Birmingham Metropolitan College
Annual Report and Financial Statements

For the year ended 31st July 2019

Contents

Reference and Administrative Details

Key management personnel are defined as members of the College Senior Leadership Team and were represented by the following in 2018/19:

Andrew Cleaves; Principal and CEO; Accounting officer (Resigned 30 September 2018)
Cliff Hall appointed as Principal and CEO; Accounting Officer from 01 October 2018
Louise Jones; Deputy Principal
Simon Cosson; Chief Financial Officer (Resigned 30 September 2018)
Martin Penny appointed as Chief Financial Officer from 01 October 2018)
Liam Nevin; Company Secretary (Resigned 31 July 2019)
Rebecca Hayes; Director – Sales
Sharon Benton; Director – Marketing and Recruitment (Resigned 11 July 2018)
Alison Jones; Director – HR and Development
Rachel Jones – Director of IT & MIS; Appointed 1 October 2018
Patrick Geary – Assistant Principal; Appointed 1 January 2019
Jan Myatt – Assistant Principal; Appointed 1 January 2019
Anna Jackson – Assistant Principal; Appointed 11 March 2019

Board of Governors

A full list of Governors is given on page 13-14 of these financial statements. Mr L Nevin acted as Clerk to the Corporation throughout the period.

Professional advisers
Financial statements auditors and reporting accountants:

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Internal auditors

BDO Stoy Hayward LLP
Emerald House
Epsom
Surrey. KT17 1HS

Bankers:

Barclays
PO Box 3333
One Snowhill
Snow Hill Queensway
Birmingham. B3 2WN

Solicitors:

Freeths LLP
6 Bennetts Hill
Birmingham. B2 5ST

Strategic Report

Operating and Financial Review

OBJECTIVE AND STRATEGY

The members present their report and the audited financial statements for the year ended 31 July 2019.

Legal status

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

Mission

The College's mission, as approved by its members is 'Inspiring Futures, Realising Dreams.' The College will achieve its mission by focussing on its strategic goals, which focus on four areas and are set out as follows:

- *To be recognised as the leading College of the region*
- *To deliver outstanding education and employment outcomes for all*
- *To be a great place to work*
- *To be financially strong and invest in learning*

In order to achieve these strategic goals, the College will build on its core values. The College values, which define how we operate, are:

- **Students:** Students are at the heart of everything we do
- **BMet:** BMet is innovative, inclusive and inspiring
- **Improve:** We are determined to improve our teaching, support and care for all students
- **Skills:** We are passionate about working with employers to meet their skills needs and support strong, sustainable economic growth
- **With Great People:** We attract, support and develop people who are outstanding at what they do

The College's annual business plan set out specific 2018/19 objectives within the context of the overall mission, values and goals explaining what actions the College would take towards achievement of these objectives and how the College would measure success.

Resources

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

The College employs 884 people (expressed as full-time equivalents), of whom 476 are teaching staff.

The College enrolled approximately 17,978 students. The college's student population includes 7,321 16-to-18 year-old students and 10,657 adult learners, including 1,414 apprentices and 516 higher education students.

The College has £4.0 million of net liabilities (having taken account of a £37.5 million pension liability) and long-term debt of £13.5 million. During the year the College had tangible resources comprised of 12 sites throughout Birmingham and The Black Country. The College is reducing its overall estate including the disposal of sites in the Black Country and a reduction in leased premises.

Stakeholders

The College has many stakeholders including:

- its current, future and past students;
- its staff and their trade unions;
- the employers it works with;
- the professional organisations in the sectors where it works;
- its partner schools and universities; the wider college community;
- its local borough councils, combined authority and Local Enterprise Partnership
- the ESFA and other funding bodies

DEVELOPMENT AND PERFORMANCE

Financial Results

The College generated a deficit in the year of £23,714k (2017/18 a deficit of £4,848k), with a total comprehensive income of -£28,348k (2017/18 a surplus of £4,413k). In 2018/19 the college continued to monitor against its financial recovery plan with an aim to return to good financial health. The College's EBITDA (earnings before interest, tax, depreciation and amortisation) was heavily impacted by the impairment of sites scheduled for disposal in 2019/20.

Overall income has increased by £124k compared to 2017/18 when the accelerated release of capital grants is removed. Teaching staff costs were adjusted to reduce the operating deficit and a targeted restructuring of all staffing was implemented in year that resulted in a reduction in pay costs of £1.69m.

Comprehensive income reduced in the year by £28,348k resulting in accumulated reserves of -£4,049k (2017/18 £24,299k). The reason for the significant decrease in reserves is due to negative movements on the pension scheme valuation leading to an increase in pension deficit, impairments being applied to the Hagley Road Campus, Art and Design Centre and Kidderminster Academy, and the net loss on the sale of fixed assets.

The College has cash balances of £3,292k (2017/18 £1,325k). The increase in cash balances is after payments made to reduce the outstanding ESFA loan amount.

Tangible fixed asset additions during the year amounted to £1,578k. This is split between land and buildings of £640k, assets under construction of £158k and equipment of £781k. The college continues to adopt a very tight Capital Expenditure policy whilst ESFA loan repayments are required in line with the recovery plan. As the future financial performance of the college improves more funds will be able to be set aside for capital improvements but is expected to continue to track materially under depreciation levels for the next 3-4 years.

During both 2017/18 and 2018/19 there were a number of significant items that impacted on the reported deficit for the year. A reconciliation from the reported deficit to the adjusted result is shown below. The adjusted deficit has decreased by £3.0m. This is set out further in the illustration below.

£000	31 July 2019	31 July 2018
Deficit for the year	(23,714)	(4,848)
includes:		
Restructuring costs	1,031	387
Net charge in respect of LGPS	2,422	2,031
(Loss) / profit on sale of fixed assets	793	(5,604)
Impairment Loss	18,625	-
Impairment of Harborne Academy investment	-	1,940
Release of Capital Grants relating to disposals / impairment	(2,480)	-
CRC allowances	-	256
Release of dilapidations provision	-	(413)
Adjusted deficit	**(3,323)**	**(6,251)**

Developments

The College has continued to invest in improvements to the IT infrastructure and the completion of the new A level centre on the Sutton Coldfield campus. The College developed a comprehensive Recovery and Improvement Plan aimed at improving the Quality of Teaching & Learning and establishing long term Financial stability. The FE Commissioner led a Structure and Prospects Appraisal in early 2019, and as a result of the SPA the College was to close the main Black Country sites, transferring provision to Dudley College of Technology and Halesowen College with an effective date of 31 July 2019. This was successfully achieved during the period March – July 2019 with the College refocussing on its provision at the 3 main Birmingham sites at Matthew Boulton, James Watt and Sutton Coldfield.

Reserves

The College has accumulated reserves of -£4,049k and cash and short-term investment balances of £3,292k. The College long term aim is to accumulate reserves and cash balances in order to create a contingency fund.

Sources of income

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2018/19 the funding bodies provided 89% of the total income (17/18 – 90%).

FUTURE PROSPECTS

Developments

The College is currently implementing the stages of its Recovery and Improvement Plan to deliver improvement in the Quality of Teaching & Learning and establishing long term financial stability. The Corporation held a strategy day in November 2019 to review its strategic plan and determine the strategic direction for the College over the next five-year period. This was done with input from key stakeholders including sector specialists and funding bodies.

The results of that strategic review will inform the strategic, curriculum and financial plans for the college from 2020 to 2025. High quality provision provided from a sound financial base will be key elements of the strategy.

Financial health

Improving the College's financial health is a key priority. The College's Recovery and Improvement Plan has been incorporated into the College's Operating Plan which ensures that all areas of the College continue to develop for the benefit of its students. The Plan focusses on 6 Key Performance Indicators to ensure that the overall plan is being delivered. The College's financial health score using the ESFA assessment is 'Inadequate', due to the level of debt that the College has in place. The Recovery and Improvement Plan aims to improve the financial health score to 'Requires Improvement' in 2019/20 and 'Good' by 2021/22.

Financial plan

The College governors approved a three-year financial plan in July 2019 which set out objectives for the period to 2022. This plan was submitted to the ESFA and forms an integral part of the College's Recovery and Improvement Plan. The plan has been subject to external stakeholder review and has the support of the major stakeholders and creditors of the College.

Treasury policies and objectives

Treasury Management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
The College has a separate treasury management policy.
Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. Such arrangements are restricted by limits in the Financial Memorandum with the ESFA. All other borrowing requires the authorisation of the Corporation and complies with the requirements of the Financial Memorandum of the Education Skills Funding Agency.

For the financial years to 31 July 2016 and 31 July 2019, the College did not meet all financial covenants set by banking institutions in relation to borrowing arrangements. The breaches of covenants were as follows:

- Barclays Bank – debt service cover must not fall below 1, at end of July 2019 this was at 0;
- Lloyds Bank – EBITDA cover must not fall below 2, at end of July 2019 this was negative.

As a result of these breaches of covenant, the long-term elements of the loans with the two banks were reclassified to short term. The banks are currently reserving their rights.

The College is working with the banks to reset covenants in the first half of 2019/20. This is as a result of the implementation of the College's Recovery and Improvement Plan and the immediate impact this has had on the level of bank debt and in-year financial performance.

Cash flows and liquidity

A net cash inflow of £1,966k in 2018/19 (2017/18: cash outflow of £1,095k), from all activities has strengthened the liquidity position of the College. The most significant transactions during the year were the disposal of the Riverside and Moat House sites, generating £4.8m of cash, of which £2.7m was repaid to the ESFA against the College's loan. The College also received £4.3m from the ESFA in the form of repayable grant to support cash flow and liquidity during the year. This will be repaid to the ESFA during the period of the College's Recovery and Improvement Plan.

Reserves

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. As at the balance sheet date the Income and Expenditure reserve stands at -£13,879k (2017/18: £13,782k). It is the Corporation's intention to improve reserves over the life of the new strategic plan through the generation of annual operating surpluses.

Going concern

Notwithstanding net current liabilities of £19.9m as at 31 July 2019, a deficit before other gains and losses for the year then ended of £22.9m and operating cash outflows for the year of £1.9m, the financial statements have been prepared on a going concern basis which the Corporation considers to be appropriate for the following reasons.

The Corporation has prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the College will have sufficient funds, through continuing financial support from the Education and Skills Funding Agency (ESFA) and its bankers to meet its liabilities as they fall due for that period.

The College had a creditor of £7.5m payable to the ESFA at 31 July 2019, of which £4.3m is Exceptional Financial Support (EFS). The College has entered into a facility agreement with the ESFA to repay that EFS in full over the 6-year period of the College's Recovery and Improvement Plan. The remaining balance of £3.2m is represented by a formal loan repayable by September 2020 and carrying an interest rate equal to PWLB Standard rate.

The College had bank loans with Lloyds and Barclays totalling £8.9m at 31 July 2019. As set out at note 15, the bank loans are repayable in instalments falling due by 2030 and 2035. However, as the College breached the covenants set by both banks at 31 July 2019, the loans have been classed as current liabilities in these financial statements. The College is also forecast to breach its existing covenants at 31 July 2020 and is in the process of negotiating revised loan covenants with the banks, who have indicated their willingness to continue to provide financial support.

The Corporation has set a deficit budget for 2019/20 in line with the College's Recovery and Improvement Plan. The implementation of the first stage of the Plan has also resulted in the College receiving a total of £2.4m from Dudley College of Technology and Halesowen College in September 2019, in recognition of the transfer to these two colleges of education provision, staff and assets associated with the disaggregation of the College's Black Country provision. Of this, £1.6m has been applied to reduce the Lloyds Bank debt that was secured on the associated assets.

In addition, the College is expecting to receive a further £500k from Dudley College of Technology in January 2020 associated with the disposal of the ADC building. The College will also be disposing of the Hagley Road Campus within the next 12 months and the net proceeds will be applied to further reduce the Lloyds Bank debt and to invest in the future of the James Watt Campus.

The College remains subject to the intervention and monitoring process of the FE Commissioner. In addition, the ESFA continues to support the College and monthly case meetings are in place to review progress. The banks also attend the case meetings to monitor progress and ensure financial targets within the financial recovery plan are met.

Based on the above indications the Corporation believes it is appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty which may cast significant doubt on the College's ability to continue as a going concern and therefore to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk management

The College has developed strategies for managing risk and strives to embed risk management in all that it does. Risk management processes are designed to protect its assets, reputation and financial stability. The governing body has overall responsibility for risk management and its approach to managing risks and internal controls is explained in the Statement on Corporate Governance.

A risk register is maintained at the College level which is reviewed at least annually by the Audit Committee and more frequently where necessary. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

The main risk factors affecting the College are outlined below along with the action taken to minimise them. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

- The College does not generate enough cash to effectively operate.
- Quality of teaching and learning does not improve, and learners do not make sufficient progress.

These risks are mitigated in a number of ways:

- Development of a Quality Improvement Plan and following the last full Ofsted visit in October 2018 a Post Inspection Action Plan. These documents form the basis of improving quality in the College;
- Implementation of a rigorous Quality Assurance process to ensure the quality of teaching and learning improves;
- Monitoring of targets to identify areas of weakness before an issue arises and development of action plans to manage such weaknesses;
- Improved cash flow forecasting processes and ensure these are fully integrated with income forecasting process;
- Renegotiation of the ESFA loans and repayment profile to maintain liquidity; and
- Implementation of new accounting systems and processes to improve controls over spending.

KEY PERFORMANCE INDICATORS

The Corporation receives regular reports tracking the key performance indicators for the College as agreed as part of the Business review process. The final KPI's for 2018/19 are shown in the table below with appropriate RAG ratings. These KPI's are monitored throughout the year and inform action planning for the following year:

Measure	Target	Actual
Students recommend college in Big Teaching & Learning Survey	90%	86%
Employer Satisfaction	86%	82%
Students agree teaching on their course is good	95%	93%
Students on track to achieve their target grade	70%	42%
Observations – students make good progress	88%	93%
Attendance rate	89%	88%
Retention rate	93%	93%
Achievement rates: E&T 16-18 E&T 19+ Apps timely	 84% 87% 61%	 83.8% 83.2% 60.3%
16-18 positive destination/progression	88%	72%
19+ long courses positive destination	75%	47%
Achievement of Educate and Celebrate Award	Achieved	Achieved
Achievement of Disability Confident Status	Achieved	Achieved
Improvement in employee engagement	3.4	N/A
Staff actively developing their performance	97%	97%
16-18 students: enrolled retained	7,400 6,666	7,128 6,174
Conversion of application to enrolment across all sites	38%	36%
Internal progression and retention is - maintained for 16-18 - increases for 19+ -	 65% 55%	 68% 57%

Measure	Target	Actual
Total income, of which:	£57.7m	£58.7m
HE income	£2.0m	£2.2m
AEB income	£13.8m	£13.8m
Apprenticeship income	£4.4m	£3.7m
Other income	£7.0m	£6.8m
Total cost	£62.0m	£65.4m
Pay expenditure as a percentage of income	68.4%	66.03%
Dependency on ESFA income	87%	84.6%
Net cash movement	£2.1m	£2.0m
Average class size	18.6	16.0
Staff Utilisation	95%	97%
Pay down agreed debt schedule		

OTHER INFORMATION

Public Benefit

BMet is an exempt charity under the 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 13 & 14. In setting and reviewing the College's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education.

In delivering its mission, the College provides identifiable public benefits through the advancement of education to students, including students with high needs. The college provides courses without charge to young people, to those who are unemployed, and to adults taking English and maths course. The college adjusts its courses to meet the needs of local employers and provides training to 1,414 apprentices. The college is committed to providing information, advice and guidance to the students it enrols and to finding suitable courses for as many students as possible regardless of their educational background.

Diversity and Inclusion

Diversity and Inclusion (D&I) is pivotal to BMet's organisational culture and success. We are passionate about offering inclusive working and learning environments where everyone is treated with dignity and respect and is able to participate, progress and thrive. This starts with valuing and celebrating all of the differences that make us unique, including, but not limited to, ability, age, gender, pregnancy & maternity, sexual orientation, race, and religion & belief.

The College's Equality and Diversity Policy, Diversity and Inclusion Strategy, Annual Equality Report and Equality Objectives outline the organisation's commitment and progress towards fully integrating D&I into all aspects of college life. These are published on BMet's website.

The College works hard to remove conditions which may place people at a disadvantage. We pay particular attention to preventing direct and indirect discrimination that affects the legally recognised protected characteristics, including disability.

Disability statement

BMet strives to fulfil our statutory responsibilities towards disabled people set out in the Equality Act 2010 and the Public Sector Equality Duty 2011 by:

- Providing an environment that is inclusive and accessible for all stakeholders
- Observing our anticipatory duty to make reasonable adjustments to take steps to meet the needs of disabled people and remove or minimise the disadvantages they may face

- Responding to individual needs in a timely way, where needs have not been anticipated
- Considering creative and agile solutions to access issues in addition to structured assessment frameworks such as Access to Work
- Having due regard to advancing equality by encouraging disabled people into employment and education and by supporting their progression through the organisation
- Ensuring staff and students have appropriate equality, diversity and inclusion awareness to support themselves and others

The College is a DWP **'Disability Confident Employer'** which reflects our work around proactively employing and retaining disabled people. This involves actively looking to attract, recruit and retain disabled people by providing a fully inclusive and accessible recruitment process and supportive environments to enable people to be their very best.

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

Numbers of employees who were relevant in the period	FTE employee number
11	10.5

Percentage of time	Number of employees
0%	0
1-50%	11
51-99%	0
100%	0

Total cost of facility time	£32.6k
Total pay bill	£32,998k
Percentage of total bill spent on facility time	0.10%

Time spent on paid trade union activities as a percentage of total paid facility time	100%

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2018 to 31 July 2019, the College paid 47.5% of its invoices within 30 days. The College incurred interest charges of £24k in respect of late payment for this period.

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 19 December 2019 and signed on its behalf by:

Sir Dexter Hutt
Chair of the Corporation

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2018 to 31 July 2019 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
ii. in accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges (2015) ("the FE Code"); and
iii. having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College has reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2019. The Corporation 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, and is substantially compliant with the Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015.

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

The Corporation

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

The table is from August 2018 up to and including December 2019.

Name	Date of Appointment	Expiry of Term of Office	Date of Resignation	Status of Appointment	Committees Served	Corporation Attendance
Steve Hollis	1 September 2013	31 August 2019	31 December 2018	Independent	Finance Committee Governance and Search/Remuneration Committee	**4 of 4**
Veronica Docherty	1 August 2010	30 November 2022		Independent	Academic Standards and Quality Developments Committee Governance and Search/Remuneration Committee Finance Committee	**10 of 10**

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

Name	Date of Appointment	Expiry of Term of Office	Date of Resignation	Status of Appointment	Committees Served	Corporation Attendance
Deborah Edmonds	14 September 2017	13 September 2021	15 October 2018	Independent	Audit	**1 of 1**
Dan Zastawny	14 September 2017	13 September 2021	30 August 2019	Independent	Academic Standards and Quality Development	**8 of 10**
Keith Horton	15 September 2016	14 September 2020	19 August 2019	Independent	Academic Standards and Quality Development	**7 of 10**
Joel Blake	15 September 2016	14 September 2020	20 December 2018	Independent	Finance Committee	**1 of 2**
Michele Larmour	20 October 2016	19 October 2020		Independent	Audit	**8 of 10**
Jane Smith	15 September 2016	31 July 2019		Staff Member	ASQD	**10 out of 10**
Andrew Cleaves	1 June 2014		23 September 2018	Ex officio member as Principal		**1 of 1**
Hilary Smyth-Allen	20 October 2016	19 October 2020		Independent	Finance Committee	**7 of 10**
Amardeep Gill	15 December 2016	14 December 2020	31.08.2019	Independent	Audit Committee	**7 of 10**
Cliff Hall	1 May 2018			Independent (and ex officio member as Principal from 1.10.18)	All committees as ex-officio member as Principal	**9 of 10**
Angela Myers	27 April 2018	26 April 2022		Independent	Academic Standards and Quality Development	**8 of 10**
Simon Thompson	15 December 2016	14 December 2020		Independent	Audit Committee	**9 of 10**
Sam Coles	12 July 2018	31 July 2020		Staff	Academic Standards and Quality Development	**9 of 10**
Michael Nnabugo	12 July 2018	31 July 2019		Student	Academic Standards and Quality Development	**3 of 9**
Daniel Millington	12 July 2018	31 July 2019		Student	Academic Standards and Quality Development	**9 of 9**
Asha Devi	11 July 2019	10 July 2023		Independent	Finance	**1 of 1**
Prue Huddleston	20 December 2018	19 December 2022		Independent	Academic Standards and Quality Development Governance and Search	**5 of 5**
Sir Dexter Hutt	14 March 2019	13 March 2023		Independent (Chair)	Finance Governance and Search	**6 of 6**
Iqbal Mohammed	20 December 2018	19 December 2022		Independent	Audit	**3 of 5**
Peter Croom	12 September 2019	11 September 2023		Independent	Finance	**N/A**

Mr Liam Nevin acted as the Company Secretary for the period August 2018 – July 2019; Hilary Barber acted as Interim Company Secretary until 8 December 2019, and Stephen Belling assumed the role of Company Secretary from 9 December 2019 to the date of the signing of these financial statements.

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

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

The Corporation is provided with 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 risk management measures. The Corporation meets as a minimum on a termly basis and holds a number of "keeping in touch" sessions with management between meetings to keep informed of College matters.

The Corporation conducts its business through a number of committees. During 2018/19 the following committees were in place; Audit, Remuneration, Governance and Search, Finance & Business Development, and Academic Standards and Quality Development. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at www.bmet.ac.uk or from the Company Secretary:

Birmingham Metropolitan College
Jennens Road
Birmingham
B4 7PS.

The Company Secretary maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address.

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

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

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

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

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Governance & Search Committee comprising of seven members of the Corporation (including the Principal) which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding four years, with extensions allowing a maximum term of office of eight years, with extensions beyond that being granted only in exceptional cases.

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

Corporation performance

The Corporation undertakes ongoing evaluation of its own performance and identified the following areas for improvement:

- The strengthening of the Corporation Board to include more high-level experience of teaching and learning in the FE sector. This was achieved with the recruitment of new Governors during the year.

- The strengthening of the Finance Committee with the addition of an experienced accountant. A co-opted member was recruited to full membership for 2019/20

- The strengthening of the College's financial forecasting and budget control arrangements.

Remuneration Committee

Throughout the year ending 31 July 2019, the College's Remuneration Committee comprised of four 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 post-holders as appropriate. During the 2018/19 year the Remuneration Committee did not meet during a period of change within the Corporation, so the responsibilities of the Committee were assumed by the full Corporation.

Details of remuneration for the year ended 31 July 2019 are set out in note **7** to the financial statements.

Audit Committee

The Audit Committee comprises of five members of the Corporation (which exclude the Accounting Officer and Chairman). The Committee operates in accordance with its written terms of reference approved by the Corporation. Its purpose is to advise the Corporation on the adequacy and effectiveness of the College's system of internal control and its arrangements for risk management, control and governance processes.

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

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

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

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

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

Internal Control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between the College and the ESFA. He is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going 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 Birmingham Metropolitan College for the year ended 31 July 2019 and up to the date of approval of the annual report and financial statements.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal on-going process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2019 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

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

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

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

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

Review of effectiveness

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

- The work of the internal auditors
- The work of the executive directors 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 the funding assurance auditors in their management letters and other reports

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

The Executive Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Executive Team and Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation receives reports from the Executive Team and the Audit Committee in relation to internal audit and other risks. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

Going concern

As detailed in the going concern section of the Operating and Financial Review on pages 7 & 8, notwithstanding net current liabilities of £19.9m as at 31 July 2019, a deficit before other gains and losses for the year then ended of £22.9m and operating cash outflows for the year of £1.9m, the financial statements have been prepared on a going concern basis which the Corporation considers to be appropriate.

The College remains subject to the intervention and monitoring process of the FE Commissioner. In addition, the ESFA continues to support the College and monthly case meetings are in place to review progress. The banks also attend the case meetings to monitor progress and ensure financial targets within the financial recovery plan are met.

Based on the indications detailed on page 8, the Corporation believes it is appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty which may cast significant doubt on the College's ability to continue as a going concern and therefore to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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

Approved by order of the members of the Corporation on 19 December 2019 and signed on its behalf by:

Sir Dexter Hutt
Chair of the Corporation

Cliff Hall
Principal and Chief Executive Officer

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

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

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

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

Sir Dexter Hutt	Cliff Hall
Chair of the Corporation	*Principal and Chief Executive Officer*
19 December 2019	*19 December 2019*

Statement of the responsibilities of the members of the Corporation

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

Within the terms and conditions of the College's grant funding agreements and contracts with the ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education and with the College Accounts Direction 2018 to 2019 issued by the ESFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the College or to cease operations or have no realistic alternative but to do so.

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

The Corporation is responsible for keeping adequate accounting records which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 the ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the ESFA are not put at risk.

Approved by order of the members of the Corporation on 19 December 2019 and signed on its behalf by:

Sir Dexter Hutt
Chair of the Corporation

Independent Auditor's Report to the Corporation of Birmingham Metropolitan College

Opinion

We have audited the financial statements of Birmingham Metropolitan College ("the College") for the year ended 31 July 2019 which comprise the Statement of Comprehensive Income and Expenditure, the Statement of Changes in Reserves, the Balance Sheet, the Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2019, and of the College's income and expenditure, gains and losses and changes in reserves, and cash flows, for the year then ended; and

- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland,* and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education.*

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the College in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to the Going Concern disclosures in note 1 to the financial statements which indicate that the College is dependent on the continued support of its bankers for the continued provision of loan facilities and the Education Skills and Funding Agency (ESFA) for short term cashflow support. These events and conditions, along with other matters explained in note 1 indicate that a material uncertainty exists that may cast significant doubt on the College's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The Corporation is responsible for the other information, which comprises the Report of the Governing Body and the Corporation's statement of corporate governance and internal control. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Post-16 Audit Code of Practice 2018 to 2019 (February 2019) issued by the Education and Skills Funding Agency we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Independent Auditor's Report to the Corporation of Birmingham Metropolitan College *(continued)*

Corporation's responsibilities

As explained more fully in their statement set out on page 21, the Corporation is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 it either intends to liquidate the College or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not 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 the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Corporation, 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 for our audit work, for this report, or for the opinions we have formed.

Anthony Felthouse
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

20 December 2019

Reporting Accountant's Report on Regularity to the Corporation of Birmingham Metropolitan College and the Secretary of State for Education acting through the Education and Skills Funding Agency

In accordance with the terms of our engagement letter dated 1 October 2015 and further to the requirements and conditions of funding in ESFA 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 that in all material respects the expenditure disbursed and income received by Birmingham Metropolitan College during the period 1 August 2018 to 31 July 2019 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 issued by the ESFA. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which the ESFA has other assurance arrangements in place.

This report is made solely to the corporation of Birmingham Metropolitan College 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 Birmingham Metropolitan College 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 Birmingham Metropolitan College and the ESFA for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of Birmingham Metropolitan College and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Post-16 Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the 1 August 2018 to 31 July 2019 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 Post-16 Audit Code of Practice 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.

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.

Reporting Accountant's Report on Regularity to the Corporation of Birmingham Metropolitan College and the Secretary of State for Education acting through the Education and Skills Funding Agency *(continued)*

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

The work undertaken to draw our conclusion included:

- Documenting the framework of authorities which govern the activities of the College;
- Undertaking a risk assessment based on our understanding of the general control environment and any weaknesses in internal controls identified by our audit of the financial statements;
- Reviewing the self-assessment questionnaire which supports the representations included in the Chair of Governors and Accounting Officer's statement on regularity, propriety and compliance with the framework of authorities;
- Testing transactions with related parties;
- Confirming through enquiry and sample testing that the College has complied with its procurement policies and that these policies comply with delegated authorities; and
- Reviewing any evidence of impropriety resulting from our work and determining whether it was significant enough to be referred to in our regularity report.

This list is not exhaustive, and we performed additional procedures designed to provide us with sufficient appropriate evidence to express a limited assurance conclusion on regularity consistent with the requirements of the Post-16 Audit Code of Practice.

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 2018 to 31 July 2019 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Anthony Felthouse
For and on behalf of KPMG LLP, Reporting Accountant
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

20 December 2019

Statement of Comprehensive Income and Expenditure

	Notes	2019 £'000	2018 £'000
INCOME			
Funding body grants	2	49,721	49,361
Accelerated release of capital grants	14	2,480	-
Tuition fees and education contracts	3	6,940	8,115
Other grants and contracts	4	978	219
Other income	5	1,022	849
Endowment and investment income	6	12	5
Total income		**61,153**	**58,549**
EXPENDITURE			
Staff costs	7	38,802	40,492
Other operating expenses	8	19,701	21,545
Impairment Loss	11	18,625	-
Depreciation	11	5,232	5,357
Interest and other finance costs	9	1,714	1,606
Total expenditure		**84,074**	**69,001**
Deficit before other gains and losses		**(22,921)**	**(10,452)**
(Loss)/Profit on disposal of assets	11	(793)	5,604
Deficit before tax		**(23,714)**	**(4,848)**
Taxation	10	-	-
Deficit for the year		**(23,714)**	**(4,848)**
Actuarial (loss)/gain in respect of pensions schemes		(4,634)	9,261
Total Comprehensive Income and Expenditure for the year		**(28,348)**	**4,413**

Statement of Changes in Reserves

	Income and Expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 31st July 2017	9,061	10,825	19,886
Deficit from the income and expenditure account	(4,848)	-	(4,848)
Other comprehensive income	9,261	-	9,261
Transfers between revaluation and income and expenditure reserves	309	(309)	-
Total comprehensive income for the year	4,722	(309)	4,413
Balance at 31st July 2018	**13,782**	**10,517**	**24,299**
Balance at 1st August 2018	13,782	10,517	24,299
Deficit from the income and expenditure account	(23,714)	-	(23,714)
Other comprehensive income	(4,634)	-	(4,634)
Transfers between revaluation and income and expenditure reserves	687	(687)	-
Total comprehensive income for the year	(27,661)	(687)	(28,348)
Balance at 31st July 2019	**(13,879)**	**9,830**	**(4,049)**

Balance sheet as at 31 July

	Notes	2019 £'000	2018 £'000
Fixed assets			
Tangible fixed assets	11	69,329	97,270
Investments		-	-
		69,329	**97,270**
Current assets			
Trade and other receivables	12	2,141	1,489
Cash and cash equivalents	17	3,292	1,325
		5,433	**2,814**
Less: Creditors – amounts falling due within one year	13	(25,380)	(26,427)
Net current liabilities		**(19,947)**	**(23,613)**
Total assets less current liabilities		**49,382**	**73,657**
Less: Creditors – amounts falling due after more than one year	14	(13,535)	(16,726)
Provisions			
Defined benefit obligations	16	(37,501)	(30,400)
Other provisions	16	(2,395)	(2,233)
Total net (liabilities)/assets		**(4,049)**	**24,299**
Unrestricted reserves			
Income and expenditure account		(13,879)	13,782
Revaluation reserve		9,830	10,517
Total reserves		**(4,049)**	**24,299**

The financial statements on pages 26 to 54 were approved by the Corporation on 19 December 2019 and were signed on its behalf by:

Sir Dexter Hutt
Chair of the Corporation

Mr Cliff Hall
Accounting Officer

Statement of Cash Flows

	Notes	2019 £'000	2018 £'000
Cash inflow from operating activities			
Deficit for the year		(23,714)	(4,848)
Adjustment for non cash items			
Depreciation		5,232	5,357
(Increase)/Decrease in debtors		(652)	375
Decrease in Creditors		(5,376)	(472)
Increase/(Decrease) in provisions		162	(581)
Pensions costs less contributions payable		2,422	2,508
Asset impairment		18,625	1,940
Adjustment for investing or financing activities			
Investment income		(12)	(5)
Interest payable		617	626
Loss/(Profit) on sale of fixed assets		793	(5,604)
Net cash flow from operating activities		**(1,904)**	**(704)**
Cash flows from investing activities			
Proceeds from sale of fixed assets		4,799	9,900
Investment income		12	5
Payments made to acquire fixed assets		(1,464)	(1,503)
		3,347	8,403
Cash flows from financing activities			
Interest paid		(617)	(626)
New unsecured loans		4,300	-
Repayments of amounts borrowed		(3,159)	(8,167)
		524	(8,793)
Increase/(Decrease) in cash and cash equivalents in the year		**1,966**	**(1,095)**
Cash and cash equivalents at beginning of the year	17	1,325	2,420
Cash and cash equivalents at end of the year	17	3,291	1,325

Notes to the accounts

(forming part of the financial statements)

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 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2018 to 2019* and in accordance with Financial Reporting Standard 102 – *"The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland"* (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the use of previous valuations as deemed cost at transition for certain non-current assets.

Going concern

Notwithstanding net current liabilities of £19.9m as at 31 July 2019, a deficit before other gains and losses for the year then ended of £22.9m and operating cash outflows for the year of £1.9m, the financial statements have been prepared on a going concern basis which the Corporation considers to be appropriate for the following reasons.

The Corporation has prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the College will have sufficient funds, through continuing financial support from the Education and Skills Funding Agency (ESFA) and its bankers to meet its liabilities as they fall due for that period.

The College had a creditor of £7.5m payable to the ESFA at 31 July 2019, of which £4.3m is Exceptional Financial Support (EFS). The College has entered into a facility agreement with the ESFA to repay that EFS in full over the 6-year period of the College's Recovery and Improvement Plan. The remaining balance of £3.2m is represented by a formal loan repayable by September 2020 and carrying an interest rate equal to PWLB Standard rate.

The College had bank loans with Lloyds and Barclays totalling £8.9m at 31 July 2019. As set out at note 15, the bank loans are repayable in instalments falling due by 2030 and 2035. However, as the College breached the covenants set by both banks at 31 July 2019, the loans have been classed as current liabilities in these financial statements. The College is also forecast to breach its existing covenants at 31 July 2020 and is in the process of negotiating revised loan covenants with the banks, who have indicated their willingness to continue to provide financial support.

The Corporation has set a deficit budget for 2019/20 in line with the College's Recovery and Improvement Plan. The implementation of the first stage of the Plan has also resulted in the College receiving a total of £2.4m from Dudley College of Technology and Halesowen College in September 2019, in recognition of the transfer to these two colleges of education provision, staff and assets associated with the disaggregation of the College's Black Country provision. Of this, £1.6m has been applied to reduce the Lloyds Bank debt that was secured on the associated assets.

In addition, the College is expecting to receive a further £500k from Dudley College of Technology in January 2020 associated with the disposal of the ADC building. The College will also be disposing of the Hagley Road Campus within the next 12 months and the net proceeds will be applied to further reduce the Lloyds Bank debt and to invest in the future of the James Watt Campus.

Notes to the accounts (continued)

1 Statement of accounting policies *(continued)*

The College remains subject to the intervention and monitoring process of the FE Commissioner. In addition, the ESFA continues to support the College and monthly case meetings are in place to review progress. The banks also attend the case meetings to monitor progress and ensure financial targets within the financial recovery plan are met.

Based on the above indications the Corporation believes it is appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty which may cast significant doubt on the College's ability to continue as a going concern and therefore to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Recognition of income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult 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 OfS represents the funding allocations attributable to the current financial year and is credited direct to the Statement of Comprehensive Income.

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 safer 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 method 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 recognised 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.

Notes to the accounts (continued)

1 Statement of accounting policies *(continued)*

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

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

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

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

Notes to the accounts (continued)

Short term Employment benefits

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

Enhanced Pensions

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

Non-current Assets - Tangible fixed assets

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

Land and buildings

Freehold buildings are depreciated on a straight-line basis over their expected useful lives as follows:

- Freehold – 50 years
- Leasehold – 50 years
- Refurbishments – 15 years

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

Freehold buildings are depreciated over their expected useful economic life to the College of between 20 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 20 and 50 years.

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

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

Assets under construction

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

Subsequent expenditure on existing fixed assets

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

Notes to the accounts (continued)

1 Statement of accounting policies *(continued)*

Equipment

Equipment costing less than £5,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

Inherited equipment is depreciated on a straight-line basis over its remaining useful economic life to the College of one and a half to four years. All other equipment is depreciated over its useful economic life as follows:

- Motor vehicles and general equipment - 3-8 years
- Computer equipment - 3 years
- Furniture and fittings - 8 years
- Plant - 8-10 years

Borrowing costs

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

Investments

Listed investments held as non-current assets and current asset investments, which may include listed investments, are stated at fair value, with movements recognised in Comprehensive Income. Investments comprising unquoted equity instruments are measured at fair value, estimated using a valuation technique.

Inventories

Inventories are stated at the lower of their cost and net realisable value, being selling price less costs to complete and sell. Where necessary, provision is made for obsolete, slow-moving and defective items.

Cash and cash equivalents

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

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

Financial liabilities and equity

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

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

Notes to the accounts (continued)

1 Statement of accounting policies *(continued)*

Foreign currency translation

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

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2011 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2011 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

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

Provisions and contingent liabilities

Provisions are recognised when

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

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

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

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

Notes to the accounts (continued)

1 Statement of accounting policies *(continued)*

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 22, 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 Accounts (continued)

2 Funding council grants

	2019 £'000	2018 £'000
Recurrent grants		
Education and Skills Funding Agency - adult	13,758	13,862
Education and Skills Funding Agency – 16 -18	31,155	30,627
Education and Skills Funding Agency - apprenticeships	3,746	3,835
Specific Grants		
Releases of government capital grants	700	701
HE grant	362	336
Total	**49,721**	**49,361**

3 Tuition fees and education contracts

	2019 £'000	2018 £'000
Adult education fees	1,509	1,634
Apprenticeship fees and contracts	525	524
Fees for FE loan supported courses	2,041	2,790
Fees for HE loan supported courses	602	595
Total tuition fees	4,677	5,543
Education contracts	2,263	2,572
Total	**6,940**	**8,115**

4 Other grants and contracts

	2019 £'000	2018 £'000
European Commission	221	148
Other grants and contracts	757	71
Total	**978**	**219**

Notes to the Accounts (continued)

5 Other income

	2019 £'000	2018 £'000
Catering and residences	-	3
Other income generating activities	988	819
Non government capital grants	34	27
Total	**1,022**	**849**

6 Investment income

	2019 £'000	2018 £'000
Other interest receivable	12	5
	12	**5**

Notes to the Accounts (continued)

7 Staff costs

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

	2019 No.	2018 No.
Teaching staff	476	538
Non teaching staff	408	429
	884	**968**

Staff costs for the above persons

		2019 £'000	2018 £'000
Wages and salaries		27,890	30,023
Social security costs		2,685	2,882
Other pension costs		7,067	7,064
Payroll sub total		**37,642**	**39,968**
Fundamental restructuring costs -	contractual	1,031	387
	non contractual	-	-
Levy Payments		129	136
		38,802	**40,492**

Notes to the Accounts (continued)

7 Staff costs

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Executive Team which comprises the Principal, Company Secretary and other senior academic and support posts. Staff costs include compensation paid to key management personnel for loss of office.

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

	2019 No.	2018 No.
The number of key management personnel including the Accounting Officer was:	14	8

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

	Senior post-holders		Other staff	
	2019 No.	2018 No.	2019 No.	2018 No.
£60,001 to £65,000	-	-	4	2
£65,001 to £70,000	-	-	1	1
£75,001 to £80,000	6	3	3	2
£80,001 to £85,000	1	-	7	9
£85,001 to £90,000	2	2	-	-
£95,001 to £100,000	1	-	-	-
£115,001 to £120,000	1	1	-	-
£130,001 to £135,000	1	-	-	-
£145,001 to £150,000	-	1	-	-
£155,001 to £160,000	1	-	-	-
£265,001 to £270,000	1	1	-	-
	14	8	15	14

Notes to the Accounts (continued)

7 Staff costs

Key management personnel compensation is made up as follows:

	2019 £'000	2018 £'000
Salaries - gross of salary sacrifice and waived emoluments	1,126	942
Employers National Insurance	143	121
Benefits in kind	-	-
	1,269	**1,063**
Pension contributions	133	131
Total emoluments	**1,402**	**1,194**

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

The above compensation includes amounts payable to the Accounting Officer appointed 01 October 2018 (who is also the highest paid officer) of:

	2019 £'000	2018 £'000
Salaries	133	-
Benefits in kind	-	-
	133	-
Pension contributions	-	-

The emoluments below were amounts payable to the former Accounting Officer to 31 March 2019

	2019 £'000	2018 £'000
Salaries	185	266
Benefits in kind	-	-
	185	266
Pension contributions	4	41

The College's Accounting Officer, and other key management personnel, are paid a fair and appropriate remuneration based on the value delivered by the individual in carrying out their role. The factors considered by the College are market rates, roles, skills and experience.

The remuneration packages of the Accounting Officer and other key management personnel are regularly bench marked using sector and local information, and remuneration decisions are based on robust evidence.

Notes to the Accounts (continued)

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

	2019	**2018**
Principal's basic salary as a multiple of the median of all staff	5.7	10.0
Principal and CEO's total remuneration as a multiple of the median of all staff	5.7	11.6

Compensation for loss of office paid to former key management personnel

	2019	**2018**
	£	**£**
Compensation paid to the former post-holder - contractual	-	-
Estimated value of other benefits, including provisions for pension benefits	-	-

The severance payment was approved by the College's remuneration

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

Notes to the Accounts (continued)

8 Other operating expenses

	2019 £'000	2018 £'000
Teaching costs	5,543	5,357
Non teaching costs	8,622	11,751
Premises costs	5,536	4,436
Total	**19,701**	**21,544**

Other operating expenses include:	**2019 £'000**	**2018 £'000**
Auditors' remuneration:		
Financial statements audit	38	38
Internal audit	81	65
Other services provided by the financial statements auditors	3	3

9 Interest payable

	2019 £'000	2018 £'000
On bank loans, overdrafts and other loans:	617	626
	617	626
On finance leases		
Net interest on defined pension liability and enhanced pension	1,097	980
Total	**1,714**	**1,606**

10 Taxation

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

Notes to the Accounts (continued)

11 Tangible fixed assets

	Land and buildings		Equipment	Assets in the Course of Construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 August 2018	132,556	110	13,702	-	146,368
Additions	640	-	781	158	1,578
Disposals	(5,070)	-	(3,797)	-	(8,867)
At 31 July 2019	**128,126**	**110**	**10,685**	**158**	**139,080**
Depreciation					
At 1 August 2018	39,230	34	9,833	-	49,098
Charge for the year	3,825	4	1,403	-	5,232
Impairment Loss	18,625	-	-	-	18,625
Elimination in respect of disposals	(348)	-	(2,856)	-	(3,204)
At 31 July 2019	**61,332**	**38**	**8,380**	**-**	**69,750**
Net book value at 31 July 2019	**66,794**	**72**	**2,306**	**158**	**69,329**
Net book value at 31 July 2018	93,326	76	3,869	-	97,270

Following the disaggregation of the College's delivery in the Black Country on 31 July 2019, the College identified a number of assets that would be earmarked for disposal including the Hagley Road site, Advanced Design Centre, Kidderminster Academy and Millennium Point.

Kidderminster Academy and Millennium Point are leased properties, and the costs associated with the remaining period of the leases has been recognised in these accounts to the first available breakpoint of the leases. The Millennium Point lease was assigned to another organisation in October 2019, but Kidderminster Academy remains vacant as the date of these accounts.

The Advanced Design Centre is scheduled for sale to Dudley College in January 2020 and the Hagley Road site is subjected to an offer that is expected to reach completion in February 2020. Based on the updated values of these sites the Advanced Design Centre has been impaired to £0.5m and the Hagley Road Site to £3.55m.

Accelerated depreciation of £18.6m relates to asset impairment for the following properties; Advanced Design Centre £8.1m, Hagley Road Centre £7.4m, Kidderminster Academy £2.7m, Millennium Point £0.2m and £0.2m in respect of the Moat House.

Notes to the Accounts (continued)

12 Trade and other receivables

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade receivables	842	668
Other debtors	11	6
Prepayments and accrued income	837	511
Amounts owed by the ESFA	451	304
Total	**2,141**	**1,489**

13 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank loans and overdrafts	8,852	9,244
ESFA Loan	7,533	6,000
Trade payables	2,024	605
Obligations under VAT scheme	13	7
Other taxation and social security	1,189	1,385
Payments received on account	396	930
Accruals	4,653	7,087
Deferred income - government capital grants	720	720
Amounts owed to the ESFA	-	449
Total	**25,380**	**26,427**

14 Creditors: amounts falling due after one year

	2019 £'000	2018 £'000
Deferred income - government capital grants	13,535	16,726
Total	**13,535**	**16,726**

Accelerated release of Capital Grants associated with the impairment of the Black Country assets have released £2.48m from government capital grants in year.

Notes to the Accounts (continued)

15 Maturity of debt

(a) Loans and overdrafts

Loans and overdrafts are repayable as follows:

	2019 £'000	2018 £'000
In one year or less: Bank loan	8,852	9,244
ESFA loan	7,533	6,000
Between one and two years - BIS loan	-	-
Total	16,385	15,244

At 31 July 2016, 2017, 2018 and 2019, loan covenants with Lloyds and Barclays Bank had been breached and formal waivers from the banks were not in place as at those dates. The College has discussed and agreed its financing position with banks subsequent to the year end, and negotiated revised covenant suites, although the loan repayment periods remain unchanged. However, in accordance with Financial Reporting Standards, the College was deemed not to have an unconditional right to defer payment for more than 12 months at the balance sheet date.

There are now three loans in progress, two from the former Matthew Boulton College and one from the former Stourbridge College.

1. The former Matthew Boulton College loan is secured on a portion of the freehold land and buildings of the Matthew Boulton Campus, bears interest at 6.07% and 5.95% and is repayable by instalments falling due between 1 August 2007 and 31 July 2030. The outstanding balance transferred on merging was £3,732,000.

2. The former Stourbridge College loan agreement with Lloyds Bank bears interest at 5.195%, 5.250%, 5.280% and 5.345% and is repayable by instalments falling due between 2011 and 2035. The outstanding balance transferred on merging was £7,686,000.

The ESFA loan is repayable on terms to be agreed by September 2020 excluding repayments in relation to property sales.

Notes to the Accounts (continued)

16 Provisions

	Defined benefit Obligations £'000	Enhanced pensions £'000	Other £'000	Total £'000
At 1 August 2018	30,400	2,153	80	32,633
Expenditure in the period	1,699	(167)	-	1,532
Transferred from income and expenditure account	768	329	-	1,097
Actuarial loss	4,634	-	-	4,634
At 31 July 2019	**37,501**	**2,315**	**80**	**39,896**

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 22.

Other provisions relate to a legal obligation to carry out remedial pipework in the institution's leasehold building.

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

The principal assumptions for this calculation are:

	2019	2018
Price inflation	2.00%	2.30%
Discount rate	2.20%	1.30%

17 Cash and cash equivalents

	At 1 August 2018 £'000	Cash flows £'000	Other changes £'000	At 31 July 2019 £'000
Cash and cash equivalents	1,325	1,966	-	3,291
Total	**1,325**	**1,966**	**-**	**3,291**

18 Capital commitments

	2019 £'000	2018 £'000
Commitments contracted for at 31 July	1,379	127

Notes to the Accounts (continued)

19 Lease Obligations

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

	2019 £'000	2018 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	-	-
Later than one year and not later than five years	612	793
later than five years	3,405	3,793
	4,017	4,586
Other		
Not later than one year	-	-
	-	-
Total lease payments due	4,017	4,586

20 Contingent liabilities

The College has no contingent liabilites as at 31 July 2019 (2018: £nil)

21 Events after the reporting period

There have been no events after the end of the reporting period.

Notes to the Accounts (continued)

22 Defined benefit obligations

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

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2016.

Total pension cost for the year		**2019 £'000**		**2018 £'000**
Teachers Pension Scheme: contributions paid		2,450		2,577
Local Government Pension Scheme:				
Contributions paid	2,963		2,953	
FRS 102 (28) charge	1,654		1,534	
Charge to the Statement of Comprehensive Income		4,617		4,487
Enhanced pension charge to Statement of Comprehensive Income		-		-
Total Pension Cost for Year		**7,067**		**7,064**

Contributions amounting to £587,000 (2018:£668,000) were payable to the scheme and are included in creditors.

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including colleges. 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 FRS 102 (28.11), the TPS is a multi-employer pension plan. The College is unable to identify its share of the underlying assets and liabilities of the plan.

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

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 notional investments that produce that real rate of return.

Notes to the Accounts (continued)

22 Defined benefit obligations (continued)

The latest actuarial review of the TPS was carried out as at 31 March 2012. The valuation report was published by the Department for Education (the Department) on 9 June 2014. The key results of the valuation are:
- New employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £191,500 million, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £176,600 million giving a notional past service deficit of £14,900 million;
- an employer cost cap of 10.9% of pensionable pay.
- the assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%.

The new employer contribution rate for the TPS was implemented in September 2015. The next valuation of the TPS is currently underway based on April 2016 data, whereupon the employer contribution rate is expected to be reassessed and will be payable at some point in 2019.
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 £3,750,479 (2018: £4,029,472)

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by West Midlands Pension Fund . The total contribution made for the year ended 31 July 2018 was £2,429,948 of which employer's contributions totalled £1,754,643 and employees' contributions totalled £675,305. The agreed contribution rates for future years are 17.3% for employers and range from 5.5% to 7.5% cent for employees, depending on salary.

Past service costs include £709,000 (2018: £nil) in relation to the estimated impact of the recent McCloud judgement. This represents approximately 0.5% of total liabilities.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2019 by a qualified independent actuary

	At 31 July 2019	At 31 July 2018
Rate of increase in salaries	3.90%	3.85%
Future pensions increases	2.40%	2.35%
Discount rate for scheme liabilities	2.10%	2.65%
Inflation assumption (CPI)	2.40%	2.35%
Commutation of pensions to lump sums	50%	50%

Notes to the Accounts (continued)

22 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

The current mortality assumptions include sufficient allowance for

	At 31 July 2019 years	At 31 July 2018 years
Retiring today		
Males	20.90	21.90
Females	23.20	24.40
Retiring in 20 years		
Males	22.60	24.10
Females	25.00	26.70

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

	Long-term rate of return expected at 31 July 2019	Fair Value at 31 July 2019 £'000	Long-term rate of return expected at 31 July 2018	Fair Value at 31 July 2018 £'000
Equities	60.00%	56,468	63.00%	55,321
Bonds - Government	9.00%	8,895	7.00%	6,288
Bonds - Other	4.00%	3,554	4.00%	3,237
Property	8.00%	7,667	8.00%	7,095
Cash	4.00%	3,392	4.00%	3,278
Other	15.00%	13,948	14.00%	12,204
Total market value of assets		**93,924**		**87,423**
Weighted average expected long term rate of return				
Actual return on plan assets		**(5,556)**		**(4,280)**

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

	2019 £'000	2018 £'000
Fair value of plan assets	93,924	87,423
Present value of plan liabilities	(131,377)	(117,771)
Present value of unfunded liabilities	(48)	(52)
Net pensions liability (Note 16)	**(37,501)**	**(30,400)**

Notes to the Accounts (continued)

22 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

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

	2019 £'000	2018 £'000
Amounts included in staff costs		
Current service cost	3,737	3,969
*Past Service Costs	908	488
Total	**4,645**	**4,457**
Amounts included in investment income		
Net interest income	768	985
	768	**985**
Amounts recognised in Other Comprehensive Income		
Return on Fund assets in excess of interest	3,226	2,000
Change in financial assumptions	(14,697)	7,261
Change in demographic assumptions	6,837	-
Amount recognised in Other Comprehensive Income	**(4,634)**	**9,261**

Movement in net defined benefit liability during the year

	2019 £'000	2018 £'000
Deficit in scheme at 1 August	(30,400)	(37,107)
Movement in year:		
Staff Costs	(4,645)	(4,457)
Employer contributions	2,991	2,923
Net interest on the defined liability	(768)	(985)
Administration expenses	(45)	(35)
Actuarial gain	(4,634)	9,261
Net defined benefit liability at 31 July	**(37,501)**	**(30,400)**

* Past service costs above include £709,000 (2018: £nil) in relation to the estimated impact of the recent McCloud judgement. This represents approximately 0.5% of total liabilities

Notes to the Accounts (continued)

22 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

Asset and Liability Reconciliation

	2019 £'000	2018 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	117,823	115,744
Current Service cost	3,737	3,969
Interest cost	3,098	3,265
Contributions by Scheme participants	708	763
Liabilities assumed on settlements	-	3,854
Changes in financial assumptions	14,697	(7,261)
Changes in demographic assumptions	(6,837)	-
Estimated benefits paid	(2,704)	(2,507)
Past Service cost	908	-
Unfunded pension payments	(5)	(4)
Defined benefit obligations at end of period	**131,425**	**117,823**

Reconciliation of Assets

	2019 £'000	2018 £'000
Fair value of plan assets at start of period	87,423	78,637
Interest on plan assets	2,330	2,280
Return on plan assets	3,226	2,000
Employer contributions	2,991	2,923
Contributions by Scheme participants	708	763
Estimated benefits paid	(2,709)	(2,511)
Administration Expenses	(45)	(35)
Settlement prices received	-	3,366
Fair value of plan assets at end of period	**93,924**	**87,423**

Deficit contributions

In April 2013 the College entered into an agreement with the LGPS to make additional contributions, these totalled £1,210,000 which are in addition to normal funding levels until the next full valuation at which point the situation will be reviewed again.

Notes to the Accounts (continued)

23 Related party transactions

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

The total expenses paid to or on behalf of the Governors during the year was £1,949; 3 governors (2018: £1,200; 3 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.
No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2018: None).

Transaction with the ESFA and OFS are detailed in notes 2, 12 and 13

Estates, Finance (including Payroll), Governance and IT were recharged to Harborne Academy during the year this totalled £147,556 (2018: £150,418)

24 Amounts disbursed as agent

Learner support funds

	2019 £'000	2018 £'000
Funding body grants – 16-18 Bursary	1,908	2,652
Other Funding body grants	488	244
	2,396	2,896
Disbursed to students	(1,866)	(1,753)
Administration costs	(61)	(64)
Balance unspent as at 31 July, included in creditors	469	1,079

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