cost	266	236
Charge to the Statement of Comprehensive Income	542	483
<b>Total Pension Cost for the Year within staff costs</b>	<b>901</b>	<b>827</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<sup>st</sup> March 2016 and the LGPS was 31<sup>st</sup> March 2016.

## Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools, colleges and other educational establishments. Membership is automatic for teachers and lecturers at eligible institutions. Teachers and lecturers are able to opt out of the TPS.

The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions, along with those made by employers, are credited to the Exchequer under arrangements governed by the above Act. Retirement and other pension benefits are paid by public funds provided by Parliament.

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

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

The valuation of the TPS is carried out in line with regulations made under the Public Service Pension Act 2013. Valuations credit the teachers' pension account with a real rate of return assuming funds are invested in notational investments that produce that real rate of return.

## Notes to the Financial Statements for the year ended 31 July 2021

The latest actuarial review of the TPS was carried out as at 31 March 2016. The valuation report was published by the Department for Education (DfE) in April 2019. The valuation reported total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £218 billion, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £198 billion giving a notional past service deficit of £22 billion.

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2019 onwards (compared to 16.48% during 2018/19). DfE has paid a teacher pension employer contribution grant to cover the additional costs during the 2020-21 academic year.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website.

The pension costs paid to TPS in the year amounted to £359,000 (2019/20: £344,000).

### Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Worcestershire County Council.

The total contributions made for the year ended 31<sup>st</sup> July 2021 were **£356k**, of which employer's contributions were **£276k** (£228k were normal employer contributions and £48k was a lump sum contribution toward deficit financing) and employees' contributions were **£80k**. The agreed contribution rates are **13.6%** until 31<sup>st</sup> March 2020 and **17.9%** from 1<sup>st</sup> April 2020 for employers and **5.5%** to **12.5%** for employees, depending on salary. Part of the increased rate (0.9%) reflects the McCloud judgement.

### Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31<sup>st</sup> March 2019 updated to 31<sup>st</sup> July 2021 by a qualified independent actuary:

	2021 %	2020 %
Rate of Future Salary increases	4.1	3.8
Rate of Future Pension increases	2.7	2.4
Discount rate for Scheme Liabilities at 31 <sup>st</sup> July	1.6	1.6
Rate of inflation (CPI)	2.6	2.3
Commutation of pensions to lump sums (max)	50	50

## Notes to the Financial Statements for the year ended 31 July 2021

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

	31 <sup>st</sup> July 2021	31 <sup>st</sup> July 2020
<b>Retiring today</b>		
Males	22.7	22.6
Females	25.1	25.0
<b>Retiring in 20 years</b>		
Males	24.4	24.2
Females	27.1	27.0

The College's share of the assets in the plan at the balance sheet date were:

	Fair Value at 31 <sup>st</sup> July 2021 £'000	Fair Value at 31 <sup>st</sup> July 2020 £'000
Equities	2,343	1,719
Bonds - Government	-	995
Bonds - Other	1,970	727
Cash	-	156
Property	288	433
Other	639	433
<b>Total fair value of plan Assets</b>	<b>5,240</b>	<b>4,463</b>
<b>Actual return on plan assets</b>	<b>584</b>	<b>202</b>

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

	2021 £'000	2020 £'000
Fair value of plan assets	5,240	4,463
Present value of plan liabilities	(9,605)	(8,553)
<b>Net pensions (liability) (note 16)</b>	<b>(4,365)</b>	<b>(4,090)</b>

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

Amounts included in staff costs	2021 £'000	2020 £'000
Current service cost	537	477
Past service cost	-	1
Administration fee	5	5
<b>Total</b>	<b>542</b>	<b>483</b>

## Notes to the Financial Statements for the year ended 31 July 2021

<b>Amounts included in Interest and other finance costs</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Net Interest cost	63	52
<b>Total</b>	<b>63</b>	<b>52</b>

<b>Amounts recognised in Other Comprehensive Income</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Remeasurement of assets	510	(436)
Experience gain/(loss) arising on defined benefit obligations	151	(48)
Changes in assumptions underlying the present value of plan liabilities	(607)	(887)
<b>Amount recognised in Other Comprehensive Income</b>	<b>54</b>	<b>(1,371)</b>

## Notes to the Financial Statements for the year ended 31 July 2021

<b>Movement in net defined benefit (liability) / asset during the year:</b>	<b>2021 £'000</b>	<b>2020 £'000</b>
Net defined benefit (liability) in scheme at 1 August	<b>(4,090)</b>	<b>(2,431)</b>
Movement in year:	(537)	
Current service cost		(477)
Employer contributions	276	247
Past service cost	-	(1)
Net interest on defined (liability)	(63)	(52)
Administration fee	(5)	(5)
Actuarial gain/(loss)	54	(1,371)
<b>Net defined benefit (liability)/asset in scheme at 31 July</b>	<b>(4,365)</b>	<b>(4,090)</b>

<b>Asset and Liability Reconciliation</b>	<b>2021 £'000</b>	<b>2020 £'000</b>
<b>Changes in the present value of defined benefit obligations:</b>		
Defined benefit obligations at start of period	<b>8,553</b>	<b>6,933</b>
Current service cost	537	477
Interest cost	136	154
Contributions by scheme participants	81	84
Past service cost	-	1
Actuarial loss	456	935
Estimated benefits paid	(158)	(31)
<b>Defined benefit obligations at end of period</b>	<b>9,605</b>	<b>8,553</b>

	<b>2021 £'000</b>	<b>2020 £'000</b>
<b>Changes in the fair value of plan assets:</b>		
Fair value of plan assets at start of period	<b>4,463</b>	<b>4,502</b>
Interest on plan assets	73	102
Actuarial gain	510	(436)
Employer contributions	276	247
Contributions by scheme participants	81	84
Administration fee	(5)	(5)
Estimated benefits paid	(158)	(31)
<b>Fair value of plan assets at end of period</b>	<b>5,240</b>	<b>4,463</b>

**LGPS pension deficit contributions**

The College has entered into an agreement with the LGPS to make additional contributions of **£46k** in 2020/21 tax year, **£49k** in 2021/22, **£51k** in 2022/23 in addition to normal funding levels until the next full valuation in 2022/23 at which point the situation will be reviewed.

