

# **NORTHUMBERLAND COLLEGE**

**Consolidated Report  
and  
Financial Statements  
for the year ended  
21 March 2019**

# Northumberland College Financial Statements for the part year to 21 March 2019

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

### Key Management Personnel

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

|                 |  |
|-----------------|--|
| Ian Clinton     | Interim Principal and CEO; Accounting Officer          |
| Peter Nangle    | Vice Principal Curriculum                              |
| Terry Andrews   | Vice Principal Finance and Resources (left 31/12/2018) |
| Gavin Teasdale  | Vice Principal Finance and Resources (from 19/11/2018) |
| Louise Kinghorn | Vice Principal Quality, Learning and Outcomes          |

### Board of Governors

A full list of Governors is given on pages 12-13 of these financial statements.

Donna Swan acted as Clerk to the Corporation throughout the year.

### Professional Advisers

#### Financial Statements Auditors and Reporting Accountants:

KPMG LLP  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

#### Internal Auditors:

Mazars LLP  
Mazars House  
Gelderd Road  
Gildersome Leeds LS27 7JN

#### Bankers:

Barclay's Bank  
5 St Ann's Street  
Newcastle upon Tyne NE1 3DX

#### Solicitors:

Sintons  
The Cube  
Barrack Rd  
Newcastle upon Tyne NE4 6DB

# Northumberland College Financial Statements for the part year to 21 March 2019

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# Northumberland College Financial Statements for the part year to 21 March 2019

## REPORT OF THE GOVERNING BODY

### Nature, Objectives and Strategies

The members present their report and the audited financial statements for the financial accounting period 1 August 2018 to 21 March 2019.

### Legal Status

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

On 21 March 2019, the Corporation of Northumberland College approved the dissolution of the College and a merger between the College and City of Sunderland College. Following the dissolution of the College, the Corporation of City of Sunderland College became responsible for the preparation of the final financial statements of the College and the Chair of City of Sunderland College and Accounting Officer of City of Sunderland College became responsible for signing these financial statements.

### Public Benefit

Northumberland College is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. 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 members of the Governing Body, who are trustees of the charity, are disclosed on pages 12-13.

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

Northumberland College is the only general Further Education College in Northumberland, covering 1,935 square miles of the most sparsely populated county in the country. The College has been delivering vocational training, from introductory level to higher education, for more than 60 years. The College runs its courses from a number of campuses and centres which include Ashington (main campus), Kirkley Hall (land based industries hub), Berwick upon Tweed and Hexham.

As well as delivering full and part time courses for school leavers and adult learners, we also work with employers to deliver apprenticeships, workplace and bespoke training courses. The College also provides provision for those who are without work through its Employability programme.

# Northumberland College Financial Statements for the part-year to 21 March 2019

## REPORT OF THE GOVERNING BODY (continued)

The curriculum and learning programme on offer is relevant to learners' needs and aligned to local and regional priorities. Employability skills are developed through relevant work experience, real working environments, commercial enterprises and placements. Increased learner motivation and enjoyment are derived from additional qualifications and enrichment activities. Enterprise is very relevant in equipping students with the exposure to real work as much as possible to equip them with the all-round skills and aptitudes to gain employment and is being developed.

The academic and vocational training programmes which are delivered by the College make a significant contribution to improving the life chances of a large number of young people and adult learners many of whom come from significantly diverse backgrounds. This includes a high proportion with low levels of prior attainment and many who face challenges in terms of social and economic deprivation. The College seeks to add value to the social, economic and physical well-being of the community we serve by attracting, training and educating students successfully and in accordance with our core values, so that they themselves, by virtue of that successful education and training, are in turn able to benefit our community.

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

### College Mission and Key Strategic Aims

At Northumberland College we are committed to and passionate about securing positive outcomes for our students. Our mission is:

*'To provide outstanding education and training and apprenticeships, preparing our students for work, serving the needs of our community and businesses.'*

#### Key Strategic Aims:

- Prepare our students for work: To ensure our students have a complete study programme ensuring they develop the vocational and employability skills that employers demand.
- Curriculum and specialisation development: To ensure our curriculum delivery is highly efficient encompassing innovative use of technology and curriculum design; deliver a curriculum offer which is current with pathways to existing and future jobs; to meet the need for specialisation.
- Sustainability: Ensure that the College is sustainable for the foreseeable future and can continue to grow income and control costs.
- Investment: Invest in the College to secure the specialist resource that existing and emerging curriculum requires, and create a series of highly efficient and modern learning centres.
- Become outstanding: All strategic areas contribute to the College becoming an outstanding provider.
- Environment and student experience: Ensure our environment caters for all our students' needs offering a comfortable environment, conducive to meeting social, academic and specialist resource needs. Our environment also needs to be flexible and utilise technology to be as efficient as possible.

# Northumberland College Financial Statements for the part-year to 21 March 2019

## REPORT OF THE GOVERNING BODY (continued)

- Working with Employers: Ensure we are highly responsive, flexible and understanding of employer's needs, with high levels of employer engagement and high quality apprenticeship and bespoke training.
- Leadership: Inspiring and highly effective leadership is pivotal to the College achieving its aims.
- The achievement of these aims has been foremost in the thinking of the whole leadership of the college and has resulted in the restructuring exercise noted above.

### College Vision

Northumberland College aims to be an exceptional college and the place of choice that embraces enterprise, innovation, creativity and employability skills for the success of all our students. At Northumberland College we are committed to achieving positive outcomes for students via an employer led curriculum which offers both a pathway to work and a first class experience – developing the skills, qualities and attributes required to succeed in the workplace. We seek to be at the heart of the economic and social well-being of our county.

### Student Achievements

Northumberland College merged with City of Sunderland College on 22 March 2019, mid-way through an academic year. At the point of merger, student achievement information was not available. The full year achievement rates are detailed below for the last 3 years. These are now consolidated within the Group accounts for City of Sunderland College.

| Education and Training (all ages) |         |             |             |             |                |
|-----------------------------------|---------|-------------|-------------|-------------|----------------|
| Year                              | Leavers | Retention   | Pass        | Achievement | National Rates |
| 2016-17                           | 8440    | <b>93.9</b> | <b>87.1</b> | <b>81.8</b> | 82.8           |
| 2017-18                           | 8140    | <b>92.0</b> | <b>93.4</b> | <b>85.9</b> | 84.4           |
| 2018-19                           | 7758    | <b>91.9</b> | <b>91.6</b> | <b>84.2</b> | 85.2           |

| Apprenticeships (all ages, timely) |         |             |             |             |                |
|------------------------------------|---------|-------------|-------------|-------------|----------------|
| Year                               | Leavers | Ret         | Pass        | Ach         | National Rates |
| 2016-17                            | 440     | <b>65.9</b> | <b>81.7</b> | <b>53.9</b> | 58.9           |
| 2017-18                            | 447     | <b>62.4</b> | <b>85.3</b> | <b>53.2</b> | 59.4           |
| 2018-19                            | 440     | <b>57.7</b> | <b>74.8</b> | <b>43.2</b> | 59.1           |

### Financial Objectives and Performance

The College fell significantly short of a number of its strategic financial objectives during 2017-18 and 2018-19, resulting in a Further Education Commissioner led Structure and Prospects Appraisal (SPA). The outcome of this process was a recommendation to merge with City of Sunderland College.

# Northumberland College Financial Statements for the part-year to 21 March 2019

## REPORT OF THE GOVERNING BODY (continued)

The College's performance during to 21 March 2019 includes:

- Financial deficit of £7.54m, inclusive of a £1m loss on fixed asset disposals
- Significantly increased currently liabilities, totalling £23.2m
- Net liabilities of £2.26m
- Shortfall against delivery targets in all main areas of funding
- ESFA Financial Health grade of inadequate
- Continued reliance on income from public funds
- Lack of investment to improve the student experience, provide specialist resources and resources that also generate non funded income

The Group generated a deficit in the year of £7,540k (2017-18 deficit: £2,396k). In addition an actuarial loss of £1,130k (2017-18: gain of £850k), relating to the LGPS pension scheme, was posted resulting in the total comprehensive expense for the year being £8,670k deficit (2017-18: £1,546k deficit).

The College has two subsidiaries, Kirkley Hall Limited and Business Solutions Recruitment Services Limited. Kirkley Hall Limited's principal business activity is the provision of various commercial activities which are centred in and around Kirkley Hall. In the period to March 2019, this company made an operating deficit of £48k (2017-18: £63k profit). Business Solutions Recruitment Services Limited did not trade during the period of these financial statements.

The College is required to complete the annual Finance Record for the Education and Skills Funding Agency (ESFA). The current financial health rating is "inadequate" which is not considered an acceptable outcome. The merger with City of Sunderland College is seen as a positive outcome for the College and the cost base will be reduced in order to secure the long-term provision of high quality education within the College's catchment area.

### **Staff and Student Involvement**

The College considers good communication with its staff and students to be very important. Regular staff bulletins are posted to the staff intranet and regular briefings, updates and team meetings are undertaken by the Principal and a staff appreciation event was held. The College encourages staff and student involvement through membership of formal committees and representative student councils operate at the Ashington and Kirkley Hall sites. Each year both staff and students are invited to give feedback to the College through satisfaction surveys. Student Association representatives attended a number of College meetings including College Governance meetings. The College remains committed to being an outstanding place to work for all its staff and to maximise recruitment and retention of staff.

### **Treasury policies and objectives**

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

The College has a separate treasury management policy in place.

## **Northumberland College Financial Statements for the part-year to 21 March 2019**

### **REPORT OF THE GOVERNING BODY (continued)**

The College borrowings have been moved to short term, due to difficulties making repayments. As a result of which, the loan could be called in at any time. All other borrowing requires the authorisation of the Corporation.

#### **Taxation**

The majority of the College's activities do not fall to be charged to Corporation Tax.

#### **Cash flows**

There was a £1,016k net cash inflow from operating activities to 21 March 19 (2017-18: outflow £975k).

#### **Liquidity**

The College has two loans with Northumberland County Council which totalled £7,669k as at 21 March 2019. The unsatisfactory trading performance has resulted in the College's current ratio weakening when compared with the previous year.

#### **Reserves policy**

The Group has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities. The Group has a consolidated accumulated income and expenditure reserve account deficit of £12,043k; this includes a pension reserve deficit of £5,460k. The pension reserves deficit increased by £1,660k to £5,460k (2017-18 deficit of £3,800k).

#### **Current and Future Development and Performance**

##### **Student numbers**

In 2018-19 the Group has delivered activity that has produced £9,531k in funding body income (2017-18: £14,989k).

##### **Curriculum developments**

The College makes a significant contribution to improving the life chances of a large number of young people and adult learners many of whom come from significantly diverse backgrounds. This includes a high proportion with low levels of prior attainment and many who face challenges in terms of social and economic deprivation.

The College offers FE courses up to A Level equivalent, with progression opportunities into higher education, including HND, Foundation degree and includes Level 6 courses. It also offers Apprenticeships and Work-Based training in addition to specialist commercial courses to meet the needs of businesses. It caters for full-time and part-time students of all ages from 16 year olds to adults.

In 2018/19, the curriculum was aligned with LEP and the North of the Tyne Devolution agenda. Progression routes have been put in place in STEM related topics to reflect the high level of skill base needed in Engineering and Technology; however, the curriculum is also cognisant of the skills gaps in numeracy, literacy and IT, as identified in the Northumberland Local Plan.



# Northumberland College Financial Statements for the part-year to 21 March 2019

## REPORT OF THE GOVERNING BODY (continued)

The merger with City of Sunderland College will see the College well placed to improve upon the curriculum offer, drawing upon labour market intelligence (LMI) to inform decision making and help shape the course offer and progression opportunities. Significant investment being planned in development of facilities will provide the resources to better suit the needs of learners and the local communities.

### 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 per cent, the College fell short of this target.

### Principal Risks and Uncertainties:

The College continues to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation.

The College maintains both strategic and operational risk registers. The College senior leadership team has identified eight key strategic risks, each risk has been assigned to an individual within the senior leadership team who is required to manage and monitor the risk across the year. Strategic risks are reviewed and revised on a regular basis and this is reported to the Audit Committee. The key strategic risks relate to a failure to:

- achieve target student outcomes
- maintain financial sustainability
- develop and evolve an effective business continuity plan
- respond appropriately to the changing external environment
- respond adequately to changes in local transport policy
- engage effectively with key stakeholders
- operate effective HR systems and processes
- provide an IT infrastructure that is fit for purpose for both staff and students
- ensure students and staff are safeguarded effectively
- ensure the College is compliant with all Health and Safety legislation

Operational risk registers are held against key functional areas and each area assigned to a member of the College leadership team who is required to manage and monitor the register over the year, amending as and when required.

In order for the College to gain assurance that risks are being managed effectively, the College scores strategic and operational risks both before controls (gross risk) and after controls (net risk). The gross risk will capture the full potential magnitude of the risk, while the net risk will score the risk to reflect the mitigating actions taken by the College.

Based on the strategic plan, the Senior Leadership Team undertakes a comprehensive regular review of the strategic risks to which the College is exposed and have overall responsibility for the administration, implementation and monitoring of the risk management systems and processes of the College. They co-ordinate the review of the strategic risk register ensuring that systems, procedures and controls which mitigate any potential impact on the College have been identified

**REPORT OF THE GOVERNING BODY (continued)**

and that these controls are then implemented and their effectiveness reviewed. In addition to this the Senior Leadership Team also considers any risks which may arise as a result of a new area of work being undertaken by the College.

On a regular basis the Senior Leadership Team reports the strategic risks to the Audit Committee and the Board of Governors where the gross risk is classified as 'medium and above', along with the mitigating actions taken and the net risk score and any progress made.

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

**1. Failure to respond appropriately to the changing external environment**

**(a) Government Funding**

The College has considerable reliance on continued government funding through the education sector funding bodies and through Office for Students. In 2017-18, 81% of the College's revenue was ultimately public funded and this level of requirement is expected to continue in the short to medium term.

The College is aware of several issues which may impact on future funding:

- The demand led funding system applied to FE colleges and other providers in respect of adult provision. The funding methodology applies a series of factors such as guided learning hours and success rates to calculate an amount of funding to be received for each learner. Such funding cannot be guaranteed though.
- The government is reviewing its priorities for the adult skills sector to ensure that the UK has the skills needed to compete in the global economy.
- The introduction of the Apprenticeship Levy has significantly changed the relationship between the College and employers and represents both an opportunity and a threat.
- The College is aware of several issues which may impact on future funding, including apprenticeship reforms and the devolution of the adult education budget. The college, in conjunction with its key stakeholders, is developing a strategy for growth in response to the devolution agenda and to the apprenticeships reform. It is recognised that the introduction of the apprenticeship levy has significantly affect the market place.

This risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements.
- By ensuring the College is rigorous in delivering high quality education and training.
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies.
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding.
- Regular dialogue with funding bodies in due course.
- The continuation of the delivery of European Social Fund contracts either as the lead provider or as a partner provider.

**REPORT OF THE GOVERNING BODY (continued)**

**(b) Tuition fee policy**

Ministers have confirmed that the fee assumption remains at 50% (this is the percentage of fees which the Government funds Adult courses). In line with the majority of other colleges, the College will increase tuition fees in accordance with the rising fee assumptions. The risk for the College is that demand falls off as fees increase. This will impact on the growth strategy of the College.

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students.
- Close monitoring of the demand for courses as prices change.

The College assists students whom face financial barriers to participation in further education and training by making bursary awards in ways that best fit the needs and circumstances of each student. The bursary awards will cover items such as the costs of transport, meals, books and equipment.

**(c) Maintain adequate funding of pension liabilities**

During the financial year to 21 March 2019, the employers' contribution rate to the Local Government Pension Scheme (LGPS) was 26.8% of pensionable pay due to the impact of the 31 March 2016 actuarial valuation.

As a result of the recent update to the 31 March 2016 actuarial valuation, the pension deficit has increased from £3,800k to £5,460k. The financial statements report the College's share of the Northumberland County Council LGPS deficit on its balance sheet in line with the requirements of FRS 102.

**2. Failure to maintain the financial viability of the College**

The College's current health grade is classified as Inadequate due to the deficit outturn. The trading environment of the FE sector is challenging due to a number of factors, which include:

- Falling student numbers due to local demographics
- Continuing constrains on further education funding arising from the ongoing cuts in public sector spending
- Government legislative changes which include the introduction of the Apprenticeship Levy which has resulted in a significant unforeseen decline in the uptake of Apprenticeships by levy paying employers.
- Rising staff costs due to changes to employer national insurance contribution rates and increases in the College's LGPS employer contribution rate as a consequence of the 31 March 2016 actuarial valuation.

These risks resulted in the College entering into a FE Commissioner led Structure and Prospects Appraisal, the outcome of which was the Corporation was dissolved on 21 March 2019 and Northumberland College became part of City of Sunderland College.

**REPORT OF THE GOVERNING BODY (continued)**

**STAKEHOLDER RELATIONSHIPS**

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

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

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

**Equality**

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion and belief and sex. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis. The College's Equality Policy is published on the College's Intranet site.

The College publishes an Annual Equality Report and Equality Objectives to ensure compliance with all relevant equality legislation including the Equality Act 2010. The College undertakes equality impact assessments on all new policies and procedures and publishes the results. Equality impact assessments are also undertaken for existing policies and procedures on a prioritised basis.

The College is a 'Positive about Disabled' employer and has committed to the principles and objectives of the Positive about Disabled standard. The College considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion which, as far as possible, provide identical opportunities to those of non-disabled employees.

The College has committed to the 'Mindful Employer' initiative to assist the mental health wellbeing of staff. The College has achieved accreditation to the Committed to Equality (C2E) standard at the gold (highest) level. The College has also implemented an updated Equality and Diversity training programme which all staff have attended. Refresher training and training for new starters is carried out on an ongoing basis.

## Northumberland College Financial Statements for the part-year to 21 March 2019

### REPORT OF THE GOVERNING BODY (continued)

During 2018-19 the Safeguarding and Health and Safety Committees held regular scheduled meetings. This further strengthens the links between those involved in different areas of the College. The committee includes governor representation as well as representation from the wider community to ensure that the focus remains not only within College but also locally, regionally and nationally.

The Prevent Agenda has been incorporated into the College's safeguarding policies and procedures with senior college staff having direct links to regional and national thematic groups. We use dedicated Safeguarding Software which enables us to take a much more detailed approach to the support provided for learners.

#### Disability Equality Statement

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

- a. As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2008-09, and the results of this formed the basis of funding capital projects aimed at improving access.
- b. The College has appointed an Access Co-ordinator, who provides information, advice and arranges support where necessary for students with disabilities.
- c. There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre.
- d. The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- e. The College has made a significant investment in the appointment of a specialist team to support students with learning difficulties and/or disabilities and has recently introduced a dedicated Mental Health Team whom work across all campuses and outreach centres. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- f. Specialist programmes are described in College prospectuses and achievements and destinations are recorded and published in the standard College format.
- g. Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

#### 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 31 January 2020 and signed on its behalf by:



**Mr R Lawson**  
Chair

# Northumberland College Financial Statements for the part year to 21 March 2019

## 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<sup>st</sup> August 2018 to 21<sup>st</sup> March 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 full accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges (“the Code”); and
- iii. having due regard to the UK Corporate Governance Code 2014 insofar as it is applicable to the further education sector.

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

In the opinion of the Governors, the College complies with all the provisions of the Code, and it has complied throughout the part-year ended 21 March 2019. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted on 26<sup>th</sup> May 2015.

# Northumberland College Financial Statements for the part year to 21 March 2019

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

### The Corporation

The members who served on the Corporation during the year 2018/19 are as listed in the table below. Attendance figures are for the period 1/8/2018 to 21/3/2019 when the Corporation was dissolved).

| Name                    | Date of appointment  | Terms of office (complete years) | Date of resignation or retirement | Status of appointment  | Committees Served  | Attendance |
|-------------------------|--|----------------------------------|-----------------------------------|--|--|------------|
| Jacqui Henderson<br>CBE | Appointed<br>Chair of<br>Governors<br><br>04.04.2012<br><br>Reappointed<br>03.04.2016  | 8                                | 07.12.2018                        | Corporation<br>Chair and<br>Remuneration<br>Committee Chair                            | Remuneration,<br>Search,<br>Curriculum and<br>Quality, Finance<br>and Resources<br>Committees. | 3/3        |
| Lynn Tomkins            | Appointed<br>Vice-Chair<br><br>22.07.2014<br><br>Reappointed<br><br>18.07.2017<br><br>Appointed<br>Chair of<br>Governors<br><br>20.12.2018 | 5                                | 22.03.2019                        | Corporation<br>Vice-Chair<br><br>Search<br>Committee Chair<br><br>Corporation<br>Chair | Search and<br>Remuneration<br>Committees and<br>Director of Kirkley<br>Hall Limited.           | 6/7        |
| Richard Dale            | 21.02.2012<br><br>Reappointed<br><br>21.02.2013<br><br>Reappointed<br><br>19.02.2017   | 7                                | 22.03.2019                        | Finance and<br>Resources<br>Committee Chair  | Finance and<br>Resources and<br>Remuneration<br>Committees.                                    | 5/7        |
| Ros Smith               | 25.01.2012<br><br>Reappointed<br><br>25.01.2013<br><br>Reappointed<br><br>24.01.2017   | 7                                | 22.03.2019                        | Audit Committee<br>Chair   | Audit and<br>Remuneration<br>Committees.   | 7/7        |
| Jude Leitch             | 26.05.2015<br><br>Reappointed<br><br>17.05.2016  | 4                                | 22.03.2019                        | Governor   | Audit Committee<br>and Chair/Director<br>of Kirkley Hall<br>Limited                            | 5/7        |
| Prof. Peter<br>Strike   | 01.08.2016<br><br>Reappointed<br><br>18.07.2017  | 2                                | 22.03.2019                        | Chair of HE<br>Curriculum and<br>Quality<br>Committee                                  | Finance and<br>Resources<br>Committee  | 5/7        |



# Northumberland College Financial Statements for the part year to 21 March 2019

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

|                  |  |            |            |  |   |     |
|------------------|--|------------|------------|--|---|-----|
| Fiona Standfield | 01.11.2016<br>Reappointed<br>01.11.2017                            | 2          | 22.03.2019 | Governor                                     | n/a   | 3/7 |
| Kelly Angus      | 18.07.2017<br>Reappointed<br>17.07.2018                            | 1          | 22.03.2019 | Chair of FE Curriculum and Quality Committee | n/a   | 1/7 |
| Wayne Daley      | 18.07.2017<br>Reappointed<br>17.07.2018                            | 1          | 22.03.2019 | Governor                                     | n/a   | 1/7 |
| Charles Enderby  | 18.07.2017<br>Reappointed<br>17.07.2018                            | 1          | 22.03.2019 | Governor                                     | n/a   | 5/7 |
| Peter Sweeney    | 01.12.2017   | 1          | 22.03.2019 | Governor and Safeguarding Lead               | Audit Committee   | 2/7 |
| Jeffrey Hope     | 20.10.2018   | n/a        | 22.03.2019 | Governor                                     | n/a   | 4/5 |
| Ian Clinton OBE  | 01.04.2018   | Ex Officio | 22.03.2019 | Interim Principal                            | Search and Finance and Resources Committees<br>Director of Kirkley Hall Limited and Business Solutions Recruitment Services Limited | 7/7 |
| Paul Emmerson    | 15.10.2013<br>Re-elected<br>14.10.2014<br>Re-elected<br>12.07.2017 | 5          | 22.03.2019 | Staff Governor                               | Search Committee  | 6/7 |
| Simon Miles      | 10.12.2013<br>Re-elected<br>10.12.2014<br>Re-elected<br>12.07.2017 | 5          | 22.03.2019 | Staff Governor                               | Audit Committee   | 7/7 |
| Chloe Wolfenden  | 16.10.2018   | n/a        | 22.03.2019 | Student Governor                             | n/a   | 1/6 |



# Northumberland College Financial Statements for the part year to 21 March 2019

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

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

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets ten times per annum.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Finance and Resources, Remuneration, Search and Audit. A new Committee, Curriculum and Quality, was established in 2017-18. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at:

City of Sunderland College  
Bede Centre  
Durham Road  
Sunderland  
SR3 4AH

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

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

Formal agendas, papers and reports are supplied to governors in a timely manner, prior to Board meetings. Briefings are 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 Chairman and Accounting Officer are separate.

All Governors give of their time freely and no remuneration or expenses were paid in the year. No Governor or person connected with a Governor received any benefit from any means tested bursaries.

### Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search Committee, consisting of four members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

## **Northumberland College Financial Statements for the part year to 21 March 2019**

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

Members of the Corporation are appointed for a term of office not exceeding four years but they can be re-appointed for a further period of time.

#### **Corporation performance**

The Governing Body reviews its effectiveness via the governance self-assessment process which is undertaken on an annual basis. The process is rigorous, enabling governors to participate in the process and includes an assessment of performance against the values and principal responsibilities set out in the Code. The performance of the Chair of Governors and that of the Committee Chairs and individual Governors are also assessed.

The outcomes from the self-assessment exercise are discussed by the Governing Body and carried forward into the governance improvement plan which concentrates on a few key actions to improve governance over the course of the year. The governance improvement plan is regularly reviewed by the Governing Body and progress against agreed outcomes measured. The process also informs the governor training and development plan which is aimed at addressing the individual development needs of governors.

The Governing Body seeks, where possible, to bench mark its performance and processes against other FE colleges and those of other organisations outside the FE sector.

The Corporation carried out a self- assessment of its own performance for the year ended 31 July 2018 and overall graded itself as "Requires Improvement" on the Ofsted scale, but with elements of "Good".

#### **Remuneration Committee**

The College's Remuneration Committee comprises 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 key management personnel.

Details of remuneration for the year ended 21 March 2019 are set out in note 7 to the financial statements.

#### **Audit Committee**

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

The Audit Committee meets at a minimum three times per annum and provides a forum for reporting by the College's internal, reporting accountants and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the main FE funding bodies as they affect the College's business.

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

# Northumberland College Financial Statements for the part year to 21 March 2019

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

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

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

### Finance and Resources Committee

The Finance and Resources Committee comprises up to six members of the Corporation (including the Accounting Officer but excluding members of the Audit Committee). The Committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the corporation on the financial, human resources and estates aspects of College governance.

### Search Committee

Whilst the Search Committee is constituted for six members of the Corporation (including the Chair of the Corporation and the Accounting Officer) during the reporting period there were two vacancies. The Committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the corporation on issues relating to the membership of the Corporation including composition, attendance, terms of office, eligibility, code of conduct and register of interests.

### Curriculum and Quality Committee

The Curriculum and Quality Committee comprises six members of the Corporation (including the Chair of the Corporation and the Accounting Officer). The Committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the Corporation on matters relating to curriculum strategy, performance and impact and to monitor standards in teaching and learning.

The Committee will meet four times a year to participate in the annual self-assessment review, consider curriculum design and development and monitor/benchmark the College's performance against that of similar colleges nationally. The Committee is also responsible for maintaining oversight of Ofsted's Common Inspection Framework and QAA.

### 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 Northumberland College and the funding bodies. He

# Northumberland College Financial Statements for the part year to 21 March 2019

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

is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

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

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Northumberland College for the period ended 21 March 2019 and up to the date of approval of the annual report and accounts.

### *Capacity to handle risk*

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 21 March 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, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

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

Northumberland College has an internal audit service, outsourced to Mazars LLP, which operates in accordance with the requirements of the ESFA's Post 16 *Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. At minimum, annually, Mazars LLP provides the governing body with a report on internal audit activity in the College. The report includes Mazars LLP independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

### *Review of effectiveness*

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

# Northumberland College Financial Statements for the part year to 21 March 2019

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

- the work of the internal auditors
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework
- comments made by the College's financial statements auditors, the reporting accountant for regularity assurance, 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 senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the 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's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2018 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2018.

Based on the advice of the Audit Committee and the Accounting Officer, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has, in difficult circumstances, fulfilled its statutory responsibility for *"the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets"*. This responsibility has been taken forward through the merger with Sunderland College.

### Going concern

For the reasons explained in note 1, the Corporation does not consider the going concern basis to be an appropriate basis upon which to prepare these financial statements. Accordingly, all fixed assets and certain liabilities of the College have been classified as current rather than long term.

**Approved by order of the members of the Corporation on 31 January 2020 and signed on its behalf by:**



**Mr R Lawson**  
Chair



**Ms E Thinnesen**  
Accounting Officer



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

The Corporation has considered its responsibility to notify the Education and Skills Funding Agency of material irregularity, impropriety and non-compliance with Education and Skills Funding Agency terms and conditions of funding, under the financial memorandum/funding agreement 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/funding agreement.

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

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.



**Ms E Thinnesen**  
**Accounting Officer**  
**31 January 2020**



**Mr R Lawson**  
**Chair of Governors**  
**31 January 2020**

## Statement of Responsibilities of the Members of the Corporation

The members of the Corporation, who act as trustees for the charitable activities of the College, are required to present audited financial statements for each financial year.

The law applicable to charities in England and the terms and conditions of the Financial Memorandum between the Education and Skills Funding Agency and the Corporation of the College, requires the corporation of the college to prepare financial statements and the Operating and Financial Review for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions, the annual Accounts Direction issued by the Education and Skills Funding Agency, and in accordance with FRS102 and which give a true and fair view of the state of affairs of the College and of the College's surplus/deficit of income over expenditure for that period.

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

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

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

The corporation is responsible for the maintenance and integrity of the college's website; the work carried out by 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 ESFA are used only in accordance with ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time. Members of the corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the corporation are responsible for securing economical, efficient and effective management of the college's resources and expenditure so that the benefits that should be derived from the application of public funds from ESFA are not put at risk.

Approved by order of the members of the Corporation on 31 January 2020 and signed on its behalf by:

A handwritten signature in black ink that reads "R. W. Lawson". The letters are cursive and connected, with a distinct loop for the 'L'.

**Mr R Lawson**

**Chair**



## **INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF CITY OF SUNDERLAND COLLEGE IN RESPECT OF NORTHUMBERLAND COLLEGE**

### **Opinion**

We have audited the financial statements of Northumberland College ("the College") for the period from 1 August 2018 to 21 March 2019 which comprise the Consolidated and College Statements of Comprehensive Income, Consolidated and College Statements of Changes in Reserves, Consolidated and College Balance Sheets, Consolidated 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 Group's and the College's affairs as at 21 March 2019 and of the Group's and the College's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows for the period 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*.

### **Emphasis of matter – non-going concern basis of preparation**

We draw attention to the disclosures made in note 1 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reason set out in that note. Our opinion is not modified in respect of this matter.

### **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 Group 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.

### **Impact of uncertainties due to the UK exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Corporation, such as valuation of pension liabilities and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a college and this is particularly the case in relation to Brexit.

## **Other information**

The Corporation is responsible for the other information, which comprises the Statement of Corporate Governance and Internal Control and the Governing Body's Statement on the College's Regularity, Propriety and Compliance with Funding Body Terms and Conditions of Funding. 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 parent College; or
- the parent 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.

## **Corporation's responsibilities**

As explained more fully in their statement set out on pages 20-21, 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 Group and parent 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](http://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.



**Paul Moran**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX  
**31 January 2020**

## Consolidated and College Statements of Comprehensive Income

|   | Notes | 2019           |                  | 2018           |                  |
|---|-------|----------------|------------------|----------------|------------------|
|   |       | Group<br>£'000 | College<br>£'000 | Group<br>£'000 | College<br>£'000 |
| <b>INCOME</b>                                       |       |                |                  |                |                  |
| Funding body grants                                 | 3     | 9,531          | 9,531            | 14,989         | 14,987           |
| Tuition fees and education contracts                | 4     | 1,482          | 1,482            | 2,647          | 2,647            |
| Other income  | 5     | 1,373          | 1,009            | 2,671          | 1,428            |
| Investment income                                   | 6     | 2              | 2                | 2              | 2                |
| <b>Total income</b>                                 |       | <b>12,388</b>  | <b>12,024</b>    | <b>20,309</b>  | <b>19,064</b>    |
| <b>EXPENDITURE</b>                                  |       |                |                  |                |                  |
| Staff costs   | 7     | 9,373          | 9,063            | 13,729         | 12,869           |
| Fundamental restructuring costs                     | 7     | -              | -                | 730            | 730              |
| Other operating expenses                            | 8     | 8,197          | 8,122            | 6,848          | 6,536            |
| Depreciation  | 11    | 992            | 965              | 1,223          | 1,208            |
| Interest and other finance costs                    | 9     | 328            | 328              | 478            | 478              |
| <b>Total expenditure</b>                            |       | <b>18,890</b>  | <b>18,478</b>    | <b>23,008</b>  | <b>21,821</b>    |
| <b>Deficit before other gains and losses</b>        |       | <b>(6,502)</b> | <b>(6,454)</b>   | <b>(2,699)</b> | <b>(2,757)</b>   |
| (Loss)/gain on disposal of assets                   |       | (1,038)        | (1,038)          | 303            | 303              |
| <b>Deficit before tax</b>                           |       | <b>(7,540)</b> | <b>(7,492)</b>   | <b>(2,396)</b> | <b>(2,454)</b>   |
| Taxation  | 10    | -              | -                | -              | -                |
| <b>Deficit for the year</b>                         |       | <b>(7,540)</b> | <b>(7,492)</b>   | <b>(2,396)</b> | <b>(2,454)</b>   |
| Actuarial (loss)/gain in respect of pension schemes | 23    | (1,130)        | (1,130)          | 850            | 850              |
| <b>Total Comprehensive Expense for the year</b>     |       | <b>(8,670)</b> | <b>(8,622)</b>   | <b>(1,546)</b> | <b>(1,604)</b>   |

All of the above arise from discontinued operations which have transferred to City of Sunderland College.

## Consolidated and College Statement of Changes in Reserves

|   | Income and<br>expenditure<br>account | Revaluation<br>reserve | Total          |
|---|--------------------------------------|------------------------|----------------|
|   | £'000                                | £'000                  | £'000          |
| <b>Group</b>  |                                      |                        |                |
| <b>Balance at 1<sup>st</sup> August 2017</b>                      | <b>(2,152)</b>                       | <b>10,113</b>          | <b>7,961</b>   |
| Deficit from the income and expenditure account                   | (2,396)                              | -                      | (2,396)        |
| Other comprehensive income  | 850                                  | -                      | 850            |
| Transfers between revaluation and income and expenditure reserves | 198                                  | (198)                  | -              |
| <b>Total comprehensive expense for the year</b>                   | <b>(1,348)</b>                       | <b>(198)</b>           | <b>(1,546)</b> |
| <b>Balance at 31 July 2018</b>                                    | <b>(3,500)</b>                       | <b>9,915</b>           | <b>6,415</b>   |
| Deficit from the income and expenditure account                   | (7,540)                              | -                      | (7,540)        |
| Other comprehensive expense                                       | (1,130)                              | -                      | (1,130)        |
| Transfers between revaluation and income and expenditure reserves | 127                                  | (127)                  | -              |
| <b>Total comprehensive expense for the year</b>                   | <b>(8,543)</b>                       | <b>(127)</b>           | <b>(8,670)</b> |
| <b>Balance at 21 March 2019</b>                                   | <b>(12,043)</b>                      | <b>9,788</b>           | <b>(2,255)</b> |

|   | Income and<br>expenditure<br>account | Revaluation<br>reserve | Total          |
|---|--------------------------------------|------------------------|----------------|
|   | £'000                                | £'000                  | £'000          |
| <b>College</b>  |                                      |                        |                |
| <b>Balance at 1<sup>st</sup> August 2017</b>                      | <b>(2,412)</b>                       | <b>10,113</b>          | <b>7,701</b>   |
| Deficit from the income and expenditure account                   | (2,454)                              | -                      | (2,454)        |
| Other comprehensive income  | 850                                  | -                      | 850            |
| Transfers between revaluation and income and expenditure reserves | 198                                  | (198)                  | -              |
| <b>Total comprehensive expense for the year</b>                   | <b>(1,406)</b>                       | <b>(198)</b>           | <b>(1,604)</b> |
| <b>Balance at 31 July 2018</b>                                    | <b>(3,818)</b>                       | <b>9,915</b>           | <b>6,097</b>   |
| Deficit from the income and expenditure account                   | (7,492)                              | -                      | (7,492)        |
| Other comprehensive expense                                       | (1,130)                              | -                      | (1,130)        |
| Transfers between revaluation and income and expenditure reserves | 127                                  | (127)                  | -              |
| <b>Total comprehensive expense for the year</b>                   | <b>(8,495)</b>                       | <b>(127)</b>           | <b>(8,622)</b> |
| <b>Balance at 21 March 2019</b>                                   | <b>(12,313)</b>                      | <b>9,788</b>           | <b>(2,525)</b> |

## Consolidated and College Balance Sheets as at 21 March 2019

|  | Notes | Group          | College        | Group          | College        |
|--|-------|----------------|----------------|----------------|----------------|
|  |       | 2019           | 2019           | 2018           | 2018           |
|  |       | £'000          | £'000          | £'000          | £'000          |
| <b>Fixed assets</b>                                      |       |                |                |                |                |
| Tangible fixed assets                                    | 11    | -              | -              | 27,000         | 26,954         |
|  |       | -              | -              | <b>27,000</b>  | <b>26,954</b>  |
| <b>Current assets</b>                                    |       |                |                |                |                |
| Tangible assets  | 11    | 25,304         | 25,260         | -              | -              |
| Stocks   |       | 91             | 78             | 214            | 199            |
| Trade and other receivables                              |       | 1,783          | 1,733          | 1,175          | 1,003          |
| Cash and cash equivalents                                |       | 547            | 524            | 455            | 276            |
|  |       | <b>27,725</b>  | <b>27,595</b>  | <b>1,844</b>   | <b>1,478</b>   |
| Less: Creditors – amounts falling due within one Year    | 14    | (23,184)       | (23,324)       | (11,505)       | (11,411)       |
| <b>Net current assets/(liabilities)</b>                  |       | <b>4,541</b>   | <b>4,271</b>   | <b>(9,661)</b> | <b>(9,933)</b> |
| <b>Total assets less current liabilities</b>             |       | <b>4,541</b>   | <b>4,271</b>   | <b>17,339</b>  | <b>17,021</b>  |
| Creditors – amounts falling due after more than one year | 15    | -              | -              | (6,837)        | (6,837)        |
| <b>Provisions</b>  |       |                |                |                |                |
| Defined benefit obligations                              | 17    | (5,460)        | (5,460)        | (3,800)        | (3,800)        |
| Other provisions   | 17    | (1,336)        | (1,336)        | (287)          | (287)          |
| <b>Total net (liabilities)/ assets</b>                   |       | <b>(2,255)</b> | <b>(2,525)</b> | <b>6,415</b>   | <b>6,097</b>   |
| <b>Unrestricted Reserves</b>                             |       |                |                |                |                |
| Income and expenditure account                           |       | (12,043)       | (12,313)       | (3,500)        | (3,818)        |
| Revaluation reserve                                      |       | 9,788          | 9,788          | 9,915          | 9,915          |
| <b>Total unrestricted reserves</b>                       |       | <b>(2,255)</b> | <b>(2,525)</b> | <b>6,415</b>   | <b>6,097</b>   |

The financial statements on pages 25 to 54 were approved and authorised for issue by the Corporation of City of Sunderland College on 31 January 2020 and were signed on its behalf on that date by:



Mr R Lawson (Chair)



Ms E Thinnesen (Accounting Officer)

## Consolidated Statement of Cash Flows

|   | Notes | 2019<br>£'000 | 2018<br>£'000  |
|---|-------|---------------|----------------|
| <b>Cash flow from operating activities</b>                          |       |               |                |
| Deficit for the year  |       | (7,540)       | (2,396)        |
| Depreciation  |       | 992           | 1,223          |
| Decrease/(increase) in stocks                                       |       | 123           | (3)            |
| (Increase)/decrease in debtors                                      |       | (608)         | 1,051          |
| Increase/(decrease) in creditors due within one year                |       | 5,166         | (619)          |
| (Decrease) in creditors due after one year                          |       | -             | (499)          |
| Increase/(decrease) in provisions                                   | 17    | 1,049         | (5)            |
| Pensions costs less contributions payable                           |       | 470           | 200            |
| <b>Adjustment for investing or financing activities</b>             |       |               |                |
| Investment income   |       | (2)           | (2)            |
| Interest payable  |       | 328           | 378            |
| Deficit/(surplus) on fixed assets disposal                          |       | 1,038         | (303)          |
| <b>Net cash flow from operating activities</b>                      |       | <b>1,016</b>  | <b>(975)</b>   |
| <b>Cash flows from investing activities</b>                         |       |               |                |
| Capital grants received   |       | 167           | 664            |
| Investment Income   |       | 2             | 2              |
| Payments made to acquire fixed assets                               | 11    | (454)         | (908)          |
| <b>Net cash flow from investing activities</b>                      |       | <b>(285)</b>  | <b>(242)</b>   |
| <b>Cash flows from financing activities</b>                         |       |               |                |
| Interest paid   |       | (53)          | (34)           |
| Repayments of amounts borrowed                                      |       | (586)         | (353)          |
| <b>Net cashflow from financial activities</b>                       |       | <b>(639)</b>  | <b>(387)</b>   |
| <b>Increase/(Decrease) in cash and cash equivalents in the year</b> |       | <b>92</b>     | <b>(1,604)</b> |
| Cash and cash equivalents at beginning of the year                  | 18    | 455           | 2,059          |
| Cash and cash equivalents at end of the year                        | 18    | 547           | 455            |
| <b>Movement in cash equivalents</b>                                 |       | <b>92</b>     | <b>(1,604)</b> |

## Notes to the Accounts

### 1. Statement of accounting policies and estimation techniques

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. The financial statements are presented in Sterling which is also the functional currency of the College. Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

#### Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, Kirkley Hall Limited and Business Solutions Recruitment Services Limited, controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. All financial statements are made up to 21 March 2019.

#### Going concern

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

The Corporation approved the dissolution of Northumberland College on 21 March 2019, immediately after the financial year end. The Corporation also approved the merger of the College with City of Sunderland College. Therefore the accounts have not been prepared on a going concern basis and all fixed assets and certain long-term liabilities of the College have been classified as current, rather than long term.

#### 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 the Office for Students 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 after more than one year as appropriate.

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

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

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

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

### **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.

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

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

interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

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

### **Short term Employment benefits**

Short term employment benefits such as salaries and compensated absences (holiday pay) are 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 a college annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the College's income 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 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 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of 50 years.

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

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

On adoption of FRS 102, the College followed the transitional provision to retain the book value of most land and buildings, which were revalued in 1993, as deemed cost 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 21 March. They are not depreciated until they are brought into use.

### *Subsequent expenditure on existing fixed assets*

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

### *Equipment*

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

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

- computer equipment 4 years
- furniture, fixtures and fittings 12 years

### **Borrowing costs**

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

### **Leased assets**

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

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

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

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

### **Investments**

#### *Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

### **Inventories**

Inventories are stated at the lower of their cost and net realisable value. 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 Group 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 Group 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.

## **Taxation**

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

The College is partially exempt in respect of Value Added Tax, so that it can only recover around 3% of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

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

## **Provisions and contingent liabilities**

Provisions are recognised when

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

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

A contingent liability arises from a past event that gives the College a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College. Contingent liabilities also arise in circumstances where a provision

would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

### **Agency arrangements**

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

## **2. 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. 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 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 24, 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 21 March 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.

### 3. Funding body grants

|  | Period ended 21 March |              | Year ended 31 July |               |
|--|-----------------------|--------------|--------------------|---------------|
|  | 2019                  | 2019         | 2018               | 2018          |
|  | Group                 | College      | Group              | College       |
|  | £'000                 | £'000        | £'000              | £'000         |
| <b>Recurrent grants</b>  |                       |              |                    |               |
| Education and Skills Funding Agency 16-18 (excl apprenticeships) | 4,796                 | 4,796        | 7,866              | 7,864         |
| Education and Skills Funding Agency – adult                      | 1,047                 | 1,047        | 2,157              | 2,157         |
| Education and Skills Funding Agency – apprenticeships            | 1,114                 | 1,114        | 2,132              | 2,132         |
| Education and Skills Funding Agency – ESF                        | 2,030                 | 2,030        | 2,153              | 2,153         |
| Releases of government capital grants                            | 59                    | 59           | 92                 | 92            |
| Other ESFA Income  | 237                   | 237          | 30                 | 30            |
| Office for Students  | 173                   | 173          | 318                | 318           |
| Franchised   | 70                    | 70           | 42                 | 42            |
| HE grant   | 5                     | 5            | 9                  | 9             |
| Local authorities and Schools                                    | -                     | -            | 190                | 190           |
| <b>Total</b>   | <b>9,531</b>          | <b>9,531</b> | <b>14,989</b>      | <b>14,987</b> |

### 4. Tuition fees and education contracts

|  | Period ended 21 March |              | Year ended 31 July |              |
|--|-----------------------|--------------|--------------------|--------------|
|  | 2019                  | 2019         | 2018               | 2018         |
|  | Group                 | College      | Group              | College      |
|  | £'000                 | £'000        | £'000              | £'000        |
| Advanced level courses designated for FE Loans   | 413                   | 413          | 722                | 722          |
| SFA funded provision - Adult Skills              | 27                    | 27           | 59                 | 59           |
| Full cost Provision                              | 164                   | 164          | 344                | 344          |
| Higher education courses designated for HE Loans | 878                   | 878          | 1,522              | 1,522        |
| <b>Total tuition fees</b>                        | <b>1,482</b>          | <b>1,482</b> | <b>2,647</b>       | <b>2,647</b> |
| <b>Total</b>                                     | <b>1,482</b>          | <b>1,482</b> | <b>2,647</b>       | <b>2,647</b> |

## 5. Other income

|  | Period ended 21 March |              | Year ended 31 July |              |
|--|-----------------------|--------------|--------------------|--------------|
|  | 2019                  | 2019         | 2018               | 2018         |
|  | Group                 | College      | Group              | College      |
|  | £'000                 | £'000        | £'000              | £'000        |
| Catering and residences                  | 204                   | 204          | 196                | 196          |
| Other income generating activities       | 517                   | 153          | 1,628              | 385          |
| Release of non-government capital grants | 41                    | 41           | 56                 | 56           |
| Examination fee income                   | 22                    | 22           | 34                 | 34           |
| Farming activities                       | 92                    | 92           | 190                | 190          |
| Other income                             | 497                   | 497          | 567                | 567          |
| <b>Total</b>                             | <b>1,373</b>          | <b>1,009</b> | <b>2,671</b>       | <b>1,428</b> |

## 6. Investment income

|                           | Period ended 21 March |         | Year ended 31 July |         |
|---------------------------|-----------------------|---------|--------------------|---------|
|                           | 2019                  | 2019    | 2018               | 2018    |
|                           | Group                 | College | Group              | College |
|                           | £'000                 | £'000   | £'000              | £'000   |
| Other interest receivable | 2                     | 2       | 2                  | 2       |

## 7. Staff costs – Group and College

|                    | 2019       |            | 2018       |            |
|--------------------|------------|------------|------------|------------|
|                    | Group      | College    | Group      | College    |
|                    | No.        | No.        | No.        | No.        |
| Teaching staff     | 176        | 176        | 222        | 221        |
| Non-teaching staff | 163        | 144        | 206        | 173        |
|                    | <b>339</b> | <b>320</b> | <b>428</b> | <b>394</b> |

## 7. Staff costs – Group and College (continued)

|   |              |              |               |               |
|---|--------------|--------------|---------------|---------------|
| <b>Staff costs for the above persons</b>      | <b>£'000</b> | <b>£'000</b> | <b>£'000</b>  | <b>£'000</b>  |
| Wages and salaries                            | 6,362        | 6,114        | 10,329        | 9,491         |
| Social security costs                         | 477          | 463          | 837           | 791           |
| Other pension costs                           | 1,650        | 1,602        | 1,948         | 1,972         |
| <b>Payroll sub total</b>                      | <b>8,489</b> | <b>8,179</b> | <b>13,114</b> | <b>12,254</b> |
| Contracted out staffing services              | 884          | 884          | 615           | 615           |
|   | <b>9,373</b> | <b>9,063</b> | <b>13,729</b> | <b>12,869</b> |
| Fundamental restructuring costs – Contractual | -            | -            | 730           | 730           |
| <b>Total Staff costs</b>                      | <b>9,373</b> | <b>9,063</b> | <b>14,459</b> | <b>13,599</b> |

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

|   | 2019 | 2018 |
|---|------|------|
|   | No.  | No.  |
| The number of key management personnel including the Principal, CEO and Accounting Officer was: | 5    | 7    |

|                    | Key management personnel |          | Other staff |          |
|--------------------|--------------------------|----------|-------------|----------|
|                    | 2019                     | 2018     | 2019        | 2018     |
|                    | No.                      | No.      | No.         | No.      |
| £15,001 to £20,000 | -                        | 1        | -           | -        |
| £20,001 to £25,000 | -                        | -        | -           | -        |
| £25,001 to £30,000 | -                        | 1        | -           | -        |
| £30,001 to £35,000 | -                        | -        | -           | -        |
| £35,001 to £40,000 | 1                        | 1        | -           | -        |
| £40,001 to £45,000 | -                        | -        | -           | -        |
| £45,001 to £50,000 | 1                        | -        | -           | -        |
| £50,001 to £55,000 | 1                        | -        | -           | -        |
| £55,001 to £60,000 | 1                        | -        | -           | -        |
| £60,001 to £65,000 | -                        | 1        | -           | -        |
| £65,001 to £70,000 | -                        | 1        | -           | -        |
| £70,001 to £75,000 | 1                        | 1        | -           | -        |
| £75,001 to £80,000 | -                        | -        | -           | -        |
| £80,001 to £85,000 | -                        | 1        | -           | -        |
|                    | <b>5</b>                 | <b>7</b> | <b>-</b>    | <b>-</b> |



## 7. Staff costs – Group and College (continued)

Key management personnel emoluments are made up as follows:

|                         | <b>2019</b>       | <b>2018</b>       |
|-------------------------|-------------------|-------------------|
|                         | <b>£'000</b>      | <b>£'000</b>      |
| Salaries                | 259               | 375               |
| Benefits in kind        | -                 | -                 |
| Employers NI            | 27                | 42                |
|                         | <u>286</u>        | <u>417</u>        |
| Pension contributions   | 15                | 59                |
| <b>Total emoluments</b> | <u><u>301</u></u> | <u><u>476</u></u> |

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

The above emoluments include amounts payable to the Principal, CEO and Accounting Officer (who is the highest paid officer).

The details of the Principals' emoluments are as follows:-

|                       | <b>To 21</b> | <b>April 2018</b> |
|-----------------------|--------------|-------------------|
|                       | <b>March</b> | <b>To July</b>    |
|                       | <b>2019</b>  | <b>2018</b>       |
|                       | <b>£'000</b> | <b>£'000</b>      |
| Salaries              | 70           | 39                |
| Benefits in kind      | -            | -                 |
| Employers NI          | 9            | 5                 |
|                       | <u>79</u>    | <u>44</u>         |
| Pension contributions | <u>-</u>     | <u>-</u>          |

In the 2017-2018 financial year the emoluments of the previous Principal from August 2017 to April 2018 were as follows:-

|                       | <b>To 21</b> | <b>August</b>   |
|-----------------------|--------------|-----------------|
|                       | <b>March</b> | <b>To April</b> |
|                       | <b>2019</b>  | <b>2018</b>     |
|                       | <b>£'000</b> | <b>£'000</b>    |
| Salaries              | -            | 76              |
| Benefits in kind      | -            | -               |
| Employers NI          | -            | 7               |
|                       | <u>-</u>     | <u>83</u>       |
| Pension contributions | <u>-</u>     | <u>12</u>       |

## 7. Staff costs – Group and College (continued)

The pension contributions in respect of the Principal, CEO and Accounting Officer and senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme and the Local Government Pension Scheme and are paid at the same rate as for other employees.

The members of the Corporation other than the Principal, CEO and Accounting Officer and the staff members did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. No governors were reimbursed expenses during the year (2017-18: £0).

## 8. Other operating expenses

|                    | 2019           |                  | 2018           |                  |
|--------------------|----------------|------------------|----------------|------------------|
|                    | Group<br>£'000 | College<br>£'000 | Group<br>£'000 | College<br>£'000 |
| Teaching costs     | 3,403          | 3,404            | 3,487          | 3,487            |
| Non-teaching costs | 2,818          | 2,742            | 1,941          | 1,630            |
| Premises costs     | 1,976          | 1,976            | 1,420          | 1,419            |
| <b>Total</b>       | <b>8,197</b>   | <b>8,122</b>     | <b>6,848</b>   | <b>6,536</b>     |

|   | 2019           |                  | 2018           |                  |
|---|----------------|------------------|----------------|------------------|
|   | Group<br>£'000 | College<br>£'000 | Group<br>£'000 | College<br>£'000 |
| <b>Other operating expenses include:</b>                      |                |                  |                |                  |
| Auditors' remuneration:                                       |                |                  |                |                  |
| Financial statements audit*                                   | 22             | 17               | 25             | 24               |
| Internal audit**  | 26             | 26               | 26             | 26               |
| Other services provided by the financial statements auditor : |                |                  |                |                  |
| TPS Pension Audit   | 1              | 1                | 1              | 1                |
| Taxation compliance   | -              | -                | 2              | -                |
| Hire of assets under operating leases                         | 253            | 253              | 244            | 244              |
| (Loss)/Gain on disposal of assets                             | 1,038          | 1,038            | 303            | 303              |

\* includes £17,000 in respect of the College (2017-18: £24,000)

\*\* includes £26,000 in respect of the College (2017-18: £25,727)

## 9. Interest and other finance costs

### Group and College

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| On bank loans, overdrafts and other loans | 215           | 345           |
| On finance leases                         | 53            | 33            |
| Pension finance costs (note 24)           | 60            | 100           |
| <b>Total</b>                              | <b>328</b>    | <b>478</b>    |

## 10. Taxation

The College was not liable for any Corporation Tax arising out of its activities during either period.

## 11. Tangible fixed assets (Group)

|  | Land and buildings |                                      | Equipment     | Herd and Flock | Total         |
|--|--------------------|--------------------------------------|---------------|----------------|---------------|
|  | Freehold           | Assets in the course of construction |               |                |               |
|  | £'000              | £'000                                | £'000         | £'000          | £'000         |
| <b>Cost or valuation</b>               |                    |                                      |               |                |               |
| At 1 August 2018                       | 31,705             | 86                                   | 11,350        | 250            | 43,391        |
| Additions                              | 217                | -                                    | 233           | 4              | 454           |
| Disposals                              | (120)              | -                                    | (1,038)       | -              | (1,158)       |
| Transfers of Assets                    | 86                 | (86)                                 | -             | -              | -             |
| <b>At 21 March 2019</b>                | <b>31,888</b>      | <b>-</b>                             | <b>10,545</b> | <b>254</b>     | <b>42,687</b> |
| <b>Depreciation</b>                    |                    |                                      |               |                |               |
| At 1 August 2018                       | 8,687              | -                                    | 7,694         | 10             | 16,391        |
| Charge for the year                    | 492                | -                                    | 500           | -              | 992           |
| Elimination in respect of disposals    | -                  | -                                    | -             | -              | -             |
| <b>At 21 March 2019</b>                | <b>9,179</b>       | <b>-</b>                             | <b>8,194</b>  | <b>10</b>      | <b>17,383</b> |
| <b>Net book value at 21 March 2019</b> | <b>22,709</b>      | <b>-</b>                             | <b>2,351</b>  | <b>244</b>     | <b>25,304</b> |
| Net book value at 31 July 2018         | 23,018             | 86                                   | 3,656         | 240            | 27,000        |

## 11. Tangible fixed assets (College)

|  | Land and buildings |                                      | Equipment     | Herd and Flock | Total         |
|--|--------------------|--------------------------------------|---------------|----------------|---------------|
|  | Freehold           | Assets in the course of construction |               |                |               |
|  | £'000              | £'000                                | £'000         |                | £'000         |
| <b>Cost or valuation</b>               |                    |                                      |               |                |               |
| At 1 August 2018                       | 31,673             | 86                                   | 11,193        | 251            | 43,203        |
| Additions                              | 212                | -                                    | 213           | 4              | 429           |
| Disposals                              | (120)              | -                                    | (1,038)       | -              | (1,158)       |
| Transfers of Assets                    | 86                 | (86)                                 | -             | -              | -             |
| <b>At 21 March 2019</b>                | <b>31,851</b>      | <b>-</b>                             | <b>10,368</b> | <b>255</b>     | <b>42,474</b> |
| <b>Depreciation</b>                    |                    |                                      |               |                |               |
| At 1 August 2018                       | 8,655              | -                                    | 7,584         | 10             | 16,249        |
| Charge for the year                    | 490                | -                                    | 475           | -              | 965           |
| <b>At 21 March 2019</b>                | <b>9,145</b>       | <b>-</b>                             | <b>8,059</b>  | <b>10</b>      | <b>17,214</b> |
| <b>Net book value at 21 March 2019</b> | <b>22,706</b>      | <b>-</b>                             | <b>2,309</b>  | <b>245</b>     | <b>25,260</b> |
| Net book value at 31 July 2018         | 23,018             | 86                                   | 3,609         | 241            | 26,954        |

The transitional rules set out in FRS 15 Tangible Fixed Assets have been applied accordingly, the book values of implementation have been retained.

Land and buildings were valued for the purpose of the 1993 financial statements at depreciated replacement cost by qualified staff employed by Northumberland County Council. In 1999 the land and buildings of the former Kirkley Hall College were valued at depreciated replacement cost by a firm of independent chartered surveyors. That valuation was brought into the books of Northumberland College following merger with Kirkley Hall College on 1 January 2000. Other tangible fixed assets inherited from the LEA at incorporation have been valued by the Corporation on a depreciated replacement cost basis with the assistance of independent professional advice.

Land and buildings with a net book value of £7,671k have been financed by exchequer funds through for example, the receipt of capital grants. Should these assets be sold, the College may be liable, under the terms of the Finance Memorandum with the Education and Skills Funding Agency, to surrender the proceeds.

If inherited land and buildings had not been valued, they would have been included at a cost and net book value of nil.

The net book value of land and buildings includes an amount of £212k (2017-18: £299k) in respect of assets held under finance leases.

The net book value of equipment includes an amount of £893k (2017-18: £1,158k) in respect of assets held under finance leases.

## 12. Non current Investments (College only)

|                                     | 2019<br>£'000 | 2018<br>£'000 |
|-------------------------------------|---------------|---------------|
| Investments in subsidiary companies | <u>2</u>      | <u>2</u>      |

The College owns 100% of the 1 issued ordinary £1 shares of the following subsidiary company.

The subsidiary is incorporated in England and Wales and has the following principal activities:

Kirkley Hall Ltd : various commercial activities centred at Kirkley Hall

Business Solutions Recruitment Services Ltd : recruitment services although this company is no longer operating.

## 13. Trade and Other Receivables

|                                      | Group<br>2019<br>£'000 | College<br>2019<br>£'000 | Group<br>2018<br>£'000 | College<br>2018<br>£'000 |
|--------------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Amounts falling due within one year: |                        |                          |                        |                          |
| Trade receivables                    | 1,334                  | 1,309                    | 335                    | 191                      |
| Prepayments and accrued income       | 449                    | 424                      | 840                    | 812                      |
| <b>Total</b>                         | <u>1,783</u>           | <u>1,733</u>             | <u>1,175</u>           | <u>1,003</u>             |

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

|   | Group<br>2019<br>£'000 | College<br>2019<br>£'000 | Group<br>2018<br>£'000 | College<br>2018<br>£'000 |
|---|------------------------|--------------------------|------------------------|--------------------------|
| Loans                                       | 7,669                  | 7,669                    | 8,027                  | 8,027                    |
| Obligations under finance leases            | 909                    | 909                      | 274                    | 274                      |
| Trade payables                              | 2,214                  | 2,130                    | 785                    | 740                      |
| Amounts owed to group undertakings:         | -                      | -                        | -                      | 138                      |
| Other taxation and social security          | 393                    | 382                      | 426                    | 343                      |
| Accruals and deferred income                | 4,119                  | 4,354                    | 1,781                  | 1,677                    |
| Deferred income - government capital grants | 6,200                  | 6,200                    | 164                    | 164                      |
| Amounts owed to the ESFA                    | 1,680                  | 1,680                    | 48                     | 48                       |
| <b>Total</b>                                | <u>23,184</u>          | <u>23,324</u>            | <u>11,505</u>          | <u>11,411</u>            |

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

|   | Group<br>2019<br>£'000 | College<br>2019<br>£'000 | Group<br>2018<br>£'000 | College<br>2018<br>£'000 |
|---|------------------------|--------------------------|------------------------|--------------------------|
| Obligations under finance leases            | -                      | -                        | 863                    | 863                      |
| Deferred income - government capital grants | -                      | -                        | 5,974                  | 5,974                    |
| <b>Total</b>                                | <b>-</b>               | <b>-</b>                 | <b>6,837</b>           | <b>6,837</b>             |

## 16. Maturity of debt

### Loans

Loans are repayable as follows:

|                     | Group<br>2019<br>£'000 | College<br>2019<br>£'000 | Group<br>2018<br>£'000 | College<br>2018<br>£'000 |
|---------------------|------------------------|--------------------------|------------------------|--------------------------|
| In one year or less | 7,669                  | 7,669                    | 8,027                  | 8,027                    |
| <b>Total</b>        | <b>7,669</b>           | <b>7,669</b>             | <b>8,027</b>           | <b>8,027</b>             |

The College has two loans with Northumberland County Council which are both secured on a portion of the freehold land and buildings of the College.

At 21 March 2019, the College was in the final stages of a merger with City of Sunderland College and this took place on 22 March 2019. The College's loans are payable on demand at the year-end due to a breach of the loan covenants.

A loan of £3.0m, repayable by instalments falling due between 1 August 2011 and 31 August 2025, attracts an interest rate of 3.72% and the amount outstanding on this loan at 21 March 2019 is £1,657k.

A loan of £6.5m, repayable by instalments falling due between 31 March 2015 and 31 March 2055, attracts an interest rate of 4.55% and the amount outstanding on this loan as at 21 March 2019 is £6,013k.

## 16. Maturity of debt

### Finance leases

The net finance lease obligations to which the institution is committed are:

|                            | Group      | College    | Group        | College      |
|----------------------------|------------|------------|--------------|--------------|
|                            | 2019       | 2019       | 2018         | 2018         |
|                            | £'000      | £'000      | £'000        | £'000        |
| In one year or less        | 909        | 909        | 274          | 274          |
| Between two and five years | -          | -          | 761          | 760          |
| In five years or more      | -          | -          | 102          | 103          |
| <b>Total</b>               | <b>909</b> | <b>909</b> | <b>1,137</b> | <b>1,137</b> |

## 17. Provisions

|                           | Group and College           |                   |                        |              |
|---------------------------|-----------------------------|-------------------|------------------------|--------------|
|                           | Defined benefit obligations | Enhanced pensions | Leases & Dilapidations | Total        |
|                           | £'000                       | £'000             | £'000                  | £'000        |
| At 1 August 2018          | 3,800                       | 287               | -                      | 4,087        |
| Expenditure in the period | (770)                       | -                 | -                      | (770)        |
| Additions in period       | 2,430                       | 25                | 1,024                  | 3,479        |
| <b>At 21 March 2019</b>   | <b>5,460</b>                | <b>312</b>        | <b>1,024</b>           | <b>6,796</b> |

The leases and dilapidations provision relates to charges for lease commitments entered into, for the lease of various buildings, which the College is no longer utilising. In addition, provision has been made for dilapidation costs anticipated, based upon professional advice, for rectifying leased buildings, as required within the terms of the lease agreements.

## 18. Cash and cash equivalents (Group)

|                           | At 1 August 2018 | Cash flows | Other changes | At 21 March 2019 |
|---------------------------|------------------|------------|---------------|------------------|
|                           | £'000            | £'000      | £'000         | £'000            |
| Cash and cash equivalents | 455              | 92         | -             | 547              |

## 18. Cash and cash equivalents (College)

|                           | At 1<br>August<br>2018<br>£'000 | Cash<br>flows<br>£'000 | Other<br>changes<br>£'000 | At 21<br>Mar<br>2019<br>£'000 |
|---------------------------|---------------------------------|------------------------|---------------------------|-------------------------------|
| Cash and cash equivalents | 276                             | 248                    | -                         | 524                           |

## 19. Lease obligations

At 21 March 2019 the Group had minimum lease payments under non-cancellable operating leases as follows:

|   | 21 March 2019<br>Group and College<br>£'000 | 31 July 2018<br>Group and College<br>£'000 |
|---|---|--|
| <b>Future minimum lease payments due</b>          |   |  |
| <b>Land and buildings</b>                         |   |  |
| Not later than one year                           | 106   | 106  |
| Later than one year and not later than five years | 322   | 344  |
| Later than five years                             | 281   | 319  |
|   | <u>709</u>                                  | <u>769</u>                                 |
| <b>Other</b>                                      |   |  |
| Not later than one year                           | 80  | 80   |
| Later than one year and not later than five years | 118   | 145  |
| Later than five years                             | -   | -  |
|   | <u>198</u>                                  | <u>225</u>                                 |

## 20. Contingent liabilities

There are no contingent liabilities.

## 21. Events after the reporting period

The Corporation approved the dissolution of Northumberland College on 21 March 2019, immediately after the financial year end. The Corporation also approved the merger of the College with City of Sunderland College.



## 22. Financial Instruments

The carrying amount of the Group's financial instruments at 21 March 2019 and 31 July 2018 were:

|   | 2019          | 2018          |
|---|---------------|---------------|
|   | Group         | Group         |
|   | £'000         | £'000         |
| <b>Financial Assets</b>                     |               |               |
| Debt instruments measured at amortised cost | 1,783         | 912           |
|   | <u>1,783</u>  | <u>912</u>    |
| <b>Financial liabilities</b>                |               |               |
| Trade payables                              | 2,214         | 785           |
| Accruals                                    | 3,416         | 1,905         |
| Obligations under finance leases            | 909           | 1,137         |
| Loan commitments                            | 7,669         | 8,027         |
|   | <u>14,208</u> | <u>11,854</u> |

## 23. Retirement benefits

The College's employees belong to two principal pension schemes: The Teachers' Pensions 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 Northumberland County Council. Both are multi-employer defined-benefit schemes.

| Total pension cost for the period/year                         | 21 March 2019 | 31 July 2018 |
|--|---------------|--------------|
|  | £000          | £000         |
| Teachers' Pension Scheme: contributions paid                   | 410           | 648          |
| Local Government Pension Scheme:                               |               |              |
| Contributions paid   | 770           | 1,400        |
| FRS 102 Charge/(credit)  | 470           | (100)        |
|  | <u>1,240</u>  | <u>1,300</u> |
| Charge to the Statement of Comprehensive Income                | 1,240         | 1,300        |
|  | <u>1,650</u>  | <u>1,948</u> |
| <b>Total pension cost for year within staff costs (note 7)</b> | <b>1,650</b>  | <b>1,948</b> |

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

Contributions amounting to £149k (2017-18: £207k) were payable to the scheme at 21 March 2019 and are included within creditors.

On 26 October, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, "GMP". The year-end valuation includes the impact of the McCloud Judgement. This increases the year-end liability by £0.44m and the pension cost charge for the year by £0.44m. The Government will need to consider this outcome in conjunction with the Government's recent consultation on GMP indexation in public sector schemes before concluding on any changes required to LGPS schemes.

### **Teachers' Pension Scheme**

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

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

Under the definitions set out in 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.

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

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2019 onwards (compared to 16.48% during 2018/9). DfE has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2019-20 academic year.

The pension costs paid to TPS to March 2019 amounted to £410k (2017-18 (full year): £648k).

## FRS 102 (28)

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

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

## Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Northumberland County Council. The total contributions made for the part-year to 21 March 2019 were £920k of which employer's contributions totalled £770k and employees' contributions totalled £150k. The assets and liabilities of this scheme will transfer to the Tyne and Wear scheme on 1 April 2019, where the agreed contribution is currently 18.4% of pensionable pay for employers, rising to 18.7% from April 2020 and a variable rate related to pensionable pay for employees.

## Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 21 March 2019 by a qualified independent actuary.

|                                      | 2019 | 2018 |
|--------------------------------------|------|------|
| Rate of increase in salaries         | 3.7% | 3.6% |
| Future pensions increases            | 2.2% | 2.1% |
| Discount rate for scheme liabilities | 2.4% | 2.8% |
| Inflation assumption (CPI)           | 2.2% | 2.1% |

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

|                                    | 2019  | 2018  |
|------------------------------------|-------|-------|
|                                    | years | years |
| <b><i>Retiring today</i></b>       |       |       |
| Males                              | 21.9  | 22.9  |
| Females                            | 23.8  | 25.0  |
| <b><i>Retiring in 20 years</i></b> |       |       |
| Males                              | 23.6  | 25.1  |
| Females                            | 25.7  | 27.3  |

|  | Fair Value at<br>21 March 2019<br>£'000 | Fair Value at<br>31 July 2018<br>£'000 |
|--|---|--|
| Equities                               | 17,240                                  | 16,598                                 |
| Government bonds                       | 4,490                                   | 4,543                                  |
| Corporate bonds                        | 2,070                                   | 1,847                                  |
| Property                               | 1,100                                   | 998                                    |
| Cash                                   | -                                       | -                                      |
| Other                                  | 1,340                                   | 974                                    |
| <b>Total fair value of plan assets</b> | <b>26,240</b>                           | <b>24,960</b>                          |
| <b>Actual return of plan assets</b>    | <b>710</b>                              | <b>1,900</b>                           |

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

|   | 2019<br>£'000  | 2018<br>£'000  |
|---|----------------|----------------|
| Fair value of plan assets                   | 26,240         | 24,960         |
| Present value of defined benefit obligation | (31,700)       | (28,760)       |
| <b>Net pensions liability</b>               | <b>(5,460)</b> | <b>(3,800)</b> |

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

|  | 2019<br>£'000  | 2018<br>£'000 |
|--|----------------|---------------|
| <b>Amounts included in staff costs</b>                 |                |               |
| Current service cost                                   | 730            | 1,390         |
| Past service cost                                      | 510            | 10            |
| <b>Total</b>   | <b>1,240</b>   | <b>1,400</b>  |
| <b>Financing cost</b>                                  |                |               |
| Interest on net defined benefit obligation             | 60             | 100           |
|  | <b>60</b>      | <b>100</b>    |
| <b>Amount recognised in Other Comprehensive Income</b> |                |               |
| Asset gains arising during the period                  | 260            | 1,310         |
| Liability (losses) arising during the period           | (1,390)        | (460)         |
| <b>Amount recognised in Other Comprehensive Income</b> | <b>(1,130)</b> | <b>850</b>    |

### Movement in net defined benefit obligation during year

|  | <b>2019</b>           | <b>2018</b>           |
|--|-----------------------|-----------------------|
|  | <b>£'000</b>          | <b>£'000</b>          |
| Net defined benefit obligation in scheme at 1 August | (3,800)               | (4,450)               |
| Movement in year:                                    |                       |                       |
| Current service cost                                 | (730)                 | (1,390)               |
| Employer contributions                               | 770                   | 1,300                 |
| Past service cost                                    | (510)                 | (10)                  |
| Net interest on the defined (liability)              | (60)                  | (100)                 |
| Actuarial gain or loss                               | (1,130)               | 850                   |
| <b>Net defined benefit obligation at 21 March</b>    | <b><u>(5,460)</u></b> | <b><u>(3,800)</u></b> |

### Asset and Liability Reconciliation

|  | <b>2019</b>          | <b>2018</b>          |
|--|----------------------|----------------------|
|  | <b>£'000</b>         | <b>£'000</b>         |
| <b>Changes in the present value of defined benefit obligations</b> |                      |                      |
| <b>Defined benefit obligations at start of period</b>              | 28,760               | 26,440               |
| Current service cost   | 730                  | 1,390                |
| Interest cost on defined benefit obligation                        | 510                  | 690                  |
| Contributions by Scheme participants                               | 150                  | 260                  |
| Actuarial gains/(losses) on liabilities                            | 1,390                | 460                  |
| Net benefits paid  | (350)                | (490)                |
| Past Service cost  | 510                  | 10                   |
| Curtailements and settlements                                      | -                    | -                    |
| <b>Defined benefit obligations at end of period</b>                | <b><u>31,700</u></b> | <b><u>28,760</u></b> |
| <b>Changes in fair value of plan assets</b>                        |                      |                      |
| <b>Fair value of plan assets at start of period</b>                | 24,960               | 21,990               |
| Interest income on assets  | 450                  | 590                  |
| Re-measurement gains/(losses) on assets                            | 260                  | 1,310                |
| Contributions by the employer                                      | 770                  | 1,300                |
| Contributions by Scheme participants                               | 150                  | 260                  |
| Net benefits paid  | (350)                | (490)                |
| <b>Fair value of plan assets at end of period</b>                  | <b><u>26,240</u></b> | <b><u>24,960</u></b> |

## 25. Related party transaction

Owing to the nature of the College's operations and the composition of the Board of Governors, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving such organisations are conducted 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 £nil (2017-18: £nil).

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2017-18: £nil).

One Governor (W Daley) is a senior councillor of Northumberland County Council (NCC) and one Governor (K Angus) is a senior staff member at NCC. Details of transactions with Northumberland County Council are shown below.

One Governor (R Smith) is a director of Northumberland Business Service Limited (NBSL), one of the College's delivery partners on the £7.4m European Social Fund (ESF) – Improving the Labour Market Relevance of Education and Training Systems contract. Details of the transactions with NBSL are shown below.

| Nature of transaction / relationship | (Income )/Expenditure |       | Debtor / (Creditor) |         |
|--------------------------------------|-----------------------|-------|---------------------|---------|
|                                      | 2019                  | 2018  | 2019                | 2018    |
|                                      | £,000                 | £,000 | £,000               | £,000   |
| <b>Northumberland County Council</b> |                       |       |                     |         |
| Secured Loan (note 16)               | 214                   | 345   | (7,669)             | (8,027) |
| LEAP funding                         | -                     | (190) | 9                   | 9       |
| High Needs funding                   | -                     | (97)  | -                   | -       |
| Rates                                | 57                    | 85    | -                   | -       |
| Rental of premises                   | 17                    | 27    | (8)                 | (8)     |
| Datalinks                            | -                     | 47    | -                   | -       |
| <b>NBSL</b>                          |                       |       |                     |         |
| ESF Partner Payments                 | 283                   | 189   | (4)                 | (4)     |
| <b>Landex</b>                        |                       |       |                     |         |
| Membership fee                       | 8                     | 7     | (7)                 | -       |
| <b>British Horse Society</b>         |                       |       |                     |         |
| Centre approval                      | 1                     | -     | 1                   | -       |

## 26. Amounts disbursed as agent

|   | <b>2019</b>  | <b>2018</b>  |
|---|--------------|--------------|
|   | <b>£'000</b> | <b>£'000</b> |
| Funding body grants – bursary support                   | 161          | 151          |
| Funding body grants – advanced learning loans bursary   | 13           | -            |
| Funding body grants – discretionary learner support     | 48           | 250          |
| Funding body grants – free meals                        | 23           | -            |
| Funding body grants – residential bursaries             | 69           | 113          |
|   | <hr/>        | <hr/>        |
|   | 314          | 514          |
| <br>  |              |              |
| Disbursed to students                                   | (314)        | (423)        |
| Administration costs                                    | -            | (19)         |
|   | <hr/>        | <hr/>        |
| Balance unspent as at period end, included in creditors | -            | <b>72</b>    |

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.

## **Reporting Accountant's Report on Regularity to the Corporation of City of Sunderland College in respect of their responsibilities for Northumberland College and the Secretary of State for Education acting through the Education and Skills Funding Agency (ESFA)**

In accordance with the terms of our engagement letter dated 31 May 2019 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 Northumberland College during the period 1 August 2018 to 21 March 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 City of Sunderland College in respect of their responsibilities for Northumberland 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 City of Sunderland 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 City of Sunderland College and the ESFA for our work, for this report, or for the conclusion we have formed.

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

The corporation of City of Sunderland 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 by Northumberland College 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 period 1 August 2018 to 21 March 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.



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



**Paul Moran**

**For and on behalf of KPMG LLP, Reporting Accountant**

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31 January 2020