middlesbrough college

# Report and Financial Statements
## for the year ended 31 July 2017

# Key Management Personnel, Board of Governors and Professional advisers

## Key management personnel

Key management personnel are defined as member of the College Senior Leadership Team and were represented by the following in 2016/ /2017:

Zoe A Lewis, Principal and CEO; Accounting Officer
Gary Cumiskey, Deputy Principal
Peter Wilson, Managing Director
Carolyn Kipling, Vice Principal Finance and Registry
John Chance, Vice Principal Quality and Standards
Richard Atkinson, Assistant Principal Human Resources
Jane Steel, Assistant Principal Students
Peter Bland, Assistant Principal Estates
Andy Wond, Executive Director Information Services

## Board of Governors

A full list of Governors is given on page 14 of these financial statements.

Mr Richard Atkinson acted as Clerk to the Corporation throughout the period.

## Professional advisers

**Financial statements and regularity auditor:**
KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

**Internal auditor:**
ICCA Education Training and Skills Limited
11th Floor
McLaren House
46 Priory Queensway
Birmingham
B4 7LR

**Bankers:**
Barclays Bank Plc
The Mall
Middlesbrough
TS1 2NR

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

**Legal advisers:**
Bond Dickinson LLP
Camden House
Teesdale Park
Stockton-on-Tees
TS17 6QY

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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 across Teesside, linking our provision to the skills needs of local employers and supporting our students to achieve the very best they can.

In 2012, Middlesbrough College set out a strategy entitled "STEM – Supporting Teesside's Economic Future". This strategy included a £20m employer led investment and was rooted in serving our local employers with their education, training and skills needs.

The investment has forged a unique partnership between industry and education to ensure our new facilities drive ambition, foster innovation and creativity and replicate, as far as possible, a real working environment in a safe training area. This ambitious £20m STEM investment has been developed by industry, for industry. It has resulted in the development of specialist engineering facilities as well as an expansion of business, computing, health care and science facilities and courses.

Following this investment, the College has recently acquired a well-established local apprenticeship training company, North East Chamber of Commerce (Training) Limited and has rebranded all of its employer facing services to Northern Skills Group (NSG) in the Autumn of 2016. NSG is now 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.

This bold response brings with it financial implications. However, Governors and staff of the College are determined to 'do the right thing' even where this means making up-front investments in high quality staff and facilities and returning operating deficits as a result of the delay in the receipt of growing income. The College has grown its reputation, student numbers and turnover from £30m to £42m over the period of this strategy, and has met all targets set out in our initial business plan. We are currently in the process of developing our 2018-2023 strategic plan which will build upon our recent success.

Middlesbrough College is proud to serve its communities. We aim to be at the heart of a network of obligation and responsibility that will secure a prosperous, sustainable and successful future for Middlesbrough, Teesside and the wider region. We could not achieve this ambition without the shared enthusiasm, passion and dedication of our staff, students and business partners - which makes the College such a fantastic place to learn and work – recognised by our Investor in People (Gold) status of which we are all extremely proud.

Finally, we would like to congratulate and thank our students, staff and governors for what has been an amazingly successful year for the College. The College has delivered the highest turnover, best attendance, best achievement rates, best student progress measures and best student destinations outcomes ever – being in the upper quartile at least, for all key measures. Despite the difficult economic climate, the College is confident that it will continue to grow its reputation for excellence in education and training, to meet the needs of young people, adults and employers, and that it will play an increasingly important and exciting part regenerating our local and regional economy.

**Mrs Zoe Lewis**
**Principal / Chief Executive**
**14 December 2017**

## 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 2017.

#### 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 Limited** (formerly known as North East Chamber of Commerce (Training) Limited)
On 1 August 2016 Middlesbrough College acquired 100% share capital of North East Chamber of Commerce (Training) Limited, a large local apprenticeship training provider. The name of the company was subsequently changed on 1 November 2016 to Northern Skills Group Limited.

**Middlesbrough College Management Services Limited**
During the year the College ceased trading through its wholly owned subsidiary Middlesbrough College Management Services Limited which operated an ABTA registered Travel Shop, known as 'MC Travel'.

**Northern Apprenticeship Company Limited** (formerly known as First Response Training Services Limited)
The company changed its name to Northern Apprenticeship Company Limited on 2 November 2016. From April 2017 the company operated as an Apprenticeship Training Agency employing apprentices engaged on a training programme with a major local organisation.

**Mizaru Media Limited (dormant)**
Mizaru Media Limited was incorporated in 2011 for the purposes of marketing a high quality interactive online virtual environment for delivery of courses, conferences, live broadcasts and meetings. The company did not trade during 2016 / 2017.

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 2016 / 2017 was *'Driving Ambition, Inspiring Success'*.

#### Public benefit

Middlesbrough College is an exempt charity under Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016, is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 14 - 16.

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
- Links with Local Enterprise Partnerships (LEPs).

**Strategic Aims and Priorities**

The College's Vision Statement, Strategic Aims and Priorities for 2014 – 2017 and College Values are:

| **Vision Statement** |
|---|
| To be the leading provider of education and training creating a positive future for everyone in Teesside. |

| **Overarching Strategic Aim** |
|---|
| Growth based on quality and reputation, which improves educational achievement, employment prospects, economic prosperity and wellbeing for all. |

| **Strategic Priorities** | |
|---|---|
| **1.** | **One Ambition**<br>To be an outstanding provider of education and training that provides pathways to employment, further or higher education. |
| **2.** | **One Commitment**<br>To enhance the region's economic competitiveness by directly aligning our offer to the skills requirements of employers. |
| **3.** | **One Community**<br>To respond to the needs of our students and the wider community. |
| **4.** | **One Team**<br>To work as one highly skilled, professional, and creative team within a supporting, aspirational and entrepreneurial environment. |
| **5.** | **One Network**<br>To foster the development of a network of educational and training excellence that raises aspirations and promotes opportunities. |

| **College Values** | |
|---|---|
| **1.** | **Aim High** |
| **2.** | **Work Hard** |
| **3.** | **Take Responsibility** |
| **4.** | **Do What's Right** |
| **5.** | **Respect Others** |
| **6.** | **Challenge Yourself** |
| **7.** | **Take Pride** |

The strategic plan and priorities reinforce 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.

**Implementation of the Strategic Plan**

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

Turnover for the year was £42.288m (2015 / 2016: £41.614m) with the operating position before pension accounting being a deficit of £0.605m, after one-off costs including £0.503m one-off restructuring costs following a cost savings and efficiency review. (2015 / 2016: £0.509m).

The College was funded by the Education & Skills Funding Agency (ESFA) for 4,407 learners aged 16-18 equating to £21.241m of programme funding (2015 / 2016: 4,487 learners £21.518m). Actual recruitment in 2016 / 2017 has fallen short of target at 4,141 learners – a significant part of which was withdrawal from subcontracting.

The College's Adult Education delivery is £4.877m against an allocation of £5.132m. The shortfall is primarily due to additional funds being allocated during the year in relation to further SSI Redundancy programme training which were not required. (2015 / 2016: £3.973m actual delivery).

On 1 August 2016 the College acquired the apprenticeship training company known as North East Chamber of Commerce (Training) Limited. This acquisition has more than doubled the apprenticeship activity of the College to £5.393m of income in 2016 / 2017 (2015 / 2016: £2.263m).

The College delivers Higher Education (HE) programmes in partnership with Teesside University. In 2016 / 2017, the College recruited 685 learners, generating £2.374m from this provision (2015 / 2016: £2.128m).

**Financial Objectives**

Within the Strategic Priority 'One Network' the College has set its overarching Financial Objective:

***To actively pursue strategic investment opportunities to secure future income growth whilst maintaining financial stability.***

The financial performance indicators by which the College will determine its success in achieving this are as follows:

- Achieve a financial health rating of no lower than 'satisfactory' during the £20m investment phase and returning to 'good' over the long term.
- Grow or maintain overall income through diversifying income streams each year against the demographic trend and government austerity.
- Receive no adverse internal audit reports.
- Obtain an unqualified external audit opinion.
- Generate cash on operations each year.
- Achievement of bank financial covenants.

The financial objectives have been achieved for 2016 / 2017.

The College is required to complete the annual Finance Record for the Education and Skills Funding Agency (ESFA). The financial health grading of Satisfactory is considered an acceptable outcome whilst the College is in a period of continued investment following the recent acquisition of Northern Skills Group Limited.

**Performance Measures**

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

During 2016 / 2017, study programmes and apprenticeships attained achievement rates above the national average. In addition, the following improvements were also achieved:

- An increase in attendance rates for main programmes, as well as English and maths provision.
- A significant improvement in retention and pass rates for study programmes, culminating in a 6.8 percentage point improvement in achievement rates for this cohort of learners.
- A significant improvement in the proportion of A*- B grades achieved at A level, resulting in a 13.2 percentage point increase.

- An increase in GCSE English high grades, an increase of 20.4 points for 16-18 year olds and 17.5 points for 19+ learners.
- A significant improvement in functional skills achievement rates (16-18), resulting in a 23.2 percentage point increase.
- Expected progress being exceeded for learners gaining A level and level 3 'Applied General' qualifications.
- Gold status for the Higher Education Teaching Excellence Framework, one of only 14 FE colleges nationally (out of 106) who deliver higher education programmes.
- High progression rates onto further and higher education and employment.

**Financial results**

The Group reported an operating deficit on continuing operations in the year of £0.605m, after depreciation and amortisation of £4.538m but before FRS102 and enhanced pension accounting adjustments of £1.346m. (2015 / 2016 deficit £0.509m). Total comprehensive income is £2.298m (2015 / 2016: negative £2.699m). The result is after one off costs incurred in the year, including £0.503m one-off restructuring costs following a cost savings and efficiency review.

After accounting for FRS102, the college is reporting an overall deficit result of £1.951m (2015 / 2016: £1.522m). The following table explains the movement between the operating deficit position of £0.605m and the overall deficit of £1.951m.

| | £'000 | £'000 |
|---|---|---|
| Operating deficit position | | 605 |
| FRS102 service charge to staff costs | 1,050 | |
| FRS102 pension interest charge to interest and other finance costs | 261 | |
| Enhanced pension provision | 35 | |
| Overall deficit for the year | | 1,951 |

The Group has accumulated reserves of £15.531m including a defined benefit pension liability of £7.658m and cash balances of £1.199m. 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 £1.698m. This was split between assets under construction of £0.376m and equipment purchased of £1.322m.

The College remains highly dependent on the education sector funding bodies for its principal source of funding, largely from recurrent grants. In 2016 / 2017, the funding bodies provided 81.5% of the Group's total income (excluding release of capital grants) (2015 / 2016: 80.6%).

The group result for the year includes the College's subsidiary company results, being a surplus for Northern Skills Group of £0.073m and a loss of £0.001m for Middlesbrough College Management Services Limited. Northern Apprenticeship Company Limited (formerly known as First Response Training Services Limited) reported a small surplus for the period to 31 July 2016 of £50. Mizaru Media Limited remained dormant during the year.

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

**Treasury Policy and Objectives**

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

The College has a separate treasury management policy in place.

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

**Cash flows and Liquidity**

The College continued to invest in its annual capital programme during the year, resulting in a cash outflow of £2.082m of capital investment, including the investment in the subsidiary company Northern Skills Group Limited. The College utilised loan funds for capital investment and working capital of £0.500m during the year. The overall decrease in cash for the year was £0.677m (2015 / 2016: increase £1.381m).

Net debt at 31 July 2017 was £17.201m (31 July 2016: £16.024m). The increase in net debt is due to the continuing capital investment programme during the year, the timing of cash flows at the year end and the requirement to utilise long term borrowing.

The College has a bank loan facility comprising a 16 year £13.400m long term facility, maturing in 2030 and a 5 year £7.000m revolving credit facility, maturing in 2019. These funds are being utilised to part fund the £20m STEM investment and continued general annual capital commitment programme.

As at 31 July 2017, £18.400m of these facilities were utilised (31 July 2016: £17.900m). During the year, interest of £0.337m was incurred, at a floating rate following one month LIBOR plus a fixed margin of between 1.45% and 1.60%, resulting in a total interest rate charge of between 1.95% and 2.10%. The College remains compliant with all of its bank covenants.

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

**Reserves Policy**

The College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities. As at the balance sheet date the Income and Expenditure reserve stands at £15.531m (2016: £13.233m). It is the Corporation's intention to increase reserves over the life of the strategic plan through the generation of annual operating surpluses.

## CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

**Financial Health**

The College's financial health as measured by the SFA and self-assessed is "Satisfactory" for 2016 / 2017 (2015 / 2016: Satisfactory). The College's medium term financial plan shows the College returning to "Good" financial health by 2021 as borrowing levels reduce.

**Student numbers**

In 2016 / 2017, the College has delivered activity that has received £34.771m in funding body main allocation, including Apprenticeship funding (2015 / 2016: £33.794m). Apprenticeship recruitment has increased following the acquisition of North East Chamber of Commerce (Training) Limited at the start of the fiscal year. Adult learner numbers have decreased compared to the previous year when a one-off redundancy training programme funded by the SFA was delivered locally. The College had 4,141 EFA 16-18 funded learners, 2,642 SFA 19+ learners and 2,485 learners studying an apprenticeship framework. (2015 / 2016: 4,484; 3,237 and 1,027 respectively).

**Student achievements**

Students continue to prosper at the College. Student academic achievement for 2016 / 2017 is highlighted below:

- The College achieved an achievement rate of 85.6% (including English and maths), this compares to 83% in 2015 / 2016.

- The College achieved an achievement rate of 87.8% (excluding English and maths), this compares to 87.8% in 2015 / 2016.

**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 2016 / 2017 academic year with 969 votes cast.
- NUS student elections were held for 5 posts to support the Sabbatical Officer and 7 candidates received 1,281 votes between them.
- The College recruited 57 Student Ambassadors for the academic year.
- 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 five times during the year and was informed by separate Directorate Student Councils.

**Curriculum developments**

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.

The College's continual review of its curriculum ensures all learners are equipped with the technical skills, knowledge and employability skills required to have a successful career in their chosen sector.

In 2016 / 2017, the College continued to deliver to its cohort of 30 full time directly recruited 14-16 year olds following approval gained in 2013 from the Education Funding Agency to be a centre for 14-16 delivery. The 14-16 cohort is collectively known as MC Academy. These students are following a mixed vocational options programme and studying mathematics and English alongside.

**Future developments**

The College had an Ofsted Inspection in September 2016, resulting in an overall Grade 3 "Requires Improvement". During the year the College has worked extensively to improve on the key points highlighted within the Ofsted report and is confident it will secure an overall Grade of 2 "Good" on the next inspection which is due in 2017 / 2018. Results for the year 2016 / 2017 have seen an improvement to above national rates and Level 3 value added is predicted to be in the top 25% of Colleges nationally.

**Events after the reporting period**

There are no significant events to report.

**Future Prospects**

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 2022. It currently has available to it £15.531m of unrestricted reserves, headroom in its loan facilities to fund working capital requirements and has set a surplus budget for 2017 / 2018. For future accounting periods it has forecast surplus budget positions. The SFA financial health measure remains at "Satisfactory" until 2021 when it is forecast to improve to "Good". For this reason, it continues to adopt the going concern basis in preparing the Financial Statements.

**RESOURCES**

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

**Financial**

The Group has £15.531m of unrestricted reserves (31 July 2016: £13.233m), including £7.658m defined benefit pension liability (31 July 2016: £10.596m) and long term debt of £18.4m (31 July 2016: £17.9m).

**People**

During the year, the College employed 788 people (expressed as full time equivalents), of whom 544 are teaching staff. (2015 / 2016: 765 and 510 respectively).

**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.

**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 and departmental 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**

- Inability to meet an overall College Grade 2 SAR
- Failure to meet English and maths achievement rates
- Skills funding transferred to LEP / Combined Authority – uncertain policy shift
- Uncertainty over process for funding and government policy changes (incl Apprenticeship Levy implementation)
- Failure to meet the key Strategic Objectives / Performance Indicators
- Negative external perception of the quality of the College's provision
- Area Review recommendations weaken the College
- Failure to meet the three year budget strategy
- Failure to deliver Apprenticeship numbers and full cost target income

Key risks are mitigated in the following ways:

- Rigorous quality procedures are embedded throughout the College with clear underperformance processes;
- Implementation of a detailed English and maths improvement plan;
- 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 Apprenticeship Levy implementation; and

- Ensuring the College focuses its delivery in priority areas.

**Stakeholder relationships**

Middlesbrough College has many stakeholders. These include:

- Students;
- Education sector funding bodies;
- Staff;
- Local employers (with specific links);
- Local authorities / Combined Authority;
- Government Offices and Local Enterprise Partnerships (LEPs);
- The local community;
- Other FE institutions;
- Trade unions; and
- Professional bodies.

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

**Equal Opportunities**

Middlesbrough College proudly promotes itself as an Equal Opportunities employer acknowledging the diverse needs of its employees and the community it serves. It recognises that everyone's needs are unique and will work with students and staff to identify any barriers that exist and make every effort to overcome them by adopting a positive approach to support those with disabilities or known health issues. A variety of services and resources are provided including advice and recommendations for reasonable adjustments as required under the Equality Act 2010.

Middlesbrough College respects and values diversity and inclusion by adopting a positive and proactive approach to support employees, future job applicants and students. We respect and value positively the nine protected characteristics of differences in race, gender, sexual orientation, disability, religion or belief, maternity and pregnancy, gender reassignment, age and marriage and civil partnership. We strive to remove conditions which place people at a disadvantage with disabilities and known health issues. The College's Equality Policy and Statement is published on the College's website.

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

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

**Disability Statement**

Middlesbrough College is committed to providing an environment in which there is equality of opportunity for all members of its community.

Our commitment for equality, diversity and inclusion (Equality Action Plan 2014 / 2015) ensures that all who learn and work at the College are treated equally in response to the Disability Discrimination Act 2005 and the Equality Act 2010. It also aims to promote all other forms and strands of equality and human rights that might be relevant.

The College has made a significant investment in the appointment of specialist Additional Learning Support staff to work with students with learning difficulties and/or disabilities. There is a continuing programme of staff training to ensure this provision is of a high level and appropriate to the support needs for all students. Many of these staff deliver training to the wider teaching staff to enable a comprehensive awareness of individual students support needs.

The College welcomes applications from students with a learning difficulty or disability or an additional support need and the College aims to provide the appropriate resources, facilities and services to meet and support the requirements of individuals.

The College has held the Positive About Disabled People accreditation since 1995 which is reviewed on an annual basis.

**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 16 October 2017 and is available on the College website at: www.mbro.ac.uk within the Governor's website; policies and procedures.

**Disclosure of Information to Auditor**

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

Approved by order of the members of the Corporation on 14 December 2017 and signed on its behalf by:

Mr Robert Davies
Chairman of Governors
14 December 2017

## 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 2016 to 31 July 2017 and up to the date of approval of the annual report and Financial Statements on the 14 December 2017.

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 15 September 2017 for the period 1 August 2016 to 31 July 2017.

The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which the College formally adopted on 15 October 2015.

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

The College has a Public Value Statement *(see below)* with the last review being on the 11 July 2016 with no changes made to the version contained within the 2014 – 2017 Strategic Plan.

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

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

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

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

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

## The Governing Body

Governors serving on the Governing Body during 2016 / 2017 and up to 14 December 2017.

Governors appointed in 2017 / 2018 and up to 14 December 2017 have been highlighted (shaded) where appropriate.

* Date of re-appointment.
** Chairman of Committee.

| Name | Date of appointment | Term of Office | Date of resignation | Status of appointment | Committees Served | Attendance<br>***(1 August 2016 to 31 July 2017)*** |
|---|---|---|---|---|---|---|
| Dr Andy Allen | 16 October 2017 | 15 October 2021 | - | College Governor | Corporate Services. | Appointed in 2017 / 2018. |
| Mrs Andrea Waller-Amos | 14 December 2015 | 13 December 2019 | - | Staff Governor *(Business Support)* | Corporate Services. | 83% |
| Mr Trevor Arnold | 3 October 2014* | 2 October 2018 | - | College Governor | Corporate Services. | 42% |
| Mr John Autherson | 10 March 2017* | 31 December 2017 | - | College Governor | Appeals Committee *(Senior Postholders)*.<br>Audit & Risk (**).<br>Search & Governance.<br>Selection *(Senior Posts)*.<br>Special (**).<br>Standards. | 89% |
| Mr Charlie Barwick | 17 October 2016 | - | 31 July 2017 | Student Governor | - | 100% |
| Mrs Moira Britton | 16 October 2017* | 1 October 2020 *(extended two years from 2 October 2018)* | - | College Governor | Appeals Committee *(Senior Postholders)* (**).<br>Corporate Services (**).<br>Search & Governance.<br>Selection *(Senior Posts)*.<br>Settlement. | 87% |
| Mrs Diane Cleves | 17 October 2016 | 16 October 2020 | - | Staff Governor *(Academic)* | Standards. | 90% |
| Mr Ashley Coleman-Cooke<br>*(Vice Chairman of Governors for the period 1 August 2016 to 14 December 2017)* | 17 October 2016* | 28 March 2021 | - | College Governor | Appeals *(Senior Postholders)*.<br>Audit & Risk.<br>Remuneration.<br>Search & Governance.<br>Selection *(Senior Posts)*.<br>Settlement.<br>Special.<br>Standards (**). | 95% |

| **Name** | **Date of appointment** | **Term of Office** | **Date of resignation** | **Status of appointment** | **Committees Served** | **Attendance** ***(1 August 2016 to 31 July 2017)*** |
|---|---|---|---|---|---|---|
| Mrs Carol Cooney | 20 May 2017 | 19 May 2021 | - | College Governor | Standards. | 67% |
| Mr Robert Davies *(Chairman of Governors for the period 1 August 2016 to 14 December 2017)* | 17 October 2016* | 30 July 2021 | - | College Governor | Corporate Services.<br>Remuneration (**).<br>Search & Governance (**).<br>Selection *(Senior Posts) (**).*<br>Settlement (**). | 100% |
| Mr Andrew Dyne | 16 October 2017* | 18 October 2022 *(extended four years from 19 October 2018)* | - | College Governor | Corporate Services.<br>Remuneration. | 69% |
| Miss Marina Gaze | 2 November 2015 | 1 November 2019 | - | College Governor | Standards. | 67% |
| Mrs Jean Golightly | 16 October 2017 | 15 October 2021 | - | College Governor | Standards. | Appointed in 2017 / 2018. |
| Mr Aslam Hanif | 30 March 2013* | - | 28 March 2017 | College Governor | Corporate Services. | 78% |
| Mr Lee Holdsworth | 16 October 2017 | 15 October 2021 | - | College Governor | Audit & Risk. | Appointed in 2017 / 2018. |
| Ms Shahda Khan | 17 October 2016 | - | 29 September 2017 | College Governor | - | 57% |
| Mrs Yasmin Khan | 16 October 2017 | 15 October 2021 | - | College Governor | Standards. | Appointed in 2017 / 2018. |
| Mrs Zoe Lewis | 26 September 2013 | - | - | Principal / Chief Executive *(Accounting Officer)* | Corporate Services.<br>Search & Governance.<br>Selection *(Senior Posts).*<br>Standards. | 100% |

| Name | Date of appointment | Term of Office | Date of resignation | Status of appointment | Committees Served | Attendance<br>***(1 August 2016 to 31 July 2017)*** |
|---|---|---|---|---|---|---|
| Mr Andrew Malcolm | 17 October 2016* | 30 July 2021 | - | College Governor | Audit & Risk.<br>Remuneration. | 71% |
| Ms Jill Morgan | 11 July 2016 | - | 6 July 2017 | College Governor | Standards. | 36% |
| Mr Tom Courtman-Stock | 1 August 2016 | - | 31 July 2017<br>*(Re-Appointed in 2017/ 2018) see below* | Student Governor | Audit & Risk.<br>Standards. | 100% |
| Mr Tom Courtman-Stock<br>*)* | 1 August 2017 | 31 July 2018 | - | Student Governor *(Sabbatical Officer)* | Audit & Risk.<br>Standards. | Re-appointed in 2017 / 2018. |
| Mr Peter Studd | 13 July 2015 | 12 July 2019 | - | College Governor | Corporate Services.<br>Special. | 64% |
| Mr Matthew Horner-Trewick | 16 October 2017 | 31 July 2018 | - | Student Governor | - | Appointed in 2017 / 2018. |
| Mrs Margaret Walters | 15 October 2012 | - | 14 October 2016 | Staff Governor *(Academic)* | Standards. | 100% |

**Overall Attendance 2016 / 2017 *(excluding External Members)***

| | Attendance | Possible Attendance | Attendance Rate *(Percentage)* |
|---|---|---|---|
| Overall Attendance | 184 | 229 | 80% |

**Governing Body Attendance 2016 / 2017**

| | Attendance | Possible Attendance | Attendance Rate *(Percentage)* |
|---|---|---|---|
| Governing Body | 115 | 150 | 77% |

**Committee Attendance 2016 / 2017**

| | Attendance | Possible Attendance | Attendance Rate *(Percentage)* |
|---|---|---|---|
| Audit & Risk | 14 | 16 | 88% |
| Corporate Services | 19 | 23 | 83% |
| Remuneration | 4 | 4 | 100% |
| Search & Governance | 12 | 14 | 86% |
| Standards | 20 | 22 | 91% |

**External Members Attendance 2016 / 2017**

| Name of External Member | Attendance | Possible Attendance | Attendance Rate *(Percentage)* |
|---|---|---|---|
| Mr S Green<br>*(Appointed 16 October 2017)* | Not Applicable | Not Applicable | Not Applicable |
| Mr A Hanif<br>*(Appointed 6 July 2017)* | Not Applicable | Not Applicable | Not Applicable |
| Mr F Hayes | 7 | 7 | 100% |
| Ms H McCreeth<br>*(Appointed 20 October 2016)*<br>*(Resigned 20 March 2017)* | 2 | 2 | 100% |
| Miss S Shepherd<br>*(Appointed 1 August 2016)* | 2 | 3 | 67% |
| Mr A Stephenson | 2 | 3 | 67% |
| Mr S Wilson<br>*(Appointed 20 May 2017)* | 1 | 1 | 100% |
| Mrs N Younis<br>*(Resigned 20 March 2017)* | 2 | 3 | 67% |
| **Total** | **16** | **19** | **84%** |

Mr Richard Atkinson was appointed as Clerk to the Corporation on the 1 May 2002 as a full-time Independent Clerk managing the Corporate Governance process for the Governing Body and all its Committees. Since 2007 the role of Clerk to the Corporation has been held by Mr Atkinson as part of a dual Management and Governor Services role, and further details are available upon request.

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 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 20 March 2017, and further ad hoc reviews have also been carried out with the latest version of the Committee Structure being available on the Governors' Website.

The Committee Structure as of the 31 July 2017 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 14 December 2017:

| External Member | Name of Committee(s) Served |
|---|---|
| Mr Stuart Green | **Audit & Risk Committee**<br>*(Appointed 16 October 2017 for a period of four years to 15 October 2021)* |
| Mr Aslam Hanif | **Equality & Diversity Committee**<br>*(Appointed from the 6 July 2017 for a period of four years to 5 July 2021)* |
| Mr Francis Hayes | **Audit & Risk Committee**<br>**Search & Governance Committee**<br>*(Re-appointed for a Final Term of Office from the 3 October 2014 to 2 October 2018)* |
| Ms Helen McCreeth | **Standards Committee**<br>*(Appointed 17 October 2016 for a period of four years to 16 October 2020)*<br>*(Resigned 20 March 2017)* |
| Miss Sarah Shepherd | **Search & Governance Committee**<br>*(Converted from a College Governor to an External Member on the 1 August 2016)*<br>*(Appointed from the 1 August 2016 for a period of four years to 31 July 2020)* |
| Mr Andrew Stephenson | **Standards Committee**<br>*(Appointed from 13 July 2015 for a period of four years to 12 July 2019)* |
| Mr Sandy Wilson | **Corporate Services Committee**<br>*(Appointed from 20 May 2017 for a period of two years to 19 May 2019)* |
| Mrs Nasreen Younis | **Audit & Risk Committee**<br>*(Re-appointed for a Final Term of Office from the 8 July 2016 to 7 July 2020)*<br>*(Resigned 20 March 2017)* |

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

Richard Atkinson
Clerk to the Corporation.
Middlesbrough College
Dock Street
Middlesbrough
TS2 1AD
(01642) 333269 - direct line
r.atkinson@mbro.ac.uk

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

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

Formal agendas, papers and reports are supplied to Governors in a timely manner prior to Governing Body meetings.

Briefings are also provided on an ad hoc basis.

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

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

### Governance Self-Assessment

The Governing Body self-assessed itself as a grade 3 (requires improvement) in 2015 / 2016, with the Governance Self-Assessment Report being approved on the 8 December 2016. This document highlighted a number of strengths and areas for improvement, and followed the publication of the College's Ofsted Inspection Report.

For 2016 / 2017, the Governing Body self-assessed itself as a grade 2 (good), with the Governance Self-Assessment Report being approved on the 16 October 2017 following some discussion at the Governing Body Strategic Planning Day on the 15 September 2017.

This document highlighted a number of strengths and areas for improvement.

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

## Appointments to the Governing Body

Any new appointments to the Governing Body are a matter for the consideration of the Governing Body as a whole, following advice from the Search & Governance Committee in terms of the appointment / re-appointment of College Governors and External Members, with a Term of Office not exceeding four years from its last expiry date. The Governing Body is also responsible for ensuring that appropriate training is provided as required, and this is co-ordinated by the Clerk to the Corporation and reported direct to the Search & Governance Committee on a termly basis. The Governing Body has also adopted an appointment process in line with the AoC's Code of Governance of College i.e. College Governors and External Members normally having a maximum of two terms of fourth 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 five members of the Governing Body and two External Members as at the 31 July 2017, 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 2017, and its responsibilities are to make recommendations to the Governing Body on the remuneration and benefits of the Principal / Chief Executive (*Accounting Officer*), Senior Postholders (if applicable) and the Clerk to the Corporation.

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

There are no other Senior Postholders as at the 31 July 2017.

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

Details of remuneration for the year ended 31 July 2017 are set out in note 6 of the 2016 / 2017 Financial Statements.

## Audit & Risk Committee

The Audit & Risk Committee comprises four members of the Governing Body (excluding the Principal / Chief Executive (*Accounting Officer*) and Chairman of Governors) and one External Member as at the 31 July 2017.

The 2016 / 2017 Student Governor *(Tom Courtman-Stock)* joined the Audit & Risk Committee on the 1 August 2016 and attended all four meetings until his Term of Office expired on the 31 July 2017.

The 2017 / 2018 Student Governor *(Tom Courtman-Stock)* has been re-elected to serve as the Student Sabbatical Officer and has re-joined the Audit & Risk Committee on the 1 August 2017, with attendance at the meetings on the 19 September 2017 and 5 December 2017 respectively.

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

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

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

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

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

## Other Committees

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

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

## Internal control

### Scope of Responsibility

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

The Governing Body has delegated the day-to-day responsibility to the Principal / Chief Executive as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum / Financial Agreement between Middlesbrough College and the Funding Bodies.

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

**The Purpose of the System of Internal Control**

The system of Internal Control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of Internal Control has been in place in Middlesbrough College for the year ended 31 July 2017 and up to the date of approval of the 2016 / 2017 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 2017 and up to the date of approval of the 2016 / 2017 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 *(ICCA Education, Training & Skills)*, 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 13 June 2017.

The work of the Internal Audit Service is informed by an analysis of the risks to which the College is exposed, and annual Internal Audit plans are based on this analysis. The analysis of risks and the Internal Audit Plans are endorsed by the Governing Body on the recommendation of the Audit & Risk Committee.

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

**Review of Effectiveness**

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

- The work of the Internal Auditors *(ICCA Education, Training & Skills)*.
- The work of the executive managers within the College who have responsibility for the development and maintenance of the Internal Control Framework.
- Comments made by the College's Financial Statements Auditor *(KPMG)*, Regularity Auditor *(KPMG)* and the Funding Auditor (if appointed) in their Management Letters and other reports.

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

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

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

The Governing Body's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Leadership Team and the Audit & Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its 14 December 2017 meeting, the Governing Body carried out the annual assessment for the year ended 31 July 2017 by considering documentation from the Senior Leadership Team and Internal Audit and taking account of events since 31 July 2017.

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 2022. It currently has available to it £15.531m of unrestricted reserves, headroom in its loan facilities to fund working capital requirements and has set a surplus budget for 2017 / 2018. For future accounting periods it has forecast surplus budget positions. The SFA financial health measure remains at "Satisfactory" until 2021 when it is forecast to improve to "Good". 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 14 December 2017 and signed on its behalf by:

| | |
|---|---|
| Mr Robert Andrew Davies | Mrs Zoe Lewis |
| Chairman of Governors | Principal / Chief Executive (*Accounting Officer*) |
| 14 December 2017 | 14 December 2017 |

## 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 | Mrs Zoe Lewis |
| Chairman of Governors | Principal / Chief Executive (*Accounting Officer*) |
| 14 December 2017 | 14 December 2017 |

## 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 2016 to 2017* issued by the ESFA, and which give a true and fair view of the state of affairs of the group and the parent College and the result for that year.

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

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

The Corporation is also required to prepare a Report of the Governing Body 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 the relevant legislation of incorporation and other relevant accounting standards. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for taking steps that are reasonably open to it in order to safeguard the assets of the 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/ Financial Agreement 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 14 December 2017 and signed on its behalf by:

Mr Robert Andrew Davies
Chairman of Governors
14 December 2017

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

### Opinion

We have audited the financial statements of Middlesbrough College ("the College") for the year ended 31 July 2017 which comprise the Group and College Statements of Comprehensive Income, Group and College Statements of Changes in Reserves, Group and College Balance Sheets, Consolidated Statement of Cash Flows and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the College's affairs as at 31 July 2017, and of the Group's and the College's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended; and

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

### Basis for opinion

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

### Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### Other information

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

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

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

Under the Post-16 Audit Code of Practice 2016 to 2017 (March 2017) issued jointly by the Skills Funding Agency and the Education Funding Agency we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

**Corporation's responsibilities**

As explained more fully in their statement set out on page 24, the Corporation is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the parent College or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities**

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

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

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

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

Rachel Fleming

**Rachel Fleming (Senior Statutory Auditor)**
**For and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
Quayside House, 110 Quayside,
Newcastle upon Tyne,
NE1 3DX

19 December 2017

**Reporting Accountant's Report on Regularity to the Corporation of Middlesbrough College and the Secretary of State for Education acting through the Department for Education ("the Department")**

In accordance with the terms of our engagement letter dated 11 October 2017 and further to the requirements of the financial memorandum with the Education and Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by Middlesbrough College during the period from 1 August 2016 to 31 July 2017 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

This report is made solely to the corporation of Middlesbrough College and the Education and Skills Funding Agency in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of Middlesbrough College and Education and Skills Funding Agency 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 Education and Skills Funding Agency 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 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 from 1 August 2016 to 31 July 2017 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 Skills Funding Agency and the Education Funding Agency. We performed a limited assurance engagement as defined in that framework.

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

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

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

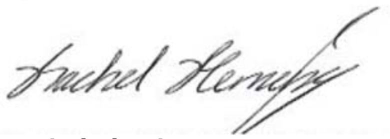
The work undertaken to draw our conclusion included:

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

This list is not exhaustive and we performed additional procedures designed to provide us with sufficient appropriate evidence to express a negative conclusion on regularity consistent with the requirements of the Code.

**Conclusion**

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period from 1 August 2016 to 31 July 2017 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



**Rachel Fleming**
**For and on behalf of KPMG LLP, Reporting Accountant**
*Chartered Accountants*
Quayside House, 110 Quayside
Newcastle upon Tyne
NE1 3DX

19 December 2017

| Consolidated Statements of Comprehensive Income | Notes | Year ended 31 July 2017 | | Year ended 31 July 2016 | |
|---|---|---|---|---|---|
| | | Group £'000 | College £'000 | Group £'000 | College £'000 |
| **Income** | | | | | |
| Funding body grants | 2 | 34,771 | 34,771 | 33,794 | 33,794 |
| Tuition fees and education contracts | 3 | 4,613 | 4,399 | 4,733 | 4,733 |
| Other income | 4 | 2,903 | 3,135 | 3,085 | 3,077 |
| Investment income | 5 | 1 | 1 | 2 | 2 |
| **Total Income** | | **42,288** | **42,306** | **41,614** | **41,606** |
| | | | | | |
| **Expenditure** | | | | | |
| Staff costs | 6 | 25,822 | 23,301 | 23,936 | 23,936 |
| Restructuring costs | 6 | 503 | 503 | 185 | 185 |
| Other operating expenses | 7 | 12,955 | 15,589 | 14,389 | 14,378 |
| Depreciation & amortisation | 9,11 | 4,538 | 4,486 | 4,012 | 4,012 |
| Interest and other finance costs | 8 | 598 | 598 | 645 | 645 |
| **Total Expenditure** | | **44,416** | **44,477** | **43,167** | **43,156** |
| | | | | | |
| **Deficit before other gains and losses** | | **(2,128)** | **(2,171)** | **(1,553)** | **(1,550)** |
| Gain on disposal of assets | 7 | 177 | 177 | 1 | 1 |
| **Deficit before tax** | | **(1,951)** | **(1,994)** | **(1,552)** | **(1,549)** |
| **Deficit for the year** | | **(1,951)** | **(1,994)** | **(1,552)** | **(1,549)** |
| Actuarial gain / (loss) in respect of pension schemes | | 4,249 | 4,249 | (1,147) | (1,147) |
| **Total Comprehensive Income for the year** | | **2,298** | **2,255** | **(2,699)** | **(2,696)** |
| | | | | | |
| **Represented by:** | | | | | |
| **Unrestricted comprehensive income** | | 2,298 | 2,255 | (2,699) | (2,696) |
| | | **2,298** | **2,255** | **(2,699)** | **(2,696)** |

The Group deficit for the year of £1.951m includes the following: an underlying operating deficit of £0.605m (after one-off costs including £0.503m of restructuring costs) and non-cash pension deficit adjustments of £1.346m.

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

**Consolidated and College Statement of Changes in Reserves**

| | Income and expenditure account £'000 |
|---|---|
| **Group** | |
| **Balance at 1 August 2015** | 15,932 |
| | |
| Deficit from the income and expenditure account | (1,552) |
| Other comprehensive income | (1,147) |
| **Total comprehensive income for the year** | **(2,699)** |
| | |
| **Balance at 31 July 2016** | **13,233** |
| | |
| Deficit from the income and expenditure account | (1,951) |
| Other comprehensive income | 4,249 |
| **Total comprehensive income for the year** | **2,298** |
| | |
| **Balance at 31 July 2017** | **15,531** |
| | |
| **College** | |
| **Balance at 1 August 2015** | 15,944 |
| | |
| Deficit from the income and expenditure account | (1,549) |
| Other comprehensive income | (1,147) |
| | **(2,696)** |
| | |
| **Balance at 31 July 2016** | **13,248** |
| | |
| Deficit from the income and expenditure account | (1,994) |
| Other comprehensive income | 4,249 |
| **Total comprehensive income for the year** | **2,255** |
| | |
| **Balance at 31 July 2017** | **15,503** |

**Balance sheets as at 31 July**

| | Notes | Group | College | Group | College |
|---|---|---|---|---|---|
| | | **2017** | **2017** | **2016** | **2016** |
| | | **£'000** | **£'000** | **£'000** | **£'000** |
| **Non current assets** | | | | | |
| Tangible fixed assets | 9 | 81,357 | 81,350 | 84,162 | 84,162 |
| Intangible assets | 11 | 312 | - | - | - |
| Investments | 10 | - | 464 | - | 80 |
| | | **81,669** | **81,814** | **84,162** | **84,242** |
| **Current assets** | | | | | |
| Stocks | | 64 | 42 | 45 | 45 |
| Debtors | 12 | 2,495 | 2,368 | 2,597 | 2,565 |
| Cash and cash equivalents | 18 | 1,199 | 1,159 | 1,876 | 1,838 |
| | | **3,758** | **3,569** | **4,518** | **4,448** |
| **Less: Creditors - amounts falling due within one year** | 13 | **(7,236)** | **(7,220)** | **(7,849)** | **(7,844)** |
| **Net current liabilities** | | **(3,478)** | **(3,651)** | **(3,331)** | **(3,396)** |
| **Total assets less current liabilities** | | **78,191** | **78,163** | **80,831** | **80,846** |
| Creditors - amounts falling due after more than one year | 14 | (51,909) | (51,909) | (53,713) | (53,713) |
| **Provisions** | | | | | |
| Defined benefit obligations | 17 | (7,658) | (7,658) | (10,596) | (10,596) |
| Other provisions | 17 | (3,093) | (3,093) | (3,289) | (3,289) |
| **Total net assets** | | **15,531** | **15,503** | **13,233** | **13,248** |
| **Unrestricted Reserves** | | | | | |
| Income and expenditure account | | **15,531** | **15,503** | **13,233** | **13,248** |
| **Total unrestricted reserves** | | **15,531** | **15,503** | **13,233** | **13,248** |

The financial statements on pages 29 to 51 were approved by the Corporation on 14 December 2017 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

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Deficit for the year | (1,951) | (1,552) |
| **Adjustment for non-cash items** | | |
| Depreciation and amortisation | 4,538 | 4,012 |
| Deferred Capital Grants release | (1,492) | (1,587) |
| Interest and other finance costs | 598 | 645 |
| Investment income | (1) | (2) |
| Gain on sale of fixed assets | (177) | (1) |
| Pension costs less contributions payable | 1,050 | 512 |
| (Increase) / decrease in stocks | (19) | 21 |
| Decrease / (increase) in debtors | 251 | (520) |
| Decrease in creditors | (1,419) | (727) |
| (Decrease) / Increase in provisions | (196) | 22 |
| **Net cash flow from operating activities** | **1,182** | **823** |
| | | |
| **Cash flows from investing activities** | | |
| Proceeds from sale of fixed assets | 59 | 1 |
| Interest received | 1 | 2 |
| Payments made to acquire subsidiary investment | (384) | - |
| Payments made to acquire fixed assets | (1,698) | (3,993) |
| **Net cash flows from investing activities** | **(2,022)** | **(3,990)** |
| | | |
| **Cash flows from financing activities** | | |
| Interest paid | (337) | (352) |
| New unsecured loans | 500 | 4,900 |
| **Net cash flows from financing activities** | **163** | **4,548** |
| | | |
| **(Decrease) / increase in cash and cash equivalents in the year** | **(677)** | **1,381** |
| | | |
| Cash and cash equivalents at beginning of the year | 1,876 | 495 |
| | | |
| **Cash and cash equivalents at end of the year (note 18)** | **1,199** | **1,876** |

**Notes to the financial statements**

## 1. Statement of Accounting Policies

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

### Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the College Accounts Direction for 2016 to 2017 and in accordance with Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

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

### Basis of accounting

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

### Basis of consolidation

The consolidated financial statements include the College and its subsidiary undertakings Northern Skills Group 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 2017.

### 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 2022. It currently has available to it £15.531m of unrestricted reserves, headroom of £2m in its loan facilities to fund working capital requirements and has set a surplus budget for 2017 / 2018. For future accounting periods it has forecast surplus budget positions. The SFA financial health measure remains at "Satisfactory" until 2021 when it is forecast to improve to "Good". 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 existing 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 24, 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.

**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.

**1. Statement of Accounting Policies (continued)**

**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.

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.

**1. Statement of Accounting Policies (continued)**

**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.

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.

**1. Statement of Accounting Policies (continued)**

### 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.

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

### Provisions

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

### Accounting estimates and judgements

*Key sources of estimation uncertainty*

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

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

  The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 22, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2017. 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 2017 Group £'000** | **2017 College £'000** | **Year ended 31 July 2016 Group £'000** | **2016 College £'000** |
|---|---|---|---|---|
| **Recurrent grants** | | | | |
| Education & Skills Funding Agency - Adult | 5,079 | 5,079 | 7,817 | 7,817 |
| Education & Skills Funding Agency - 16-18 | 22,519 | 22,519 | 22,306 | 22,306 |
| Education & Skills Funding Agency - Apprenticeships | 5,393 | 5,393 | 2,263 | 2,263 |
| **Specific grants** | | | | |
| Education & Skills Funding Agency | 288 | 288 | - | - |
| Releases of government capital grants | 1,492 | 1,492 | 1,408 | 1,408 |
| **Total** | **34,771** | **34,771** | **33,794** | **33,794** |

| **3) Tuition fees and education contracts** | **Year ended 31 July 2017 Group £'000** | **2017 College £'000** | **Year ended 31 July 2016 Group £'000** | **2016 College £'000** |
|---|---|---|---|---|
| Adult education fees | 1,022 | 808 | 1,464 | 1,464 |
| Fees for FE loan supported courses | 1,103 | 1,103 | 982 | 982 |
| Fees for HE loan supported courses | 2,374 | 2,374 | 2,128 | 2,128 |
| **Total tuition fees** | **4,499** | **4,285** | **4,574** | **4,574** |
| Education contracts | 114 | 114 | 159 | 159 |
| **Total** | **4,613** | **4,399** | **4,733** | **4,733** |

| **4) Other income** | **Year ended 31 July 2017 Group £'000** | **2017 College £'000** | **Year ended 31 July 2016 Group £'000** | **2016 College £'000** |
|---|---|---|---|---|
| Catering and residences | 1,069 | 1,069 | 1,093 | 1,093 |
| Other grant income | 932 | 879 | 1,283 | 1,283 |
| Miscellaneous income | 902 | 1,187 | 709 | 701 |
| **Total** | **2,903** | **3,135** | **3,085** | **3,077** |

| **5) Investment income** | **Year ended 31 July 2017 Group £'000** | **2017 College £'000** | **Year ended 31 July 2016 Group £'000** | **2016 College £'000** |
|---|---|---|---|---|
| Other interest receivable | **1** | **1** | **2** | **2** |
| **Total** | **1** | **1** | **2** | **2** |

## 6) Staff costs - Group and College

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

| | 2017 No. | 2016 No. |
|---|---|---|
| Teaching staff | 544 | 510 |
| Non-teaching staff | 244 | 255 |
| | **788** | **765** |

**Staff costs for the above persons**

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Wages and salaries | 20,344 | 19,521 |
| Social security costs | 1,721 | 1,318 |
| Other pension costs | 3,662 | 2,997 |
| **Payroll sub total** | **25,727** | **23,836** |
| Contracted out staffing services | 51 | 100 |
| Other staffing costs | 44 | - |
| | **25,822** | **23,936** |
| Restructuring costs - Contractual | 503 | 185 |
| **Total staff costs** | **26,325** | **24,121** |

**Key management personnel**

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

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

| | 2017 No. | 2016 No. |
|---|---|---|
| The number of key management personnel including the Principal/Chief Executive was: | **10** | **9** |

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

| | Key management personnel | | Other staff | |
|---|---|---|---|---|
| | 2017 No. | 2016 No. | 2017 No. | 2016 No. |
| £50,001 to £60,000 p.a. | 4 | 4 | - | - |
| £60,001 to £70,000 p.a. | 3 | 3 | 1 | 1 |
| £70,001 to £80,000 p.a. | 2 | 1 | - | - |
| £130,001 to £140,000 p.a. | 1 | 1 | - | - |
| | **10** | **9** | **1** | **1** |

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

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Salaries | 643 | 586 |
| Employer's National Insurance | 86 | 65 |
| Pension contributions | 96 | 85 |
| **Total key management personel emoluments** | **825** | **736** |

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 Principal/Chief Executive (who is also the highest paid officer) of:

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Salary | 132 | 132 |
| Pension contributions | 18 | 18 |
| | **150** | **150** |

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

**7) Other operating expenses**

| | 2017<br>Group<br>£'000 | 2017<br>College<br>£'000 | 2016<br>Group<br>£'000 | 2016<br>College<br>£'000 |
|---|---|---|---|---|
| Teaching costs | 2,130 | 2,003 | 2,077 | 2,212 |
| Non-teaching costs | 7,422 | 10,361 | 9,080 | 8,934 |
| Premises costs | 3,403 | 3,225 | 3,232 | 3,232 |
| **Total** | **12,955** | **15,589** | **14,389** | **14,378** |

| Other operating expenses include: | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Auditor's remuneration: | | |
| Financial statements audit * | 36 | 28 |
| Internal audit ** | 25 | 22 |
| Other services provided by the financial statements auditor | 3 | 5 |
| Due dilligence costs | 25 | - |
| Gain on disposal of non-current assets | (177) | (1) |
| Hire of assets under operating leases | 505 | 343 |

* includes £21,600 in respect of the College (2015/16 £21,600)
** includes £21,712 in respect of the College (2015/16 £21,712)
The gain on disposal related to contingent income on the sale of land at Acklam Hall which is now due to the college.

**8) Interest and other finance costs - Group and College**

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| On bank loans | 337 | 352 |
| Pension finance costs (note 22) | 261 | 293 |
| **Total** | **598** | **645** |

**9) Tangible fixed assets (Group)**

| | Long Leasehold land and buildings | Equipment | Assets in the course of construction | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | |
| At 1 August 2016 | 85,934 | 25,978 | 336 | 112,248 |
| Additions | - | 1,298 | 376 | 1,674 |
| Acquisitions (note 25) | - | 24 | - | 24 |
| Transfers | - | 336 | (336) | - |
| At 31 July 2017 | **85,934** | **27,636** | **376** | **113,946** |
| | | | | |
| Depreciation | | | | |
| At 1 August 2016 | (11,192) | (16,894) | - | (28,086) |
| Charge for the year | (1,715) | (2,788) | - | (4,503) |
| At 31 July 2017 | **(12,907)** | **(19,682)** | **-** | **(32,589)** |
| | | | | |
| Net book value at 31 July 2017 | **73,027** | **7,954** | **376** | **81,357** |
| | | | | |
| Net book value at 31 July 2016 | **74,742** | **9,084** | **336** | **84,162** |

**Tangible fixed assets (College only)**

| | Long Leasehold land and buildings | Equipment | Assets in the course of construction | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Cost or valuation | | | | |
| At 1 August 2016 | 85,934 | 25,978 | 336 | 112,248 |
| Additions | - | 1,298 | 376 | 1,674 |
| Transfers | - | 336 | (336) | - |
| At 31 July 2017 | **85,934** | **27,612** | **376** | **113,922** |
| | | | | |
| Depreciation | | | | |
| At 1 August 2016 | (11,192) | (16,894) | - | (28,086) |
| Charge for the year | (1,715) | (2,771) | - | (4,486) |
| At 31 July 2017 | **(12,907)** | **(19,665)** | **-** | **(32,572)** |
| | | | | |
| Net book value at 31 July 2017 | **73,027** | **7,947** | **376** | **81,350** |
| | | | | |
| Net book value at 31 July 2016 | **74,742** | **9,084** | **336** | **84,162** |

During the year, the College recognised the remaining profit on disposal of £177,000 in respect of the Acklam Hall site, following development work commencing on the final area of the site. Of this amount, £59,000 was received during the year.

## 10) Non-current investments

| | College 2017 £'000 | College 2016 £'000 |
|---|---|---|
| Investments in subsidiary companies | 464 | 80 |
| **Total** | **464** | **80** |

## 11) Intangible assets (Group)

| | Customer relationship £'000 | Total £'000 |
|---|---|---|
| Cost | | |
| At 1 August 2016 | - | - |
| Acquisitions (note 25) | 347 | 347 |
| At 31 July 2017 | **347** | **347** |
| | | |
| Depreciation on impairment | | |
| At 1 August 2016 | - | - |
| Charge for the year | (35) | (35) |
| At 31 July 2017 | **(35)** | **(35)** |
| | | |
| Net book value at 31 July 2017 | **312** | **312** |
| | | |
| Net book value at 31 July 2016 | **-** | **-** |

The College held no intangible assets at 31 July 2017 (2016: £ nil)

**12) Debtors**

| | Group 2017 £'000 | College 2017 £'000 | Group 2016 £'000 | College 2016 £'000 |
|---|---|---|---|---|
| Trade receivables | 472 | 410 | 238 | 238 |
| Prepayments and accrued income | 2,023 | 1,958 | 2,359 | 2,327 |
| **Total** | **2,495** | **2,368** | **2,597** | **2,565** |

**13) Creditors: amounts falling due within one year**

| | Group 2017 £'000 | College 2017 £'000 | Group 2016 £'000 | College 2016 £'000 |
|---|---|---|---|---|
| Bank loans | 152 | 152 | 152 | 152 |
| Trade creditors | 661 | 614 | 870 | 870 |
| Amounts owed to group undertakings | - | 231 | - | - |
| Other taxation and social security | 664 | 635 | 660 | 659 |
| Accruals and deferred income | 2,754 | 2,594 | 3,036 | 3,032 |
| Other creditors | 334 | 323 | 332 | 332 |
| 'Lennartz' VAT creditor | 850 | 850 | 850 | 850 |
| Deferred income - government capital grants | 1,486 | 1,486 | 1,524 | 1,524 |
| Amounts owed to the SFA | 335 | 335 | 425 | 425 |
| **Total** | **7,236** | **7,220** | **7,849** | **7,844** |

**14) Creditors: amounts falling due after one year**

| | Group 2017 £'000 | College 2017 £'000 | Group 2016 £'000 | College 2016 £'000 |
|---|---|---|---|---|
| Bank loans | 18,248 | 18,248 | 17,748 | 17,748 |
| 'Lennartz' VAT creditor | 24 | 24 | 874 | 874 |
| Deferred income - government capital grants | 33,637 | 33,637 | 35,091 | 35,091 |
| **Total** | **51,909** | **51,909** | **53,713** | **53,713** |

**15) Maturity of debt**

**(a) Bank loans**

Bank loans are repayable as follows:

| | Group 2017 £'000 | College 2017 £'000 | Group 2016 £'000 | College 2016 £'000 |
|---|---|---|---|---|
| In one year or less | 152 | 152 | 152 | 152 |
| Between one and two years | 1,218 | 1,218 | 1,218 | 1,218 |
| Between two and five years | 1,827 | 1,827 | 1,827 | 1,827 |
| In five years or more | 15,203 | 15,203 | 14,703 | 14,703 |
| **Total** | **18,400** | **18,400** | **17,900** | **17,900** |

**(b) 'Lennartz' VAT creditor**

Lennartz VAT creditor commitments are as follows:

| | Group 2017 £'000 | College 2017 £'000 | Group 2016 £'000 | College 2016 £'000 |
|---|---|---|---|---|
| In one year or less | 850 | 850 | 850 | 850 |
| Between one and two years | 24 | 24 | 874 | 874 |
| **Total** | **874** | **874** | **1,724** | **1,724** |

**16) Financial instruments**

The carrying amounts of the financial assets and liabilities include:

| | Group 2017 £'000 | College 2017 £'000 | Group 2016 £'000 | College 2016 £'000 |
|---|---|---|---|---|
| Assets measured at amortised cost: | | | | |
| Trade debtors | 472 | 410 | 238 | 238 |
| | **472** | **410** | **238** | **238** |
| | | | | |
| Liabilities measured at amortised cost: | | | | |
| Trade creditors | 661 | 614 | 870 | 870 |
| Other creditors | 334 | 323 | 332 | 332 |
| Accruals | 1,429 | 1,400 | 1,936 | 1,936 |
| Amounts owed to group undertakings | - | 231 | - | - |
| Bank loans | 18,400 | 18,400 | 17,900 | 17,900 |
| | **20,824** | **20,968** | **21,038** | **21,038** |

Financial assets measured at amortised cost comprise trade debtors.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, accruals and bank loans.

**17) Provisions**

| | Group and College | | |
|---|---|---|---|
| | Defined benefit obligations £'000 | Enhanced pensions £'000 | Total £'000 |
| At 1 August 2016 | 10,596 | 3,289 | 13,885 |
| Expenditure in the period | (1,072) | (212) | (1,284) |
| Charge in the period | (1,866) | 16 | (1,850) |
| **At 31 July 2017** | **7,658** | **3,093** | **10,751** |

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

The enhanced pension provision relates to the cost of staff who have already left the College's employ. This provision has been recalculated in accordance with guidance issued by the funding bodies.

The principal assumptions for this calculation are:

| | 2017 | 2016 |
|---|---|---|
| Price Inflation (CPI) | 2.00% | 1.80% |
| Discount rate | 2.60% | 2.60% |

**18) Cash and cash equivalents (Group)**

| | At 1 August 2016 | Cash Flows | Other changes | At 31 July 2017 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Cash and equivalents | 1,876 | (677) | - | 1,199 |
| **Total** | **1,876** | **(677)** | **-** | **1,199** |

**19) Capital commitments**

| | Group and College | |
|---|---|---|
| | 2017 | 2016 |
| | £'000 | £'000 |
| Commitments contracted for at 31 July | **49** | **424** |

**20) Lease obligations**

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

| | Group and College | |
|---|---|---|
| | 2017 | 2016 |
| | £'000 | £'000 |
| Future minimum lease payments due | | |
| **Land and buildings** | | |
| Not later than one year | 196 | 277 |
| Later than one year and not later than five years | 304 | 435 |
| Later than five years | 158 | - |
| | **658** | **712** |
| **Other** | | |
| Not later than one year | 145 | 121 |
| Later than one year and not later than five years | 113 | 207 |
| Later than five years | - | - |
| | **258** | **328** |

**21) Contingent liabilities**

The College has not identified or provided for any contingent liabilities.

## 22) Defined benefit obligations

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

| **Total Pension cost for the year** | **2017** | **2017** | **2016** | **2016** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Teachers' pension scheme: contributions paid | | 1,540 | | 1,486 |
| Local Government Pension Scheme: | | | | |
| Contributions paid | 1,072 | | 999 | |
| FRS 102 (28) charge | 1,050 | | 512 | |
| | | 2,122 | | 1,511 |
| Charge to the Statement of Comprehensive Income (staff costs) | | **3,662** | | **2,997** |
| Enhanced pension charge to Statement of Comprehensive Income (other operating expenses) | | 16 | | 238 |
| **Total pension cost for the year** | | **3,678** | | **3,235** |

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

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 2010, and, from 1 April 2014, by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including academies, in England and Wales that are maintained by local authorities. In addition, teachers in many independent and voluntary-aided schools and teachers and lecturers in some establishments of further and higher education may be eligible for membership. Membership is automatic for full-time teachers and lecturers and, from 1 January 2007, automatic too for teachers and lecturers in part-time employment following appointment or a change of contract. Teachers and lecturers are able to opt out of the TPS.

### The Teachers' Pension Budgeting and Valuation Account

Although members may be employed by various bodies, their retirement and other pension benefits are set out in regulations made under the Superannuation Act 1972 and are paid by public funds provided by Parliament. 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.

The Teachers' Pensions Regulations 2010 require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pension increases). From 1 April 2001, the Account has been credited with a real rate of return, which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

### Valuation of the Teachers' Pension Scheme

The latest actuarial review of the TPS was carried out as at 31 March 2012 and in accordance with The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. The valuation report was published by the Department for Education (the Department) on 9 June 2014. The key results of the valuation are:

- New employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- Total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- An employer cost cap of 10.9% of pensionable pay.
- The assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%.

The new employer contribution rate for the TPS was implemented in September 2015. The next valuation of the TPS is currently underway based on April 2016 data, whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:

https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx

**Scheme Changes**

Following the Hutton report in March 2011 and the subsequent consultations with trade unions and other representative bodies on reform of the TPS, the Department published a Proposed Final Agreement, setting out the design for a reformed TPS to be implemented from 1 April 2015.

The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual rate of 1/57th; and a Normal Pension Age equal to State Pension Age, but with options to enable members to retire earlier or later than their Normal Pension Age. Importantly, pension benefits built up before 1 April 2015 will be fully protected. In addition, the Proposed Final Agreement includes a Government commitment that those within 10 years of Normal Pension Age on 1 April 2012 will see no change to the age at which they can retire, and no decrease in the amount of pension they receive when they retire. There will also be further transitional protection, tapered over a three and a half year period, for people who would fall up to three and a half years outside of the 10 year protection.

Regulations giving effect to a reformed Teachers' Pension Scheme came into force on 1 April 2014 and the reformed scheme commenced on 1 April 2015.

The pension costs paid to TPS in the year amounted to £1.540m (2015 / 2016: £1.486m)

**FRS 102 (28)**

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

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

**Local Government Pension Scheme**

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by the Teesside Pension Fund. The total contributions made for the year ended 31 July 2017 were £1,525,000, of which employer's contributions totalled £1,072,000 and employees' contributions totalled £468,000. 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.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2016 by a qualified independent actuary

| | **At 31 July 2017** | **At 31 July 2016** |
|---|---|---|
| Rate of increase in salaries | 2.0% | 1.8% |
| Future pensions increases | 2.0% | 1.8% |
| Discount rate for scheme liabilities | 2.6% | 2.6% |
| Inflation assumption (CPI) | 2.0% | 1.8% |

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

| | At 31 July 2017 years | At 31 July 2016 years |
|---|---|---|
| *Retiring today* | | |
| Males | 22.8 | 23.1 |
| Females | 24.9 | 25.6 |
| *Retiring in 20 years* | | |
| Males | 25.0 | 25.3 |
| Females | 27.2 | 28.0 |

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

| | Long-term rate of return expected at 31 July 2017 | Fair value at 31 July 2017 £'000 | Long-term rate of return expected at 31 July 2016 | Fair value at 31 July 2016 £'000 |
|---|---|---|---|---|
| Equity instruments | 8.0% | 30,952 | 8.0% | 25,299 |
| Debt instruments | 5.9% | 839 | 6.0% | 685 |
| Property | 7.2% | 2,807 | 7.2% | 2,295 |
| Cash | 4.5% | 1,859 | 4.5% | 1,520 |
| **Total fair value of plan assets** | | **36,457** | | **29,799** |
| | | | | |
| **Weighted average expected long term rate of return** | 7.7% | | 7.7% | |
| **Actual return on plan assets** | | **5,624** | | **2,535** |

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

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Fair value of plan assets | 36,457 | 29,799 |
| Present value of plan liabilities | (44,115) | (40,395) |
| **Net pensions liability** | **(7,658)** | **(10,596)** |

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

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Amounts included in staff costs** | | |
| Current service cost | 2,118 | 1,504 |
| Past service cost | 4 | 7 |
| **Total** | **2,122** | **1,511** |
| | | |
| **Amounts included in interest payable** | | |
| Net interest expense | 261 | 293 |
| | **261** | **293** |
| | | |
| **Amount recognised in Other Comprehensive Income** | | |
| | | |
| Return on pension plan assets | 4,835 | 1,570 |
| Experience losses arising on defined obligations | (586) | (2,717) |
| **Amount recognised in Other Comprehensive Income** | **4,249** | **(1,147)** |

**Asset and liability reconciliation**

| Changes in the present value of defined benefit obligations | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Defined benefit obligations at start of period** | (40,395) | (34,990) |
| Current service cost | (2,118) | (1,504) |
| Interest cost | (1,050) | (1,258) |
| Contributions by scheme participants | (468) | (456) |
| Experience gains and losses on defined benefit obligations | (586) | (2,717) |
| Estimated benefits paid | 506 | 537 |
| Past service cost | (4) | (7) |
| **Defined benefit obligations at end of period** | **(44,115)** | **(40,395)** |

| **Changes in fair value of plan assets** | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Fair value of plan assets at start of period** | 29,799 | 26,346 |
| Interest on plan assets | 789 | 965 |
| Remeasurement gains on assets | 4,835 | 1,570 |
| Employer contributions | 1,072 | 999 |
| Contributions by scheme participants | 468 | 456 |
| Estimated benefits paid | (506) | (537) |
| **Fair value of plan assets at end of period** | **36,457** | **29,799** |

**Sensitivity analysis**

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 July 2016 and the projected service cost for the period ending 31 July 2017 is set out below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same.

Sensitivity analysis of unfunded benefits is not inculded as it is not considered to be material.

**Discount rate assumption**

| Adjustment to discount rate | +0.1% p.a. | Base figure | -0.1% p.a. |
|---|---|---|---|
| Present value of total obligation (£'000) | 42,977 | 43,919 | 44,882 |
| % change in present value of total obligation | -2.1% | | 2.7% |
| Projected service cost (£'000) | 2,120 | 2,190 | 2,262 |
| Approximate % change in projected service cost | -3.2% | | -3.3% |

**Rate of general increase in salaries**

| Adjustment to salary increase rate | +0.1% p.a. | Base figure | -0.1% p.a. |
|---|---|---|---|
| Present value of total obligation (£'000) | 44,318 | 43,919 | 73,703 |
| % change in present value of total obligation | 50.0% | | -0.5% |
| Projected service cost (£'000) | 2,190 | 5,190 | 2,190 |
| Approximate % change in projected service cost | 0.0% | | 0.0% |

**Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption**

| Adjustment to pension increase rate | +0.1% p.a. | Base figure | -0.1% p.a. |
|---|---|---|---|
| Present value of total obligation (£'000) | 44,661 | 43,919 | 43,190 |
| % change in present value of total obligation | 1.7% | | -1.7% |
| Projected service cost (£'000) | 2,262 | 2,190 | - 2,120 |
| Approximate % change in projected service cost | 3.3% | | -3.2% |

**Post retirement mortality assumption**

| Adjustment to mortality age rating assumption | +0.1% p.a. | Base figure | -0.1% p.a. |
|---|---|---|---|
| Present value of total obligation (£'000) | 42,225 | 43,919 | 42,621 |
| % change in present value of total obligation | 3.0% | | -3.0% |
| Projected service cost (£'000) | 2,270 | 2,190 | 2,111 |
| Approximate % change in projected service cost | 3.6% | | -3.6% |

## 23) 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.

No transactions were identified which should be disclosed under FRS 102 section 33 'Related Party Disclosures'.

## 24) Amounts disbursed as agent

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Funding body grants - bursary support | | |
| Funding body grants - discretionary learner support | 1,019 | 1,416 |
| Funding body grants - residential learner support | - | - |
| Other Funding body grants | - | 212 |
| Interest earned | 1 | 1 |
| | **1,020** | **1,629** |
| Disbursed to students | (803) | (1,441) |
| Administration costs | (42) | (81) |
| **Balance unspent as at 31 July, included in creditors** | **175** | **107** |

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.

**25) Acquisitions**

On 1 August 2016, the Group acquired the entire share capital of Northern Skills Group Limited for a total consideration of £384,000.
The acquisition had the following effect on the Group's assets and liabilities:

| | Total |
|---|---|
| | **£'000** |
| **Fixed assets** | |
| Tangible assets (note 9) | 24 |
| Intangible assets - Customer relationships (note 11) | 347 |
| **Current assets** | |
| Other debtors | 17 |
| **Total assets** | **388** |
| **Creditors** | |
| Deferred tax liability | (4) |
| **Total liabilities** | **(4)** |
| **Net Identifiable assets and liabilities** | **384** |
| **Goodwill** | **-** |
| **Purchase consideration and costs of acquisition** | **384** |
| Consideration and acquisition costs paid in the year | 384 |
| Contingent consideration and acquisition costs accrued | - |
| | **384** |

No other material intangible assets were identified.

The acquired undertaking made a profit of £73,129 in the year. In its previous financial period the loss was £124,533.