

Middlesbrough College

# Report & Financial Statements



For the year ended  
31st July 2020

## **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 2019/ 2020:

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  
Kelly Parkinson, Executive Director of Human Resources

### **Board of Governors**

A full list of Governors is given on pages 18-20 of these financial statements.

Zeta Foster acted as Clerk to the Corporation for the period to 31 July 2020.

### **Professional advisers**

#### **Financial statements and regularity auditor:**

Mazars LLP  
Salvus House  
Ayckley Heads  
Durham  
DH1 5TS

#### **Internal Auditor:**

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

#### **Bankers:**

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 recent 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.

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 continues to strengthen our offer of technical, affordable higher skills qualifications.

In 2019 the college acquired a local private training provider, TTE, whom enjoy a strong, well-known brand, offering technical training in the UK and overseas. This acquisition further strengthens our industrial offer to employers and learners.

We continue to build on the strong foundations of our "Good" Ofsted rating - with more of our students than ever completing their courses, achieving their qualifications with good grades, gaining additional competencies and employability skills, and successfully progressing into employment, an apprenticeship, self-employment or further / higher education.

The impact of COVID has been significant to our operations but I am proud to report that our level of student engagement remained high throughout lockdown, and that the quality of our online learning materials and delivery went from strength to strength. Following investment in student and staff personal IT devices, we have seen a strong summer 2020 enrolment, and we are now welcoming learners back to site, delivering a small element on-line to ensure their continued safety.

After a period of financial challenges, we ended the 2019 / 2020 financial year not only with strong student outcomes but also pleasingly with an official "Outstanding" financial health rating. With demographics now in our favour, base rate increases in place, approval to deliver T Levels for 2021 and our capital development as part of the North East Institute of Technology underway – we are looking forward to planning for the future, including an investment in T Level delivery to create another high class learning environment on our campus.

Recognising that our staff are central and crucial to 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; with 2020 delivering our highest staff satisfaction rates ever.

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 – through what appears inevitably to be a difficult economic period ahead.

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



**Zoe Lewis**  
**Principal / Chief Executive**  
**17 December 2020**

## **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 2020.

#### **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.

#### **Northern Apprenticeship Company Limited**

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

#### **TTE (Technical) UK Limited**

On 13 December 2019, Middlesbrough College acquired 100% share capital of the company. The company offers study programme, apprenticeships and commercial training courses locally from its base in Middlesbrough.

#### **TTE International Limited**

On 13 December 2019, Middlesbrough College acquired 100% share capital of the company. The company offers commercial training courses mainly to large overseas global organisations from its base in Middlesbrough.

#### **TTE Apprenticeships Limited**

On 13 December 2019, Middlesbrough College acquired 100% share capital of the company. The company operates as an Apprenticeship Training Agency employing apprentices engaged on training programmes with large local organisations.

#### **Middlesbrough College Management Services Limited (dormant)**

The company was incorporated in 1993. The company did not trade during 2019 / 2020.

#### **Mizaru Media Limited (dormant)**

Mizaru Media Limited was incorporated in 2011. The company did not trade during 2019 / 2020.

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 2019 / 2020 was "To provide high quality education and skills that enhance economic and social prosperity".

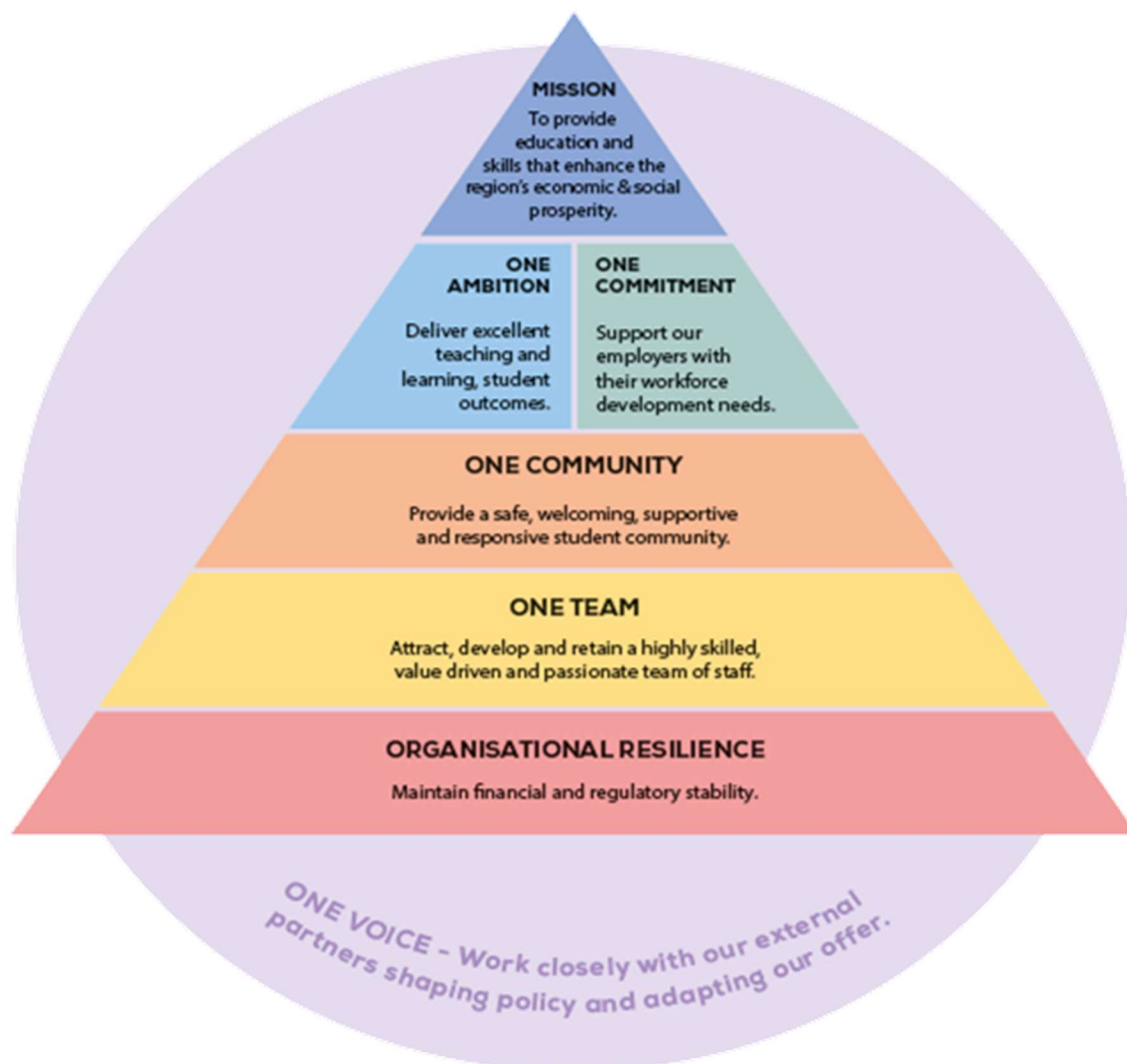
#### **Strategic Aims and Priorities**

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, with a refresh to be undertaken in 2020 / 2021.

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.

## ***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 college has also adopted some golden rules against its financial health rating objective:

- Current ratio maintained >1
- EBITDA as % of income >7%
- Borrowings as % of income <35%

The golden rules provide a safety net and early warning system for any one ratio reducing below the minimum targeted level in order to maintain the financial health rating of Good.

All financial objectives and golden rules have been met or exceeded as at 31 July 2020.

Financial objective / golden rule	31 July 2020 Actual
“Good” financial health	240 points <b>Outstanding</b>
Meet bank covenants	100%
Operating surplus set and delivered	£1.770m
EBITDA >=£3m	£3.827m
Annual capital >= £1.25m	£1.309m
Current ratio >1	1.80
EBITDA >7%	8.64%
Borrowings to income <35%	28.97%

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 2019 / 2020 from “Good” to “Outstanding”, achieving 240 points. The college is focussed on continuing to reduce 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 group for the year was £42.636m (2018 / 2019: £39.816m) with the operating position before pension accounting being a surplus of £1.771m, after one-off costs and credits (2018 / 2019: operating surplus £5.073m including sale of land).

The income level against the original financial plan for the year has been significantly impacted by Covid and national lockdown measures, being a reduction in the region of £1.5m. Apprenticeship recruitment reduced to only 10% of normal levels from March through to May 2020 before seeing an increase in activity again. Commercial training courses were stopped with immediate effect both for UK and International contracts. On site commercial activity was also impacted due to closure of the college estate and restrictions to the start up again of gymnasium, hospitality, hair and beauty services. Lost income has been partially offset by savings on building closure and reduced overhead costs plus the government Job Retention Scheme support funding of £0.550m has enabled the college to honour staff wages at 100% of salary levels.

The result includes the trading activity of the newly acquired group of companies under the TTE brand, being combined turnover for the eight months of trading of £2.393m, resulting in an operating loss position of £0.297m mainly due to the impact of Covid and commercial activity coming to a halt during lockdown.



The FRS102 pensions accounting valuation result this year has been a significant negative movement, mainly due to the reduction in the discount factor as a result of the impact of Covid. The entries made are pension interest costs of £0.230m and service charge costs of £1.508m, equating to £1.738m. Additionally, the valuation of the LGPS fund assets and liabilities has resulted in a significant actuarial loss on valuation, being a negative movement of £17.467m, resulting in a net increase to the balance sheet LGPS pension liability of £19.205m, increasing from £10.959m to £30.164m.

The Enhanced Pension Scheme has also had a negative movement of £0.193m to reserves. These entries have resulted in the balance sheet moving to a negative position overall of £1.215m (31 July 2019: £16.626m).

The College was funded by the Education & Skills Funding Agency (ESFA) for 3,683 learners aged 16-18 equating to £19.704m of programme funding (2018 / 2019: 3,905 learners £20.178m). Actual recruitment in 2019 / 2020 was above allocation at 3,784 learners, resulting in £0.360m of unfunded delivery.

The College's Adult Education delivery is £4.471m against an allocation of £4.921m, being under-delivery of £0.450m due to the impact of Covid and delivery pausing during the lockdown period from March 2020. The original delivery plan pre-Covid was in excess of allocation in the region of £0.800m. Funding allocations have been protected at original levels. (2018 / 2019: £4.650m actual allocation).

Apprenticeship activity for the year was £5.645m, with £1.078m being delivered by the newly acquired TTE training company from December 2019 (2018 / 2019: £4.640m). Apprenticeship recruitment was significantly impacted by business closure due to Covid with recruitment levels across all sectors reducing to 13% of target between March and May 2020 and recovering to 50% in June and July.

The College remains highly dependent on the education sector funding bodies for its principal source of funding, largely from recurrent grants. In 2019 / 2020, the funding bodies provided 79% of the Group's total income (excluding release of capital grants) (2018 / 2019: 81%).

## **Strategic Capital Investments**

From 2020 / 2021 the college has set out a significant capital investment programme equating to £12.6m of investments from August 2020 to November 2021. The plan will utilise £4.1m of college cash resources with the balance of £8.5m being grant funded. These investments increase the facilities at the main college campus at Middlehaven, providing a dedicated learning space for higher level learners in its Institute of Technology (IoT) and other major projects including an investment in T Level accommodation for opening in the academic year 2021 / 2022.

## **Key Performance Measures**

A reminder that on 18 March 2020, the Secretary of State for Education announced that exams and assessments in schools and colleges due to take place in summer 2020 would be cancelled in order to help fight the spread of the coronavirus (COVID-19). A number of outcomes for study programmes and adult provision were therefore based on centre assessed grades, notably exceptions being in construction, catering, hair and beauty and sport. Higher Education and apprenticeships were assessed as normal with some modifications and delays.

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 (October 2018) for its FE provision and was awarded TEF Gold status by OfS (2017) for Higher Education provision.

Despite the disruptions caused by COVID and a national lockdown, outcomes for learners have remained consistently high.

For classroom-based provision, outcomes for learners have rapidly improved since 2014 / 2015 with achievement rates rising from 74.1% to 89.2%. 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.

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, for the third year running, this is above the GFE national rate and significantly improved over the last four years.

Adult achievement rates have improved significantly over the past three years and the majority of adult provision qualification types are above their equivalent national rate.

Achievement of apprentices has risen and is above the national rate with overall achievement standing at 71%. Timely achievement is 70% (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 student survey (HE) satisfaction rates are high, as are FE, apprentice and employer satisfaction rates.

## **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 2019 / 2020 with a new Student Union structure being implemented for the current academic year. The Student Vice President will take up the role of a Lead Student Council Representative and student governor and a process is being implemented to elect a second student to support this role as second student governor.
- The College recruited 26 student Ambassadors to represent the student body and to support across college events.
- 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 twice during the year (with the third meeting being cancelled due to lockdown) and was informed by separate Directorate Student Councils. Student Voice feedback continued during the lockdown.
- During the year a number of awareness events were held on key topics of mental health, drugs and body image.
- Freshers and Re-Freshers events were held in September and January which engaged hundreds of students in a range of activities including stalls held by external agencies.

## **RESOURCES**

The Group has various resources that it can deploy in pursuit of its strategic objectives. The College delivers its educational services from its Middlehaven campus, its newly acquired leased premises in South Bank, Middlesbrough via TTE and satellite locations in Newcastle and other north east towns.

### **Financial**

The Group has £32.292m of net assets (31 July 2019: £30.735m), cash at bank of £3.055m (31 July 2019: £4.112m), loan balances of £11.964m (31 July 2019: £15.102m) and defined benefit pension liability of £30.164m (31 July 2019: £10.959m).

The group has generated cash from operations during the year which has been utilised towards capital investment projects and reducing debt.

### **People**

During the year, the Group employed 720 people (expressed as an average headcount), of whom 456 are teaching staff. (2018 / 2019: 765 and 492 respectively). The total number of employees increased to the prior year mainly due to the acquisition of TTE and the TUPE transfer of 70 staff members.

### **Student numbers**

The Group enrolled approximately 13,000 students. The student population includes 3,800 16-18 year old students, 2,000 apprentices, 625 higher education students and 5,500 adult learners.

### **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, schools and universities;
- Professional bodies;
- Awarding bodies.

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

## Public benefit

Middlesbrough College is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 18 - 20.

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)

## Financial results

The Group reported an operating surplus on continuing operations in the year of £1.748m, after depreciation and amortisation of £3.527m but before FRS102 and enhanced pension accounting adjustments of £2.153m. (2018 / 2019 surplus £0.419m). After accounting for actuarial losses of £17.467m, comprehensive expenditure for the year is £17.849m (2018 / 2019: income £2.012m). The result is after one off credits and costs incurred in the year, including one-off restructuring costs of £0.301m.

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 Expenditure		(17,849)
Add back Actuarial loss in respect of pension schemes	17,467	
Deficit before tax		(382)
Add back FRS102 service charge to staff costs	1,508	
Add back pension interest charge	230	
Add back enhanced pension interest	63	
Add back enhanced pension valuation movement	352	
Surplus before pension accounting		1,771
Less gain on disposal of assets	(23)	
<b>Underlying surplus position</b>		<b>1,748</b>

The underlying surplus position is after one-off restructuring costs of £0.301m.

The Group has net assets of £32.292m including cash balances of £3.055m. The defined benefit pension liability now stands at £30.164m and other pension provisions of £3.343m. 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 £3.142m, including £0.791m investment in the estate, £0.986m in IT infrastructure and equipment, £0.515m assets in construction, £0.354m assets acquired not yet brought into use and £0.496m of assets acquired through the acquisition of TTE in December 2019.

The group result for the year includes the College's subsidiary company results, being a small surplus of £0.005m for Northern Apprenticeship Company Limited, a loss of £0.192m for TTE Technical, a loss of £0.120m for TTE International and a surplus of £0.015m for TTE Apprenticeships. The results of the newly acquired TTE companies have been impacted by closure due to Covid and a significant reduction in commercial training activity from March 2020.

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 "Outstanding" for 2019 / 2020, achieving 240 points. (2018 / 2019: Good). The College's medium term financial plan prepared in July 2020 shows the College maintaining at least "Good" financial health rating throughout the period to 2024 / 2025.

## **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 strategic capital programme during the year, resulting in a cash outflow of £2.607m of capital investment. An investment was made on acquisition of £0.527m in December 2019. The College repaid loan funds of £3.138m during the year. The overall decrease in cash for the year was £1.057m (2018 / 2019: increase £2.767m following sale of land).

Net debt at 31 July 2020 was £8.909m (31 July 2019: £10.990m). The decrease in net debt is mainly due to capital loan repayments of £3.136m being made during the year against the level of borrowings.

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. As at 31 July 2020, £11.964m of these facilities were utilised (31 July 2019: £15.102m). During the year, interest of £0.331m was incurred (2019: £0.395m), 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. 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 previous years were sustained in 2019 / 2020, during the challenges of national lockdown. Study programme achievement rates (which include many qualifications that had modified assessment not predicted grades) are high, value-added on vocational courses and average progress on GCSE English and maths courses continue to be high and well above national rates. Adult achievement rates are significantly improved and are above the majority of national rates for the type of provision. Apprenticeship achievement rates are above national rate and improving. Our HE provision with the Open University is expanding and has strong outcomes and satisfaction rates.

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.

In July 2020 the college was awarded grant funds of £2.6m towards its £3.2m IoT development at Middlehaven. This will provide a dedicated learning environment for higher education programmes and will open for teaching and learning in the Spring of 2021.

From 2021 / 2022 the College will deliver T-Level programmes and commenced capacity and delivery activity in 2018 / 2019 which continued throughout 2019 / 2020 to invest in its resources for T-Level readiness.

In November 2020, the college received notification of its successful application to the DfE for capital funds of £3.2m towards a £5.4m T Level investment, being a £3.1m digital centre, £1m construction centre and £0.250m improvements to the catering facilities within the existing sixth form centre. The college’s contribution towards the scheme is £2.2m of college funds.

## **Future prospects**

The college’s 16-18 ESFA funded recruitment for the following academic period, 2020/20201, is over 200 learners above allocation. The college is awaiting confirmation of in-year growth funding from the ESFA and is hopeful that additional funding will be secured which was unbudgeted. Apprenticeship carry-in funding is stronger than plan and monthly recruitment is ahead of the reduced plan taking into consideration the impact of Covid. Higher Education courses and those funded through Advanced Learner Loans have also seen an increase above plan and budget. Additional funding has been secured for adult education provision via the Tees Valley Combined Authority of £0.545m with a growth bid for further funding against recruitment to date and the forward plan of over £1m to be submitted in early January 2021. On this basis, the 2020/2021 budgeted surplus position of £0.329m will be significantly exceeded, placing the college in a stronger financial position than budget and forecast, even after one-off additional costs in the region of £0.300m in connection with making the campus Covid secure and expenditure on health & safety priorities.

## **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 £3.055m of cash at bank, headroom of £7.0m in its loan facilities to fund working capital requirements and has set a surplus budget for 2020 / 2021 which will be exceeded following strong recruitment. For future accounting periods it has forecast surplus budget positions. The ESFA financial health measure has improved to “Outstanding” and remains at least “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**

- Global event / pandemic affects our ability to operate and government ability to fund training.
- 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.

### **Payment performance**

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2019 to 31 July 2020 the College paid all invoices within 30 days unless there was a query with the supplier account or the invoice itself and is therefore confident that the College complies with this target.



## 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.

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 College's Equality Policy and Statement is published on the College's 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 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 Confident Leadership 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 and promotes the Disability Confident Scheme in our supply chain.

## 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 2019 / 2020 is set out below:

Numbers of employees who were relevant union officials during the period	4
FTE employee number	3.75

Percentage of time	Number of employees
0%	0
1-50%	4
51-99%	0
100%	0

Total cost of facility time	£11,904
Total pay bill	£24,398,418
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%
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## **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 19 October 2020 and is available on the College website at: [www.mbro.ac.uk](http://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 17 December 2020 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Mr Robert Davies', written over a horizontal line.

Mr Robert Davies  
Chairman of Governors  
17 December 2020

## 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 2019 to 31 July 2020 and up to the date of approval of the annual report and Financial Statements on the 17 December 2020.

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 18 September 2020 for the period 1 August 2019 to 31 July 2020.

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 originally issued by the Association of Colleges in March 2015, which the College formally adopted on 15 October 2015. The subsequent update of May 2019, was adopted by the College on 19 July 2019.

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 and 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.

Governors serving on the Governing Body during 2019/2020 and up to 17 December 2020.

Governors appointed in 2020/2021 and up to 17 December 2020 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 2019 to 31 July 2020)
Andy Allen	16 October 2017	15 October 2021	10 December 2019	College Governor	Corporate Services.	100%
Rachel Anderson	21 March 2019	20 March 2023	-	College Governor	Audit & Risk	60%
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)	65%
Megan Clarke	18 October 2018	31 July 2019	31 July 2019	Student Governor	Standards	N/A
Diane Cleves	17 October 2016	16 October 2020	30 June 2019	Staff Governor (Academic)	Standards.	N/A
Ashley Coleman-Cooke (Vice Chair of Governors 1 August 2018 to 18 December 2019)	29 March 2017 (2 <sup>nd</sup> term of office)	28 March 2021	-	College Governor	Appeals (Senior Postholders). Audit & Risk. Remuneration. Search & Governance. Selection (Senior Posts). Settlement. Special (**). Standards (**).	96%
Carol Cooney	20 May 2017	19 May 2021	-	College Governor	Standards.	90%
Robert Davies  (Chair of Governors 1 August 2018 to 16 December 2019)	31 July 2017 (2 <sup>nd</sup> term of office)  *Further extended term of office 31 July 2021	30 July 2021  Further extended term ends 30 July 2023 (or sooner)	-	College Governor	Corporate Services (**) Chair till 14 July 2019). Remuneration. Search & Governance (**). Selection (Senior Posts) (**). Settlement (**).	100%

## The Further Education Corporation of Middlesbrough College – Report and Financial Statements 2019 / 2020

Name	Date of appointment	Term of Office	Date of resignation	Status of appointment	Committees Served	Attendance (1 August 2019 to 31 July 2020)
Marina Gaze	1 November 2019 (2 <sup>nd</sup> term of office)	31 October 2023	-	College Governor	Standards.	70%
Jean Golightly	16 October 2017	15 October 2021	-	College Governor		80%
John Hatfield	1 August 2019	31 July 2020	-	Student Governor	Standards	67%
Lee Holdsworth	16 October 2017	15 October 2021	-	College Governor	Audit & Risk.	80%
Cara Hudson	18 October 2018	31 July 2019	31 July 2019	Student Governor	-	N/A
Yasmin Khan	16 October 2017		30 June 2019	College Governor	Standards.	N/A
Michael Laidler	15 July 2019	14 July 2023		College Governor	Standards.	50%
Sharon Lane	18 October 2018	17 October 2022		College Governor	Standards	30%
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.	N/A
Morgan McClintock	19 October 2020	18 October 2022		College Governor	Standards	N/A
Sara Mirsalehi	15 July 2019	14 July 2023		College Governor	Corporate Services.	77.5%
Tony Parkinson	1 January 2018	31 December 2021	14 September 2020	College Governor	Corporate Services.	0% (absence approved for the year by the Board)
Phil Sharp	23 March 2020	22 March 2024		College Governor	Corporate Services	100%
Daniel Still	17 October 2019	16 October 2023		Staff Governor (Academic)	Standards	89%

Name	Date of appointment	Term of Office	Date of resignation	Status of appointment	Committees Served	Attendance (1 August 2019 to 31 July 2020)
Peter Studd	9 July 2018 (2 <sup>nd</sup> term of office)	11 July 2023	-	College Governor	Corporate Services (**). Search and Governance (from 15 July 2019) (appointed as Chair on 15 July 2019) Remuneration 2019-20 Special. Appeals (Senior Postholders)(**)	94%
Ana Thompson	16 December 2019	31 July 2021		Student Governor		33%
Andrea Waller-Amos	14 December 2015	13 December 2019	-	Staff Governor (Business Support)	Corporate Services.	100%
David Wade	16 December 2019	15 December 2023		Staff Governor (Business Support)	Corporate Services	100%
Iain Wright	14 December 2017	13 December 2021	-	College Governor	Audit & Risk (**) appointed as Chair on 15 July 2019 Search & Governance. Remuneration (2020-21)	80%

**Overall Attendance 2019/2020 (excluding External Members)**

	Attendance Rate (Percentage)
Overall Attendance	78% (inc Covid mtgs) 74% (exc Covid mtgs)

**Governing Body Attendance 2019/2020 (excluding External Members)**

	Attendance Rate (Percentage)
Governing Body	69%
Governing Body (Covid 19 mtgs)	98%

**Committee Attendance 2019/2020 (excluding External Members)**

	Attendance Rate (Percentage)
Audit & Risk	85%
Corporate Services	74%
Remuneration	75%
Search & Governance	78%
Standards	76%

### External Members Attendance 2019/2020

<b>Name of External Member</b>	<b>Attendance Rate (Percentage) For both Committee and GB Strategic Sessions</b>	<b>Attendance Rate (Percentage) for Committee</b>
Mr John Autherson (Appointed 1 January 2018)	71%	100%
Mr S Green (Appointed 16 October 2017)	71%	100%
Mr A Hanif (Appointed 6 July 2017)	0%	Not applicable
Mr Morgan McClintock (Appointed 24 April 2020 until 18 October 2020 at which point took up a College Governor role)	Not applicable	100%
Miss S Shepherd (Appointed 1 August 2016)	60%	100%
Mr A Stephenson (Re-appointed 12 July 2019)	29%	40%
Mr S Wilson (Re-appointed 19 May 2019)	50%	75%
<b>Total</b>	<b>47%</b>	<b>86%</b>

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 a review and update to the Audit and Risk Committee's terms of reference, which was approved 19 October 2020. The latest version of the Committee Structure is available on the Governors' Website.

The Committee Structure as of the 31 July 2020 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 17 December 2020.

<b>External Member</b>	<b>Name of Committee(s) Served</b>
John Autherson	<b>Audit &amp; Risk Committee</b> <i>(Appointed 1 January 2018 for a period of four years to 31 December 2021)</i>
Stuart Green	<b>Audit &amp; Risk Committee</b> <i>(Appointed 16 October 2017 for a period of four years to 15 October 2021)</i>
Aslam Hanif	<b>Equality &amp; Diversity Committee</b> <i>(Appointed from the 6 July 2017 for a period of four years to 5 July 2021)</i>
Morgan McClintock	<b>Standards Committee</b> <i>(Appointed from 24 April 2020 for a period of four years to 23 April 2024)</i> <i>Resigned to take up College post as of 19 October 2020</i>
Sarah Shepherd	<b>Search &amp; Governance Committee</b> <i>(Appointed from the 1 August 2016 for a period of four years to 31 July 2020)</i> <i>(Re-appointed for a Final Term of Office from 1 August 2020 to 31 July 2024)</i>
Andrew Stephenson	<b>Standards Committee</b> <i>(Appointed from 13 July 2015 for a period of four years to 12 July 2019)</i> <i>(Re-appointed for a Final Term of Office from 12 July 2019 to 11 July 2023)</i>
Sandy Wilson	<b>Corporate Services Committee</b> <i>(Appointed from 20 May 2017 for a period of two years to 19 May 2019)</i> <i>(Re-Appointed for a Final Term of Office from 19 May 2019 to 18 May 2023)</i>

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

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

The Head of Governance/Clerk to the Corporation maintains a register of financial and personal interests (*Register of Interests*) of the Governors; 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 Head of Governance/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 Head of Governance/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 2019/2020, the Governing Body self-assessed itself as a Grade 2, with the Governance Self-Assessment Report being approved on the 17 December 2020. 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 Head of Governance/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 2020, 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 2020, 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 Head of Governance/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 2020.

The Head of Governance/Clerk to the Corporation is not a designated Senior Postholder.

Details of remuneration for the year ended 31 July 2020 are set out in note 7 of the 2019/2020 Financial Statements.

## **Audit & Risk Committee**

The Audit & Risk Committee comprises four members of the Governing Body (excluding the Principal/Chief Executive (*Accounting Officer*) and Chair of Governors) and two External Members as at the 31 July 2020.

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 Head of Governance/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 2020 and up to the date of approval of the 2019/2020 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 2020 and up to the date of approval of the 2019/2020 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 11 September 2020.

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.

## Delivery of the internal audit plan

Due to the college closure and both college employees and internal auditors working remotely, the planned Governance internal audit was deferred to autumn 2020/2021. However, the internal auditors confirm in their Annual Report to the Audit & Risk Committee that sufficient reporting had been undertaken through the audits performed in order to form an opinion.

## 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 (*Mazars*), Regularity Auditor (*Mazars*) 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 17 December 2020 meeting, the Governing Body carried out the annual assessment for the year ended 31 July 2020 by considering documentation from the Senior Leadership Team and Internal Audit and taking account of events since 31 July 2020.

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 £3.055m of cash at bank, headroom of £7.0m in its loan facilities to fund working capital requirements and has set a surplus budget for 2020 / 2021 which will be exceeded following strong recruitment. For future accounting periods it has forecast surplus budget positions. The ESFA financial health measure has improved to “Outstanding” and remains at least “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 17 December 2020 and signed on its behalf by:



Mr Robert Andrew Davies  
Chairman of Governors  
17 December 2020



Mrs Zoe Lewis  
Principal / Chief Executive (*Accounting Officer*)  
17 December 2020

## 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  
17 December 2020



Mrs Zoe Lewis  
Principal / Chief Executive (*Accounting Officer*)  
17 December 2020

## 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 2019 to 2020*, 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 17 December 2020 and signed on its behalf by:



Mr Robert Andrew Davies  
Chairman of Governors  
17 December 2020



## **Independent auditor's report to the Corporation of Middlesbrough College**

### **Opinion**

We have audited the financial statements of Middlesbrough College (the 'College') and its subsidiary (the 'Group') for the year ended 31 July 2020 which comprise the Consolidated and College Statement of Comprehensive Income and Expenditure, the Consolidated and College Statement of Changes in Reserves, the Consolidated and College Balance Sheets, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education.

In our opinion, the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2020 and of the College's deficit of expenditure over income for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

### **Basis for opinion**

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

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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporation have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

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

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

We have nothing to report in this regard.

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or

- the information given in the report of the Members of the Corporation, including the operating and financial review and statement of corporate governance, is inconsistent with the financial statements; and
- we have not received all the information and explanations we require for our audit.

## **Responsibilities of the Corporation**

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 28, the Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

## **Other required reporting**

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

In our opinion, in all material respects:

- funds provided by the OfS and UK Research and Innovation (including Research England) have been applied in accordance with the relevant terms and conditions attached to them; and
- the requirements of OfS's accounts direction have been met.

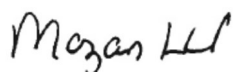
### **Matters on which we are required to report by exception**

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

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

## **Use of the audit report**

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



**Mazars LLP**

**Chartered Accountants and Statutory Auditor**

Salvus House  
Ayckley Heads  
Durham  
DH1 5TS

27 January 2021

## **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 10 September 2020 and further to the requirements and conditions of funding in ESFA's grant funding agreements and contracts, or those of any other public funder, we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest, in all material respects, the expenditure disbursed and income received by Middlesbrough College during the period 1 August 2019 to 31 July 2020 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post 16 Audit Code of Practice ("the Code") issued by the ESFA and in any relevant conditions of funding concerning adult education notified by a relevant funder. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record data 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 the ESFA those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept, or assume, responsibility to anyone other than the corporation of 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 Code. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2019 to 31 July 2020 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

### **Approach**

We conducted our engagement in accordance with the Code issued by the ESFA and in accordance with any guidance provided by a relevant devolved authority. 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.

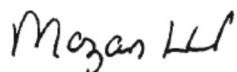
The work undertaken to draw to our conclusion includes:

- Reviewed the statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding.
- Reviewed the College's completed self-assessment questionnaire on regularity.
- Read the financial memorandum with the ESFA/ funding agreement with the ESFA.
- Tested a sample of expenditure disbursed and income received to consider whether they have been applied to purposes intended by Parliament and in accordance with funding agreements where relevant.
- Reviewed all payments to senior post holders on termination of employment or in respect of claims made in the year
- Reviewed approved policies and procedures operating during the year for each funding stream that has specific terms attached

- Obtained the policy for personal gifts and/or hospitality.
- Obtained the register of personal interests.
- Obtained the financial regulations/financial procedures.
- Obtained the College's whistleblowing policy.

## Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2019 to 31 July 2020 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Mazars LLP  
Salvus House  
Aykley Heads  
Durham  
DH1 5TS

27 January 2021

**Consolidated Statements of Comprehensive Income and Expenditure**

	Notes	Year ended 31 July 2020		Year ended 31 July 2019	
		Group £'000	College £'000	Group £'000	College £'000
<b>INCOME</b>					
Funding body grants	2	32,776	31,699	31,314	31,314
Tuition fees and education contracts	3	6,141	5,277	4,991	4,991
Other grants and contracts	4	742	371	-	-
Other income	5	2,901	2,686	3,504	3,347
Investment income	6	76	76	7	7
<b>Total income</b>		<b>42,636</b>	<b>40,109</b>	<b>39,816</b>	<b>39,659</b>
<b>EXPENDITURE</b>					
Staff costs	7	25,813	21,188	22,608	20,456
Restructuring costs	7	301	106	610	610
Other operating expenses	8	13,044	15,096	13,269	15,263
Depreciation & amortisation	10, 12	3,527	3,393	3,743	3,708
Interest and other finance costs	9	624	624	694	694
<b>Total expenditure</b>		<b>43,309</b>	<b>40,407</b>	<b>40,924</b>	<b>40,731</b>
<b>Deficit before other gains and losses</b>		<b>(673)</b>	<b>(298)</b>	<b>(1,108)</b>	<b>(1,072)</b>
Gain on disposal of assets		291	291	4,654	4,654
<b>(Deficit) / surplus before tax</b>		<b>(382)</b>	<b>(7)</b>	<b>3,546</b>	<b>3,582</b>
<b>(Deficit) / surplus for the year</b>		<b>(382)</b>	<b>(7)</b>	<b>3,546</b>	<b>3,582</b>
Actuarial (loss) / gain in respect of pension schemes	23	(17,467)	(17,467)	(1,534)	(1,534)
<b>Total Comprehensive Income / (Expenditure) for the year</b>		<b>(17,849)</b>	<b>(17,474)</b>	<b>2,012</b>	<b>2,048</b>
<b>Represented by:</b>					
<b>Unrestricted comprehensive income / (expenditure)</b>		<b>(17,849)</b>	<b>(17,474)</b>	<b>2,012</b>	<b>2,048</b>
		<b>(17,849)</b>	<b>(17,474)</b>	<b>2,012</b>	<b>2,048</b>

The Group deficit for the year of £17.849m includes the following:

- an underlying surplus of £1.771m (after one-off restructuring costs of £0.301m)
- gain on asset disposals of £0.023m and
- non-cash pension deficit adjustments of £19.620m.

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
<b>Group</b>	
<b>Balance at 1 August 2018</b>	14,614
Surplus from the income and expenditure account	3,546
Other comprehensive expenditure	(1,534)
<b>Total comprehensive income for the year</b>	<u>2,012</u>
<b>Balance at 31 July 2019</b>	<u><b>16,626</b></u>
Deficit from the income and expenditure account	(382)
Acquisition December 2019	8
Other comprehensive expenditure	(17,467)
<b>Total comprehensive expenditure for the year</b>	<u>(17,841)</u>
<b>Balance at 31 July 2020</b>	<u><u><b>(1,215)</b></u></u>
<b>College</b>	
<b>Balance at 1 August 2018</b>	14,620
Surplus from the income and expenditure account	3,582
Other comprehensive expenditure	(1,534)
<b>Total comprehensive income for the year</b>	<u>2,048</u>
<b>Balance at 31 July 2019</b>	<u><b>16,668</b></u>
Deficit from the income and expenditure account	17
TTE group assets acquired by the College	480
Other comprehensive expenditure	(17,467)
<b>Total comprehensive expenditure for the year</b>	<u>(16,970)</u>
<b>Balance at 31 July 2020</b>	<u><u><b>(302)</b></u></u>

**Balance Sheets as at 31 July 2020**

	Notes	Group 2020 £'000	College 2020 £'000	Group 2019 £'000	College 2019 £'000
<b>Non current assets</b>					
Tangible fixed assets	10	71,385	70,963	72,580	72,578
Intangible assets	13	531	-	242	-
Investments	12	-	1,119	-	464
		<b>71,916</b>	<b>72,082</b>	<b>72,822</b>	<b>73,042</b>
<b>Current assets</b>					
Stocks		23	23	26	26
Trade and other receivables	14	5,637	6,173	4,345	4,257
Cash and cash equivalents	20	3,055	2,518	4,112	4,099
		<b>8,715</b>	<b>8,714</b>	<b>8,483</b>	<b>8,382</b>
<b>Creditors – amounts falling due within one year</b>	15	(6,556)	(5,808)	(5,023)	(5,100)
<b>Net current assets</b>		<b>2,159</b>	<b>2,906</b>	<b>3,460</b>	<b>3,282</b>
<b>Total assets less current liabilities</b>		<b>74,075</b>	<b>74,988</b>	<b>76,282</b>	<b>76,324</b>
Creditors – amounts falling due after more than one year	16	(41,783)	(41,783)	(45,547)	(45,547)
<b>Provisions</b>					
Defined benefit obligations	19	(30,164)	(30,164)	(10,959)	(10,959)
Other provisions	19	(3,343)	(3,343)	(3,150)	(3,150)
<b>Total net assets</b>		<b>(1,215)</b>	<b>(302)</b>	<b>16,626</b>	<b>16,668</b>
<b>Unrestricted Reserves</b>					
Income and expenditure account		(1,215)	(302)	16,626	16,668
<b>Total unrestricted reserves</b>		<b>(1,215)</b>	<b>(302)</b>	<b>16,626</b>	<b>16,668</b>

The financial statements on pages 33 to 57 were approved by the Corporation on 17 December 2020 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	2020 £'000	2019 £'000
<b>Cash flow from operating activities</b>			
Surplus / (deficit) for the year		(382)	3,546
<b>Adjustment for non-cash items</b>			
Depreciation and amortisation		3,527	3,743
Impairment of assets		867	1,614
Deferred capital grants release		(880)	(1,378)
Pensions costs less contributions payable		1,508	994
Decrease in stocks		3	32
Increase in debtors		(1,292)	(1,299)
Increase / (decrease) in creditors		1,793	(1,238)
Increase / (decrease) in provisions		(222)	16
<b>Adjustment for investing or financing activities</b>			
Investment income		(76)	(7)
Interest payable and other finance costs		624	694
Gain on sale of fixed assets		(23)	(4,192)
<b>Net cash flow from operating activities</b>		<u>5,447</u>	<u>2,525</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of fixed assets		23	3,973
Interest received		76	7
Payment made to acquire subsidiary investment		(527)	-
Payments made to acquire fixed assets		(2,607)	(705)
		<u>(3,035)</u>	<u>3,275</u>
<b>Cash flows from financing activities</b>			
Interest paid		(331)	(395)
New unsecured loans		-	-
Repayments of amounts borrowed		(3,138)	(2,638)
		<u>(3,469)</u>	<u>(3,033)</u>
<b>(Decrease) / Increase in cash and cash equivalents in the year</b>		<u><b>(1,057)</b></u>	<u><b>2,767</b></u>
Cash and cash equivalents at beginning of the year		4,112	1,345
<b>Cash and cash equivalents at end of the year (note 20)</b>		<b>3,055</b>	<b>4,112</b>

## **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 2019 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 2019 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, TTE Technical (UK) Limited, TTE International Limited, TTE Apprenticeships 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 2020.

#### **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 £3.055m of cash at bank, headroom of £7.0m in its loan facilities to fund working capital requirements and has set a surplus budget for 2020 / 2021 which will be exceeded following strong recruitment. For future accounting periods it has forecast surplus budget positions. The ESFA financial health measure has improved to “Outstanding” and remains at least “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, apart from TTE International and TTE Apprenticeships which are currently in a separate VAT group.

### 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

#### *Judgements in applying accounting policies*

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

- *Leases*

Determine whether leases entered into by the college either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

- *Impairment of group tangible fixed assets*

Determine whether there are indicators of impairment of the group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

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

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 23, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2019 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 2020 Group £'000		Year ended 31 July 2019 Group £'000	
	2020 College £'000		2019 College £'000	
<b>Recurrent grants</b>				
Education and Skills Funding Agency - Adult	1,720	1,720	4,762	4,762
Education and Skills Funding Agency - 16-18	19,704	19,704	20,178	20,178
Education and Skills Funding Agency - Apprenticeships	5,645	4,568	4,640	4,640
Tees Valley Combined Authority - Adult	3,201	3,201	-	-
Office for Students	238	238	303	303
<b>Specific grants</b>				
Educations and Skills Funding Agency	291	291	53	53
Teacher pension scheme contribution grant	637	637	-	-
Releases of government capital grants	1,340	1,340	1,378	1,378
<b>Total</b>	<b>32,776</b>	<b>31,699</b>	<b>31,314</b>	<b>31,314</b>

## 3 Tuition fees and education contracts

	Year ended 31 July 2020 Group £'000		Year ended 31 July 2019 Group £'000	
	2020 College £'000		2019 College £'000	
Adult education fees	1,023	805	853	853
Apprenticeship fees and contracts	123	90	151	151
Fees for FE loan supported courses	1,248	1,244	1,228	1,228
Fees for HE loan supported courses	3,136	3,136	2,758	2,758
<b>Total tuition fees</b>	<b>5,530</b>	<b>5,275</b>	<b>4,990</b>	<b>4,990</b>
Education contracts	611	2	1	1
<b>Total</b>	<b>6,141</b>	<b>5,277</b>	<b>4,991</b>	<b>4,991</b>

## 4 Other grants and contracts

	Year ended 31 July 2020 Group £'000		Year ended 31 July 2019 Group £'000	
	2020 College £'000		2019 College £'000	
Other grants and contracts	192	-	-	-
Coronavirus Job Retention Scheme Grant	550	371	-	-
<b>Total</b>	<b>742</b>	<b>371</b>	<b>-</b>	<b>-</b>

The corporation furloughed catering staff and other commercial operations staff under the Government's Coronavirus Job Retention Scheme. The funding received of £0.550m relates to staff costs which are included within the staff costs notes below as appropriate.



## 5 Other income

	Year ended		Year ended	
	31 July		31 July	
	2020 Group £'000	2020 College £'000	2019 Group £'000	2019 College £'000
Catering and residences	689	689	932	932
Other grant income	1,431	1,418	1,630	1,630
Miscellaneous income	781	579	942	785
<b>Total</b>	<b>2,901</b>	<b>2,686</b>	<b>3,504</b>	<b>3,347</b>

## 6 Investment income

	Year ended		Year ended	
	31 July		31 July	
	2020 Group £'000	2020 College £'000	2019 Group £'000	2019 College £'000
Other interest receivable	76	76	7	7
<b>Total</b>	<b>76</b>	<b>76</b>	<b>7</b>	<b>7</b>

## 7 Staff costs – Group

The average number of persons (including key management personnel) employed by the Group during the year was:

	2020 No.	2019 No.
Teaching staff	456	492
Non-teaching staff	264	273
	<b>720</b>	<b>765</b>
<b>Staff costs for the above persons</b>		
	2020 £'000	2019 £'000
Wages and salaries	19,699	17,749
Social security costs	1,582	1,411
Other pension costs	4,335	3,262
<b>Payroll sub total</b>	<b>25,616</b>	<b>22,422</b>
Contracted out staffing services	92	91
Other staffing costs	105	95
	<b>25,813</b>	<b>22,608</b>
Restructuring costs – Contractual	301	610
<b>Total Staff costs</b>	<b>26,114</b>	<b>23,218</b>

## Staff costs – College

The average number of persons (including key management personnel) employed by the College during the year was:

	2020 No.	2019 No.
Teaching staff	455	452
Non-teaching staff	199	226
	<b>654</b>	<b>678</b>

## Staff costs for the above persons

	2020 £'000	2019 £'000
Wages and salaries	15,579	15,808
Social security costs	1,279	1,279
Other pension costs	4,208	3,183
<b>Payroll sub total</b>	<b>21,066</b>	<b>20,270</b>
Contracted out staffing services	19	91
Other staffing costs	103	95
	<b>21,188</b>	<b>20,456</b>
Restructuring costs – Contractual	106	610
<b>Total Staff costs</b>	<b>21,294</b>	<b>21,066</b>

## Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the 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

	2020 No.		2019 No.	
The number of key management personnel including the Accounting Officer was:	7		7	
	<b>Key management personnel</b>		<b>Other higher paid staff</b>	
	<b>2020 No.</b>	<b>2019 No.</b>	<b>2020 No.</b>	<b>2019 No.</b>
£55,001 to £60,000 p.a.	1	1	2	2
£60,001 to £65,000 p.a.	2	2	3	2
£65,001 to £70,000 p.a.	-	1	-	-
£70,001 to £75,000 p.a.	1	-	-	-
£75,001 to £80,000 p.a.	-	-	-	-
£80,001 to £85,000 p.a.	1	1	1	-

£85,001 to £90,000 p.a.	1	1	1	-
£135,001 to £140,000 p.a.	1	1	-	-
	<u>7</u>	<u>7</u>	<u>7</u>	<u>4</u>

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

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Salaries	538	533
Employers National Insurance	66	64
Pension contributions	100	82
Total key management personnel emoluments	<u><b>704</b></u>	<u><b>679</b></u>

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:

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Salaries	138	136
Pension contributions	21	21
	<u>159</u>	<u>157</u>

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:

	<b>2020</b>	<b>2019</b>
Principal/CEO's basic salary as a multiple of the median of all staff	5.12	5.42
Principal/CEO's total remuneration as a multiple of the median of all staff	5.34	5.42

## 8 Other operating expenses

	2020 Group £'000	2020 College £'000	2019 Group £'000	2019 College £'000
Teaching costs	2,015	1,952	2,235	2,235
Non-teaching costs	8,129	10,468	8,255	10,249
Premises costs	2,900	2,676	2,779	2,779
<b>Total</b>	<b>13,044</b>	<b>15,096</b>	<b>13,269</b>	<b>15,263</b>

### Other operating expenses include:

	2020 £'000	2019 £'000
Auditors' remuneration:		
Financial statements audit*	39	34
Internal audit**	12	27
Other services provided by the financial statements auditor – taxation returns	9	4
Hire of assets under operating leases	811	662

\* includes £19,500 in respect of the College (2018/19 £22,600)

\*\* includes £12,400 in respect of the College (2018/19 £20,250)

## 9 Interest and other finance costs – Group and College

	2020 £'000	2019 £'000
On bank loans	331	395
Net interest on defined pension liability (note 23)	230	214
Net interest on enhanced pension liability	63	85
	<b>624</b>	<b>694</b>

### 9a Access and participation spending

	Group 2020 £ £'000
Access investment	152
Financial support to students	52
Disability support	76
Research and evaluation (relating to access and participation)	51
	<b>331</b>

## 10 Tangible fixed assets (Group)

	Land and buildings Long leasehold £'000	Equipment £'000	Assets in the course of construction £'000	Total £'000
<b>Cost or valuation</b>				
At 1 August 2019	83,872	27,957	134	111,963
Additions	791	986	869	2,646
Acquisitions	-	496	-	496
Transfers	-	97	(97)	-

Disposals	(1,135)	(150)	-	(1,285)
<b>At 31 July 2020</b>	<b>83,528</b>	<b>29,386</b>	<b>906</b>	<b>113,820</b>
<b>Depreciation</b>				
At 1 August 2019	(16,193)	(23,190)	-	(39,383)
Charge for the year	(1,673)	(1,796)	-	(3,469)
Elimination in respect of disposals	267	150	-	417
<b>At 31 July 2020</b>	<b>(17,599)</b>	<b>(24,836)</b>	<b>-</b>	<b>(42,435)</b>
<b>Net book value at 31 July 2020</b>	<b>65,929</b>	<b>4,550</b>	<b>906</b>	<b>71,385</b>
Net book value at 31 July 2019	67,679	4,767	134	72,580

### Tangible fixed assets (College)

	Land and buildings Long leasehold £'000	Equipment £'000	Assets in the course of construction £'000	Total £'000
<b>Cost or valuation</b>				
At 1 August 2019	83,872	27,933	134	111,939
Additions	791	986	869	2,646
Transfers	-	97	(97)	-
Disposals	(1,135)	(150)	-	(1,285)
<b>At 31 July 2020</b>	<b>83,528</b>	<b>28,866</b>	<b>906</b>	<b>113,300</b>
<b>Depreciation</b>				
At 1 August 2019	(16,193)	(23,168)	-	(39,361)
Charge for the year	(1,673)	(1,720)	-	(3,393)
Elimination in respect of disposals	267	150	-	417
<b>At 31 July 2020</b>	<b>(17,599)</b>	<b>(24,738)</b>	<b>-</b>	<b>(42,337)</b>
<b>Net book value at 31 July 2020</b>	<b>65,929</b>	<b>4,128</b>	<b>906</b>	<b>70,963</b>
Net book value at 31 July 2019	67,679	4,765	134	72,578

## 11 Taxation

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

## 12 Non-current investments

	College 2020 £'000	College 2019 £'000
Investments in subsidiary companies	1,119	464
<b>Total</b>	<b>1,119</b>	<b>464</b>

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.

In December 2019, the college acquired 100 per cent of the issued ordinary £1 shares of TTE Technical (UK) Limited, TTE International Limited and TTE Apprenticeships Limited, each company is incorporated in England and Wales, with registered office address Edison House, South Bank, Middlesbrough, TS6 6TZ. The principal activity of each company is the delivery of technical training as part of the group activities.

### 13 Intangible assets (Group)

	Goodwill £'000	Total £'000
Cost		
At 1 August 2019	347	347
Acquisitions (note 26)	347	347
<b>At 31 July 2020</b>	<b>694</b>	<b>694</b>
Depreciation		
At 1 August 2019	(105)	(105)
Charge for the year	(58)	(58)
<b>At 31 July 2020</b>	<b>(163)</b>	<b>(163)</b>
Net book value at 31 July 2020	<b>531</b>	<b>531</b>
Net book value at 31 July 2019	242	242

The College held no intangible assets at 31 July 2020 (2019: £nil).

### 14 Trade and other receivables

	Group 2020 £'000	College 2020 £'000	Group 2019 £'000	College 2019 £'000
Amounts falling due within one year:				
Trade receivables	371	107	260	174
Amounts owed by group undertakings	-	1,103	-	-
Prepayments and accrued income	5,266	4,963	4,085	4,083
<b>Total</b>	<b>5,637</b>	<b>6,173</b>	<b>4,345</b>	<b>4,257</b>

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

	Group 2020 £'000	College 2020 £'000	Group 2019 £'000	College 2019 £'000
Bank loans	638	638	638	638
Trade creditors	620	507	466	488

Amounts owed to group undertakings	-	258	-	118
Other taxation and social security	446	330	384	343
Accruals and deferred income	3,247	2,524	1,774	1,766
Other creditors	378	332	292	278
Deferred income - government capital grants	1,069	1,069	1,327	1,327
Deferred income – non government capital grants	9	9	14	14
Amounts owed to the ESFA	149	141	128	128
<b>Total</b>	<b>6,556</b>	<b>5,808</b>	<b>5,023</b>	<b>5,100</b>

## 16 Creditors: amounts falling due after one year

	<b>Group 2020 £'000</b>	<b>College 2020 £'000</b>	<b>Group 2019 £'000</b>	<b>College 2019 £'000</b>
Bank loans	11,326	11,326	14,464	14,464
Deferred income – government capital grants	30,405	30,405	31,027	31,027
Deferred income – non government capital grants	52	52	56	56
<b>Total</b>	<b>41,783</b>	<b>41,783</b>	<b>45,547</b>	<b>45,547</b>

## 17 Maturity of debt

### (a) Bank loans

Bank loans and overdrafts are repayable as follows:

	<b>Group 2020 £'000</b>	<b>College 2020 £'000</b>	<b>Group 2019 £'000</b>	<b>College 2019 £'000</b>
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	1,914	1,914	4,414	4,414
In five years or more	8,136	8,136	8,774	8,774
<b>Total</b>	<b>11,964</b>	<b>11,964</b>	<b>15,102</b>	<b>15,102</b>

Bank loans are repayable by instalments falling due between 1 August 2019 and 31 March 2030, totalling £11.964m. The lender is Santander on an unsecured arrangement. Interest is floating following one month LIBOR plus a fixed margin of 1.45% on £11.964m and a fixed margin of 1.6% on a revolving credit facility of which £nil was drawn at 31 July 2020 of a £7.000m facility, which expires on 31 July 2023.

## 18 Financial instruments

The carrying amounts of the financial assets and liabilities include:

	<b>Group 2020 £'000</b>	<b>College 2020 £'000</b>	<b>Group 2019 £'000</b>	<b>College 2019 £'000</b>
<b>Assets measured at amortised cost:</b>				
Trade debtors	371	107	260	174

Amounts owed by group undertakings	-	1,103		
	<b>371</b>	<b>1,210</b>	<b>260</b>	<b>174</b>
<b>Liabilities measured at amortised cost:</b>				
Trade creditors	620	507	466	488
Other creditors	378	332	292	278
Accruals	2,580	2,350	1,418	1,409
Amounts owed to group undertakings	-	258	-	132
Bank loans	11,964	11,964	15,102	15,102
	<b>15,542</b>	<b>15,411</b>	<b>17,278</b>	<b>17,409</b>

## 19 Provisions

Group and college	Defined benefit obligations	Enhanced pensions	Total
	£'000	£'000	£'000
At 1 August 2019	10,959	3,150	14,109
Expenditure in the period	(987)	(222)	(1,209)
Charge in the period	20,192	415	20,607
<b>At 31 July 2020</b>	<b>30,164</b>	<b>3,343</b>	<b>33,507</b>

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 23.

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:

	2020	2019
Price inflation	2.2%	2.2%
Discount rate	1.3%	2.0%

## 20 Cash and cash equivalents (Group)

	At 1 August 2019	Cash flows	Other changes	At 31 July 2020
	£'000	£'000	£'000	£'000
Cash and cash equivalents	4,112	(1,057)	-	3,055
<b>Total</b>	<b>4,112</b>	<b>(1,057)</b>	<b>-</b>	<b>3,055</b>



## 21 Capital commitments

	<b>Group and College</b>	
	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Commitments contracted for at 31 July	229	7

## 22 Lease obligations

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

	<b>Group and College</b>	
	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Future minimum lease payments due:</b>		
<b>Land and buildings</b>		
Not later than one year	523	107
Later than one year and not later than five years	1,639	304
Later than five years	-	57
	<b>2,162</b>	<b>468</b>
<b>Other</b>		
Not later than one year	454	492
Later than one year and not later than five years	278	606
Later than five years	-	2
	<b>732</b>	<b>1,100</b>
<b>Total lease payments due</b>	<b>2,894</b>	<b>1,568</b>

## 23 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 2019.

<b>Total pension cost for the year</b>	<b>2020</b>	<b>2019</b>
	<b>£000</b>	<b>£000</b>
Teachers' Pension Scheme: contributions paid	1,724	1,180
Local Government Pension Scheme:		
Contributions paid	987	1,210
FRS 102 (28) charge	1,508	994
Charge to the Statement of Comprehensive Income (staff costs)	<b>4,219</b>	<b>3,384</b>

Enhanced pension charge to Statement of Comprehensive Income	14	14
<b>Total Pension Cost for Year</b>	<b>4,233</b>	<b>3,398</b>

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 £1.724m (2019: £1.180m).

### 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 2020 were £1,384,000, of which employer's contributions totalled £987,000 and employees' contributions totalled £397,000. 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 2020 by a qualified independent actuary (Aon Hewitt).

	<b>At 31 July 2020</b>	<b>At 31 July 2019</b>
Rate of increase in salaries	2.2%	2.2%
Future pensions increases	2.2%	2.2%
Discount rate for scheme liabilities	1.4%	2.2%
Inflation assumption (CPI)	2.2%	2.2%

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

	<b>At 31 July 2020</b>	<b>At 31 July 2019</b>
	Years	years
<i>Retiring today</i>		
Males	21.8	21.9
Females	23.5	23.8
<i>Retiring in 20 years</i>		
Males	23.2	23.6
Females	25.3	25.7

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

	<b>Fair Value at 31 July 2020 £'000</b>	<b>Fair Value at 31 July 2019 £'000</b>
Equity instruments	29,766	32,572
Property	3,133	3,710
Cash	4,543	5,738
Other	1,723	1,122
<b>Total fair value of plan assets</b>	<b>39,165</b>	<b>43,142</b>

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

	<b>2020 £'000</b>	<b>2019 £'000</b>
Fair value of plan assets	39,166	43,142
Present value of plan liabilities	(69,330)	(54,101)
<b>Net pensions liability</b>	<b>(30,164)</b>	<b>(10,959)</b>

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

	<b>2020 £'000</b>	<b>2019 £'000</b>
<b>Amounts included in staff costs</b>		
Current service cost	2,490	1,922
Past service cost	5	282
<b>Total</b>	<b>2,495</b>	<b>2,204</b>

### Amounts included in interest payable

Net interest payable	230	214
	<b>230</b>	<b>214</b>

### Amount recognised in Other Comprehensive Income

Return on pension plan assets	(5,319)	1,027
Experience losses arising on defined benefit obligations	(12,148)	(2,561)
<b>Amount recognised in Other Comprehensive Income</b>	<b>(17,467)</b>	<b>(1,534)</b>

### Movement in net defined liability during the year

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Net defined benefit liability in scheme at 1 August	(10,959)	(8,217)
Movement in year:		
Current service cost	(2,490)	(1,922)
Employer contributions	987	1,210
Past service costs	(5)	(282)
Net interest on the defined benefit liability	(230)	(214)
Actuarial loss	(17,467)	(1,534)
<b>Net defined benefit liability in scheme at 31 July</b>	<b>(30,164)</b>	<b>(10,959)</b>

### Asset and Liability Reconciliation

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Changes in the present value of defined benefit obligations</b>		
<b>Defined benefit obligations at start of period</b>	(54,101)	(48,869)
Current service cost	(2,490)	(1,922)
Interest cost	(1,184)	(1,357)
Contributions by Scheme participants	(397)	(420)
Experience gains and losses on defined benefit obligations	(12,148)	(2,561)
Estimated benefits paid	995	1,310
Past Service cost	(5)	(282)
<b>Defined benefit obligations at end of period</b>	<b>(69,330)</b>	<b>(54,101)</b>

### Changes in fair value of plan assets

<b>Fair value of plan assets at start of period</b>	43,142	40,652
Interest on plan assets	954	1,143
Return on plan assets	(5,319)	1,027
Employer contributions	987	1,210
Contributions by Scheme participants	397	420
Estimated benefits paid	(995)	(1,310)
<b>Fair value of plan assets at end of period</b>	<b>39,166</b>	<b>43,142</b>

## 24 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.

The total expenses paid to or on behalf of the Governors during the year was £1,856; 4 Governors (2019: £1,948; 5 Governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

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 £0.326m were conducted, purchases of £0.209m were also made. A balance of £1,200 is included in the College's debtors and £0.125m included in the College's creditors.

Sharon Lane, Managing Director of Tees Components Limited joined the board in 2018 / 2019. 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 £1,813 and purchases of £2,000 were made.

Heather Ashton, Executive Director of Resources at Thirteen Group and also a Director at the Northern Council for Education, joined the board in 2018 / 2019. The college provides training and education to employees of Thirteen Group under Apprenticeship training programmes in accordance with ESFA policy and guidelines. The business transactions are conducted at arms length. During the year no sales or purchase transactions were made. In respect of the Northern Council for Further Education, College purchases of £0.229m were made in relation to exam fees.

Rachel Anderson, Assistant Director at North East Chamber of Commerce joined the board in 2018 / 2019. During the year the College has provided training and education to employees of the organisation under Apprenticeships training programmes in accordance with ESFA policy and guidelines. The transactions are conducted at arms length. During the year sales of £625 and purchases of £5,774 were made. A balance of £2,174 is included in the College's creditors.

Peter Studd, Chair of NTW Solutions Ltd, joined the board in 2017 / 2018. During the year sales of £2,250 were made in relation to HE tuition fees.

## 25 Amounts disbursed as agent

### Learner support funds

	2020 £'000	2019 £'000
Funding body grants – bursary support	984	814
Interest earned	-	-
	<hr/> 984	<hr/> 814
Disbursed to students	(947)	(773)
Administration costs	(37)	(41)
Balance unspent as at 31 July, included in creditors	<hr/> - <hr/>	<hr/> - <hr/>

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.

## 26 Acquisitions

On 13 December 2019, the Group acquired the entire share capital of TTE Technical (UK) Limited, TTE International Limited and TTE Apprenticeships Limited for a total consideration of £655,231. There were no changes to the fair value of assets and liabilities acquired in the prior period. The acquisition had the following effect on the Group's assets and liabilities:

	<b>Total £'000</b>
<b>Fixed assets</b>	
Tangible assets (note 10)	496
Intangible assets - Goodwill (note 13)	347
<b>Current assets</b>	
Trade debtors	149
Accrued income	184
Prepayments	82
Other debtors	6
<b>Total assets</b>	<b>1,264</b>
<b>Creditors</b>	
Accruals/provisions	(224)
Trade creditors	(163)
Other creditors	(7)
Taxation, VAT, NI and pension	(12)
Deferred income	(202)
<b>Total liabilities</b>	<b>(608)</b>
<b>Net identifiable assets and liabilities</b>	<b>656</b>

## 27 Post Balance Sheet Events

On 19 November 2020, the college received confirmation from the Department for Education that it was successful in its application for T Level Capital Grant funding in the sum of £3.2m towards a £5.4m project planned to commence in 2020 / 2021.