

Middlesbrough College

Report & Financial Statements



For the year ended
31st July 2019

Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

Key management personnel are defined as members of the College Senior Leadership Team and were represented by the following in 2018/ 2019:

Zoe A Lewis, Principal and CEO; Accounting Officer
Gary Cumiskey, Deputy Principal / CEO
Carolyn Kipling, Vice Principal Finance and Registry
John Chance, Vice Principal Quality and Standards
Jane Steel, Vice Principal Staff and Students
Andy Wond, Executive Director Information Services and Estates
Richard Atkinson, Assistant Principal Human Resources and Clerk to the Corporation (to 31 August 2018)

Board of Governors

A full list of Governors is given on pages 16-18 of these financial statements.

Richard Atkinson acted as Clerk to the Corporation until 31 August 2018. A new Clerk to the Corporation was appointed on the 22 August 2018 (*by Written Resolution*) following interviews by the Selection (*Senior Posts*) Committee on Monday 20 August 2018. Zeta Foster commenced the role of Clerk to the Corporation on the 11 September 2018. The Governing Body arranged for an Interim Clerk to the Corporation (*Claire Harrison*) to be in post from the 9 July 2018 to allow a smooth transition.

Professional advisers

Financial statements and regularity auditor:

KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Internal Auditor:

RSM Risk Assurance Services LLP
1 St. James Gate
Newcastle Upon Tyne
NE1 4AD

Bankers:

Barclays Bank Plc
The Mall
Middlesbrough
TS1 2NR

Santander Bank
Corporate Banking
Level 9 Baltic Place
South Shore Road
Gateshead
NE8 3AE

Legal advisers:

Womble Bond Dickinson (UK) LLP
St Ann's Wharf
112 Quayside
Newcastle Upon Tyne
NE1 3DX

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Principal's Foreword

At Middlesbrough College, from the Governing Body to every staff member, we are driven by a determination to generate opportunity, employment and prosperity for our communities, linking our provision to the skills needs of local employers and supporting our students to achieve the very best they can.

Over the last six years, the College has been through a period of significant growth, successfully realigning our offer to the skills requirements of our economy; developing and expanding our STEM offer (science, technology, engineering and maths), and forging strong partnerships with employers to develop the talent and productivity of their businesses.

In 2016, we welcomed the former NECC training company into our Group as we renamed our apprenticeship training arm, Northern Skills Group (NSG), and offered our services across a wider geography. The college continues to be one of the largest apprenticeship training providers in the North East of England covering priority sectors and supporting employers across the region with their workforce development needs. In 2018, we forged a new partnership with Open University which is already strengthening our offer of technical, affordable higher skills qualifications.

All of this, whilst maintaining a commitment to build confidence and independence in our most vulnerable learners and those furthest from the jobs market.

We are now one year into our revised five-year strategic plan for the period 2018-2023 which builds upon our recent success and sets out our statement of ambition for the future period.

In September 2018 the college had an Ofsted inspection, resulting in an overall Grade 2 "GOOD", a testament to the hard work and commitment by all staff across the organisation with results in 2018/19 improving further against this strong baseline. More of our students than ever complete their courses, achieve their qualifications with good grades, gain additional competencies and employability skills, and successfully progress into employment, an apprenticeship, self-employment or further / higher education.

After a period of financial challenges, we ended the 2018 / 2019 financial year not only with strong student outcomes but also returning to GOOD financial health. With demographics now in our favour, base rate increases in place for next year, approval to deliver T Levels for 2021 and a planned announcement of our development within the North East Institute of Technology – we are looking forward to the coming years with a renewed sense of optimism.

Recognising that our staff are central and crucial to the success of the continuing success of the college and achieving its mission – we will place a continued emphasis on the 'One Team' culture which makes the College such a fantastic place to learn and work.

Despite the difficult and uncertain economic climate, the College is confident that it can serve our local employers with the highly skilled talent that they need and play an increasingly important and exciting part regenerating our local and regional economy.

We would like to congratulate and thank our students, staff and governors for what has been another amazingly successful year for the College.



Mrs Zoe Lewis
Principal / Chief Executive
16 December 2019

Report of the Governing Body

NATURE, OBJECTIVES AND STRATEGIES

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

Legal status

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

The College holds 100% of the issued shares in the following subsidiary companies:

Northern Skills Group Business Services Limited (formerly known as Northern Skills Group Limited)
On 1 August 2016 Middlesbrough College acquired 100% share capital of the company.

Middlesbrough College Management Services Limited

The company was incorporated in 1993. The company did not trade during 2018 / 2019.

Northern Apprenticeship Company Limited

The company operates as an Apprenticeship Training Agency employing apprentices engaged on a training programme with a major local organisation.

Mizaru Media Limited (dormant)

Mizaru Media Limited was incorporated in 2011. The company did not trade during 2018 / 2019.

It is the main objective of the College's subsidiary companies to assist in the delivery of the College's principal mission and objectives.

Mission

The College's Mission Statement for 2018 / 2019 was "To provide high quality education and skills that enhance economic and social prosperity".

Strategic Aims and Priorities

The Governing Body and Senior Leadership Team updated the five year strategic plan in May 2018, which builds upon our recent success and sets out our statement of ambition for the period 2018 - 2023.

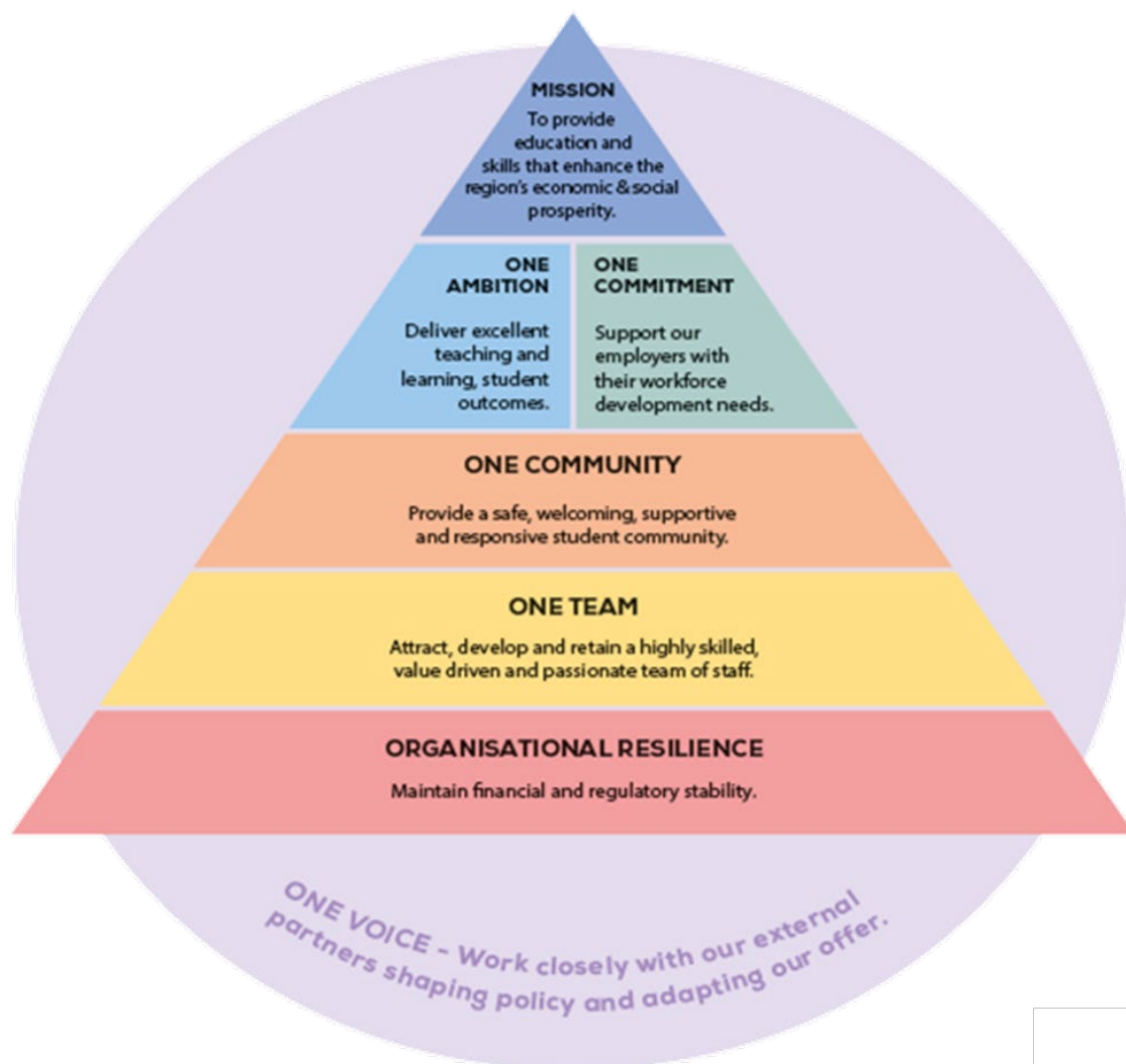
The Strategic Plan reinforces the need to ensure the College meets the needs of the local economy and emphasises our obligation to ensure that all students gain the skills they need to progress into further education and ultimately employment.

Post Balance Sheet Events

On 13 December 2019 the college acquired 100% of the share capital of TTE Technical (UK) Limited (formerly known as Infinite Learning & Development Limited), TTE International Limited and TTE Apprenticeships Limited. The college looks forward to welcoming the staff into the college group.

Our Vision

To be a leading provider of education and training, which improves educational outcomes, employment prospects and lifetime opportunities for our students.



Our Values

The College values set out the behaviour expected of both staff and students and are very much at the heart of delivery of the College strategy. These values have been developed in consultation with staff and students and represent both who we are now and how we aim to be perceived by others.



Within the Strategic Priority ‘Organisational Resilience’ the College has set its overarching Financial Objective **“To deliver our strategy through maintaining financial stability and appropriate investment in our assets and offer, which in turn is shaped by our economy, partners and our communities”.**

We will:

- Ensure financial stability and meet bank covenants and ESFA health ratings at all times.
- Provide an annual investment in our IT, estate and equipment which maintains an outstanding learning environment which keeps pace with changing technologies.
- Ensure growth opportunities are assessed against the position impact on learners, employers and the local community.
- Provide a forum which regularly assesses and manages risk.
- Ensure adequate arrangements are in place to safeguard our reputation and business continuity.
- Ensure our Governing Body includes a broad range of skills and experience and is able to set and review our strategic plan with objectivity and ‘value driven’ decision making and provide appropriate levels of challenge and support to ensure its delivery.

The **financial performance indicators** by which the College determines its success in achieving this are:

- Achieve at least “Good” rating in ESFA financial health measure.
- Continue to meet all bank covenants providing sufficient headroom.
- Set and deliver surplus operating budgets.
- Generate cash from operations – EBITDA target at least £3m.
- Maintain capital investment levels at £1.25m.

The financial objectives have been achieved for 2018 / 2019.

The College is required to complete the annual Finance Record for the Education and Skills Funding Agency (ESFA). The college has improved its financial health grading in 2018 / 2019 to “Good”, achieving 230 points. The college is focussed on maintaining this rating through reducing debt levels from cash generation and setting surplus budgets.

The College monitors its performance against the strategic plan set and its achievement of the strategic priorities.

Turnover for the year was £39.816m (2017 / 2018: £41.323m) with the operating position before pension accounting being a surplus of £5.073m, after one-off costs and credits including a gain on the sale of land and the write-back of depreciation relating to the Lennartz VAT refund of £4.654m and one-off restructuring costs of £0.610m following a cost savings and efficiency review during the year. (2017 / 2018: deficit £0.187m).

The surplus position after FRS102 pensions accounting is £3.546m (2017 / 2018: deficit £1.557m) and an overall surplus of £2.012m after accounting for actuarial losses of pensions schemes of £1.534m (2017 / 2018: deficit £0.917m).

The College was funded by the Education & Skills Funding Agency (ESFA) for 3,905 learners aged 16-18 equating to £20.178m of programme funding (2017 / 2018: 4,140 learners £21.493m). Actual recruitment in 2018 / 2019 has fallen short of target at 3,682 learners.

The College's Adult Education delivery is £4.762m against an allocation of £4.650m, being over-delivery of 3%. (2017 / 2018: £4.232m actual allocation). Apprenticeship activity for the year was £4.640m. (2017 / 2018: £4.977m).

From September 2018 the College launched its new strategy to deliver Higher Education (HE) programmes with the Open University as the validating partner, becoming directly funded by the OfS. The College recruited 598 learners, generating £2.758m from this provision.

Key Performance Measures

The College has a full suite of Key Performance Measures across the curriculum and business support areas which are linked to the College strategic objectives. These are all measured termly and progress is reported to the Governing Body.

The college is rated Good by OFSTED (September 2018) for its FE provision and was awarded TEF Gold status by OfS (2017) for Higher Education provision.

For classroom based provision, outcomes for learners have rapidly improved since 2014 / 2015 with achievement rates rising from 74.1% to 88.5%. Achievement for 16-18 year olds are very high and well above national rates. The significant majority of learners achieve high grades. The majority of qualification types and sectors are now above national rates.

Overall Study Programme qualification achievement rates place the College in the top quartile of GFE colleges nationally.

Level 3 Value Added for vocational courses is very high, attainment on technical, applied general and other level 3 qualifications is high.

Study Programme English and mathematics Functional Skills achievement rates are very high for the third year running and well above national rates.

The majority of GCSE and Functional Skills learners make good progress towards achieving GCSE grade 4 (legacy grade C). DfE English and mathematics average progress data are above zero, which are above GFE national rate and significantly improved over the last three years and should place the college in the top quartile of colleges nationally (when published data is released).

Adult achievement rates have improved 5.5% and the majority of adult provision qualification types are above national rate.

Achievement of apprentices is above the national rate with overall achievement standing at 70%. Timely achievement is 66% (significantly above national rate).

Learner positive destinations are high for 16-18 year olds and for adult learners. Almost all learners move on to sustained education, employment, training or an apprenticeship, including those studying HE qualifications.

National learner survey (FE) and national student survey (HE) satisfaction rates are high.

The Students' Voice

The College has continued with its commitment to ensuring that the student voice is at the heart of its decision making process.

- Elections were held to appoint a full-time student sabbatical officer for 2018 / 2019 academic year with three contenders receiving a total of 1,031 votes.
- The College recruited 17 student champions to represent the student body and to support across college and act as student mentors.
- The College annual capital investment programme is linked to the Student Voice and investment is made in key areas where they have requested improvements and further investment in facilities and equipment.
- The College Student Council met four times during the year and was informed by separate Directorate Student Councils.
- During the year a number of awareness events were held on key topics of mental health, drugs and body image.
- A well-being week was held in February 2019 which engaged hundreds of students in a range of activities including stalls held by external agencies.

RESOURCES

The College has various resources that it can deploy in pursuit of its strategic objectives. The College delivers its educational services from its Middlehaven campus.

Financial

The Group has £16.626m of unrestricted reserves (31 July 2018: £14.614m), including £10.959m defined benefit pension liability (31 July 2018: £8.217m), loan balances of £15.102m (31 July 2018: £17.740m) and cash at bank of £4.112m (31 July 2018: £1.345m).

People

During the year, the Group employed 666 people (expressed as full time equivalents), of whom 421 are teaching staff. (2017 / 2018: 742 and 474 respectively).

Student numbers

In 2018 / 2019, the College has delivered activity that has received £31.314m in funding body main allocation, including Apprenticeship funding of £4.640m (2017 / 2018: £32.442m). The College had 3,682 EFA 16-18 funded learners, 4,055 SFA 19+ learners and 2,127 learners studying an apprenticeship programme. (2017 / 2018: 3,946; 3,235 and 2,262 respectively).

The College remains highly dependent on the education sector funding bodies for its principal source of funding, largely from recurrent grants. In 2018 / 2019, the funding bodies provided 81% of the Group's total income (excluding release of capital grants) (2017 / 2018: 80.5%).

Reputation

The College has a good reputation locally and regionally, based on a good quality provision of education and training. The College has strong links and relationships with local employers and other stakeholders.

Stakeholder relationships

Middlesbrough College has many stakeholders. These include:

- Current, future and past students;
- Staff and their trade unions;
- Education sector funding bodies;
- Local employers (with specific links);
- Local authorities / Tees Valley Combined Authority;
- Government Offices and Local Enterprise Partnerships (LEPs);
- The local community;
- Other FE institutions and schools;
- Professional bodies.

The College recognises the importance of these relationships and engages in regular communication and dialogue with its stakeholders.

Financial results

The Group reported an operating surplus on continuing operations in the year of £0.419m, after depreciation and amortisation of £3.743m but before FRS102 and enhanced pension accounting adjustments of £1.527m. (2017 / 2018 deficit £0.187m). After accounting for actuarial losses of £1.534m, comprehensive income for the year is £2.012m (2017 / 2018: expenditure £0.917m). The result is after one off credits and costs incurred in the year, including a gain on the sale of land and the write-back of depreciation relating to the Lennartz VAT refund of £4.654m and one-off restructuring costs of £0.610m following a cost savings and efficiency review.

The following table explains the movement between the reported total comprehensive income for the year and the underlying surplus position before gains on asset disposals and before pensions accounting:

| | £'000 | £'000 |
|---|---------|------------|
| Total Comprehensive Income | | 2,012 |
| Add back Actuarial loss | 1,534 | |
| Surplus before tax | | 3,546 |
| Add back FRS102 service charge to staff costs | 994 | |
| Add back pension interest charge | 214 | |
| Add back enhanced pension interest | 85 | |
| Add back enhanced pension valuation movement | 234 | |
| Surplus before pension accounting | | 5,073 |
| Less gain on disposal of assets | (4,654) | |
| Underlying surplus position | | 419 |

The underlying surplus position is after one-off restructuring costs of £0.610m.

The Group has accumulated reserves of £16.626m including a defined benefit pension liability of £10.959m and cash balances of £4.112m. The College is committed to investing any surplus funds in capital investment projects for the benefit of learners.

Tangible fixed assets additions during the year amounted to £0.705m which relate to investment in IT infrastructure and equipment and improvements to the estate.

The group result for the year includes the College's subsidiary company results, being a break even position for Northern Skills Group Business Services Limited and a surplus of £0.012m for Northern Apprenticeship Company Limited (before taxation). Mizaru Media Limited and Middlesbrough College Management Services Limited were dormant during the year.

Any surpluses generated by the subsidiaries are transferred to the College under deed of covenant subject to the availability of sufficient distributable reserves.

Financial Health

The College's financial health as measured by the ESFA and self-assessed has improved to a rating of "Good" for 2018 / 2019, achieving 230 points. (2017 / 2018: Satisfactory). The College's medium term financial plan shows the College maintaining "Good" financial health rating throughout the period to 2023 / 2024.

Treasury Policy and Objectives

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

The College has a separate treasury management policy in place.

Short term borrowing for temporary revenue purposes is authorised by the Principal/Chief Executive. Such arrangements are restricted by limits in the College's Financial Memorandum agreed with the Education and Skills Funding Agency. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

Cash flows and Liquidity

The College continued to invest in its annual capital programme during the year, resulting in a cash outflow of £0.705m of capital investment. The College repaid loan funds of £2.638m during the year. The overall increase in cash for the year was £2.767m (2017 / 2018: increase £0.146m).

Net debt at 31 July 2019 was £10.990m (31 July 2018: £16.395m). The decrease in net debt is due to capital repayments of £2.638m being made during the year against the level of borrowings plus an increase in cash at bank following the receipt of funds from a sale of land of £3.973m with the balance of £0.219m accrued.

The College has a bank loan facility comprising a 16 year £13.400m long term facility, maturing in 2030 and a £7.000m revolving credit facility which was renewed in 2018 for a further five years to 31 July 2023. These funds have been utilised to part fund the £20m STEM investment and continued annual capital programme. As at 31 July 2019, £15.102m of these facilities were utilised (31 July 2018: £17.740m). During the year, interest of £0.395m was incurred (2018: £0.346m), at a floating rate following one month LIBOR plus a fixed margin of between 1.45% and 1.60%, resulting in a total interest rate charge of between 1.95% and 2.10%. The College remains compliant with all of its bank covenants.

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

Reserves Policy

The College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities. As at the balance sheet date the Income and Expenditure reserve stands at £16.626m (2018: £14.614m). It is the Corporation's intention to increase reserves over the life of the strategic plan through the generation of annual operating surpluses.

Curriculum developments

The College had an Ofsted Inspection in September 2018, resulting in an overall Grade 2 "Good". The good overall results in 2017 / 2018 were sustained in 2018 / 2019, study programme achievement rates, value-added on vocational courses and average progress on GCSE English and maths courses are all very high and well above national rates. These results place the College in the top quartile of colleges nationally. Adult achievement rates are significantly improved. Timely achievement rates for apprenticeship programmes are above national rates, however further improvement is required.

The College's curriculum remains responsive and dynamic and is continually reviewed to ensure it meets the needs of all its stakeholders. The College remains alert to market demands and works closely with the Local Enterprise Partnership to anticipate the learner and employer response to shifts in national curriculum, funding entitlements and government priorities. The College also uses Labour Market Intelligence data to inform its curriculum planning and identify local and regional skills gaps and demand.

From 2021 / 2022 the College will deliver T-Level programmes and has commenced capacity and delivery activity in 2018 / 2019 to invest in its resources for T-Level readiness. We are also awaiting confirmation of funding for an Institute of Technology due to open in Autumn 2020.

Going concern

After making appropriate enquiries, the Governing Body considers that the College has adequate resources to continue in operational existence for the foreseeable future and has approved the 5 year financial plan to July 2024. It currently has available to it £16.626m of unrestricted reserves, headroom of £4.5m in its loan facilities to fund working capital requirements and has set a surplus budget for 2019 / 2020. For future accounting periods it has forecast surplus budget positions. The ESFA financial health measure has improved to “Good” and remains at “Good” throughout the period to 2023 / 2024. For this reason, it continues to adopt the going concern basis in preparing the Financial Statements.

PRINCIPAL RISKS AND UNCERTAINTIES

The College has well developed strategies for managing risk and strives to embed risk management in all that it does. The College’s risk management processes are designed to protect its assets, reputation and financial stability. The College compiles its risk register, based on perceived risks to achievement of its Strategic Plan, and uses the risk register to monitor and address key risks.

The College’s risk register is broken down into strategic risks, departmental risks and provision type risks. The College’s financial risks are documented and monitored through this process. There is also a separate Health and Safety Risk Register which feeds into the overarching College Strategic Risk Register.

The Risk Register is considered by the College’s Risk Management Group, the Senior Leadership Team and Audit & Risk Committee to the Governing Body. All risks that are considered to be both likely and which would have a serious effect on the College are classified as high level risks plus any new strategic risks are reviewed and endorsed by the Senior Leadership Team to ensure they accurately reflect all significant risks to the College.

The College also has in place a business continuity plan which is reviewed annually. Disaster recovery scenario training has been undertaken by key staff.

Outlined below is a description of the principal risks that may affect the College. This list is not comprehensive and not all of the factors are within the College’s control.

Risk Event

- Failure to meet three year budget strategy and maintain at least “Good” financial health.
- Failure to recruit and retain good staff and deliver workforce development plan.
- Failure to adequately safeguard all learners and meet Prevent Duty.
- Inability to meet an overall Ofsted Grade 2 outcome.
- Inability to influence external stakeholders and poor external reputation.
- Failure to provide a structure of support to students in line with college policies and EIF.
- Failure to invest in Capital IT infrastructure and implement disaster recovery process and ensure Business Continuity is in place.
- Failure to provide an environment that conforms to relevant health and safety regulations.
- Failure to ensure compliance with legal, regulation, statutory and governance requirements.

Key risks are mitigated in the following ways:

- Investment in staff and their development.
- Rigorous quality procedures are embedded throughout the College;
- Planned and managed implementation of growth, investment and marketing strategies;
- Implementation and monitoring of operational delivery plans;
- Focusing on maintaining and managing key relationships with funding bodies and customers maintaining regular dialogue with the ESFA and LEP / Local Combined Authority;
- Careful monitoring and awareness of policy changes and implementing nimble responses; work undertaken to ensure readiness for T-Level implementation; and
- Ensuring the College focuses its delivery in priority areas.
- Regular engagement with stakeholders and policy makers.

Public benefit

Middlesbrough College is an exempt charity under Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016, is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 16 - 18.

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

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

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce and Local Enterprise Partnerships (LEPs)

Equal Opportunities

Middlesbrough College is committed to providing an environment in which there is equality of opportunity for all members of its community and our commitment for equality, diversity and inclusion ensures that all who learn and work at Middlesbrough College, and potential applicants to the college, are treated fairly and valued for their talents and ability, in all aspects of its activities as an employer and provider of education and training.

The College's Equality Policy and Statement is published on the College's website.

Middlesbrough College has in place a Single Equality Scheme and Action Plan that is linked to the College Strategic Plan and its Mission Statement and is informed by the Equality Act 2010 and associated legislation.

The Single Equality Scheme is available on the College website and is available on request in a range of alternative formats. The linked Action Plan is updated and presented to the College Governing Body and College Senior Leadership Team termly.

Disability Statement

Middlesbrough College is committed to providing an environment in which there is equality of opportunity for all members of its community and visitors. Our commitment for equality, diversity and inclusion ensures that all who learn and work at the College are treated fairly in response to the Equality Act 2010. It also aims to promote all other strands of equality and human rights. The College's Disability Statement is available online.

Middlesbrough College recognises that everyone's needs are unique and will work with students to identify any barriers that exist and make every effort to remove them. The College welcomes applications from students with learning difficulties or disabilities or additional support needs and the College aims to provide the appropriate resources, facilities and services to enable students to be successful in their chosen programme of study. The expertise of our staff enables us to provide excellent help and guidance to all prospective students.

Middlesbrough College proudly promotes itself as an equal opportunities employer and acknowledges the diverse needs of its employees and the community it serves. The College holds Disability Committed Employer status. The College values diversity and inclusion by adopting a positive and proactive approach to support employees and future job applicants with disabilities or known health issues.

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the college to publish information on facility time arrangements for trade union officials at the college. The information for 2018 / 2019 is set out below:

| | |
|--|------|
| Numbers of employees who were relevant union officials during the period | 5 |
| FTE employee number | 4.63 |

| Percentage of time | Number of employees |
|--------------------|---------------------|
| 0% | 0 |
| 1-50% | 5 |
| 51-99% | 0 |
| 100% | 0 |

| | |
|---|-------------|
| Total cost of facility time | £10,293 |
| Total pay bill | £21,296,091 |
| Percentage of total bill spent on facility time | 0.05% |

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

Human Trafficking Statement

The College, as part of the Further Education Sector, recognises it has a responsibility to take a robust approach to slavery and human trafficking under The Modern Slavery Act 2015 (Transparency in Supply Chains) Regulations 2015.

The College is absolutely committed to preventing slavery and human trafficking in its corporate activities and to ensuring that its supply chains are free from slavery and human trafficking.

The College's Slavery and Human Trafficking statement was approved by the Governing Body on 17 October 2019 and is available on the College website at: www.mbro.ac.uk within the Governor's website; policies and procedures.

Disclosure of Information to Auditor

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 auditor is 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 auditor is aware of that information.

Approved by order of the members of the Corporation on 16 December 2019 and signed on its behalf by:



Mr Robert Davies
Chairman of Governors
16 December 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 August 2018 to 31 July 2019 and up to the date of approval of the annual report and Financial Statements on the 16 December 2019.

Middlesbrough College endeavours to conduct its business:

1. In accordance with the seven principles identified by the Committee on Standards in Public Life:
 - Selflessness
 - Integrity
 - Objectivity
 - Accountability
 - Openness
 - Honesty
 - Leadership.
2. In full accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges (“the Code”).
3. Having due regard to the UK Corporate Governance Code (“the Code”) insofar as it is applicable to the Further Education Sector.

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

In the opinion of the Governing Body, the College complies with the provisions of the Code of Governance and reported on a “comply or explain” basis to the Search & Governance Committee at its meeting on the 6 September 2019 for the period 1 August 2018 to 31 July 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 the College formally adopted on 15 October 2015.

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

The College has a Public Value Statement which is published in the 2018-2023 Strategic Plan.

Middlesbrough College is committed to adding value to the social, economic and physical well-being of the local community it serves. We are committed to raising aspiration, increasing opportunity and providing a foundation for sustainable economic growth and prosperity.

Central to our responsibility is our work with partner organisations and our obligation to enrich the social, cultural, economic and physical well-being of our whole community.

In practice, this means we are ready, willing and able to respond to the needs of our community whatever and wherever they may be.

In making this commitment we may be challenged to work in new ways and, at times, our own capability or capacity may be tested.

We are nevertheless determined to devote ourselves to, and measure ourselves against, this endeavour.

The Governing Body

The Governing Body has developed a comprehensive skills matrix which ensures the governing body has a diverse and comprehensive mix of:

- Gender
- BME
- Age
- Teaching and Learning expertise
- Professional skills (eg Finance, HR etc)
- Business sector background
- Employment status

The Board has agreed to continue with a large membership of 21 and to aim for a greater proportion of ‘employed’ governors.

The search committee acknowledges that this may well have an impact on attendance rates whilst positively impacting on the quality of governance overall.

Governors serving on the Governing Body during 2018 / 2019 and up to 16 December 2019.

Governors appointed in 2019 / 2020 and up to 16 December 2019 have been highlighted (shaded) where appropriate.

* denotes date of re-appointment.

** denotes Chair of Committee.

| Name | Date of appointment | Term of Office | Date of resignation | Status of appointment | Committees Served | Attendance (1 August 2018 to 31 July 2019) |
|-----------------|---------------------|-----------------|---------------------|-----------------------|---|---|
| Andy Allen | 16 October 2017 | 15 October 2021 | - | College Governor | Corporate Services. | 93% |
| Rachel Anderson | 21 March 2019 | 20 March 2023 | - | College Governor | Audit & Risk | 83% |
| Trevor Arnold | 3 October 2014* | | 2 October 2018 | College Governor | Corporate Services. | 0% |
| Heather Ashton | 21 March 2019 | 20 March 2023 | - | College Governor | Corporate Services. Remuneration (**) (appointed as Chair on 15 July 2019) Search and Governance (from 15 July 2019) | 100% |
| Moir Britton | 16 October 2017* | | 31 August 2018 | College Governor | Appeals Committee (Senior Postholders) (**). Corporate Services (**). Search & Governance. Selection (Senior Posts). Settlement. | 0% |

| Name | Date of appointment | Term of Office | Date of resignation | Status of appointment | Committees Served | Attendance (1 August 2018 to 31 July 2019) |
|---|---|-----------------|---------------------|------------------------------|---|---|
| Megan Clarke | 18 October 2018 | 31 July 2019 | 31 July 2019 | Student Governor | Standards | 72% |
| Diane Cleves | 17 October 2016 | 16 October 2020 | 30 June 2019 | Staff Governor (Academic) | Standards. | 60% |
| Ashley Coleman-Cooke (Vice Chairman of Governors 1 August 2018 to 18 December 2019) | 29 March 2017 (2 nd term of office) | 28 March 2021 | - | College Governor | Appeals (<i>Senior Postholders</i>). Audit & Risk. Remuneration. Search & Governance. Selection (<i>Senior Posts</i>). Settlement. Special (**). Standards (**). | 100% |
| Carol Cooney | 20 May 2017 | 19 May 2021 | - | College Governor | Standards. | 69% |
| Robert Davies (Chairman of Governors 1 August 2018 to 16 December 2019) | 31 July 2017 (2 nd term of office) | 30 July 2021 | - | College Governor | Corporate Services (** Chair till 14 July 2019). Remuneration. Search & Governance (**). Selection (<i>Senior Posts</i>) (**). Settlement (**). | 100% |
| Andrew Dyne | 16 October 2017* | | 22 September 2018 | College Governor | Corporate Services. Remuneration. From 1 September 2018 Appeals Committee Search & Governance Selection (<i>Senior Posts</i>) Settlement | 0% |
| Marina Gaze | 1 November 2019 (2 nd term of office) | 31 October 2023 | - | College Governor | Standards. | 86% |
| Jean Golightly | 16 October 2017 | 15 October 2021 | - | College Governor | | 57% |
| John Hatfield | 1 August 2019 | 31 July 2019 | - | Student Governor | Standards | n/a Appointed in 2019/2020 |
| Lee Holdsworth | 16 October 2017 | 15 October 2021 | - | College Governor | Audit & Risk. | 41% |

| Name | Date of appointment | Term of Office | Date of resignation | Status of appointment | Committees Served | Attendance (1 August 2018 to 31 July 2019) |
|--------------------|---|------------------|---------------------|---|--|---|
| Cara Hudson | 18 October 2018 | 31 July 2019 | 31 July 2019 | Student Governor | - | 80% |
| Yasmin Khan | 16 October 2017 | | 30 June 2019 | College Governor | Standards. | 17% |
| Michael Laidler | 15 July 2019 | 14 July 2023 | | College Governor | Standards. | n/a Appointed in 2018/2019 |
| Sharon Lane | 18 October 2018 | 17 October 2022 | | College Governor | Standards | 75% |
| Zoe Lewis | 26 September 2013 | - | - | Principal / Chief Executive (Accounting Officer) | Corporate Services. Search & Governance. Selection (<i>Senior Posts</i>). Standards. | 100% |
| Andrew Malcolm | 17 October 2016 | | 16 May 2019 | College Governor | Audit & Risk (**) Remuneration. Search & Governance. Selection (<i>Senior Posts</i>). Special. | 100% |
| Sara Mirsalehi | 15 July 2019 | 14 July 2023 | | College Governor | Corporate Services. | n/a Appointed in 2018/2019 |
| Tony Parkinson | 1 January 2018 | 31 December 2021 | | College Governor | Corporate Services. | 48% |
| Peter Studd | 9 July 2018 (2 nd term of office) | 11 July 2023 | - | College Governor | Corporate Services (**). Search and Governance (from 15 July 2019) (appointed as Chair on 15 July 2019) Special. Appeals (<i>Senior Postholders</i>)(**). | 86% |
| Andrea Waller-Amos | 14 December 2015 | 13 December 2019 | - | Staff Governor (Business Support) | Corporate Services. | 93% |
| Iain Wright | 14 December 2017 | 13 December 2021 | - | College Governor | Audit & Risk (**) appointed as Chair on 15 July 2019 Search & Governance. Remuneration. | 52% |

Overall Attendance 2018 / 2019 (excluding External Members)

| | Attendance Rate (Percentage) |
|--------------------|---|
| Overall Attendance | 76% |

Governing Body Attendance 2018 / 2019

| | Attendance Rate (Percentage) |
|----------------|---|
| Governing Body | 68% |

Committee Attendance 2018 / 2019

| | Attendance Rate (Percentage) |
|---------------------|---|
| Audit & Risk | 67% |
| Corporate Services | 95% |
| Remuneration | 75% |
| Search & Governance | 75% |
| Standards | 67% |

External Members Attendance 2018 / 2019

| Name of External Member | Attendance Rate (Percentage) For both Committee and GB Strategic Sessions | Attendance Rate (Percentage) for Committee |
|---|--|---|
| Mr John Autherson (Appointed 1 January 2018) | 89% | 80% |
| Mr S Green (Appointed 16 October 2017) | 11% | 20% |
| Mr A Hanif (Appointed 6 July 2017) | Not Applicable | Not Applicable |
| Mr F Hayes (Resigned 2 October 2018) | 100% | 100% |
| Miss S Shepherd (Appointed 1 August 2016) | 83% | 100% |
| Mr A Stephenson (Re-appointed 12 July 2019) | 67% | 100% |
| Mr S Wilson (Re-appointed 19 May 2019) | 67% | 100% |
| Total | 70% | 83% |

Richard Atkinson held the post of Clerk to the Corporation until 31 August 2018. Zeta Foster was appointed as Clerk to the Corporation on the 22 August 2018 (*by Written Resolution*) following interviews by the Selection (*Senior Posts*) Committee on Monday 20 August 2018. Zeta Foster commenced the role of Clerk to the Corporation on the 11 September 2018 as part-time Independent Clerk. The Governing Body arranged for an Interim Clerk to the Corporation (*Claire Harrison*) to be in post from the 9 July 2018 to 30 September 2018 to allow a smooth transition.

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

The Governing Body 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 professional expertise of the Governing Body in terms of financial management and control and associated skills are considered to be strong amongst its current membership.

The Governing Body meets at least termly. The Governing Body conducts its business through a number of committees. Each Committee has Terms of Reference, which have been approved by the Governing Body. The last annual review took place on the 21 March 2019. Further ad hoc reviews have also been carried out with the latest version of the Committee Structure being available on the Governors' Website.

The Committee Structure as of the 31 July 2019 is:

- Appeals (*Senior Post-holders*).
- Audit & Risk.
- Corporate Services.
- Remuneration.
- Search & Governance.
- Selection (*Senior Posts*).
- Settlement.
- Special.
- Standards.

The Governing Body has also appointed a number of External Members to serve on a number of committees, as detailed below, and is correct as at 16 December 2019:

| External Member | Name of Committee(s) Served |
|-----------------|---|
| John Autherson | Audit & Risk Committee (Appointed 1 January 2018 for a period of four years to 31 December 2021) |
| Stuart Green | Audit & Risk Committee (Appointed 16 October 2017 for a period of four years to 15 October 2021) |
| Aslam Hanif | Equality & Diversity Committee (Appointed from the 6 July 2017 for a period of four years to 5 July 2021) |
| Francis Hayes | Audit & Risk Committee Search & Governance Committee (Resigned 2 October 2018) |
| Sarah Shepherd | Search & Governance Committee (Appointed from the 1 August 2016 for a period of four years to 31 July 2020) |

| | |
|-------------------|---|
| Andrew Stephenson | Standards Committee (Appointed from 13 July 2015 for a period of four years to 12 July 2019) (Re-appointed for a Final Term of Office from 12 July 2019 to 11 July 2023) |
| Sandy Wilson | Corporate Services Committee (Appointed from 20 May 2017 for a period of two years to 19 May 2019) (Re-Appointed for a Final Term of Office from 19 May 2019 to 18 May 2023) |

Full minutes of all meetings, except those deemed to be confidential by the Governing Body, are available from:

Zeta Foster
Clerk to the Corporation
Middlesbrough College
Dock Street
Middlesbrough
TS2 1AD
z.foster@mbro.ac.uk

The Clerk to the Corporation maintains a register of financial and personal interests (*Register of Interests*) of the Governors, and this is available for inspection at the above address and is updated on an annual basis.

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 Governing Body for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk to the Corporation are matters for the Governing Body as a whole.

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

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

There is a clear division of responsibility in that the roles of the Chairman of Governors and the Principal / Chief Executive (*Accounting Officer*) are separate.

Governance Self-Assessment

For 2018 / 2019, the Governing Body self-assessed itself as a Grade 2, with the Governance Self-Assessment Report being approved on the 16 December 2019. This document highlighted a number of strengths and areas for improvement and followed the publication of the College's Ofsted Inspection Report in October 2018.

Copies of both documents are available from the Clerk to the Corporation.

Appointments to the Governing Body

Any new appointments to the Governing Body are a matter for the consideration of the Governing Body as a whole, following advice from the Search & Governance Committee in terms of the appointment / re-appointment of College Governors and External Members, with a Term of Office not exceeding four years from its last expiry date. The Governing Body is also responsible for ensuring that appropriate training is provided as required, and this is co-ordinated by the Clerk to the Corporation and reported direct to the Search & Governance Committee on a termly basis.

The Governing Body has also adopted an appointment process in line with the AoC's Code of Governance of College i.e. College Governors and External Members normally having a maximum of two terms of four years. However, the Governing Body has reserved the right to extend to a third term if there are mitigating circumstances and these are agreed by the Search & Governance Committee and Governing Body.

Search & Governance Committee

The Search & Governance Committee comprises six members of the Governing Body and one External Member as at the 31 July 2019, and they are responsible for the selection and nomination of any new member for the Governing Body's consideration.

Remuneration Committee

The Remuneration Committee comprises four members of the Governing Body as at 31 July 2019, and its responsibilities are to make recommendations to the Governing Body on the remuneration and benefits of the Principal / Chief Executive (*Accounting Officer*), Senior Postholders (if applicable) and the Clerk to the Corporation.

The Principal / Chief Executive (*Accounting Officer*) is a Senior Postholder.

There are no other Senior Postholders as at the 31 July 2019.

The Clerk to the Corporation is not a designated Senior Postholder.

Details of remuneration for the year ended 31 July 2019 are set out in note 6 of the 2018 / 2019 Financial Statements.

Audit & Risk Committee

The Audit & Risk Committee comprises four members of the Governing Body (excluding the Principal / Chief Executive (*Accounting Officer*) and Chairman of Governors) and two External Members as at the 31 July 2019.

The Audit & Risk Committee operates in accordance with written Terms of Reference approved by the Governing Body and advises the Governing Body on the adequacy and effectiveness of the College's system of Internal Control and its arrangements for risk management, control and governance processes.

The Audit & Risk Committee normally meets four times a year and provides a forum for reporting by the College's Internal, Regularity and Financial Statements Auditors, who have access to the Audit & Risk Committee for independent discussion, without the presence of College management. The Audit & Risk Committee also receives and considers reports from the main Further Education funding bodies as they affect the College's business.

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

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

The Audit & Risk Committee also advises the Governing Body on the appointment of Internal Auditors and the Regularity & Financial Statements Auditors, and their remuneration for both audit and non-audit work, as well as reporting annually to the Governing Body.

Other Committees

As detailed earlier, the Governing Body has a number of active committees, and the minutes of certain committees, including Audit & Risk, Corporate Services, Search & Governance and Standards are all posted on the Governors Website.

Copies of the minutes can be obtained from the Clerk to the Corporation.

Internal control

Scope of Responsibility

The Governing Body 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 Governing Body has delegated the day-to-day responsibility to the Principal / Chief Executive 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 she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum / Financial Agreement between Middlesbrough College and the Funding Bodies.

The Principal / Chief Executive (*Accounting Officer*) is also responsible for reporting to the Governing Body any material weaknesses or breakdowns in internal control.

The Purpose of the System of Internal Control

The system of Internal Control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of Internal Control has been in place in Middlesbrough College for the year ended 31 July 2019 and up to the date of approval of the 2018 / 2019 Financial Statements.

Capacity to Handle Risk

The Governing Body 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 Governing Body is of the view that there is a formal on-going process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2019 and up to the date of approval of the 2018 / 2019 Financial Statements. This process is regularly reviewed by the Governing Body.

The Risk and Control Framework

The system of Internal Control is based on a framework of regular management information, and 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.
- Adoption of formal project management disciplines, where appropriate.

Middlesbrough College has an Internal Audit Service (*RSM Risk Assurance Services*), which operates in accordance with the requirements of the Education & Skills Funding Agency's Post 16 Audit Code of Practice, which was shared with the Audit & Risk Committee on the 17 June 2019.

RSM Risk Assurance Services LLP were appointed as Internal Auditors from the 1 August 2018, following interviews by the Audit & Risk Committee on the 12 June 2018.

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 Governing Body on the recommendation of the Audit & Risk Committee.

Annually, the Head of Internal Audit (HIA) provides the Audit & Risk Committee and the Governing Body with a report on Internal Audit activity in the College. The report includes the Head of Internal Audit's Independent Opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of Effectiveness

As Accounting Officer, the Principal / Chief Executive has responsibility for reviewing the effectiveness of the system of internal control, and this review of the effectiveness of the system of Internal Control is informed by:

- The work of the Internal Auditors (*RSM Risk Assurance Services*).
- 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 Auditor (*KPMG*), Regularity Auditor (*KPMG*) and the Funding Auditor (if appointed) in their Management Letters and other reports.

The Principal / Chief Executive (*Accounting Officer*) has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit & Risk Committee, which oversees the work of the Internal Auditor and Risk Management Group and a plan to address weaknesses and ensure continual improvement of the system is in place.

The Senior Leadership Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training.

The Senior Leadership Team and the Audit & Risk Committee also receive regular reports from Internal Audit and other sources of assurance, which include recommendations for improvement. The Audit & Risk Committee's role in this area is confined to a high-level review of the arrangements for Internal Control.

The Governing Body's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Leadership Team and the Audit & Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its 16 December 2019 meeting, the Governing Body carried out the annual assessment for the year ended 31 July 2019 by considering documentation from the Senior Leadership Team and Internal Audit and taking account of events since 31 July 2019.

Based on the advice of the Audit & Risk Committee and the Principal / Chief Executive (*Accounting Officer*), the Governing Body is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for "*the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets*".

Going Concern

After making appropriate enquiries, the Governing Body considers that the College has adequate resources to continue in operational existence for the foreseeable future and has approved the 5 year financial plan to July 2024. It currently has available to it £16.626m of unrestricted reserves, headroom of £4.5m in its loan facilities to fund working capital requirements and has set a surplus budget for 2019 / 2020. For future accounting periods it has forecast surplus budget positions. The ESFA financial health measure has improved to “Good” and remains at “Good” throughout the period to 2023 / 2024. For this reason, it continues to adopt the going concern basis in preparing the Financial Statements.

Approved by order of the members of the Governing Body on 16 December 2019 and signed on its behalf by:



Mr Robert Andrew Davies
Chairman of Governors
16 December 2019



Mrs Zoe Lewis
Principal / Chief Executive (*Accounting Officer*)
16 December 2019

Statement of Regularity, Propriety and Compliance

The Governing Body has considered its responsibility to notify the Education & Skills Funding Agency of material irregularity, impropriety and non-compliance with Terms and Conditions of funding, under Middlesbrough College's Financial Memorandum.

As part of our consideration the Governing Body has had due regard to the requirements of the Financial Memorandum.

We confirm, on behalf of the Governing Body, 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.

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 & Skills Funding Agency.



Mr Robert Andrew Davies
Chairman of Governors
16 December 2019



Mrs Zoe Lewis
Principal / Chief Executive (*Accounting Officer*)
16 December 2019

Statement of Responsibilities of the Members of the Corporation

The members of the Corporation are required to present audited financial statements for each financial year. Within the terms and conditions of the College's Financial Memorandum with the ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education*, and with the *College Accounts Direction 2017 to 2018* issued by the ESFA, and which give a true and fair view of the state of affairs of the group and the parent College and the result for that year.

In preparing the group and parent College financial statements, the Corporation is required to:

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

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

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the parent College, and which enable it to ensure that the financial statements are prepared in accordance with relevant legislation of incorporation and other relevant accounting standards. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for taking steps that are reasonably open to it in order to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

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

Approved by order of the members of the Corporation on 16 December 2019 and signed on its behalf by:



Mr Robert Andrew Davies
Chairman of Governors
16 December 2019

Independent auditor's report to the Corporation of Middlesbrough College

Opinion

We have audited the financial statements of Middlesbrough College ("the College") for the year ended 31 July 2019 which comprise the Consolidated and College Statement of Comprehensive Income, Consolidated and College Statements of Changes in Reserves, Balance Sheet as at 31 July, Consolidated Statement of Cash flows and the 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 31 July 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 year then ended; and
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education*.

Basis for opinion

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

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 directors, 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 college's future prospects and performance.

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

Going concern

The Corporation has prepared the financial statements on the going concern basis as they do not intend to liquidate the College or to cease its operations, and as they have concluded that the College's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over the College's ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Corporation's conclusions, we considered the inherent risks to the College's business model, including the impact of Brexit, and analysed how those risks might affect the College's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the College will continue in operation.

Other information

The Corporation is responsible for the other information, which comprises the Principal's Foreword, Report of the Governing Body and the Corporation's Statement of Corporate Governance and Internal Control and

Statement of Regularity, Propriety and Compliance and Statement of Responsibilities of the Members of the Corporation. 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 & 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 page 27, 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 group or the parent College or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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



Clare Partridge (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA

19 December 2019

Reporting Accountant's Report on Regularity to the Corporation of Middlesbrough 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 11 October 2017 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 Middlesbrough College during the period from 1 August 2018 to 31 July 2019 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post-16 Audit Code of Practice issued by the ESFA. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which the ESFA has other assurance arrangements in place.

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

Respective responsibilities of Middlesbrough College and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Post-16 Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2018 to 31 July 2019 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Post-16 Audit Code of Practice issued by the ESFA. We performed a limited assurance engagement as defined in that framework.

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

A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

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 from 1 August 2018 to 31 July 2019 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Clare Partridge
For and on behalf of KPMG LLP, Reporting Accountant
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

19 December 2019

Consolidated Statements of Comprehensive Income and Expenditure

| | Notes | Year ended 31 July 2019 | | Year ended 31 July 2018 | |
|--|-------|----------------------------|------------------|----------------------------|------------------|
| | | Group £'000 | College £'000 | Group £'000 | College £'000 |
| INCOME | | | | | |
| Funding body grants | 2 | 31,314 | 31,314 | 32,442 | 32,442 |
| Tuition fees and education contracts | 3 | 4,991 | 4,991 | 4,889 | 4,452 |
| Other income | 4 | 3,504 | 3,347 | 3,990 | 4,568 |
| Investment income | 5 | 7 | 7 | 2 | 2 |
| Total income | | 39,816 | 39,659 | 41,323 | 41,464 |
| EXPENDITURE | | | | | |
| Staff costs | 6 | 22,608 | 20,456 | 24,512 | 21,397 |
| Restructuring costs | 6 | 610 | 610 | 290 | 290 |
| Other operating expenses | 7 | 13,269 | 15,263 | 13,008 | 16,269 |
| Depreciation & amortisation | 9, 11 | 3,743 | 3,708 | 4,201 | 4,162 |
| Impairment | 9 | - | - | 325 | 325 |
| Interest and other finance costs | 8 | 694 | 694 | 530 | 530 |
| Total expenditure | | 40,924 | 40,731 | 42,866 | 42,973 |
| Deficit before other gains and losses | | (1,108) | (1,072) | (1,543) | (1,509) |
| Gain / (loss) on disposal of assets | | 4,654 | 4,654 | (14) | (14) |
| Surplus / (deficit) before tax | | 3,546 | 3,582 | (1,557) | (1,523) |
| Surplus / (deficit) for the year | | 3,546 | 3,568 | (1,557) | (1,523) |
| Actuarial (loss) / gain in respect of pension schemes | 21 | (1,534) | (1,534) | 640 | 640 |
| Total Comprehensive Income for the year | | 2,012 | 2,048 | (917) | (883) |
| Represented by: | | | | | |
| Unrestricted comprehensive income / (expenditure) | | 2,012 | 2,048 | (917) | (883) |
| | | 2,012 | 2,048 | (917) | (883) |

The Group surplus for the year of £2.012m includes the following: an underlying surplus of £5.073m after one-off credit from the sale of land and the write back of depreciation relating to the Lennartz VAT refund of £4.654m, one-off restructuring costs of £0.610m and non-cash pension deficit adjustments of £1.527m.

The consolidated statement of comprehensive income is in respect of continuing activities.

Consolidated and College Statement of Changes in Reserves

| | Income and expenditure account £'000 |
|---|---|
| Group | |
| Balance at 1 August 2017 | 15,531 |
| Deficit from the income and expenditure account | (1,557) |
| Other comprehensive income | 640 |
| Total comprehensive income for the year | <u>(917)</u> |
| Balance at 31 July 2018 | <u>14,614</u> |
| Surplus from the income and expenditure account | 3,546 |
| Other comprehensive income | (1,534) |
| Total comprehensive income for the year | <u>2,012</u> |
| Balance at 31 July 2019 | <u>16,626</u> |
| College | |
| Balance at 1 August 2017 | 15,503 |
| Deficit from the income and expenditure account | (1,523) |
| Other comprehensive income | 640 |
| Total comprehensive income for the year | <u>(883)</u> |
| Balance at 31 July 2018 | <u>14,620</u> |
| Surplus from the income and expenditure account | 3,582 |
| Other comprehensive income | (1,534) |
| Total comprehensive income for the year | <u>2,048</u> |
| Balance at 31 July 2019 | <u>16,668</u> |

Balance Sheets as at 31 July 2019

| | Notes | Group 2019 £'000 | College 2019 £'000 | Group 2018 £'000 | College 2018 £'000 |
|--|-------|------------------------|--------------------------|------------------------|--------------------------|
| Non current assets | | | | | |
| Tangible fixed assets | 9 | 72,580 | 72,578 | 77,198 | 77,195 |
| Intangible assets | 11 | 242 | - | 277 | - |
| Investments | 10 | - | 464 | - | 464 |
| | | 72,822 | 73,042 | 77,475 | 77,659 |
| Current assets | | | | | |
| Stocks | | 26 | 26 | 58 | 33 |
| Trade and other receivables | 12 | 4,345 | 4,257 | 2,827 | 2,703 |
| Cash and cash equivalents | 18 | 4,112 | 4,099 | 1,345 | 1,210 |
| | | 8,483 | 8,382 | 4,230 | 3,946 |
| Creditors – amounts falling due within one year | 13 | (5,023) | (5,100) | (6,411) | (6,305) |
| Net current liabilities | | 3,460 | 3,282 | (2,181) | (2,359) |
| Total assets less current liabilities | | 76,282 | 76,324 | 75,294 | 75,300 |
| Creditors – amounts falling due after more than one year | 14 | (45,547) | (45,547) | (49,414) | (49,414) |
| Provisions | | | | | |
| Defined benefit obligations | 17 | (10,959) | (10,959) | (8,217) | (8,217) |
| Other provisions | 17 | (3,150) | (3,150) | (3,049) | (3,049) |
| Total net assets | | 16,626 | 16,668 | 14,614 | 14,620 |
| Unrestricted Reserves | | | | | |
| Income and expenditure account | | 16,626 | 16,668 | 14,614 | 14,620 |
| Total unrestricted reserves | | 16,626 | 16,668 | 14,614 | 14,620 |

The financial statements on pages 32 to 55 were approved by the Corporation on 16 December 2019 and were signed on its behalf on that date by:



Mr Robert Davies
Chairman of Governors



Mrs Zoe Lewis
Principal / Chief Executive (Accounting Officer)

Consolidated Statement of Cash Flows

| Group | Notes | 2019 £'000 | 2018 £'000 |
|---|-------|---------------------|-------------------|
| Cash flow from operating activities | | | |
| Surplus / (deficit) for the year | | 3,546 | (1,577) |
| Adjustment for non-cash items | | | |
| Depreciation and amortisation | | 3,743 | 4,201 |
| Impairment of assets | | 1,614 | 325 |
| Deferred capital grants release | | (1,378) | (1,397) |
| Pensions costs less contributions payable | | 994 | 1,015 |
| Decrease in stocks | | 32 | 6 |
| Increase in debtors | | (1,299) | (332) |
| Decrease in creditors | | (1,238) | (1,263) |
| Increase / (decrease) in provisions | | 16 | (44) |
| Adjustment for investing or financing activities | | | |
| Investment income | | (7) | (2) |
| Interest payable and other finance costs | | 694 | 530 |
| (Gain) / Loss on sale of fixed assets | | (4,192) | 14 |
| Net cash flow from operating activities | | <u>2,525</u> | <u>1,496</u> |
| Cash flows from investing activities | | | |
| Proceeds from sale of fixed assets | | 3,973 | 1 |
| Interest received | | 7 | 2 |
| Payment made to acquire subsidiary investment | | - | - |
| Payments made to acquire fixed assets | | (705) | (347) |
| | | <u>3,275</u> | <u>(344)</u> |
| Cash flows from financing activities | | | |
| Interest paid | | (395) | (346) |
| New unsecured loans | | - | - |
| Repayments of amounts borrowed | | (2,638) | (660) |
| | | <u>(3,033)</u> | <u>(1,006)</u> |
| Increase in cash and cash equivalents in the year | | <u>2,767</u> | <u>146</u> |
| Cash and cash equivalents at beginning of the year | | 1,345 | 1,199 |
| Cash and cash equivalents at end of the year (note 18) | | 4,112 | 1,345 |

Notes to the financial statements

1. Statement of Accounting Policies

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

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the College Accounts Direction 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.

The College has taken advantage of the exemptions provided in FRS 102 1.12 and the 2015 FE HE SORP 3.3, and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and the College balance sheet discloses cash at both the current and preceding reporting dates.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated financial statements include the College and its subsidiary undertakings Northern Skills Group Business Services Limited, Middlesbrough College Management Services Limited, Northern Apprenticeship Company Limited and Mizaru Media 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. Under the purchase method of accounting, the results of subsidiary and associated undertakings acquired or disposed of during the year are included in the consolidated income and expenditure account from or up to the date on which control of the undertaking passes. Intra-group sales and profits are eliminated fully on consolidation. All financial statements are made up to 31 July 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 Operating and Financial Review. The financial position of the College, its cash flow, liquidity and borrowings are described in the financial statements and accompanying notes.

The College has adequate resources to continue in operational existence for the foreseeable future and has approved the 5 year financial plan to July 2024. It currently has available to it £16.626m of unrestricted reserves, headroom of £4.5m in its loan facilities to fund working capital requirements and has set a surplus budget for 2019 / 2020. For future accounting periods it has forecast surplus budget positions. The ESFA financial health measure has improved to “Good” and remains at “Good” throughout the period to 2023 / 2024. For this reason, it continues to adopt the going concern basis in preparing the Financial Statements.

The College met all of its bank covenants during the year and its forecasts and financial plan indicate that it will be able to continue to meet the covenants set and operate within this facility for the foreseeable future.

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

1. Statement of Accounting Policies (continued)

Revenue grant funding

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accruals model as permitted by FRS 102. Funding body recurrent grants are recognised 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 year old learner funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Income from the provision of Higher Education courses is in partnership with Teesside University, income earned is credited direct to the income and expenditure account.

Income from tuition fees is recognised in the period for which it is earned and includes all fees payable by students or their sponsors.

Income from grants, contracts and other services rendered is included to the extent the conditions of the funding have been met or the extent of the completion of the contract or service concerned. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Capital grant funding

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

Fee income

Income from tuition fees is recognised in the period for which it is earned and includes all fees payable by students or their sponsors.

Investment income

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

Agency arrangements

The College acts as an agent in the collection and payment of certain discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure account and are shown separately in note 23, except where the College retains a beneficial interest, in which case the expenditure together with the related income is recognised in the accounts.

Accounting for post-employment benefits

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

1. Statement of Accounting Policies (continued)

Teachers' Pension Scheme (TPS)

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

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

Teesside Local Government Pension Scheme (LGPS)

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

Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in 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 the college annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the College's income in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Intangible assets

Intangible assets are stated at cost less accumulated impairment costs and are amortised over their expected useful economic life of 10 years.

Land and buildings

Freehold land is not depreciated. Leasehold land and buildings are depreciated over 50 years or, if shorter, the period of the lease. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life.

1. Statement of Accounting Policies (continued)

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital 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 depreciation policy. Finance costs, which are directly attributable to the construction of land and buildings, are capitalised as part of the cost of those assets. 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.

Assets under construction

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

Subsequent expenditure on existing fixed assets

Where significant additional expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Market value of the fixed asset has subsequently improved
- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the asset's life beyond that conferred by repairs and maintenance

Equipment

Equipment costing less than £2,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other assets are capitalised at cost and depreciated over their useful economic life as follows:

- Motor vehicles and general equipment - 5 years straight line
- Computer equipment - 3 to 5 years straight line
- Furniture, fixtures and fittings - 10 years straight line

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income and Expenditure. Any lease premiums or incentives relating to leases signed after 1st 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 1st 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.

1. Statement of Accounting Policies (continued)

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 are accounted for at cost less impairment in the College financial statements.

Stocks

Stocks are stated at the lower of their cost (using the first in first out method) and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Cash

Cash for the purposes of the cash flow statement comprises of cash in hand and deposits repayable within three months less overdrafts repayable on demand.

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.

Maintenance of premises

The cost of routine maintenance is charged to the income and expenditure account in the period in which it is incurred.

Borrowing costs

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

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of transaction.

Foreign currency monetary assets and liabilities are translated at the rates of exchange ruling at the end of the financial year with any exchange differences charged to the income and expenditure account in the period in which they arise.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2011 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

1. Statement of Accounting Policies (continued)

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

Provisions

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.

Accounting estimates and judgements

Key sources of estimation uncertainty

Certain critical accounting judgements in applying the College's accounting policies are described below.

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 22, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at the balance sheet date. 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.

2 Funding body grants

| | Year ended 31 July 2019 Group £'000 | | Year ended 31 July 2018 Group £'000 | |
|---|---|---------------|---|---------------|
| | 2019 College £'000 | | 2018 College £'000 | |
| Recurrent grants | | | | |
| Education and Skills Funding Agency - Adult | 4,762 | 4,762 | 4,261 | 4,261 |
| Education and Skills Funding Agency - 16-18 | 20,178 | 20,178 | 21,493 | 21,493 |
| Education and Skills Funding Agency - Apprenticeships | 4,640 | 4,640 | 4,977 | 4,977 |
| Office for Students | 303 | 303 | - | - |
| Specific grants | | | | |
| Educations and Skills Funding Agency | 53 | 53 | 314 | 314 |
| Releases of government capital grants | 1,378 | 1,378 | 1,397 | 1,397 |
| Total | 31,314 | 31,314 | 32,442 | 32,442 |

3 Tuition fees and education contracts

| | Year ended 31 July 2019 Group £'000 | | Year ended 31 July 2018 Group £'000 | |
|------------------------------------|---|--------------|---|--------------|
| | 2019 College £'000 | | 2018 College £'000 | |
| Adult education fees | 853 | 853 | 762 | 594 |
| Apprenticeship fees and contracts | 151 | 151 | 146 | - |
| Fees for FE loan supported courses | 1,228 | 1,228 | 1,145 | 1,022 |
| Fees for HE loan supported courses | 2,758 | 2,758 | 2,756 | 2,756 |
| Total tuition fees | 4,990 | 4,990 | 4,809 | 4,372 |
| Education contracts | 1 | 1 | 80 | 80 |
| Total | 4,991 | 4,991 | 4,889 | 4,452 |

4 Other income

| | Year ended 31 July 2019 Group £'000 | | Year ended 31 July 2018 Group £'000 | |
|-------------------------|---|--------------|---|--------------|
| | 2019 College £'000 | | 2018 College £'000 | |
| Catering and residences | 932 | 932 | 893 | 893 |
| Other grant income | 1,630 | 1,630 | 1,746 | 1,468 |
| Miscellaneous income | 942 | 785 | 1,351 | 2,207 |
| Total | 3,504 | 3,347 | 3,990 | 4,568 |

5 Investment income

| | Year ended | | Year ended | |
|---------------------------|------------------------|--------------------------|------------------------|--------------------------|
| | 31 July | | 31 July | |
| | 2019 Group £'000 | 2019 College £'000 | 2018 Group £'000 | 2018 College £'000 |
| Other interest receivable | 7 | 7 | 2 | 2 |
| Total | 7 | 7 | 2 | 2 |

6 Staff costs – Group

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

| | 2019 No. | 2018 No. |
|--------------------|-------------|-------------|
| Teaching staff | 421 | 474 |
| Non-teaching staff | 245 | 268 |
| | 666 | 742 |

Staff costs for the above persons

| | 2019 £'000 | 2018 £'000 |
|-----------------------------------|---------------|---------------|
| Wages and salaries | 17,749 | 19,256 |
| Social security costs | 1,411 | 1,531 |
| Other pension costs | 3,262 | 3,539 |
| Payroll sub total | 22,422 | 24,326 |
| Contracted out staffing services | 91 | 88 |
| Other staffing costs | 95 | 98 |
| | 22,608 | 24,512 |
| Restructuring costs – Contractual | 610 | 290 |
| Total Staff costs | 23,218 | 24,802 |

Staff costs – College

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

| | 2019 No. | 2018 No. |
|--------------------|-------------|-------------|
| Teaching staff | 387 | 443 |
| Non-teaching staff | 202 | 222 |
| | 589 | 665 |

Staff costs for the above persons

| | 2019 £'000 | 2018 £'000 |
|-----------------------------------|---------------|---------------|
| Wages and salaries | 15,808 | 16,603 |
| Social security costs | 1,279 | 1,330 |
| Other pension costs | 3,183 | 3,330 |
| Payroll sub total | 20,270 | 21,263 |
| Contracted out staffing services | 91 | 63 |
| Other staffing costs | 95 | 71 |
| | 20,456 | 21,397 |
| Restructuring costs – Contractual | 610 | 290 |
| Total Staff costs | 21,066 | 21,687 |

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the Senior Leadership team which comprises the Principal/Chief Executive, Deputy Principal, Vice Principals and Executive Directors.

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

| | 2019 No. | | 2018 No. | |
|--|---------------------------------|---------------------|--------------------------------|---------------------|
| The number of key management personnel including the Accounting Officer was: | 7 | | 9 | |
| | Key management personnel | | Other higher paid staff | |
| | 2019 No. | 2018 No. | 2019 No. | 2018 No. |
| £55,001 to £60,000 p.a. | 1 | 4 | 2 | 3 |
| £60,001 to £65,000 p.a. | 2 | - | 2 | - |
| £65,001 to £70,000 p.a. | 1 | 2 | - | - |
| £70,001 to £75,000 p.a. | - | - | - | - |
| £75,001 to £80,000 p.a. | - | 2 | - | - |
| £80,001 to £85,000 p.a. | 1 | - | - | - |
| £85,001 to £90,000 p.a. | 1 | - | - | - |
| £130,001 to £135,000 p.a. | - | 1 | - | - |
| £135,001 to £140,000 p.a. | 1 | - | - | - |
| | 7 | 9 | 4 | 3 |

Emoluments paid to key management personnel are made up as follows:

| | 2019 £'000 | 2018 £'000 |
|---|-----------------------|-----------------------|
| Salaries | 533 | 645 |
| Employers National Insurance | 64 | 79 |
| Pension contributions | 82 | 101 |
| Total key management personnel emoluments | 679 | 825 |

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

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

| | 2019 £'000 | 2018 £'000 |
|-----------------------|-----------------------|-----------------------|
| Salaries | 136 | 133 |
| Pension contributions | 21 | 20 |
| | 157 | 153 |

No compensation for loss of office was paid during the current year or prior year to former key management personnel.

The governing body adopted the AoC's Senior Staff Remuneration Code on 15 July 2019 and will assess and report pay in line with its principles in future. The Governing Body also adopted Annex 2 of the AoC's code which outlines the justification of the non-adoption of the CUC Higher Education Staff Remuneration code.

The remuneration package of the Principal / Chief Executive and Clerk to the Corporation, is subject to annual review by the Remuneration Committee of the governing body who use benchmarking information to provide objective guidance. This is reported and approved by the Governing Body annually in line with the principals of the AoC's Senior Staff Remuneration Code.

The Principal / Chief Executive remuneration package remains below the median further education sector turnover benchmark for a college of this size.

The Principal / Chief Executive and Clerk to the Corporation reports to the Chair of Governors, who, with the Vice Chair of Governors, undertakes an annual review of performance against the college's overall objectives using both qualitative and quantitative measures of performance.

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

| | 2019 | 2018 |
|---|-------------|-------------|
| Principal/CEO's basic salary as a multiple of the median of all staff | 5.42 | 5.34 |
| Principal/CEO's total remuneration as a multiple of the median of all staff | 5.42 | 5.34 |

7 Other operating expenses

| | 2019 Group £'000 | 2019 College £'000 | 2018 Group £'000 | 2018 College £'000 |
|--------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Teaching costs | 2,235 | 2,235 | 1,894 | 1,574 |
| Non-teaching costs | 8,255 | 10,249 | 8,341 | 12,088 |
| Premises costs | 2,779 | 2,779 | 2,773 | 2,607 |
| Total | 13,269 | 15,263 | 13,008 | 16,269 |

Other operating expenses include:

| | 2019 £'000 | 2018 £'000 |
|---|-----------------------|-----------------------|
| Auditors' remuneration: | | |
| Financial statements audit* | 34 | 34 |
| Internal audit** | 27 | 26 |
| Other services provided by the financial statements auditor – taxation returns | 4 | 3 |
| Hire of assets under operating leases | 662 | 327 |

* includes £22,600 in respect of the College (2017/18 £21,600)

** includes £20,250 in respect of the College (2017/18 £21,340)

8 Interest and other finance costs – Group and College

| | 2019 £'000 | 2018 £'000 |
|---|-----------------------|-----------------------|
| On bank loans | 395 | 346 |
| Net interest on defined pension liability (note 22) | 214 | 184 |
| Net interest on enhanced pension liability | 85 | - |
| | 694 | 530 |

9 Tangible fixed assets (Group)

| | Land and buildings Long leasehold £'000 | Equipment £'000 | Assets in the course of construction £'000 | Total £'000 |
|---------------------------------------|---|--------------------|---|-----------------|
| Cost or valuation | | | | |
| At 1 August 2018 | 85,934 | 27,800 | - | 113,734 |
| Additions | 14 | 557 | 134 | 705 |
| Disposals | (2,076) | (400) | - | (2,476) |
| Reclassification | - | - | - | - |
| At 31 July 2019 | 83,872 | 27,957 | 134 | 111,963 |
| Depreciation | | | | |
| At 1 August 2018 | (14,947) | (21,589) | - | (36,536) |
| Charge for the year | (1,708) | (2,000) | - | (3,708) |
| Impairments | - | - | - | - |
| Elimination in respect of disposals | 462 | 399 | - | 861 |
| At 31 July 2019 | (16,193) | (23,190) | - | (39,383) |
| Net book value at 31 July 2019 | 67,679 | 4,767 | 134 | 72,580 |
| Net book value at 31 July 2018 | 70,987 | 6,211 | - | 77,198 |

Tangible fixed assets (College)

| | Land and buildings Long leasehold £'000 | Equipment £'000 | Assets in the course of construction £'000 | Total £'000 |
|---------------------------------------|---|--------------------|---|-----------------|
| Cost or valuation | | | | |
| At 1 August 2018 | 85,934 | 27,776 | - | 113,710 |
| Additions | 14 | 557 | 134 | 705 |
| Disposals | (2,076) | (400) | - | (2,476) |
| Reclassification | - | - | - | - |
| At 31 July 2019 | 83,872 | 27,933 | 134 | 111,939 |
| Depreciation | | | | |
| At 1 August 2018 | (14,947) | (21,568) | - | (36,515) |
| Charge for the year | (1,708) | (1,999) | - | (3,707) |
| Impairments | - | - | - | - |
| Elimination in respect of disposals | 462 | 399 | - | 861 |
| At 31 July 2019 | (16,193) | (23,168) | - | (39,361) |
| Net book value at 31 July 2019 | 67,679 | 4,765 | 134 | 72,578 |
| Net book value at 31 July 2018 | 70,987 | 6,208 | - | 77,195 |

10 Non-current investments

| | College 2019 £'000 | College 2018 £'000 |
|-------------------------------------|--------------------------|--------------------------|
| Investments in subsidiary companies | 464 | 464 |
| Total | 464 | 464 |

The College owns 100 per cent of the issued ordinary £1 shares of Northern Skills Group Business Services Limited, a company incorporated in England and Wales, with registered office address Dock Street, Middlesbrough, TS2 1AD. The principal business activity of the company is the contracting of staff to deliver education and training as part of the group activities.

11 Intangible assets (Group)

| | Customer relationship £'000 | Total £'000 |
|--------------------------------|-----------------------------------|----------------|
| Cost | | |
| At 1 August 2018 | 347 | 347 |
| At 31 July 2019 | 347 | 347 |
| Depreciation | | |
| At 1 August 2018 | (70) | (70) |
| Charge for the year | (35) | (35) |
| At 31 July 2019 | (105) | (105) |
| Net book value at 31 July 2019 | 242 | 242 |
| Net book value at 31 July 2018 | 277 | 277 |

The College held no intangible assets at 31 July 2019 (2018: £nil).

12 Trade and other receivables

| | Group 2019 £'000 | College 2019 £'000 | Group 2018 £'000 | College 2018 £'000 |
|--------------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Amounts falling due within one year: | | | | |
| Trade receivables | 260 | 174 | 269 | 189 |
| Prepayments and accrued income | 4,085 | 4,083 | 2,558 | 2,514 |
| Total | 4,345 | 4,257 | 2,827 | 2,703 |

13 Creditors: amounts falling due within one year

| | Group 2019 £'000 | College 2019 £'000 | Group 2018 £'000 | College 2018 £'000 |
|---|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Bank loans | 638 | 638 | 638 | 638 |
| Trade creditors | 466 | 488 | 250 | 240 |
| Amounts owed to group undertakings | - | 118 | - | 145 |
| Other taxation and social security | 384 | 343 | 418 | 384 |
| Accruals and deferred income | 1,774 | 1,766 | 2,418 | 2,222 |
| Other creditors | 292 | 278 | 332 | 321 |
| 'Lennartz' VAT creditor | - | - | 874 | 874 |
| Deferred income - government capital grants | 1,327 | 1,327 | 1,368 | 1,368 |
| Deferred income – non government capital grants | 14 | 14 | 46 | 46 |
| Amounts owed to the ESFA | 128 | 128 | 67 | 67 |
| Total | 5,023 | 5,100 | 6,411 | 6,305 |

14 Creditors: amounts falling due after one year

| | Group 2019 £'000 | College 2019 £'000 | Group 2018 £'000 | College 2018 £'000 |
|---|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Bank loans | 14,464 | 14,464 | 17,102 | 17,102 |
| Deferred income – government capital grants | 31,027 | 31,027 | 32,287 | 32,287 |
| Deferred income – non government capital grants | 56 | 56 | 25 | 25 |
| Total | 45,547 | 45,547 | 49,414 | 49,414 |

15 Maturity of debt

(a) Bank loans

Bank loans and overdrafts are repayable as follows:

| | Group 2019 £'000 | College 2019 £'000 | Group 2018 £'000 | College 2018 £'000 |
|----------------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| In one year or less | 638 | 638 | 638 | 638 |
| Between one and two years | 1,276 | 1,276 | 1,276 | 1,276 |
| Between two and five years | 4,414 | 4,414 | 6,414 | 6,414 |
| In five years or more | 8,774 | 8,774 | 9,412 | 9,412 |
| Total | 15,102 | 15,102 | 17,740 | 17,740 |

Bank loans are repayable by instalments falling due between 1 August 2018 and 31 March 2030, totalling £15.102m. The lender is Santander on an unsecured arrangement. Interest is floating following one month LIBOR at 0.75% plus a fixed margin of 1.45% on £12.602m and a fixed margin of 1.6% on a revolving credit facility of which £2.500m was drawn at 31 July 2019 of a £7.000m facility, which is repayable by 31 July 2023.

(b) ‘Lennartz’ VAT creditor

Lennartz VAT creditor commitments are as follows:

| | Group 2019 £'000 | College 2019 £'000 | Group 2018 £'000 | College 2018 £'000 |
|---------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| In one year or less | - | - | 874 | 874 |
| Total | - | - | 874 | 874 |

16 Financial instruments

The carrying amounts of the financial assets and liabilities include:

| | Group 2019 £'000 | College 2019 £'000 | Group 2018 £'000 | College 2018 £'000 |
|--|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Assets measured at amortised cost: | | | | |
| Trade debtors | 260 | 174 | 269 | 189 |
| | 260 | 174 | 269 | 189 |
| Liabilities measured at amortised cost: | | | | |
| Trade creditors | 466 | 488 | 250 | 240 |
| Other creditors | 292 | 278 | 332 | 321 |
| Accruals | 1,418 | 1,409 | 2,338 | 2,146 |
| Amounts owed to group undertakings | - | 132 | - | 145 |
| Bank loans | 15,102 | 15,102 | 17,740 | 17,740 |
| | 17,278 | 17,409 | 20,660 | 20,592 |

17 Provisions

| Group and college | Defined benefit obligations £'000 | Enhanced pensions £'000 | Total £'000 |
|---------------------------|--|--|------------------------|
| At 1 August 2018 | 8,217 | 3,049 | 11,266 |
| Expenditure in the period | (1,210) | (218) | (1,428) |
| Charge in the period | 3,952 | 319 | 4,271 |
| At 31 July 2019 | 10,959 | 3,150 | 14,109 |

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

The enhanced pension provision relates to the cost of staff who have already left the College’s employment.

The principal assumptions for this calculation are:

| | 2019 | 2018 |
|-----------------|------|------|
| Price inflation | 2.2% | 2.1% |
| Discount rate | 2.0% | 2.8% |

18 Cash and cash equivalents (Group)

| | At 1 August 2018 | Cash flows | Other changes | At 31 July 2019 |
|---------------------------|------------------------|---------------|------------------|-----------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Cash and cash equivalents | 1,345 | 2,767 | - | 4,112 |
| Total | 1,345 | 2,767 | - | 4,112 |

19 Capital commitments

| | Group and College | |
|---------------------------------------|-------------------|-------|
| | 2019 | 2018 |
| | £'000 | £'000 |
| Commitments contracted for at 31 July | 7 | 171 |

20 Lease obligations

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

| | Group and College | |
|---|-------------------|--------------|
| | 2019 | 2018 |
| | £'000 | £'000 |
| Future minimum lease payments due: | | |
| Land and buildings | | |
| Not later than one year | 107 | 92 |
| Later than one year and not later than five years | 304 | 287 |
| Later than five years | 57 | 106 |
| | 468 | 485 |
| Other | | |
| Not later than one year | 492 | 269 |
| Later than one year and not later than five years | 606 | 332 |
| Later than five years | 2 | - |
| | 1,100 | 601 |
| Total lease payments due | 1,568 | 1,086 |

21 Defined benefit obligations

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

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

| Total pension cost for the year | 2019 £000 | 2018 £000 |
|---|----------------------|----------------------|
| Teachers' Pension Scheme: contributions paid | 1,180 | 1,396 |
| Local Government Pension Scheme: | | |
| Contributions paid | 1,210 | 1,128 |
| FRS 102 (28) charge | 994 | 1,015 |
| Charge to the Statement of Comprehensive Income (staff costs) | 3,384 | 3,539 |
| Enhanced pension charge to Statement of Comprehensive Income | 14 | 17 |
| Total Pension Cost for Year | 3,398 | 3,556 |

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

Teachers' Pension Scheme

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

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

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

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

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

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 / 2019). DfE has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2019 / 2020 academic year.

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

The pension costs paid to TPS in the year amounted to £1.180m (2018: £1.396m).

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by the Teesside Pension Fund. The total contributions made for the year ended 31 July 2019 were £1,630,000, of which employer's contributions totalled £1,210,000 and employees' contributions totalled £420,000. The agreed contribution rates for future years are 15.2% for employers and range from 5.5% to 12.5% for employees, depending on salary.

The following information is based upon a full actuarial valuation of the fund at 31 March 2016, updated to 31 July 2018 by a qualified independent actuary.

| | At 31 July 2019 | At 31 July 2018 |
|--------------------------------------|----------------------------|----------------------------|
| Rate of increase in salaries | 2.2% | 3.1% |
| Future pensions increases | 2.2% | 2.1% |
| Discount rate for scheme liabilities | 2.2% | 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:

| | At 31 July 2019 | At 31 July 2018 |
|-----------------------------|----------------------------|----------------------------|
| | Years | years |
| <i>Retiring today</i> | | |
| Males | 21.9 | 22.9 |
| Females | 23.8 | 25.0 |
| <i>Retiring in 20 years</i> | | |
| Males | 23.6 | 25.1 |
| Females | 25.7 | 27.3 |

The College's asset allocation at the balance sheet date were:

| | Fair Value at 31 July 2019 £'000 | Fair Value at 31 July 2018 £'000 |
|--|---|---|
| Equity instruments | 32,572 | 29,677 |
| Property | 3,710 | 3,130 |
| Cash | 5,738 | 7,317 |
| Other | 1,122 | 528 |
| Total fair value of plan assets | 43,142 | 40,652 |

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

| | 2019 £'000 | 2018 £'000 |
|-----------------------------------|-----------------------|-----------------------|
| Fair value of plan assets | 43,142 | 40,652 |
| Present value of plan liabilities | (54,101) | (48,869) |
| Net pensions liability | (10,959) | (8,217) |

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

| | 2019 £'000 | 2018 £'000 |
|--|-----------------------|-----------------------|
| Amounts included in staff costs | | |
| Current service cost | 1,922 | 2,141 |
| Past service cost | 282 | 2 |
| Total | 2,204 | 2,143 |

Amounts included in interest payable

| | | |
|----------------------|------------|------------|
| Net interest payable | 214 | 184 |
| | 214 | 184 |

Amount recognised in Other Comprehensive Income

| | | |
|--|----------------|------------|
| Return on pension plan assets | 1,027 | 2,165 |
| Experience losses arising on defined benefit obligations | (2,561) | (1,525) |
| Amount recognised in Other Comprehensive Income | (1,534) | 640 |

Asset and Liability Reconciliation

| | 2019 £'000 | 2018 £'000 |
|--|-----------------------|-----------------------|
| Changes in the present value of defined benefit obligations | | |
| Defined benefit obligations at start of period | (48,869) | (44,115) |
| Current service cost | (1,922) | (2,141) |
| Interest cost | (1,357) | (1,146) |
| Contributions by Scheme participants | (420) | (462) |
| Experience gains and losses on defined benefit obligations | (2,561) | (1,525) |
| Estimated benefits paid | 1,310 | 522 |
| Past Service cost | (282) | (2) |
| Defined benefit obligations at end of period | (54,101) | (48,869) |

Changes in fair value of plan assets

| | | |
|---|---------------|---------------|
| Fair value of plan assets at start of period | 40,652 | 36,457 |
| Interest on plan assets | 1,143 | 962 |
| Return on plan assets | 1,027 | 2,165 |
| Employer contributions | 1,210 | 1,128 |
| Contributions by Scheme participants | 420 | 462 |
| Estimated benefits paid | (1,310) | (522) |
| Fair value of plan assets at end of period | 43,142 | 40,652 |

22 Related party transactions

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.

During the year the College disposed of retained land which was co-owned with Middlesbrough Council. Tony Parkinson, Chief Executive of Middlesbrough Council served as a board member of Middlesbrough College's Corporation during the financial year. During the year sales of £4.235m were conducted, of which £3.973m relates to the joint sale of land during the year and the receipt of associated funds, purchases of £0.247m were also made. A balance of £0.224m is included in the College's debtors and £0.152m included in the College's creditors.

Sharon Lane, Managing Director of Tees Components Limited joined the board during the year. The college provides training and education to employees of the business under Apprenticeship training programmes in accordance with ESFA policy and guidelines. The business transactions are conducted at arms length. During the year sales of £1,002 and purchases of £500 were made.

Heather Ashton, Executive Director of Resources at Thirteen Group joined the board during the year. The college provides training and education to employees of the business under Apprenticeship training programmes in accordance with ESFA policy and guidelines. The business transactions are conducted at arms length. During the year sales of £1,888 were made.

23 Amounts disbursed as agent

| Learner support funds | 2019 £'000 | 2018 £'000 |
|--|-----------------------|-----------------------|
| Funding body grants – bursary support | 814 | 968 |
| Interest earned | - | - |
| | 814 | 968 |
| Disbursed to students | (773) | (926) |
| Administration costs | (41) | (42) |
| Balance unspent as at 31 July, included in creditors | - | - |

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.

24 Post Balance Sheet Events

On 13 December 2019 the college acquired 100% of the share capital of TTE Technical (UK) Limited (formerly known as Infinite Learning & Development Limited), TTE International Limited and TTE Apprenticeships Limited. The college looks forward to welcoming the staff into the college group.