

GATESHEAD COLLEGE

Report and Financial Statements for the year ended 31 July 2019



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Reference and Administrative Details

Key management personnel

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

- Judith Doyle, Principal and CEO; Accounting officer (resigned 31 December 2019)
- Chris Toon, Deputy Principal – Curriculum and Quality
- John Holt, Deputy Principal – Operations and Finance (resigned 19 February 2020)
- Ivan Jepson, Director of Business Development
- Mark Thompson, Director of People and Organisational Development
- Nadine Hudspeth, Director of Marketing and Communications
- John Gray, Director of Student Experience
- Andrew Cole, Interim Principal and CEO (appointed 24 February 2020)
- Keith Oxspring, Interim Finance Director (appointed 2 January 2020)

Board of Governors

A full list of Governors is given on page 26-27 of these financial statements. Womble Bond Dickinson acted as clerk to the corporation throughout the period.

The following governors have been appointed since 31 July 2019:

Chris Toon – Acting Principal appointed 1 January 2020 – ceased to act as Governor on 23 February 2020 upon ceasing to act as Principal

John Hogg – Chair of Governors appointed 22 January 2020 – 4 year term of office

Aneela Ali – appointed as Governor 14 February 2020 – 4 year term of office

Andy Cole – Interim Principal appointed 24 February 2020, ex officio Governor

Martin Hedley – appointed as Governor 26 March 2020 – 4 year term of office

Simon Ennew – appointed 27 April 2020 – teaching staff Governor - 2 year term of office

Sarah McBean – appointed 26 May 2020 – student Governor - 1 year term of office

Georgina Moroney – appointed 26 May 2020 – student Governor - 1 year term of office

An existing governor, Sarah Stewart, was appointed as Vice Chair on 1 August 2020

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Principal & Registered Office

Baltic Campus
Quarryfield Road
Gateshead NE8 3BE

Professional Advisers

Financial Statements, Auditors and Reporting Accountants:

RSM UK Audit LLP
1 St. James Gate
Newcastle upon Tyne
NE1 4AD

Internal Auditors:

PriceWaterhouseCoopers LLP
Central Square South
Newcastle upon Tyne
NE1 3AZ

Bankers:

Barclays Bank
Grey Street
Newcastle upon Tyne
NE99 1JP

Lloyds Bank
17 Ellison Walk
Gateshead
NE8 1BF

Solicitors:

Square One Law
Anson House
Burdon Terrace
Newcastle upon Tyne
NE2 3AE

Eversheds
Central Square south
Orchard Street
Newcastle upon Tyne
NE1 3XX

Womble Bond Dickinson
St Anne's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Report of the Governing Body

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2019. This report has been subject to significant amendments following the discovery of serious financial concerns emerging post 31 July 2019 which are outlined below and are being resolved. These serious financial concerns resulted in the College being escalated to formal intervention by the FE Commissioner in December 2019.

Serious Financial Concerns

This report and financial statements cover the period to July 2019 but should, however, be read on the basis that the Governors believed the financial position of the College during that period to be substantially different to the actual financial position now reported. Forecasts presented to the governors prior to the end of July 2019, stated that the College was projecting to report a small (c£200k) surplus as at the year end. However, in the months following the end of the financial year, a significant and unplanned deficit was identified which has resulted not only in the intervention mentioned above, but in the College having to embark on a transformation and recovery plan in order to restore it to financial health in the shortest possible time.

Upon the deficit being identified, the governors immediately commissioned an independent forensic firm of accountants to investigate how and why the deficit arose. The governors now understand that the monthly financial reports being presented to them included overstatements of income and under-statements of costs (further detail is included within the statements below).

In addition, the College received an unauthorised loan of £1,100,000 from the Gateshead College Foundation which was repaid during the year. Furthermore, following the year end, the Governors discovered that in September 2020, £1,105,000 of the Foundations funds had been transferred to the College to support immediate cash needs. Despite this being custom and practice in former years with amounts being repaid in full in-year to the Foundation, the transfer of funds was not authorised. As the College is currently unable to make immediate repayment, an agreement has been reached regarding the terms on which the College will reimburse the Foundation so that it is not disadvantaged and is able to continue its charitable work. In future, there will be appropriate governance in place between the College and the Foundation relating to their future operating relationship.

These issues were not identified by any of the internal controls in place at the College, nor by any weaknesses identified within the internal audit reports prepared by PriceWaterhouseCoopers LLP. The areas covered by internal audit in the year included Facilities, IT Disaster Recovery, Health and Safety, plus Key Financial Controls including Suppliers and Payroll. Measures are now being taken to improve systems and processes to ensure the information presented to governors and their committees regarding financial matters in particular is adequate to offer effective oversight and to ensure this situation does not happen again. A further core Financial Controls Audit has been undertaken with recommendations made to improve financial effectiveness. The forensic review undertaken in January 2020 also identified

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errors in both the 2017 and 2018 financial statements which understated sub-contractor/partnership costs by £1,693,000 and £477,000 respectively. The final version of this report was not concluded until June 2020 and has in part contributed to the delay in these financial statements being finalised.

The FE Commissioner requested that the College be subject to a Structures & Prospects Appraisal (SPA) to decide the best future structure of the organisation. The objective of the appraisal was to ensure the learners in the region are protected and that their educational requirements are provided by an efficient and effective educational provider. On 25 September 2020, the FE Commissioner advised that the outcome of the SPA was that the College should continue to remain an independent institution subject to certain criteria being met together with ongoing monitoring.

Post 31 July 2019, the College has procured additional financial support from ESFA on secured terms in order that it can continue to operate on a day to day basis pending the outcome of the SPA. At the date of these financial statements being approved, a sum of £5.4m has been provided to the College to support staff re-structuring exercises and to provide minimum essential working capital finance in order that the College can continue to operate on a day to day basis. Funding has been subject to strict terms and conditions with regular progress reviews being undertaken by a combination of the FE Commissioner, ESFA Intervention team and Provider Market Oversight (PMO).

The College has commenced work to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets. This work is clearly not complete with further efforts needed to meet the continued close monitoring requirements of ESFA. Further efforts have been made in the period to date to improve the College financial management processes. The internal controls that were subject to internal audit during 18/19 indicated no areas of significant risk. However subsequent investigation has highlighted aspects of the Group's work where controls were not being effectively managed leading to the final reported deficit. These areas have been subject to internal audit during the period to date.

Notwithstanding the financial challenges faced by the College highlighted above, student success rates remain very strong, well above national benchmarks for the financial period, and student recruitment for 2020/21 looks positive too. The OFSTED inspection in early 2020 reported on good overall outcomes for learners in many areas, with some outstanding features. The Governors remain committed to the provision of high quality education and training for its learning, which is at the heart of the College's strategy. Please see the published OFSTED report for more detail on the outcomes for learners.

This report and the financial statements should be read with the above context in mind.

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Legal status

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

Corporation Name

The Corporation was incorporated as Gateshead Technical College. On 1 October 2001, the Secretary of State granted consent to the Corporation to change the College's name to Gateshead College.

Mission

The College's charitable objects are to advance education and learning for the benefit of the public. Its mission is to ensure that its students receive education and training of the highest quality such that they are the most employable in the marketplace – ensuring students are ready for the world of work. The College's strapline is to ensure its students "are the most highly prized in the jobs market".

Public Benefit

Gateshead College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education and the DfE as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 26 - 27.

Strategic Objectives

In setting and reviewing the College's strategic objectives, the Governing Body has had due regard to 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:

1. High-quality teaching and learning

Education and Training provision includes the highest overall success rate of all colleges for the second year in 2018/19 at 95.6%. Young people's achievement rates at 91.5% is 8.7% above the national rate and the highest in the region. Applied general point score at 33.58 is 7th out of 150 FE colleges, applied general progress score is +0.49 is 3rd out of 150 FE colleges and technical level point score is 33.95 which is 9th out of 147 FE colleges. A level C grade and higher is 85%, 10% above the national rate. The majority of recent apprentice starts make good progress and achieve their apprenticeship in a timely manner with an achievement rate of 73.1% which is 13.2% above the national rate. Feedback from learners is extremely strong, with 90% stating that teaching is better than they have experienced elsewhere and 94% suggesting that they would recommend their course to others.

2. Widening participation and tackling social exclusion

This includes 72% of Project Choice learners who progress to sustained employment compared to a national rate of 8%, 2000 adults each year moving from long term unemployment to sustained employment (5908 over 3 years), Access to Higher Education learners gaining the highest achievement rate in the country at 98.8 % and over 500 English for Speakers of Other Language learners gaining the language skills to thrive in our economy.

3. Excellent employment record for students

Students receive highly effective careers advice and guidance which supports them in making informed decisions about their future. Learners receive pre-entry, on-course and exit support, advice and guidance by the careers and curriculum teams with 94.2% progressing to positive destinations.

4. Strong student support systems are in place at the College

For the students and apprentices in receipt of support, 96.2% said they were happy with the amount of support they received and 96.6% said they were happy with the quality of support they received. There is a commitment to meeting the needs of every individual learner. Strong information, advice and guidance and a thorough process of initial assessment is designed to identify specific needs, particularly in maths and English, and continues with regular progress reviews throughout the year. Not only does this support 97.4% learners to remain on programme in College, it also contributes to the above national benchmark achievement in both maths and English GCSE.

5. Working with the local community

Links with the community are highly effective and support the development of learners becoming respectful and active citizens who understand the local community and the part they play, and how they can become involved in public life. Many learners undertook charitable work, including working with the National Citizenship Service (NCS) and charities such as Macmillan coffee mornings, Period Poverty and the Food Bank.

6. Links with employers, industry and commerce

This includes membership of CBI Regional Council, Chair North East England Chamber of Commerce (NEECC) Education and Skills Committee, QE Hospital Board and FE Partner of Entrepreneurs' Forum. Employer partners include Virgin Money, Essity, Accenture, Sir Robert McAlpine and our unique and award winning PlanBEE consortium. The College is also mindful of its obligations to small and medium enterprises (SME) therefore also work with organisations such as Digital Union, the Federation of Small Businesses and the NEECC small business unit, which has allowed us to respond to skill shortages for small and micro businesses.

7. Links with Local Enterprise Partnerships (LEP's)

This includes membership of LEP Growth Board, FE Partner for LEP North East Digital Growth steering group and partner of LEP North East Careers Hub. The strategic plan was endorsed by the local enterprise partnership (LEP) and has ensured that the College's curriculum is aligned to local needs, providing a progressive and personalised career focused education ensuring that our learners progress in great numbers to employment, university and, in line with the LEPs ambition, "better jobs".

Implementation of strategic plan

The College annually prepares a rolling three year strategic plan, including an accommodation strategy and financial forecasts. The corporation monitors the performance of the College against these plans.

A strategic plan was set for the period 2016/2019 and the objectives set out below were those set for that period. Whilst substantial parts of those objectives were in fact met and the College has achieved success across many areas of its business, the governors nevertheless wish to present them in the context of the financial situation as it is known. Having said that, the success in many areas of the College is still to be celebrated and the governors wish to thank in particular the staff team across the College for their loyalty and commitment in supporting the delivery of these positive objectives described below.

In relation to the College's overarching strategic principles for 2016-2019 we can report as follows:

1. Highest Quality of Teaching & Learning and Student Outcomes: To build on the very high standards which resulted in the 2015 Outstanding Ofsted judgement to ensure our students have an excellent learning experience, fulfil their potential and leave us with the skills, confidence and work ethic needed for a successful career. This will be achieved by:
 - Ensuring there is clear accountability for student outcomes with every teacher and manager understanding their personal responsibilities for this.
 - Only accepting the highest standards of performance from our teachers and managers.
 - Providing a truly supportive learning environment and a personalised experience for every student.
 - Offering courses that lead to jobs, a curriculum that is fit for purpose and informed by industry. Working with employers and our school partners, we will develop products that provide the pipeline of talent to meet regional skills needs.

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- Continuing to stretch our students to ensure their core of English, mathematics and digital skills are well developed and support their employment and life chances.
- Ensuring that every student has a career plan, benefits from inspirational, relevant work experience and from opportunities to develop and apply their entrepreneurial skills and ambitions.

Note that OFSTED inspected the College in February 2020 and graded the College as 3 – Requires Improvement, largely due to the deterioration in financial health of the College reported above (and its assessment of leadership and management). That report does demonstrate particular areas of positive and good outcomes and the reader is referred to this for more detail.

2. High Performance Culture: Develop the high performance culture, where expectations are clear and standards high. People will be accountable for what they do and their achievements recognised. They will be supported and developed so they can fulfil their potential and that of our students and can make a positive impact on the performance of the business. This will be achieved by:
 - Ensuring everyone lives up to our values in the way they go about their business on a day to day basis, we will not accept anything less.
 - Further embedding our culture of performance management; improving our processes and further driving up standards through a relentless focus on “outstanding” performance of all staff for the benefit of our students and stakeholders.
 - Further developing our employee engagement strategy so together we can make the college an even better place to work and study.
 - Investing in the development of our people.
 - Ensuring we have the right succession plans in place to secure the sustainability of our organisation.
 - Creating a working environment where people are valued and inspired to work together with focus, commitment and passion

Since the financial difficulties were identified, there has been a number of changes in senior management personnel. These appointments have brought fresh ideas and approaches into the College creating an open ‘can do’ culture which has had a positive impact on structures and the SPA process.

3. Exceptional Services and Customer Experience: To provide services and customer experiences which surpass the expectations and needs of our students, employers and stakeholders and which are seen as the best in the sector. This will be achieved by:
 - Further developing our excellent Careers Service, embedding it across the organisation and collaborating with others to influence the improvement of careers guidance across and beyond the region.
 - Providing an exceptionally safe environment for all; embracing our duties relating to Safeguarding, Prevent, and Promotion of British Values so we continue to be seen as an exemplar of outstanding practice.
 - Setting out standards and expectations for consistently outstanding service, developing the skills and behaviours of our people and rewarding excellent practice.

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- Improving and developing our systems and processes around the needs of the customer, proactively using their feedback to shape what we do.
4. Growing our Business: Growing the business securing greater market share and an even stronger reputation for delivering what employers need. We want to be the college of choice; trusted by students and by industry to provide informed, expert advice and the highest quality of education and training. This will be achieved by:
- Focussing on growing the areas which are aligned to regional priorities specifically developing Apprenticeships and wider skills provision, ensuring our resources are best deployed to deliver maximum return on our investment. These areas are:
 - 1) Advanced Manufacturing
 - 2) Automotive
 - 3) Health and Social Care
 - 4) Creative and Digital
 - 5) Business and Professional Services
 - 6) Building Services
 - 7) Sport and Leisure
 - Ensuring we provide the highest quality Apprenticeship provision and services which are responsive, flexible and differentiated to meet the individual needs of our customers. Further work to improve apprenticeship attainment is planned for the next financial period.
 - Working with employers to develop higher level skills capability in the workforce.
 - Working in partnership with employers, schools and stakeholders to ensure there are pathways from primary school age up to higher skills and that all young people have the chance and aspiration to secure the best career for themselves.
 - Delivering a curriculum which is aligned to employers' skills needs and the career opportunities in the region, and which meets the aspirations of our students.
 - Improving business processes – ensuring they are smart, efficient, customer focused and deliver exceptional value for all stakeholders.
 - Remaining at the forefront of any future skills policy reform, using our position and expertise to respond quickly and support our employers in the continued development of their workforce.
5. Sustainability: We stated we would run our organisation effectively and efficiently and maintain our financial health so we could continue to invest in our future, ensuring we have the best people, resources and facilities for each and every student. We said that we would do this by:
- Positioning the college on a national level, well placed to influence policy and achieve successful economic prosperity for our region.
 - Ensuring our financial and business services are agile, responsive and resilient in the changeable financial and political climate.
 - Providing a high quality, first class estate which is aligned to curriculum needs and cost effective.
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- Investing in IT infrastructure, facilities and services for students to ensure their experience is outstanding.
 - Ensuring we remained in exceptional financial health, diversifying income, embracing innovation and ensuring that resources and funding are carefully targeted to ensure the greatest impact on the regional economy.
 - Operating responsibly and ethically as a business, always doing the right things in the right way.
 - Following the discovery and disclosure of the significant unplanned financial deficit, the College received a financial notice to improve from ESFA and was placed into supervised status by the FE Commissioner. The College, working with in conjunction with ESFA, proceeded to develop a recovery plan which helped demonstrate its capacity to stand alone, restore financial health and maintain sustainability going forward.
6. Achieve and maintain an OFSTED grade of Good or better: Gateshead College was inspected by OFSTED in June 2015, and achieved a Grade 1 Outstanding rating overall. Underpinning the overall effectiveness assessment of outstanding, the college received the following grades:
- Outcomes for Learners was graded outstanding
 - Quality of Teaching, Learning and Assessment was graded outstanding
 - Effectiveness of Leadership & Management was graded outstanding
 - All Curriculum areas inspected, were graded either good or outstanding.

As stated above, the College was inspected in February 2020 and was graded 3 – Requires Improvement. This was primarily due to leadership, governance and management requiring improvement in the light of the emerging financial deficit position. Curriculum grades were good or outstanding apart from Apprenticeships – Requires Improvement. As stated above, apprenticeship provision will continue to receive regular scrutiny and oversight during the next financial period, in particular whilst a number of measures (already in train) are implemented to improve attainment in this area.

Financial Objectives 2018/19

- To generate group turnover of £47.8m – Not achieved at £43.3m. This was largely due to a short-fall in apprenticeship recruitment and ESF funding against budgeted targets.
- To generate a surplus of £1,004,000 – Not achieved, deficit of £11,780,000 after fixed asset impairment charges of £6,556,000. This was largely due to the income shortfall described above, additional franchise partner costs and the impact of fixed asset impairment charges.
- To generate a current ratio greater than 1 at 31 July 2019 – Not achieved at 0.4. Bank Loans of £9.1m would normally have been included as being due in more than 1 year. However, the bank covenant relating to timely submission of these financial statements has not been met and hence all bank borrowings have been classed as due within one year. The bank has indicated that it will continue to work in good faith with the College and not call in these loans.

Financial Objectives 2019/20:

- In November 2019 the Board of Governors approved a revised budget for 2019/20. This was prepared in the absence of the Finance Director by the then Principal/CEO with support from an interim finance expert. The budget contained the following objectives: to achieve an income target of £34.1m for 2019/20, and a deficit of £1,296,000. The revised budget included additional teaching costs relating to 200 additional full-time 16-19 learners recruited in the year to 31 July 2020, increased restructuring costs and a revised income target based on the latest 2019/20 funding allocations. In January 2020, an interim Finance Director was appointed with significant FE experience who prepared an updated financial forecast in much more detail which indicated a far worse financial outcome for the year than had been predicted in December 2019. This has been proved to be realistic and at the date of these financial statements, indications are that income will be £31.1m with a deficit for the year of £5.8m. The discovery of the true financial position reinforced the need for the College to prepare a recovery plan with support from ESFA.
- To generate a current ratio of 1.03 at 31 July 2020. This will not be met with bank loans being classed as all due within one year. This is due to a breach in covenants, the first being a technical breach as a result of the late filing of these financial statements followed by a specific breach based on the financial performance in the year to July 2020.
- To improve the financial health rating for the period 31 July 2021 to 'requires improvement' with further improvement to 'good' in the year to 31 July 2022. The planned improvements are to be achieved as a result of significant cost reduction and subsequent improvement in trading performance combined with positive cash generation via property disposals.
- To rationalise the College's estate having regard to its estate strategy adopted in March 2020, ensuring the most effective use of its asset base and achieve efficiencies wherever possible.

Performance Indicators

The College uses the following Key Performance Indicators (KPI's) to measure its performance internally, and benchmark against other FE providers nationally:

- Learner Success Rates: Gateshead College achieved an overall learner success rate of 95.6% for the year to 31 July 2019 (2018: 96.2%), this is better than the national rate by 9.7%.
- Financial Health: Due to the issues mentioned above regarding the unplanned deficit situation, the College's Financial Health rating decreased unexpectedly in the year to 31 July 2019 to "inadequate" against the planned rating of "Outstanding".
- Adjusted Current Ratio – 0.5 achieved compared with plan of 2.54
- EBITDA as a percentage of income – (7.2%) achieved compared with plan of 9.02%
- Borrowing as a percentage of income – 22.2% achieved compared with plan of 18.47%
- Delivery against funding targets: Gateshead College achieved all its funding body contract targets in the year to 31 July 2019.

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- **Destinations:** The most recent set of destination data was collected in the year to 31 July 2018, with 94% have a positive destination either into employment or continuing with education.
- **Employer Engagement:** The most recent FE Choices employer satisfaction data shows Gateshead scoring 81.1%, below the sector average of 83.5%.
- **Learner Satisfaction:** The 2018/19 FE Choices learner survey shows a learner satisfaction score for the College of 80.0%, just below the sector average of 81%.
- **Employee Satisfaction:** The College latest staff survey showed a score of 8.2 out of 10 overall employee satisfaction score using the new survey provider HIVE. This is a slight improvement on the score from 2017/18 which was 8.1

The College is committed to observing the importance of sector measures and indicators and uses the FE Choices data available on the GOV.UK website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Education and Skills Funding Agency ("EFSA"). The College was assessed by the Education and Skills Funding Agency as having a "Good" financial health grading, but that position has subsequently fallen to "Inadequate" in light of the issues highlighted above.

FINANCIAL POSITION

Financial results

The consolidated operating deficit in the year was £11,780,000 after charging £6,556,000 in fixed asset impairment losses (2017/18 restated: surplus of £271,000). During the year, £202,000 of staff restructuring costs were incurred (2017/18 £160,000) plus interest charges (net of pension finance costs) of £402,000 (2017/18 £383,000). The deficit position in the year to 31 July 2019 was largely as a result of a shortfall of apprenticeship recruitment, a shortfall of ESF income against targets, additional franchise partner costs incurred and impairment costs.

In preparing these financial statements adjustments required to the performance in both the year to July 2017/18 and 2016/17 have come to light. These involve the understatement of sub contract related costs of £477,000 in 2017/18 and £1,693,000 in 2016/17.

The Group has accumulated consolidated reserves of £3,087,000 excluding pension reserve (2017/18 restated - £18,587,000 excluding pension reserve) and consolidated cash balances including short-term investments of £3,895,000 (2017/18 - £4,728,000). The movement in reserves in the year to 31 July 2019 is due to the £11,780,000 operating deficit detailed above, and the remeasurement of the defined pension liability which resulted in a charge of £3,720,000.

The College has developed a detailed Recovery Plan and has undertaken two significant staff re-structure exercises during the year to July 2020 with a view to bringing pay levels into line with sector norms.

As a result, the Group anticipates generating a small surplus in the year to July 2021 after taking into account the anticipated adverse impact of Covid-19 estimated to be c£0.8m. The ratio of loans to income is forecast to improve as a result of the sale of various properties that are either underutilised or currently rented out to third parties.

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The College's portfolio of trading subsidiary companies consists of Amacus Limited, North East Apprenticeship Company Limited, the Gateshead College Foundation, Zero Carbon Futures (North)Limited, Zero Carbon Futures (UK) Limited and Gateshead Sport Management (Malaysia) SDN.BHD.

Amacus Limited's primary operating activity continued to be the delivery of employability qualifications, but now have developed higher apprenticeship qualifications at Levels 5 and 7. Amacus Limited continued to trade normally throughout the Financial Year to 31 July 2019 generating turnover of £898,464 and a pre tax loss of £68,760. The activities have since been wound down and the Company has now ceased trading. As a result of the closure there were losses on investments within the College entity financial statements of £126,500.

The North East Apprenticeship Company Limited (NEAC) was registered on 12th February 2010, its primary operating activity is to engage with local SME's to create new work placement opportunities for apprentices, and to support their apprentices enabling them to complete their qualification and find appropriate full-time employment. NEAC continued to trade normally throughout the Financial Year to 31 July 2019 generating turnover of £1,889,222 and a pre tax trading profit of £9,693.

Gateshead College Foundation was incorporated on 18th April 2011. This charitable organisation was established to provide financial support to students to ensure their studies are not impacted by personal hardship. The Foundation had income of £32,246 in the year with a negative movement in funds of £4,467. The remaining funds as at 31 July 2019 were £1,142,016.

Zero Carbon Futures (UK) Limited was incorporated on the 29th June 2011. This company's primary purpose is to establish the College's reputation as one of the leading providers of Electric Vehicle and Sustainable Manufacturing training in the UK. Zero Carbon Futures (UK) Limited continued to trade normally throughout the Financial Year to 31 July 2019 with turnover of £566,738 and pre tax losses of £42,579. The company was transferred to Newcastle University on 1 November 2020.

Zero Carbon Futures (North) Limited was incorporated on 17th November 2011 It's primary purpose was to house the 'Plugged in Places' project previously operated by the now closed Regional Development Agency ONE North East. The company generated turnover of £106,700 and a pre tax profit of £3,907. This company is currently planned to be wound down and is likely to cease trading in the near future.

On the 15th May 2014 Gateshead College set up a company based in Malaysia called Gateshead Sport Management (Malaysia) SDN.BHD. This company was setup to manage a Sports Stadium contract in EduCity in Malaysia, as an initial step in Gateshead College's (now historical) international strategy in Asia This company did not trade in the year to 31 July 2019, and has subsequently been wound down. As a result of the closure there were losses on investments within the College entity financial statements of £23,552

Tangible fixed asset additions to the group during the year totalled £1,295,000 which represented the ongoing update of facilities and equipment at all College campuses.

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The Group has significant reliance on the Education and Skills Funding Agency (ESFA) for its principal funding sources, largely from recurrent grants. In 2018/2019 the ESFA provided 78.8% of the College's total income (£34,170k from total income of £43,343k). As stated above, the College has accessed emergency funding from the ESFA of £5.4m to cover restructuring costs and general cash flow requirements to continue its operations to the date of signing these financial statements (and see below the statements regarding going concern).

Treasury Policies and Objectives

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

Whilst the Group had a separate treasury management policy in place, it has been noted due to timing of funding receipts and low levels of cash reserves, payments to suppliers in some instances exceeded the usual payment policies. The College has sought to address this and meet with payment terms following the year end, in conjunction with implementation of our financial recovery plan.

Cashflow

At the year end, operating cash flow was £1,337,000 (2017/18 £1,451,000). Deferral in payments to creditors impacted on this position.

Liquidity

During the year, the College secured no additional short term borrowing but did repay £505,000. The College has borrowings of £9,629,000 at 31 July 2019 (2017/18 £10,134,000). There are no borrowings within the subsidiary companies.

The College has 2 loans from Barclays Bank, one on a fixed interest rate and a second loan on a variable interest rate. Day to day banking is undertaken via Lloyds bank and there is no overdraft facility. A significant credit card facility of £1.0m was provided to the College during the year by Lloyds bank but since year end, this facility has been withdrawn.

Since 31 July 2019, the College has obtained secured funding from ESFA in order to function on a day to day basis. This has been provided based on the minimum needed for the College to continue to operate.

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.

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As at the balance sheet date the Group Income and Expenditure reserve stands at £3,087,000 (2018: £18,587,000 – as restated), which includes funds held by Gateshead College Foundation of £1,142,016 at 31 July 2019.

It is the Corporation's intention to increase reserves of the Group over the life of the strategic plan 2020-2023 through the generation of annual operating surpluses.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Accommodation Developments

During the year to 31 July 2019 the College stabilised the size of its estate, with no major developments during the year.

Student Numbers

The College is funded according to the level of activity it generates each year. In 2018/19 the College exceeded its overall learner number targets for 16-18, Adult and HE, but fell short of learner number target for apprenticeships.

Further Education	2017-2018	2018-2019	%+/-
	Headcount	Headcount	
16-18	2,718	2,452	-9.8%
19+	6,576	6,884	4.7%
Total FE	9,294	9,336	0.5%
Apprentices	Headcount	Headcount	
16-18	508	495	-2.6%
19+	2,769	1,398	-49.6%
Total APPS	3,277	1,893	-42.2%
Higher Education	Headcount	Headcount	
HE	462	393	-14.9%
European Social Funds (ESF)	Headcount	Headcount	
ESF	9,748	3,789	-61.1%

GATESHEAD COLLEGE

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Student Success Rates

Student success rates in 2018/19, particularly on long level programmes, remain very strong and above national benchmarks. Student success rates comfortably exceeded national targets due to continuous improvements in the College's key priority, student success on long level programmes

FE	2017-18 Actual %	2018-19 Actual %
Long course	90%	90.3%
Short course	98%	97.4%
All	96%	95.6%

Curriculum Developments

The curriculum offer is reviewed and updated on a regular basis to ensure that provision meets the needs of learners and employers.

The quality of provision is evaluated through the annual self-assessment process. Emphasis is given to the continuous professional development of staff to ensure that teaching and learning, and service provision, improves year on year.

Post-Balance Sheet Events

Since the balance sheet date the following events have taken place:

- Notice to Improve received resulting in FEC Intervention team being appointed to support the College
- The Principal resigned from the College on 31 December 2019 (bringing forward her planned retirement) and the Finance Director resigned on 17 February 2020
- The Deputy Principal Curriculum & Quality undertook the role of Principal until the appointment of an experienced interim Principal on 24 February 2020.
- An experienced interim Finance Director was appointed on 2 January 2020
- A Recovery Plan was prepared and used to procure secured emergency financial support from ESFA.
- OFSTED inspected the College in February 2020 with overall rating of "Requires Improvement" largely as a result of leadership and management issues.
- Independent Business Review (IBR) undertaken at the request of ESFA and Barclays Bank
- Global pandemic Covid-19 emerged during March 2020 and has created significant uncertainty for businesses in the UK, including the College, with appropriate measures being implemented to minimise the impact on learners. Financial impact in 2020 forecast to be £0.5m and £0.8m in 2021 with reductions in income and increases in operating costs being offset by government support in the form of furlough payments together with ongoing ESFA financial support.

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- The College responded positively and effectively in response to the pandemic with learning moving online and participation levels being kept in line with onsite attendance. Teaching and support staff were able to effectively engage with learners and when appropriate were able to return to campuses to undertake vocational assessments. The achievements of young people, adults and those with high needs were broadly in line with previous rates and apprenticeship rates improved to above the most recent national rates. Recruitment plans for apprentices were re-evaluated and reduced and pushed back into 2021. However, demand remained strong throughout lockdown, particularly in the subject of Digital Technologies. Recruitment for young people was above allocation and pent up demand during lockdown ensured a positive recruitment for adults particularly in ESOL and job focused education.
- On 25 September 2020, the FE Commissioner advised that the outcome of the SPA was that the College should continue to remain an independent institution subject to certain criteria being met together with ongoing monitoring.

Future Prospects

The UK Corporate Governance Code 2014 challenges companies to more stringently test its assumptions on 'Going Concern'. Governors have gone through a robust and thorough process to conclude that they are able to adopt the going concern basis of accounting

The College has already taken significant steps to address the financial failings discovered in 2019. The Recovery plan prepared by the College indicates that surpluses can be generated going forward despite the significant impact of Covid-19. The College has learned that the outcome of the IBR and SPA is that the College will remain independent and is now in the process of implementing its recovery plan.

RESOURCES

The College currently has various resources that it can deploy in pursuit of its strategic objectives, which include six newly built campuses completed in the last ten years. It is to review and articulate its estate strategy as part of the financial recovery.

The College maintenance programme continued in the year to 31st July 2019. There were no significant additional developments to any particular College Campus or Building.

The College's estate rationalisation programme was complete during the year to 31st July 2017 culminating with the long-term lease to of the Hub Building and Phase 2 section of the Construction Centre on Team Valley to 'Borg Warner Gateshead Ltd'. There were no changes to the size of the College estate during the year to 31 July 2019 but note the comments about the work being undertaken in 2019/20 in relation to the College's estate strategy.

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Financial

The Group has £3.1m (2017/18 re-stated £18.6m) of net assets, net of £17.3m pension liability (2017/18 £12.5m), borrowings of £9.6 million (2017/18 £10.1m) and net current liabilities of £11.1m (2018 - £2.5m net assets – restated)

People

The College employed an average of 599 people (expressed as full time equivalents), of whom 286 are teaching staff (2018: 626 people of whom 313 were teaching staff)

Reputation

The College's reputation is important and it has always enjoyed a good reputation both locally and nationally. That reputation has been damaged by the recent events and financial issues emerging, but there is clear focus in the future period around maintaining stakeholder trust and confidence in the College whilst it works to restore its financial health.

PRINCIPAL RISKS AND UNCERTAINTIES:

Based on the strategic plan, the Risk Management Group undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. Given the difficulties encountered in 2019, the focus of internal audit in 2019/20 has been on financial controls and sub contracting. In addition to the annual review, the Risk Management Group will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

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

Outlined below is a description of the principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College:

- **Government Funding:** The College has considerable reliance on continued government funding through the further education sector funding bodies and through Office for Students (OfS). In 2018/19, 79% of the College's revenue was ultimately publicly funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

GATESHEAD COLLEGE

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The College is aware of several issues which may impact on future funding, including impacts of government policy change following both the EU Referendum, change in governmental funding priorities for education including the Apprenticeship Levy, outcomes from the FE Area Review process, increased competition from both public and private training providers, failure to maintain a good or outstanding classification from Ofsted or change in economic conditions causing reduced learners in curriculum areas of key strength.

This risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements
- Maximising private sector income
- Ensuring the College is rigorous in delivering high quality education and training
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding.
- Tuition Fee Policy: Ministers have confirmed that the fee assumption remains at 50%. In line with the majority of other colleges, Gateshead College will seek to increase tuition fees in accordance with the fee assumptions. The risk for the College is that demand falls off as fees increase. This will impact on the growth strategy of the College. This risk is mitigated in a number of ways:
 - By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students
 - Close monitoring of the demand for courses as prices change
- Maintain adequate funding of pension liabilities: The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102.
- Failure to maintain the financial viability of the College: The College's financial health grade fell during the year. The overall score is a significant fall from the previous year, however the College has a recovery plan in place to improve the position. Notwithstanding that, the continuing challenge to the College's financial position remains the constraint on further education funding arising from the ongoing cuts in public sector spending whilst maintaining the student experience. This risk going forward is to be minimised following the introduction of the following measures:
 - Detailed 'bottom up' budget setting procedures and sensitivity analysis
 - Budget holders taking 'ownership' of their budget and being responsible for achieving it
 - Regular in year budget monitoring between budget holders & Curriculum Management/Finance
 - Improved Financial reporting via monthly management accounts
 - Exploring ongoing procurement efficiencies

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- The impact of Covid-19 continues to be a major risk and the College has been commended by ESFA in its approach in dealing with the practical teaching and learning aspects of the pandemic. There remains uncertainty in the sector regarding Covid-19 Government funding policy and the College is taking action to mitigate any impact by continuing to maximise delivery of each funding stream to the best of its ability.
- The College needs to meet the requirements stipulated by the outcome of the SPA. Plans are being made to recruit a permanent Principal/CEO and progress in meeting the targets included in the recovery plan are being closely monitored.
- The impact of Covid-19 continues to be a major risk and the College has been commended by ESFA in its approach in dealing with the practical teaching and learning aspects of the pandemic. There remains uncertainty in the sector regarding Covid-19 Government funding policy and the College is taking action to mitigate any impact by continuing to maximise delivery of each funding stream to the best of its ability.

STAKEHOLDER RELATIONSHIPS

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

- Students;
- Education Sector Funding Bodies;
- Staff;
- Local employers;
- Government Offices & Local Enterprise Partnerships;
- OFSTED;
- FE Commissioner;
- Provider Market Oversight (PMO);
- The local community;
- Other FE institutions;
- Trade Unions;
- Professional bodies;
- Tyne and Wear pension Scheme;
- Barclays Bank;

The College recognises the importance of these relationships and engages in regular communication with them through the College Internet site, through direct communications and by meetings. The College recognises the importance of maintaining these relations during its current financial challenges, ensuring there remains a level of confidence in the College and its work.

Equality

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

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

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

The College is committed to the supporting the mental health and wellbeing of staff. This is recognised by College's pledge as a 'Time to Change' employer and maintaining the excellence level of the Better Heath award. The College has also implemented an updated Equality & Diversity training programme which all staff have attended. Refresher training and training for new starters is carried out on an ongoing basis. Gateshead College believes that all forms of prejudice and discrimination are unacceptable. The Equal Opportunities Policy has been developed to ensure that the College complies with all laws and directives. The College is committed to fulfilling all agreements, regulations, Acts and subsequent amendments which may have an impact as a provider of education, training and services and also as an employer. In particular, the College will ensure that no employee, job applicant or candidate for promotion is disadvantaged or treated less favourably because of conditions or requirements that are not related to the job.

The College considers all applications from disabled persons, bearing in mind the aptitudes of the individuals concerned. When an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion, which are as far as possible, identical to those for other employees. Managers and governors monitor equality and the employment of disabled persons.

Disability Statement

The Equal Opportunities Policy provides a statement of our endeavours to comply with legislative requirements, in particular the Equality Act 2010. The Equal Opportunities strategy sets out our intention, where it is reasonable to do so, make adjustments to enable all students and potential students to have equal access to College services, thus ensuring that none are treated less favourably than others. The College publishes annually a Disability Statement which sets out the services and facilities for people with disabilities.

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The College also introduced a Race Equality Policy in March 2003, and has developed implementation plans to ensure compliance with the Race Relations (Amendment) Act 2000, and to take account of recommendations in the joint agreement on guidance for Race Equality published in April 2002. Both the Equal Opportunities and Race Equality Policies are overseen by an Equality Forum made up of internal and external representatives.

Trade Union Facility Time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the college to publish information on facility time arrangements for trade union officials at the college.

Number of Trade Union Officials during the period	FTE Employee Number
5	4.81

Percentage of Time	Number of Employees
0%	-
1 – 50%	5
51 – 99%	-
100%	-

Total cost of facility time	£41,191
Total pay bill	£23,770,182
Percentage of total bill spent on facility time	0.2%

Time spent on paid trade union activities as a percentage of total paid facility time	0%
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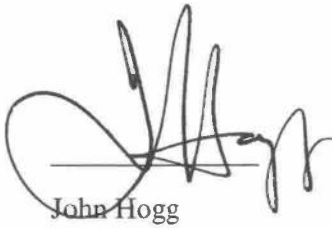
Disclosure of Information to Auditor

The members who held office at the date of approval of this report confirm that, so far as they are each aware, and having made all reasonable enquiries of College management 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.

GATESHEAD COLLEGE

STRATEGIC REPORT

Approved by order of the members of the Corporation on 9 December 2020 and signed on its behalf by



John Hogg

Chair

9 December 2020

GATESHEAD COLLEGE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

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 1st August 2018 to 31st July 2019 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

- in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- in full accordance with the Charity Governance Code ("the Code")

In the opinion of the Governors, the College complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 2019. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code which it formally adopted in February 2018.

GATESHEAD COLLEGE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The Corporation

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

<i>Appointee</i>	<i>Date of appointment</i>	<i>Term of office</i>	<i>Date of resignation</i>	<i>Status of appointment</i>	<i>Committees served</i>	<i>Attendance 2018/19</i>
Robin Mackie Chair	Reappointed with effect from End of April 2017	4 years	July 2019	Governor*	Chair – Business Committee Corporate Services Committee Remuneration Committee	14/15 93%
David Mitchell	Reappointed October 2017	4 years		Governor*	Chair – Teaching & Learning Committee Business Committee Remuneration Committee	12/14 86%
Ian Renwick	Reappointed December 2015	4 years	Feb 2019	Governor*	Chair – Corporate Services Committee Remuneration Committee	0/5 0%
Darren Heathcote	Reappointed September 2017	2 years		Staff	Audit Committee	9/9 100%
Chris Macklin	Reappointed December 2016	4 years		Governor*	Chair – Audit Committee People Committee	7/11 64%
Nick Hurn	Reappointed March 2018	4 years	Jan 2020	Governor*	Chair - People Committee Teaching & Learning Committee	5/9 56%
Richard Bathgate	Appointed June 2017, Term begins September 2017	1 Year	Left the College Nov 2020	Governor*		5/5 100%
Martin Gannon	Appointed May 2018	4 years		Governor		3/4 75%

GATESHEAD COLLEGE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

<i>Appointee</i>	<i>Date of appointment</i>	<i>Term of office</i>	<i>Date of resignation</i>	<i>Status of appointment</i>	<i>Committees served</i>	<i>Attendance 2018/19</i>
<i>Claire-Jane Rewcastle</i>	<i>Appointed October 2018</i>	<i>4 years</i>		<i>Governor*</i>	<i>People Committee</i>	<i>5/7 71%</i>
<i>Martin Jesper</i>	<i>Appointed October 2018</i>	<i>4 years</i>		<i>Governor*</i>	<i>Corporate Services</i>	<i>10/10 100%</i>
<i>Andrew Lorimer</i>	<i>Appointed October 2018</i>	<i>4 years</i>		<i>Governor*</i>		<i>5/5 100%</i>
<i>Sarah Stewart</i>	<i>Appointed October 2018</i>	<i>4 years</i>		<i>Governor*</i>	<i>Business Committee</i> <i>Teaching & Learning Committee</i>	<i>7/10 70%</i>
<i>Kirsty Paterson - Sabbatical President</i>	<i>Appointed August 2018</i>	<i>1 year</i>		<i>Sabbatical President of the Students' Union</i>		<i>2/4 50%</i>
<i>19+ Student (Currently Vacant)</i>		<i>1 year</i>		<i>Student 19+</i>		<i>N/A</i>
<i>Judith Doyle Principal</i>	<i>August 2013</i>	<i>Ex officio</i>	<i>Resigned December 2019</i>	<i>Principal</i>	<i>Business Committee</i> <i>Corporate Services Committee</i> <i>People Committee</i> <i>Teaching & Learning Committee</i> <i>Governance Sub Group</i>	<i>20/26 77%</i>
<i>Womble Bond Dickinson (UK) LLP has acted as Clerk to the Corporation since 1 October 2012.</i>						
<i>Mr N Weddle was co-opted onto the Audit Committee.</i>						
<i>* indicates appointment / reappointment under 2007 Articles of Government</i>						

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. The Corporation is required to meet at least once every term but generally meets five times per year and more frequently if required.

GATESHEAD COLLEGE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The Corporation conducted its business through a number of committees throughout the year. Each committee has terms of reference, which have been approved by the full Corporation. These committees are Business, Corporate Services, People, Remuneration, Audit and Teaching and Learning. The terms of reference for the four Quadrant Committees (see below) were revised and adopted during the year to July 2018. They are generally reviewed at the start of each year to ensure their continued cadency. Full minutes of all meetings except those deemed to be confidential by the Corporation are available from the Governance section of the College's website within 3 months of the date of the meeting.

The Corporation operated with a quadrant reporting system during the year with the four key areas of the Corporation's business (People, Corporate Services, Teaching and Learning and Business) receiving particular scrutiny and focus. Each quadrant had a lead governor (as chair) and lead executive team member and they are supported by a committee. Each quadrant has agreed objectives against which the Board as a whole can measure performance. The system was designed to reduce duplication, give clear focus and a broader awareness for all governors of all aspects of the Corporation's business. The reality is that this system, which was previously understood to have been effective, did in fact fail to provide adequate oversight of financial performance and control needed.

As a result, the Governance structure has now been reviewed by a Task and Finish Group established for that purpose, the result being that the College's governance structure has been revised and re-designed, with the new structure being implemented from 2 October 2020.

Audit Committee oversees audit and risk within the institution and the Remuneration Committee considers matters relating to executive team terms and conditions, remuneration and performance (see further below). The Clerk supports the board in its regular review of Board composition, effectiveness and governance matters generally. A Committee of Chairs exists to address urgent items of business where convening a meeting of the full board is not possible to ensure the Corporation is able to react dynamically, and it also serves as a forum where key members of the board are kept abreast of pertinent issues. It has its own terms of reference.

The governance officer maintains a register of financial and personal interests of the governors. The register is available for inspection upon request to the Clerk.

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

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

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

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

GATESHEAD COLLEGE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

Appointments to the Corporation

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

Members of the Corporation are appointed for a term of office not exceeding four years.

Corporation Performance

The Board has historically carried out a self-assessment of its own performance on an annual basis (at a strategic away day) and measures itself in accordance with the principles of good governance in the sector wide codes mentioned in these statements. The Board has always identified areas for improvement in relation to ensuring effectiveness of governance. Issues arising during the course of 2018/19, and coming to light thereafter, have caused the Board to consider very carefully why its governance arrangements did not identify the financial deficit prior to it emerging. Therefore, part of the work done since July 2019 has been in re-designing the governance structure so as to give the Board better visibility and oversight. In the next period, the Board will be developing KPIs in each are of business designed to ensure it can track performance and seek validation of information presented to it. This work will be focused on financial recovery, and the supervision and governance of the College back to financial health, as well as educational performance and outcomes for students.

Remuneration Committee

The Remuneration Committee comprises the Chair of the Corporation, the Vice Chair(s) of the Corporation (if any), the Chair of the People Committee, the Chair of the Business Committee, the Chair of Corporate Services, the Chair of Teaching and Learning and up to two other Corporation members (some members of the Committee fulfil more than one of these roles). The Terms of Reference also allow for co-opted members.

The Committee meets three times per year to set objectives for the Principal, to review the objectives set for the Exec Team and to review performance and to consider the making of annual awards. The Committee operates in accordance with written terms of reference approved by the Corporation.

Details of remuneration for the year ended 31 July 2019 are set out in note 9 to the financial statements.

Since the financial year end, the remuneration levels of all senior posts has been reviewed and restructured to bring it into line with sector benchmarks.

Audit Committee

At the end of the year, the committee comprises two members of the Corporation, plus a Co-optee. The Principal/CEO attends meetings.

GATESHEAD COLLEGE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The committee operates in accordance with written terms of reference approved by the Corporation in July 2014 and periodically reviewed thereafter. Its purpose is to advise the Corporation on the adequacy and effectiveness of the College's systems of internal control and its arrangements for risk management control and governance processes. Given the financial issues encountered, there has been more focus on Financial Controls and Sub Contracting audit activity since July 2019.

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

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

Management are responsible for the implementation of agreed audit recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented. There was one example of a delays in audit reports being presented to the Audit Committee. A sub contract audit report was prepared in March 2019 by the internal auditors but was not presented to the Audit Committee until November 2020. In addition, the College was subject to an ESFA Apprenticeship funding review in March/April 2019 the results of which were notified to the College in June 2019. This resulted in an internal report being prepared which was not shared with Audit Committee until October 2019.

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

Internal control

Scope of responsibility

The Corporation is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which they are personally responsible, in accordance with the responsibilities assigned to them in the Funding Agreement between Gateshead College and the funding bodies. They are also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

GATESHEAD COLLEGE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The College has always managed its internal audit plan based upon a risk based approach looking at previous financial results, the views of its external auditors and its own risk register. During the last 3 years the internal audit plan was based around between 50 to 60 man days input which is in line with sector averages for the size of the organisation. During the preceding 2 financial years 12 topics were subject to review which resulted in 20 recommendations. Of the 20 recommendations there was only 1 ranked as medium risk with the remaining 19 all ranked low. Whilst a broad range of topics were covered, every year included review of an element of key financial controls.

During the 2018/19 financial year the college covered 5 strategic areas using its risk based approach identified above for review by its Internal Auditors. Within the key financial control element, the chosen areas were Payroll and Suppliers. The audit plan was resourced to the level of 54 man days and resulted in 15 recommendations all ranked as low risk.

It is clear from the financial results reported for the period ended 31st July 2019 and subsequent investigations both internally and externally that aspects of the Colleges Internal Controls were not functioning as intended with obvious weaknesses emanating. These areas have been recognised by the Governors and have been subject to audit in the 2019/20 financial year.

Capacity to handle risk

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

The risk and control framework

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

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

GATESHEAD COLLEGE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

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

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control.

The Principal's review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors
- the work of the executive 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 and regularity auditors in their management letters and other reports.

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

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. The annual assessment for the year ended 31 July 2019 was presented to Corporation at its meeting on 27 April 2020.

In light of the financial circumstances arising in the autumn of 2019, the Corporation is of the opinion that the College did not have an adequate and effective framework for governance, risk management and control at that time, and has not 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*".

In light of the above, the Corporation has taken appropriate steps during the 2020 calendar year to create a framework that will prove to be effective and enable it to fulfil its' statutory responsibilities. As a result, the Corporation is able to conclude on these financial statements.

GATESHEAD COLLEGE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

Going Concern

The governors assess whether the use of going concern is appropriate, i.e. whether there are any material uncertainties relating to events or conditions that may cast significant doubt on the ability of the Corporation and Group to continue as a going concern. The governors make this assessment in respect of a period of at least one year from the date of authorisation of the financial statements.

As explained within the Governors report, the 2019 financial statements show a significant deficit of £11.78m and a net current liabilities position of £11.1m (partially caused by the inclusion of all loan amounts as short term as outlined in note 19).

The need for additional support by the ESFA triggered intervention and the production of a detailed recovery plan and supporting cash flow forecasts for the period to July 2022. This has resulted in additional recoverable grant support of £5.4m being provided to the College by the ESFA to date since 31 July 2019 to assist the College in achieving its recovery plan. The recovery plan shows a further loss in the year ending 31 July 2020 but that the College will return to an in-year surplus in the years ending 31 July 2021 and 31 July 2022. Certain assumptions are made within the recovery plan which create material uncertainties as follows: -

- Further short-term funding of up to £1m may be required in the year ending 31 July 2021 from the ESFA which has not yet been formally confirmed. The absence of such funding would result in insufficient cash within the group in the Spring of 2021.
- The grant support received from the ESFA is expected to convert to a loan in due course. The terms of repayment of funding to the ESFA are not yet agreed and are expected to be mutually agreed based on affordability. The recovery plan currently assumes an estimated repayment profile which is subject to review and agreement and requires the disposal of certain properties
- As outlined in note 19, there has been a technical breach of bank loan covenants as at 31 July 2019. Based on the current covenants, the College is anticipating breaches of its financial covenants at 31 July 2020 and 31 July 2021. The recovery plan assumes that the College's lenders will continue to provide the current facilities and that any change in terms would not jeopardise the achievability of the recovery plan. However, whilst the bank are supportive, there is no formal confirmation in place
- Covid-19 creates significant uncertainty for the sector. In preparing the recovery plan, Governors have made estimates of the potential impact of Covid-19 on outturns for 31 July 2020, 31 July 2021 and 31 July 2022. One of the key areas of uncertainty for all education providers at this time is what the levels of recruitment and retention will be across programmes in September 2020 and on learners and their employees currently on apprenticeship programmes. Variability versus assumed recruitment, retention and achievements would impact on income received in the future years. Indications are that student recruitment in September 2020 has held up well and is in line with the level forecast in the recovery plan.
- Certain cost savings in relation to both pay and non-pay costs have been assumed. Whilst these are based on detailed considerations, there is a risk that they cannot be achieved as planned, resulting in variability in the outturn and cash position.
- The Further Education Commissioner continues to engage with the College to monitor progress against the recovery plan. The College is implementing the additional conditions as a result of the Structure and Prospects Appraisal and monitoring progress accordingly.

GATESHEAD COLLEGE

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

Following the conclusion of the Structure and Prospects Appraisal, the College is implementing the recovery plan and monitoring progress accordingly. However, a phase B Independent Business Review (IBR) is currently being conducted which will direct the decisions of both the ESFA and the bank in addressing the financing issues and the future of the College. This, together with the uncertainties surrounding learner recruitment and retention as a result of Covid-19, represent material uncertainties.

The Governors have considered the requirements of FRS 102 which states that an entity is a going concern unless management either intends to liquidate the entity or cease operations or has no realistic alternative but to do so. The Governors have concluded that the above outlined assumptions represent material uncertainties that may cast significant doubt on the group's and company's ability to continue as a going concern.

Nevertheless, as a result of the ongoing process of monitoring and review with the ESFA, the FE Commissioner and the bank and considering the material uncertainties described above, the Governors have a reasonable expectation of support from the ESFA and the bank such that the Group and College will have adequate resources to continue to meet its liabilities as and when they fall due. The Governors therefore believe that it is appropriate to prepare these financial statements on a going concern basis.

Approved by order of the members of the Corporation on 9 December 2020 and signed on its behalf by:



John Hogg

Chair



Andrew Cole

Principal – Accounting Officer

9 December 2020

9 December 2020

GATESHEAD COLLEGE

GOVERNING BODY'S STATEMENT ON THE COLLEGE'S REGULARITY, PROPRIETY AND COMPLIANCE WITH FUNDING BODY TERMS AND CONDITIONS OF FUNDING

The Corporation has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with their terms and conditions of funding, under the funding agreement in place between the College and the Education and Skills Funding Agency (ESFA).

As part of our consideration we have had due regard to the requirements of the funding agreement. The following matters have been brought to our attention

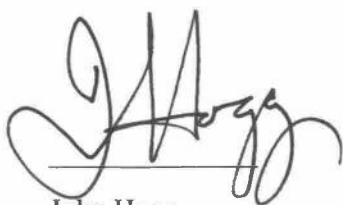
- The College was subject to an ESFA apprenticeship audit in February 2019 with the impact being a clawback of funds of £284k. In addition, a further £409k of withdrawals was identified and notified to ESFA. This was as a result of the process of withdrawals/leavers being too slow and not recorded until after the financial year end.
- As reported within the Governors report, the outturn reported within these financial statements of £11.8m is materially different to the in-year forecast outturn reported to Governors by the Executive team. A forensic report has identified the key variances. This matter indicates weaknesses in financial controls, governance oversight of executive information and ways of working, segregation of duties and lack of assurance in the monthly financial information being reported. Governance and management changes have since been made as outlined earlier in this report. The Audit Committee has also instructed internal assurance work on core financial controls and will implement changes recommended as a result of this.
- Errors have been made in prior year financial statements by the College in relation to their reporting of subcontract costs. These have been corrected with details being shown in Note 2. The College has not been able to identify the specific cause of these errors being made and whether they are as a result of financial reporting fraud. An internal follow up investigation of this matter has not been possible due to lack of access to relevant individuals who have now left the College.
- The financial statements include an accrual for a long-term talent retention bonus scheme of £424k, relating to the period 1 August 2016 to 31 July 2019. Remuneration Committee approval was obtained for payment of this bonus on 4 July 2019, prior to the vesting date of 31 July 2019, based on a paper supporting outcomes in the year. Minutes show that whilst the Committee made the determination subject to those employees qualifying at the vesting date, minimal evidence of challenge or verification of the outcomes being presented were made by the Committee. Payment was then made in August 2019. Subsequent to the vesting date the variance in forecast versus reported outturn was identified.

We confirm, on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, other than the matters noted above, we have not identified any material irregular or improper use of funds by the College, or material non-compliance with the Education and Skills Funding Agency's terms and conditions of funding under the College's funding agreement.

GATESHEAD COLLEGE

GOVERNING BODY'S STATEMENT ON THE COLLEGE'S REGULARITY, PROPRIETY AND COMPLIANCE WITH FUNDING BODY TERMS AND CONDITIONS OF FUNDING

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



John Hogg

Chair

9 December 2020



Andrew Cole

Accounting Officer

9 December 2020

GATESHEAD COLLEGE

STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE CORPORATION

Statement of Responsibilities of the Members of the Corporation

The members of the corporation, as charity trustees, are required to present audited financial statements for each financial year.

Within the terms and conditions of the college's grant funding agreements and contracts with ESFA, the corporation – through its accounting officer – is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education, ESFA's college accounts direction and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the college and its deficit of income over expenditure for that period.

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

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

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

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

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

Members of the corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from ESFA are used only in accordance with ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time.

GATESHEAD COLLEGE

STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE CORPORATION

Members of the corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the corporation are responsible for securing economical, efficient and effective management of the college's resources and expenditure so that the benefits that should be derived from the application of public funds from ESFA are not put at risk.

Approved by order of the members of the Corporation on 9 December 2020 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'John Hogg', written over a horizontal line.

John Hogg – Chair
Date 9 December 2020

GATESHEAD COLLEGE

INDEPENDENT AUDITORS REPORT TO CORPORATION OF GATESHEAD COLLEGE

Opinion

We have audited the financial statements of Gateshead College (the “College”) and its subsidiaries (the “Group”) for the year ended 31 July 2019 which comprise the consolidated and college statement of comprehensive income and expenditure, the consolidated and college balance sheets, the consolidated and college statements of changes in reserves, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group’s and of the College’s affairs as at 31 July 2019 and of the Group’s and the College’s deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements which indicates that the Group has incurred a significant deficit of £11.78m and net current liabilities of £11.1m partly as a result of a breach in bank covenants which caused the loan to become repayable on demand.

In producing a recovery plan as part of a Structure and Prospects Appraisal (‘SPA’) a review of short-term funding shows the need for additional short term funding of up to £1m being required from the ESFA to provide sufficient cash in the year ending 31 July 2021, with uncertainties in forecasting learner recruitment and retentions rates as a result of the ongoing impact of Covid-19.

In addition, recoverable grant support of £5.4m was received from the ESFA after the balance sheet date but its repayment is to be determined along with the resolution of the breach of the bank covenants and the ongoing support of the bank.

Following the SPA, an Option and Finance review is being undertaken which will direct the decisions of both the ESFA and the bank in addressing the financing issues and the future of the College.

As stated in note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

GATESHEAD COLLEGE

INDEPENDENT AUDITORS REPORT TO CORPORATION OF GATESHEAD COLLEGE

Other information

The other information comprises the information included in the Report and Financial Statements other than the financial statements and our auditor's report thereon. The governors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post-16 Audit Code of Practice 2018 to 2019 issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

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

Responsibilities of the Corporation of Gateshead College

As explained more fully in the Statement of the Corporation's Responsibilities set out on pages 37 to 38 the Corporation is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

GATESHEAD COLLEGE

INDEPENDENT AUDITORS REPORT TO CORPORATION OF GATESHEAD COLLEGE

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Corporation, as a body, in accordance with the Funding Agreement published by the Education and Skills Funding Agency and our engagement letter. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are engaged 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 Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

RSM UK AUDIT LLP

Chartered Accountants
1 St James' Gate
Newcastle upon Tyne
NE1 4AD

Date: 11/12/20

GATESHEAD COLLEGE

CONSOLIDATED AND COLLEGE STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

	Notes	Year ended 31 July 2019		Year ended 31 July 2018 as restated	
		Group £'000	College £'000	Group £'000	College £'000
INCOME					
Funding body grants	3	33,596	33,009	39,604	38,972
Tuition fees and education contracts	4	6,402	5,842	6,941	6,270
Other grants and contracts	5	720	616	816	672
Other income	6	2,625	2,176	2,874	2,057
Investment income	7	-	-	4	5
Donations and Endowments	8	-	77	-	66
Total income		43,343	41,720	50,239	48,042
EXPENDITURE					
Staff costs	9	23,724	22,226	24,422	22,845
Restructuring costs	9	217	202	167	160
Other operating expenses	10	21,342	21,138	22,155	21,732
Depreciation	13	2,550	2,448	2,430	2,335
Impairment	13	6,556	6,556	-	-
Interest and other finance costs	11	722	742	756	770
Total expenditure		55,111	53,312	49,930	47,842
(Deficit)/Surplus before other gains and losses		(11,768)	(11,592)	309	200
Loss on disposal of assets	13	(12)	(12)	-	-
Gain/(loss) on investments	16	-	(150)	-	-
(Deficit)/Surplus before tax		(11,780)	(11,754)	309	200
Taxation	12	-	-	(38)	-
(Deficit)/Surplus for the year		(11,780)	(11,754)	271	200
Remeasurement of net defined benefit pension liability	24	(3,720)	(3,720)	3,293	3,293
Total Comprehensive Income for the year		(15,500)	(15,474)	3,564	3,493
Represented by:					
Restricted comprehensive income		-	-	-	-
Unrestricted comprehensive income		(15,500)	(15,474)	3,564	3,493
		(15,500)	(15,474)	3,564	3,493
(Deficit)/Surplus for the year attributable to:					
Non-controlling interest		-	-	-	-
Group		(11,780)	(11,754)	309	200
Total Comprehensive Income for the year attributable					
Non-controlling interest		-	-	-	-
Group		(15,500)	(15,474)	3,564	3,493

GATESHEAD COLLEGE

CONSOLIDATED AND COLLEGE STATEMENT OF CHANGES IN RESERVES

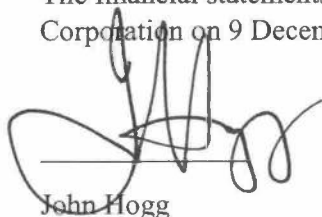
	Statement of Comprehensive Income and Expenditure £'000	Total £'000
Group		
Balance as at 31 July 2017	16,716	16,716
Prior year adjustment	(1,693)	(1,693)
Restated Balance as at 31 July 2017	15,023	15,023
Surplus from the Statement of Comprehensive Income & Expenditure previously reported	748	748
Prior period adjustment	(477)	(477)
Restated Surplus from the Statement of Comprehensive Income & Expenditure Statement	271	271
Other comprehensive income	3,293	3,293
	3,564	3,564
Balance at 31st July 2018 as restated	18,587	18,587
Deficit from the income and expenditure account	(11,780)	(11,780)
Other comprehensive income	(3,720)	(3,720)
Total comprehensive income for the year	(15,500)	(15,500)
Balance at 31 July 2019	3,087	3,087
College		
Balance as at 31 July 2017	15,287	15,287
Prior year adjustment	(1,693)	(1,693)
Balance at 1st August 2017	13,594	13,594
Surplus from the Statement of Comprehensive Income & Expenditure previously reported	677	677
Prior period adjustment	(477)	(477)
Restated Surplus from the Statement of Comprehensive Income & Expenditure Statement	200	200
Other comprehensive income	3,293	3,293
	3,493	3,493
Balance at 31st July 2018 as restated	17,087	17,087
Deficit from the income and expenditure account	(11,754)	(11,754)
Other comprehensive income	(3,720)	(3,720)
Total comprehensive income for the year	(15,474)	(15,474)
Balance at 31 July 2019	1,613	1,613

GATESHEAD COLLEGE

BALANCE SHEET AS AT 31 JULY

	Notes	Group	College	Group	College
		2019	2019	2018	2018
		£'000	£'000	£'000	£'000
Non current assets					
Tangible Fixed assets	13	56,226	56,056	64,049	63,787
Investments	14	-	-	-	150
		56,226	56,056	64,049	63,937
Current assets					
Stocks		68	68	64	64
Trade and other receivables	15	4,450	4,274	9,518	9,081
Cash and cash equivalents	20	3,895	2,304	4,728	3,522
		8,413	6,646	14,310	12,667
Less: Creditors – amounts falling due within one year	17	(19,545)	(19,082)	(11,797)	(11,542)
Net current (liabilities) / assets		(11,132)	(12,436)	2,513	1,125
Total assets less current liabilities		45,094	43,620	66,562	65,062
Creditors – amounts falling due after more than one year	18	(24,123)	(24,123)	(34,829)	(34,829)
Provisions for Liabilities					
Defined benefit pension scheme	24	(17,320)	(17,320)	(12,530)	(12,530)
Other provisions	20	(564)	(564)	(616)	(616)
Total net assets		3,087	1,613	18,587	17,087
Unrestricted Reserves					
Income and expenditure account		3,087	1,613	18,587	17,087
Total unrestricted reserves		3,087	1,613	18,587	17,087

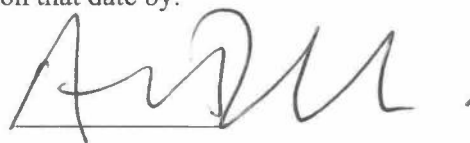
The financial statements on pages 42 to 82 were approved and authorised for issue by the Corporation on 9 December 2020 and were signed on its behalf on that date by:



John Hogg

Chair

9 December 2020



Andrew Cole

Principal

9 December 2020

GATESHEAD COLLEGE

CONSOLIDATED STATEMENT OF CASHFLOWS

	2019	2018
	£'000	as restated £'000
Cash flow from operating activities		
Surplus/(Deficit) for the year	(11,780)	309
Adjustment for non-cash items		
Depreciation	2,550	2,430
Impairment	6,556	-
(Increase) in stocks	(4)	(5)
Decrease / (Increase) in debtors	5,068	(2,793)
(Decrease) / Increase in creditors due within one year	(1,376)	1,108
(Decrease) in creditors due after one year	(1,109)	(1,055)
(Decrease) in provisions	(52)	(81)
Pensions costs less contributions payable	1,070	1,170
Taxation	-	(38)
Adjustment for investing or financing activities		
Investment income	-	(4)
Interest payable	402	383
Lennartz VAT Financing cost	-	27
(Profit) / Loss on sale of fixed assets	12	-
Net cash flow from operating activities	<u>1,337</u>	<u>1,451</u>
Cash flows from investing activities		
Capital Grants Received / (Released/Repaid)	32	(74)
Investment income	-	4
Withdrawal of deposits	-	1,000
Payments made to acquire fixed assets	(1,295)	(961)
	<u>(1,263)</u>	<u>(31)</u>
Cash flows from financing activities		
Interest paid	(402)	(383)
Interest element of finance lease rental payments	-	-
New unsecured loans		
Repayments of amounts borrowed	(505)	(492)
Repayment of Lennartz VAT	-	(220)
	<u>(907)</u>	<u>(1,095)</u>
Decrease in cash and cash equivalents in the year	<u>(833)</u>	<u>325</u>
Cash and cash equivalents at beginning of the year	4,728	4,403
Cash and cash equivalents at end of the year	3,895	4,728

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2018 to 2019* and in accordance with Financial Reporting Standard 102 – “*The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland*” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, Gateshead College Foundation, Amacus Limited, North East Apprenticeship Company Limited, Zero Carbon Futures (UK) Limited, Zero Carbon Futures (North) Limited and Gateshead Sport Management (Malaysia) SDN.BHD controlled by the Group.

Gateshead Sports Management (Malaysia) SDN BHD did not trade during the financial year. 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. In accordance with FRS 102, the activities of the student union have not been consolidated because the College does not control those activities.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies (*continued*)

Going concern

The governors assess whether the use of going concern is appropriate, i.e. whether there are any material uncertainties relating to events or conditions that may cast significant doubt on the ability of the Corporation and Group to continue as a going concern. The governors make this assessment in respect of a period of at least one year from the date of authorisation of the financial statements.

As explained within the Governors report, the 2019 financial statements show a significant deficit of £11.78m and a net current liabilities position of £11.1m (partially caused by the inclusion of all loan amounts as short term as outlined in note 19).

The need for additional support by the ESFA triggered intervention and the production of a detailed recovery plan and supporting cash flow forecasts for the period to July 2022. This has resulted in additional recoverable grant support of £5.4m being provided to the College by the ESFA to date since 31 July 2019 to assist the College in achieving its recovery plan. The recovery plan shows a further loss in the year ending 31 July 2020 but that the College will return to an in-year surplus in the years ending 31 July 2021 and 31 July 2022. Certain assumptions are made within the recovery plan which create material uncertainties as follows: -

- Further short-term funding of up to £1m may be required in the year ending 31 July 2021 from the ESFA which has not yet been formally confirmed. The absence of such funding would result in insufficient cash within the group in the Spring of 2021.
- The grant support received from the ESFA is expected to convert to a loan in due course. The terms of repayment of funding to the ESFA are not yet agreed and are expected to be mutually agreed based on affordability. The recovery plan currently assumes an estimated repayment profile which is subject to review and agreement and requires the disposal of certain properties
- As outlined in note 19, there has been a technical breach of bank loan covenants as at 31 July 2019. Based on the current covenants, the College is anticipating breaches of its financial covenants at 31 July 2020 and 31 July 2021. The recovery plan assumes that the College's lenders will continue to provide the current facilities and that any change in terms would not jeopardise the achievability of the recovery plan. However, whilst the bank are supportive, there is no formal confirmation in place.
- Covid-19 creates significant uncertainty for the sector. In preparing the recovery plan, Governors have made estimates of the potential impact of Covid-19 on outturns for 31 July 2020, 31 July 2021 and 31 July 2022. One of the key areas of uncertainty for all education providers at this time is what the levels of recruitment and retention will be across programmes in September 2020 and on learners and their employees currently on apprenticeship programmes. Variability versus assumed recruitment, retention and achievements would impact on income received in the future years. Indications are that student recruitment in September 2020 has held up well and is in line with the level forecast in the recovery plan.

GATESHEAD COLLEGE

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- Certain cost savings in relation to both pay and non-pay costs have been assumed. Whilst these are based on detailed considerations, there is a risk that they cannot be achieved as planned, resulting in variability in the outturn and cash position.
- The Further Education Commissioner continues to engage with the College to monitor progress against the recovery plan. The College is implementing the additional conditions as a result of the Structure and Prospects Appraisal and monitoring progress accordingly.

Following the conclusion of the Structure and Prospects Appraisal, the College is implementing the recovery plan and monitoring progress accordingly. However, a phase B Independent Business Review (IBR) is currently being conducted which will direct the decisions of both the ESFA and the bank in addressing the financing issues and the future of the College. This, together with the uncertainties surrounding learner recruitment and retention as a result of Covid-19, represent material uncertainties.

The Governors have considered the requirements of FRS 102 which states that an entity is a going concern unless management either intends to liquidate the entity or cease operations or has no realistic alternative but to do so. The Governors have concluded that the above outlined assumptions represent material uncertainties that may cast significant doubt on the group's and company's ability to continue as a going concern.

Nevertheless, as a result of the ongoing process of monitoring and review with the ESFA, the FE Commissioner and the bank and considering the material uncertainties described above, the Governors have a reasonable expectation of support from the ESFA and the bank such that the Group and College will have adequate resources to continue to meet its liabilities as and when they fall due. The Governors therefore believe that it is appropriate to prepare these financial statements on a going concern basis.

Recognition of income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under 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 funding is not subject to reconciliation and is therefore not subject to contract adjustments.

The recurrent grant from OFS represents the funding allocations attributable to the current financial year and is credited direct to the Statement of Comprehensive Income and Expenditure.

Where part of a government grant is deferred, the deferred element is recognised as deferred income within creditors and allocated between creditors due within one year and creditors due after more than one year as appropriate.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies (*continued*)

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

Capital grant funding

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual 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 stated gross of any expenditure which is not a discount and is recognised in the period for which it is received.

Investment income

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

Agency arrangements

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

Accounting for post-employment benefits

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

Teachers' Pension Scheme (TPS)

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

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

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies (*continued*)

Tyne & Wear 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 Expenditure 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 on-going pension to a former member of staff is paid by the college annually. An estimate of the expected future costs of any enhancement to the on-going pension of a former member of staff is charged in full to the college's income and expenditure account in the year that the staff member retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Non-current Assets - Tangible fixed assets

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

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies (*continued*)

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and buildings

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

- Original Cost – 50 years
- Refurbishments – 50 years

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

The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 15 and 50 years.

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

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

Subsequent expenditure on existing fixed assets

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

Equipment

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

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

- | | |
|------------------------------------|----------------|
| • computer equipment | 2 to 5 years |
| • motor vehicles | 4 years |
| • equipment | 2 to 10 years |
| • furniture, fixtures and fittings | 10 to 50 years |

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Comprehensive Income and Expenditure.

Borrowing costs

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

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies (*continued*)

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.

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 an obligation under finance leases. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

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

Investments

Investments in subsidiaries

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

Non-current Assets - Tangible fixed assets

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

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.

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 an obligation under finance leases. 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.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies (*continued*)

Leased assets as a lessor

Rental income from assets leased under operating leases is recognised on a straight-line basis over the term of the lease. Rent free periods or other incentives given to the lessee are accounted for as a reduction to the rental income and recognised on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective inventories.

Cash and cash equivalents

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

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

Financial liabilities and equity

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

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

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial year with all resulting exchange differences being taken to comprehensive income in the period in which they arise.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies (*continued*)

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 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College receives no similar exemption in respect of Value Added Tax. For this reason, the College is generally unable to recover input VAT it suffers on goods and services purchased. Capital costs and non pay expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures.

The college have an arrangement in place with HMRC to claim the VAT incurred on construction of the new building which is then subsequently repaid to HMRC over a period of 10 years.

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

Provisions and Contingent Liabilities

Provisions are recognised when

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

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

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies (*continued*)

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

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

Agency Arrangements

The College acts as an agent in distributing Bursary support funds from the funding bodies. Payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the College where the College does not have control of the economic benefit related to the transaction.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the group's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- *Tangible fixed assets*

Tangible fixed assets 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.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies (*continued*)

- Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in Note 24, will impact the carrying amount of the pension liability. The actuary has used a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 to value the pensions liability at 31 July 2019. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2. Prior Period Adjustment

	Year ended 31 July 2018							
	previously reported		adj re 2018		adj re 2017		as restated	
	Group £'000	College £'000	Group £'000	College £'000	Group £'000	College £'000	Group £'000	College £'000
Changes to the Statement of Comprehensive Income and Expenditure								
Other Operating Expenses	21,678	21,255	477	477	-	-	22,155	21,732
Surplus/(Deficit) for the year before tax	786	677	(477)	(477)	-	-	309	200
Changes to the Balance Sheet								
Creditors - Amounts falling due within one year	(9,627)	(9,372)	(477)	(477)	(1,693)	(1,693)	(11,797)	(11,542)
Income & Expenditure Account	20,757	19,257	-	-	(1,693)	(1,693)	18,587	17,087
Changes to Consolidated Statement of Cashflows								
Surplus/(Deficit) for the year	786	-	(477)		-	-	309	-
(Decrease)/Increase in Creditors due in one year	631	-	477		-	-	1,108	-

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

2. Prior Period Adjustment (*continued*)

In preparing the current year financial statements it became apparent that there were errors in the financial statements prepared for both 31 July 2017 and 31 July 2018 with sub-contractor/partnership costs being understated. These costs were understated by £1,693,097 in 2017 and £476,790 in 2018 with the financial impact being shown in the table above. Creditors due within one year were also understated in both years with the impact also being shown in the table above.

3. Funding Body Grants

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group £'000	College £'000	Group £'000	College £'000
Recurrent grants				
Education and Skills Funding Agency – Adult	15,486	14,899	16,159	15,585
Education and Skills Funding Agency – 16 to 19	11,896	11,896	10,383	10,383
Office for Students	414	414	435	435
Specific grants				
Education and Skills Funding Agency – European Funds	5,001	5,001	11,925	11,867
Releases of government capital grants	567	567	594	594
Education and Skills Funding Agency – Other Grant	232	232	108	108
Total	33,596	33,009	39,604	38,972

4. Tuition Fees and educational contracts

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group £'000	College £'000	Group £'000	College £'000
Adult education fees	194	194	268	268
Apprenticeship fees and contracts	848	797	491	437
Fees for FE loan supported courses	666	666	788	788
Fees for HE loan supported courses	1,292	1,292	1,792	1,792
Total tuition fees	3,000	2,949	3,339	3,285
Education contracts	3,402	2,893	3,602	2,985
Total	6,402	5,842	6,941	6,270

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

5. Other grants and contracts

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other grants and contracts	720	616	816	672
Total	720	616	816	672

6. Other Income

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering	112	112	68	68
Other income generating activities	766	376	809	272
Non Funding Body capital grants	512	512	598	598
Miscellaneous income	1,235	1,176	1,399	1,119
Total	2,625	2,176	2,874	2,057

7. Investment Income

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other interest receivable	-	-	4	5
Net return on pension scheme (note 24)	-	-	-	-
Total	-	-	4	5

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

8. Donations – College only

	2019	2018
	£'000	£'000
Unrestricted donations *	77	66
Total	77	66

* The unrestricted donations relate to Gift Aid donations to the College from the wholly owned Subsidiary Companies.

9. Staff costs – Group and College

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

	2019	2018
	No.	No.
Teaching staff	286	313
Non-teaching staff	313	313
	599	626

Staff costs - Group

	2019	2018
	£'000	£'000
Wages and salaries	18,362	19,087
Social security costs	1,782	1,820
Other pension costs	3,580	3,515
Payroll sub total	23,724	24,422
Contracted out staffing services	-	-
	23,724	24,422
Fundamental restructuring costs – Contractual	217	167
– Non contractual	-	-
Total Staff costs - Group	23,941	24,589

The overall level of re-structuring costs were approved by the Corporation.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

9. Staff Costs - Group and College (*continued*)

Staff costs - College

	2019	2018
	£'000	£'000
Wages and salaries	17,007	17,679
Social security costs	1,692	1,664
Other pension costs	3,527	3,502
Payroll sub total	22,226	22,845
Contracted out staffing services	-	-
	22,226	22,845
Fundamental restructuring costs – Contractual	202	160
– Non contractual	-	-
Total Staff costs - College	22,428	23,005

Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Executive Team which comprises the Principal, the Vice Principals responsible for Finance and Curriculum, and Directors of Service for Business Development, People Management and Marketing.

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

	2019	2018
	No.	No.
The number of key management personnel including the Accounting Officer was:	7	7

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

9. Staff Costs - Group and College (*continued*)

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		Other staff	
	2019	2018	2019	2018
	No.	No.	No.	No.
£110,001 to £115,000 p.a.	1	1	-	-
£135,001 to £140,000 p.a.	-	1	-	-
£140,001 to £145,000 p.a.	2	1	-	-
£145,001 to £150,000 p.a.	2	1	-	-
£175,001 to £180,000 p.a.	1	-	-	-
£180,001 to £185,000 p.a.	-	1	-	-
£185,001 to £190,000 p.a.	-	1	-	-
£270,001 to £275,000 p.a.	1	-	-	-
£340,001 to £345,000 p.a.	-	1	-	-
	<u>7</u>	<u>7</u>	<u>-</u>	<u>-</u>

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

9. Staff Costs - Group and College (*continued*)

Key management personnel

Key management personnel (including the accounting officer) emoluments are made up as

	2019	2018
	£'000	£'000
Salaries	1,139	1,050
Retention Accrual –settled post year-end	3	206
Benefits in kind	-	-
National insurance	135	137
	<u>1,277</u>	<u>1,393</u>
Pension contributions	<u>157</u>	<u>151</u>
Total emoluments	<u>1,434</u>	<u>1,544</u>

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

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

	2019	2018
	£'000	£'000
Salaries	292	260
Retention bonus	(21)	84
Benefits in kind	-	-
	<u>271</u>	<u>344</u>

The retention bonus was paid to individuals post year end following authorisation by the remuneration committee. The negative figure in 2019 reflects an adjustment due to an over accrual in prior periods.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

9. Staff Costs - Group and College (*continued*)

The governing body has adopted AoC's Senior Staff Remuneration Code in July 2019 and will assess pay in line with its principles in future

The remuneration package of Key management staff, including the Principal and Chief Executive, is subject to annual review by the Remuneration Committee of the governing body who use benchmarking information to provide objective guidance.

The Principal and Chief Executive reports to the Chair of Governing Council, who undertakes an annual review of her performance against the college's overall objectives using both qualitative and quantitative measures of performance.

	2019	2018
	No.	No.
Basic salary expressed as a multiple of median	9.6	8.6
Total remuneration expressed as a multiple of	6.9	8.9

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

10. Other operating expenses

	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	Restated £'000	Restated £'000
Teaching costs	12,930	13,134	14,130	14,519
Non-teaching costs	4,387	4,074	4,089	3,770
Premises costs	4,025	3,930	3,936	3,443
Total	21,342	21,138	22,155	21,732

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

10. Other operating expenses (continued)

Other operating expenses	2019 £'000	2018 £'000
Auditors' remuneration:		
Financial statements audit*	72	32
Internal audit**	35	36
Other services provided by the financial statements auditor	13	22
Loss on sale of investments ***	150	-
Operating lease rentals	<u>113</u>	<u>111</u>

* includes £63,450 in respect of the College 2017/18 - £25,465)

** includes £35,250 in respect of the College 2017/18 - £35,000)

*** impacts on College entity only

11. Interest and other finance costs – Group and College

	2019 Group £'000	2019 College £'000	2018 Group £'000	2018 College £'000
On bank loans, overdrafts and other loans:	402	422	383	397
	<u>402</u>	<u>422</u>	<u>383</u>	<u>397</u>
Pension finance costs (note 24)	320	320	373	373
	<u>320</u>	<u>320</u>	<u>373</u>	<u>373</u>
Total	<u>722</u>	<u>742</u>	<u>756</u>	<u>770</u>

12. Taxation – Group only

	2019 £'000	2018 £'000
Provision for deferred corporation tax in the accounts of the subsidiary company	-	38
	<u>-</u>	<u>38</u>
Total	<u>-</u>	<u>38</u>

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

13. Tangible fixed assets (Group)

	Land and buildings		Equipment	Total
	Freehold	Long Leasehold		
	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 August 2018	68,688	6,697	12,657	88,042
Additions	37	32	1,226	1,295
Disposals	-	-	(102)	(102)
At 31 July 2019	68,725	6,729	13,781	89,235
Depreciation				
At 1 August 2018	13,715	2,243	8,035	23,993
Charge for the year	1,505	203	842	2,550
Elimination in respect of disposals	-	-	(90)	(90)
Impairment losses	6,556	-	-	6,556
At 31 July 2019	21,776	2,446	8,787	33,009
Net book value at 31 July 2019	46,949	4,283	4,994	56,226
Net book value at 31 July 2018	54,973	4,454	4,622	64,049

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

13. Tangible fixed assets (College)

	Land and buildings		Equipment	Total
	Freehold	Long Leasehold		
	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 August 2018	68,687	6,697	12,020	87,404
Additions	37	32	1,212	1,281
Disposals	-	-	(56)	(56)
At 31 July 2019	68,724	6,729	13,176	88,629
Depreciation				
At 1 August 2018	13,713	2,244	7,660	23,617
Charge for the year	1,505	203	740	2,448
Elimination in respect of disposals	-	-	(48)	(48)
Impairment losses	6,556	-	-	6,556
At 31 July 2019	21,774	2,447	8,352	32,573
Net book value at 31 July 2019	46,950	4,282	4,824	56,056
Net book value at 31 July 2018	54,974	4,453	4,360	63,787

Due to its' current financial position, the College has, post year end, prepared a recovery plan that includes the planned disposal of a number of properties with a view to improving liquidity. As a result, all premises have been valued by a duly qualified valuer and an impairment review on all properties has been undertaken.

As at 31 July 2019, the premises impaired had an historical cost of £16,885,000 (2018 £16,855,000). Accumulated depreciation of £2,294,000 has been applied to these assets (2018 - £1,977,000).

These premises have been impaired from £14,591,000 to £8,035,000 and the impairment charged to the Statement of Comprehensive Income and Expenditure is £6,556,000.

14. Non-current investments

	College 2019 £'000	College 2018 £'000
Investments in Amacus Limited at Cost	-	127
Investments in Gateshead Sport Malaysia	-	23
Total	-	150

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

14. Non-current investments (*continued*)

The College acquired 100% of the issued ordinary £1 shares of Amacus Limited on 4 July 2008. The principal business of Amacus Limited was the provision of Leadership & Management training, Amacus has developed capability to deliver employability training to unemployed candidates. The agreed purchase price was £126,500. The value of the investment has been written down to £0 during the year to 31 July 2019, following the decision to hive up the remaining operations of Amacus Limited, into the College.

The North East Apprenticeship Company Limited was incorporated on 12th February 2010. The companies' primary operating activity is to engage with local SME's to create new work placement opportunities for apprentices, and to support the apprentices enabling them to complete their qualification and find appropriate permanent employment. Gateshead College assumed full control of the North East Apprenticeship Company Limited from Gateshead Council on 1st February 2012.

The Gateshead College Foundation was incorporated on the 18 April 2011, and is a 100% subsidiary of Gateshead College. The Gateshead College Foundations' primary purpose is to act as the charitable arm of the College, providing support both financial and non-financial to Gateshead College learners. During the year to 31st July 2019, Gateshead College was unable to gift any funds to the Foundation, to act as capital for its future charitable activities. The Corporation had previously approved an annual donation of 1% of its surplus, where it is in excess of 3% turnover, in 2018/19 this was not achieved preventing an annual donation.

Zero Carbon Futures (UK) Limited was incorporated on the 29th June 2011, this company's primary purpose is to establish the College's reputation as one of the leading providers of Electric Vehicle and Sustainable Manufacturing training in the UK. In the year to 31st July 2014 Zero Carbon Futures (ZCF) was given a grant of £3.3m from Nissan Europe as part of its Business Incubator project, to create a network of Electric Vehicle quick chargers in the UK. The company agreed a further contract worth a further £4.9m in the year to 31 July 2014, both contracts ran until early 2016. The company was disposed of on 1 November 2020.

Zero Carbon Futures (North) Limited was incorporated on 17th November 2011. The companies' primary purpose was to house the 'Plugged in Places' project which is now complete, and was previously operated by the now closed Regional Development Agency ONE North East.

On the 15th May 2014 Gateshead College setup a company based in Malaysia called Gateshead Sport Management (Malaysia) SDN.BHD. This company was setup to manage a Sports Stadium contract in EduCity in Malaysia, as an initial step in Gateshead College's international strategy in Asia. The contract was terminated in December 2014 and the company no longer trades. An impairment review of the investment has been undertaken, and the holding was written down to £0 during the year to 31 July 2019, as the process to wind-up Gateshead Sport Management (Malaysia) SDN.BHD is complete.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

15. Debtors

	Group	College	Group	College
	2019	2019	2018	2018
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade receivables	1,052	895	1,352	1,080
Amounts owed by group undertakings:	-	23	-	4
Prepayments and accrued income	1,847	1,805	2,337	2,303
Amounts owed by ESFA	1,012	1,012	5,149	5,149
Other Debtors *	539	539	680	545
Total	4,450	4,274	9,518	9,081

* Other Debtors includes Debtor > 1 Year of £256,000 (2018: £384,000): VAT to be reclaimed from HMRC relating to Capital Goods Scheme.

16. Investments

During the year the College incurred losses on 2 investments as a result of winding up two subsidiaries. Amacus was closed with losses of £126,500 and Gateshead Sports Management (Malaysia) SDN.BHD was closed with losses of £23,552. wound up 2 investment being Amacus and Malaysia.

17 Creditors: amounts falling due within one year

	Group	College	Group	College
	2019	2019	2018	2018
	£'000	£'000	Restated £'000	£'000
Bank loans and overdrafts	9,629	9,629	505	505
Trade payables	3,587	3,489	3,436	3,295
Amounts owed to group undertakings	-	222	-	420
Other taxation and social security	936	828	959	857
Accruals and deferred income	1,577	1,494	3,812	3,775
Amounts owed to ESFA	817	817	155	155
Government capital grants	1,097	1,097	1,067	1,067
Other Creditors	1,902	1,506	1,863	1,468
Total	19,545	19,082	11,797	11,542

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

17. Creditors: amounts falling due within one year (*continued*)

Post year end, the College has signed an agreement with the Foundation to repay the outstanding loan over a period of 15 years. Interest on the outstanding loan will be charged at 1.50% above the Barclays Bank Base rate.

18. Creditors: amounts falling due after one year

	Group	College	Group	College
	2019	2019	2018	2018
	£'000	£'000	£'000	£'000
Bank loans	-	-	9,629	9,629
Government capital grants	24,123	24,123	25,200	25,200
Total	24,123	24,123	34,829	34,829

19 Maturity of debt

(a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group	College	Group	College
	2019	2019	2018	2018
	£'000	£'000	£'000	£'000
In one year or less	9,629	9,629	505	505
Between one and two years	-	-	519	519
Between two and five years	-	-	1,653	1,653
In five years or more	-	-	7,457	7,457
Total	9,629	9,629	10,134	10,134

The term loan is split into two elements £5,941,449.79 at 5.49% fixed for 25 years and £3,687,500 charged at a rate of 0.45% over the variable LIBOR rate. The loan is secured by way of a first legal charge on the Baltic Campus and the Construction 2 building, Team Valley. The loan is shown as due in one year as the College is currently in breach of the covenants following a delay in completing the 2019 financial statements within the required period making the loan repayable on demand per the terms of the loan agreement. Barclays Bank have recently received a copy of an independent business review (IBR) undertaken at the request of ESFA. The ESFA have requested further work in respect of the IBR and once that is to hand then a decision will be made regarding borrowing arrangements.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

20. Provisions

	Group and College			
	Defined Benefit obligation	Enhanced pensions	Other	Total
	£'000	£'000	£'000	£'000
At 1 August 2018	12,530	616	-	13,146
Expenditure in the period	-	-	-	-
Additions in period	4,790	(52)	-	4,738
At 31 July 2019	17,320	564	-	17,884

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 24.

The enhanced pension provision relates to the cost of staff who have already left the College's employ and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date.

The principal assumptions for this calculation are:

	2019	2018
Price inflation	3.2%	3.2%
Discount rate	2.2%	2.8%

21. Capital and other commitments

	Group and College	
	2019	2018
	£'000	£'000
Commitments contracted for at 31 July	572	765

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

22. Lease obligations

The Company as a lessee:

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

	Group and College	
	2019	2018
	£'000	£'000
Land and buildings		
Not later than one year	113	105
Later than one year and not later than five years	-	-
Later than five years	-	-
	<u>113</u>	<u>105</u>

The Company as a lessor:

At 31 July the College had contracted with tenants under non-cancellable operating leases as follows:

	Group and College	
	2019	2018
	£'000	£'000
Land and buildings		
Not later than one year	279	279
Later than one year and not later than five years	1,116	1,116
Later than five years	2,139	2,418
Total lease payments due	<u>3,534</u>	<u>3,813</u>

23. Contingent Liabilities

The College has been in receipt of significant income from the European Social Fund (ESF) in recent years, and has received £5,001,369 in the year ended 31 July 2019 (2018: £11,924,497), this was obtained via contracts with the Education and Skills Funding Agency.

The College takes all reasonable steps to ensure it complies with the terms attaching to the receipt of all ESF and ERDF income; however, the College recognises that this is a complex area and that there is a risk that some funding could become repayable as a result of a possible inspection by the funding provider or the ESF Verification Audit Section. It is not possible to estimate the value or timing of any such repayments.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

24. Defined benefit obligations

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

Total pension cost for the year	2019	2018
	£000	£000
Stakeholder Pension Scheme: contributions paid	52	51
Teachers' Pension Scheme: contributions paid	1,111	1,109
Local Government Pension Scheme:		
Contributions paid – College	1,650	1,620
Contributions paid – ZCF North	17	20
FRS 102 (28) charge	750	820
Charge to the Statement of Comprehensive	2,417	2,460
Enhanced pension charge to Statement of	-	(105)
Comprehensive Income and Expenditure		
Total Pension Cost for Year within staff costs	3,580	3,515

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

Contributions amounting to £435,946 (2018 £432,570) were payable to the scheme at 31st July and are included within creditors.

24. Defined benefit obligations (*continued*)

Teachers' Pension Scheme

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

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

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

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

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

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

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

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

The pension costs paid to TPS in the year amounted to £1,111,000 (2018: £1,109,000)

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

24. Defined benefit obligations (*continued*)

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Tyne & Wear Pension Fund. The total contributions made for the year ended 31 July 2019 were £2,170,000 (2018: £2,130,000), of which employer's contributions totalled £1,650,000 (2018: £1,620,000) and employees' contributions totalled £520,000 (2018: £510,000). The agreed contribution rates for future years are 19.7% for employers and range from 5.5% to 7.5% 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 2017 by a qualified independent actuary.

	At 31 July 2019	At 31 July 2018
Rate of increase in salaries	3.7%	3.6%
Future pensions increases	2.2%	2.1%
Discount rate for scheme liabilities	2.2%	2.8%
Inflation assumption (CPI)	2.2%	2.1%
Pension accounts revaluation rate	2.2%	2.1%

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

	At 31 July 2019 years	At 31 July 2018 years
<i>Retiring today</i>		
Males	21.9	22.9
Females	25.1	26.4
<i>Retiring in 20 years</i>		
Males	23.6	25.1
Females	26.9	28.7

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

24. Defined benefit obligations (*continued*)

The College's share of the assets in the plan at the balance sheet date were

	2019	2018
	£'000	£'000
Equity instruments	30,659	28,300
Debt instruments	7,511	6,476
Property	4,204	3,616
Cash	850	883
Other	4,016	2,775
Total fair value of plan assets	<u>47,240</u>	<u>42,050</u>
Actual return on plan assets	<u>2,850</u>	<u>2,360</u>

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

	2019	2018
	£'000	£'000
Fair value of plan assets	47,240	42,050
Present value of plan liabilities	(64,560)	(54,580)
Present value of unfunded liabilities	(564)	(616)
Net pensions (liability)	<u>(17,884)</u>	<u>(13,146)</u>

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

24. Defined benefit obligations (*continued*)

Amounts recognised in the Statement of Comprehensive Income in respect of the plan are

	2019	2018
	£'000	£'000
Amounts included in staff costs		
Current service cost	2,400	2,440
Past service cost	-	-
Total	2,400	2,440
Amounts included in finance costs		
Net interest cost	320	350
	2,720	2,790

Amount recognised in Other Comprehensive Income

Return on pension plan assets	2,850	2,360
Experience gains / (losses) arising on defined benefit obligations	(6,570)	890
Changes in assumptions underlying the present value of plan	-	-
Amount recognised in Other Comprehensive Income	(3,720)	3,250

Movement in net defined benefit (liability)/asset during year

	2019	2018
	£'000	£'000
Net defined benefit (liability)/asset in scheme at 1 August	(12,530)	(14,610)
Movement in year:		
Current service cost	(2,400)	(2,440)
Employer contributions	1,650	1,620
Past service cost	-	-
Net interest on the defined (liability)/asset	(320)	(350)
Actuarial gain or loss	(3,720)	3,250
Net defined benefit (liability)/asset at 31 July	(17,320)	(12,530)

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

24. Defined benefit obligations (*continued*)

Asset and Liability Reconciliation

	2019	2018
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	54,580	51,670
Current service cost	2,400	2,440
Interest cost	1,520	1,340
Contributions by Scheme participants	520	510
Actuarial Losses/(Gains)	6,570	(890)
Estimated benefits paid	(1,030)	(490)
Past Service cost	-	-
Defined benefit obligations at end of period	64,560	54,580

Changes in fair value of plan assets

Fair value of plan assets at start of period	42,050	37,060
Interest on plan assets	1,200	990
Actuarial Gains	2,850	2,360
Employer contributions	1,650	1,620
Contributions by Scheme participants	520	510
Estimated benefits paid	(1,030)	(490)
Fair value of plan assets at end of period	47,240	42,050

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

25. Related party transactions

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

Clerking services are provided by Womble Bond Dickinson LLP. Additional fees relative to legal services of £29,106 (2018 £15,578) were also provided to the College by Womble Bond Dickinson. The balance outstanding due to Womble Bond Dickinson at the year end was £22,916 (2018 - £3,000).

Governor mileage expenses of £110.40 were paid to Mr D. Mitchell in the year (2018 £102.20 mileage paid to Mr C. Macklin).

26. Amounts disbursed as agent of Learner support funds

	2019 £'000	2018 £'000
Funding body grants – bursary support	578	596
Funding body grants – discretionary learner support	206	200
Funding body grants – residential bursaries	-	-
Other Funding body grants	5	5
Interest earned	-	-
	<hr/> 789	<hr/> 801
Disbursed to students	(723)	(692)
Administration costs	(28)	(35)
	<hr/> 38	<hr/> 74
Balance unspent as at 31 July, included in creditors	38	74

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.

GATESHEAD COLLEGE

NOTES TO THE ACCOUNTS

27. Financial Instruments – Group		as restated
Financial Assets	2019	2018
	£'000	£'000
Debt Instruments measured at amortised cost	1,888	2,374
Total Financial Assets	1,888	2,374
Financial Liabilities	2019	2018
	£'000	£'000
Financial liabilities measured at amortised cost	16,176	18,719
Total Financial Liabilities	16,176	18,719

28. Post Balance Sheet Note

In March 2020 the College was adversely impacted by the effects of Covid-19 which included closure of the College to the majority of students. The College has minimised the impact of these operational difficulties by enhancing their on line teaching and learning provision and introducing social distancing measures in the College that has provided a safe working environment for both students and staff. Covid-19 has not resulted in any changes to the carrying value of assets or liabilities and the impact has not affected the going concern basis (as explained previously).

On 1 November 2020, the College disposed of Zero Carbon Futures (UK) Ltd.

Post year end, the College has obtained secured funding of £5.4m to date from ESFA in order to function on a day to day basis. This has been provided based on the minimum needed for the College to continue to operate.

GATESHEAD COLLEGE

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF GATESHEAD COLLEGE AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH EDUCATION AND SKILLS FUNDING AGENCY

Conclusion

We have carried out an engagement, in accordance with the terms of our engagement letter dated ... and further to the requirements of the grant funding agreements and contracts with the Education and Skills Funding Agency (the "ESFA"), to obtain limited assurance about whether the expenditure disbursed and income received by Gateshead College during the period 1 August 2018 to 31 July 2019 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work, except for the matters listed below nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2018 to 31 July 2019 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

- As reported within the Governors report, the deficit reported within these financial statements of £11,780k is materially different to the in-year forecast outturn as presented to Governors. A limited scope forensic report has identified the key variances. The lack of identification of this matter until following the year end indicates weaknesses in financial controls, governance oversight, segregation of duties and assurance of the monthly financial information being reported.
- As identified in note 2, errors have been made in prior year financial statements by the College in relation to their reporting of subcontract costs. Work conducted by interim management during the period and by forensic accountants has not been able to identify the cause of these errors being made and whether they are as a result of financial reporting fraud. An internal follow up investigation of this matter by the College has not been possible, in the College's opinion, due to lack of access to relevant individuals.
- The financial statements include an accrual for a long-term talent retention bonus scheme of £424k, relating to the period 1 August 2016 to 31 July 2019. Remuneration Committee approval was obtained for payment of this bonus on 4 July 2019, prior to the vesting date of 31 July 2019, based on a paper supporting outcomes in the year. Minutes show minimal evidence of challenge or verification of the outcomes being presented by the Committee. Payment was then made within the August 2019 payroll payments. Subsequent to this date the variance in forecast versus reported outturn was identified.

Basis for conclusion

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

GATESHEAD COLLEGE

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF GATESHEAD COLLEGE AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH EDUCATION AND SKILLS FUNDING AGENCY

We are independent of Gateshead College in accordance with the ethical requirements that are applicable to this engagement and we have fulfilled our ethical requirements in accordance with these requirements. We believe the assurance evidence we have obtained is sufficient to provide a basis for our conclusion.

Responsibilities of Corporation of Gateshead College for regularity

The Corporation of Gateshead College is responsible, under the grant funding agreements and contracts with the ESFA and 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. The corporation of Gateshead College is also responsible for preparing the Governing Body's Statement of Regularity, Propriety and Compliance.

Reporting accountant's responsibilities for reporting on regularity

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the ACoP.

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 the procedures performed vary in nature and timing from, and are less in extent than for a reasonable assurance engagement; consequently a limited assurance engagement 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.

We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2018 to 31 July 2019 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Our work included identification and assessment of the design and operational effectiveness of the controls, policies and procedures that have been implemented to ensure compliance with the framework of authorities including the specific requirements of the grant funding agreements and contracts with the ESFA and high level financial control areas where we identified a material irregularity is likely to arise. We undertook detailed testing, on a sample basis, on the identified areas where a material irregularity is likely to arise where such areas are in respect of controls, policies and procedures that apply to classes of transactions.

This work was integrated with our audit of the financial statements and evidence was also derived from the conduct of that audit to the extent it supports the regularity conclusion.

GATESHEAD COLLEGE

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE
CORPORATION OF GATESHEAD COLLEGE AND THE SECRETARY OF STATE FOR
EDUCATION ACTING THROUGH EDUCATION AND SKILLS FUNDING AGENCY

Use of our report

This report is made solely to the Corporation of Gateshead College and the Secretary of State for Education acting through the ESFA in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Corporation of Gateshead College and the Secretary of State for Education acting through the ESFA those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation of Gateshead College and the Secretary of State for Education acting through the ESFA for our work, for this report, or for the conclusion we have formed.

RSM UK Audit LLP

RSM UK AUDIT LLP

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11/12/20