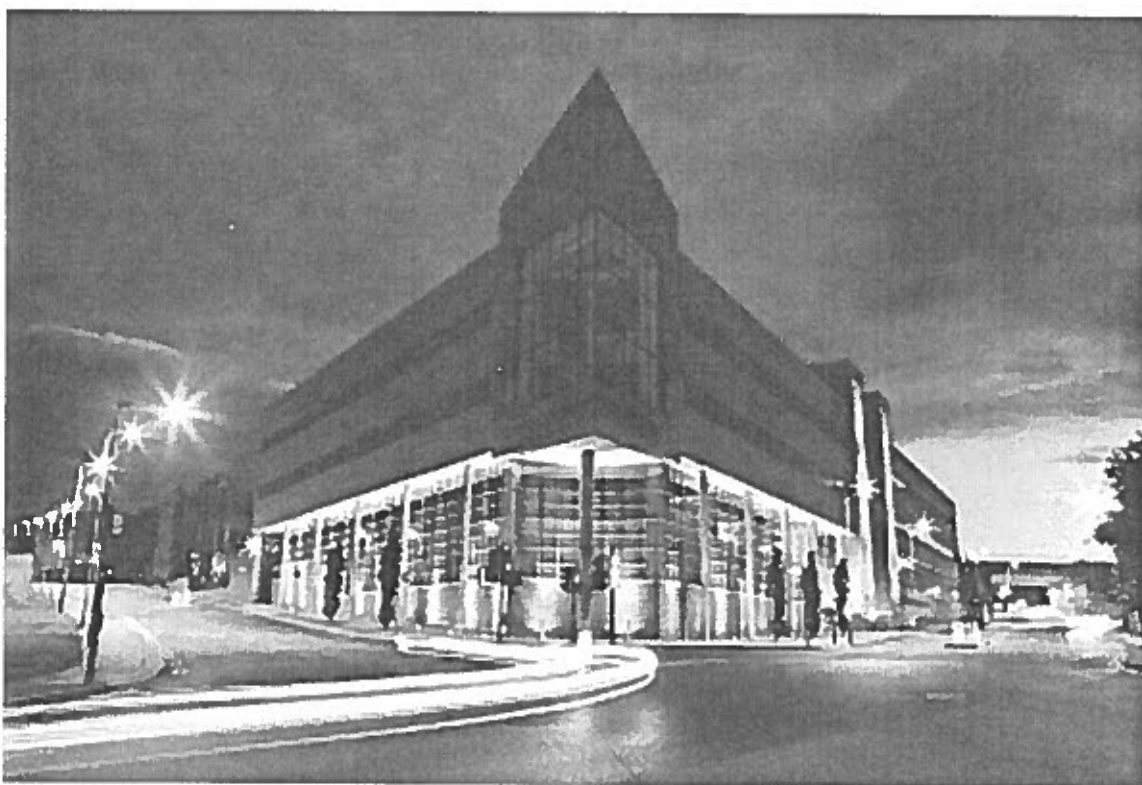


**Gateshead College**  
**Annual Report and Financial Statements**  
**Year ended 31 July 2020**





# Gateshead College

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# Gateshead College

## Reference and Administrative Details

### Board of Governors

Aneela Ali (appointed February 2020)  
Andy Cole (Interim Principal/CEO, appointed February 2020)  
Judith Doyle (former Principal/CEO, retired December 2020)  
Simon Ennew (Teaching Staff Governor, appointed April 2020)  
Martin Gannon  
Darren Heathcote (Support Staff Governor)  
John Hogg (appointed January 2020, Interim Chair of Board to 9 December 2020)  
Nick Hurn (resigned January 2020)  
Martin Jesper (resigned November 2020)  
Richard Bathgate (resigned November 2019)  
Martin Hedley  
John McCabe (resigned January 2020)  
Andrew Lorimer  
Chris Macklin  
Sarah McBean (student governor, appointed May 2020)  
David Mitchell  
Georgina Moroney (student governor appointed May 2020)  
Kirsty Paterson (student governor until April 2020)  
Claire Jane Rewcastle  
Sarah Stewart (appointed as Chair of Board 9 December 2020)  
Chris Toon (acting Principal/CEO during January/February 2020)

The following governors have been appointed since 31 July 2020:

Michael Wood-Williams appointed 27 January 2021  
Sarah Venning appointed 23 December 2020  
Carol Davenport appointed 23 December 2020  
David Brind appointed 23 December 2020  
Robin Bailes (Staff Governor) appointed 27 January 2021

### Clerk/Company Secretary

Womble Bond Dickinson LLP

### **Senior management team**

Andy Cole	Interim Principal and Chief Executive (appointed 24 February 2020)
Judith Doyle	Principal and Chief Executive (retired 31 December 2020)
Chris Toon	Deputy Principal, Curriculum and Quality (and Acting Principal and Chief Executive in the period 1 January 2020 to 24 February 2020)
Keith Oxspring	Interim Director of Finance (from 2 January 2020)
John Holt -	Deputy Principal: Finance and Resources (until 19 February 2020)
Ivan Jepson	Director of Business Development
Mark Thompson	Director of People and Organisational Development (resigned 31 July 2020)
Nadine Hudspeth	Director of Marketing & Communications
John Gray	Director of Student Experience

### **Principal and Registered Office**

Baltic Campus, Quarryfield Road, Gateshead, NE8 3BE.

### **Professional advisors**

External auditors	RSM UK Audit LLP, 1 St James Gate, Newcastle upon Tyne, NE1 4AD.
Solicitors	Square One Law, Anson House, Burdon Terrace, Newcastle upon Tyne NE2 3AE Womble Bond Dickinson LLP, St Anne's Wharf, 112 Quayside, Newcastle upon Tyne. NE99 1SB.
Bankers	Barclays Bank, Grey Street, Newcastle upon Tyne, NE99 1JP. Lloyds Bank, 17 Ellison Walk, Gateshead. NE8 1BF.

# Gateshead College

## Strategic report

### Report of the Governing body

The financial statements ending July 2019 set out the circumstances that arose shortly after the financial year end July 2019. Readers should refer to the report of the governing body in those financial statements for more background context.

In summary, shortly after the financial year end July 2019, the Governors became aware of a substantial financial deficit, that was neither planned nor foreseen. As a result, the Governors commissioned an external and independent forensic accountant, Tempest Forensic Accounting UK LLP to undertake an investigation in relation to the reasons for the deficit.

In December 2019, upon becoming aware of the College's financial situation, the FE Commissioner carried out a diagnostic assessment and subsequently placed the College into supervised status.

In January 2020, OFSTED carried out a full inspection of the College. Whilst the College's educational provision remained largely good or outstanding, the financial position of the College and the collective failure of executive and Board to identify the deficit resulted in leadership and management being graded as Requires Improvement. Therefore, the College was graded by OFSTED as "Requires Improvement" overall.

In light of the above, the year has been dominated by the need to take urgent action in response to the acute financial situation. This saw the Governors oversee an extensive action plan, taking into account the recommendations from the forensic accountants' investigation and the recommendations of the FE Commissioner. The predominant focus has been on the development of a robust financial recovery plan to see the College return to financial health, creating a sustainable financial future, as well as reviewing and revising the governance structure.

To test the future constitutional and governance arrangements for the College, the FE Commissioner commissioned a structure and prospects appraisal (SPA) and this assessed whether the College should: a) remain standalone; b) merge with another College or FE provider; and/or c) close or be put into educational administration.

In response to the SPA, the College prepared a significant submission to the FE Commissioner setting out why it was in the best interests of the College and its' learners to standalone. The SPA process concluded in September 2020 and the FE Commissioner subsequently confirmed his recommendation that the College should remain standalone, subject to certain conditions (the appointment of a permanent CEO/Principal, a capability review of the Board and an Independent Business Review (IBR) to test the College's financial resilience and ability to deliver the recovery plan). The Governors accepted these conditions and instigated a capability review of the Board and IBR to be undertaken, both of which have now been concluded. The report on the capability of the Board highlighted their positive impact on the College's outcomes, identified strong evidence that it is proficient in some

areas and that some aspects need more development. The structure of the Board has since been enhanced with various additional appointments being made. The recruitment process for a CEO/Principal has recently been concluded. The IBR has been concluded and report issued which did not include any major concerns over the resilience of the College forecasts. The College now await ministerial sign-off of the FE Commissioners' recommendation.

Despite the focus on financial recovery and the actions needed to turn this financial situation around, the Governors have maintained a relentless focus on teaching and learning through committee and Board level. Outcomes for the year remain strong (see below) and there has been no negative impact on learner outcomes as a result of the financial situation and the actions needed to mitigate the same (including some staff restructuring).

With the above in mind, the Board has not during the course of the year reviewed its overall educational strategy, but plans are in place to do this during the financial year 2020/21 as the College returns to a sustainable financial position.

### **Covid-19**

The College responded to COVID-19 by following all relevant government and sector guidance. The College worked closely with the local ESFA team and was careful to understand how COVID-19 was affecting the community in Gateshead and across the North East.

The Board was briefed on a weekly basis. During the period March – June 2020, the College moved to 100% online learning and engagement and attendance averaged 85% during that period.

The College remained open for vulnerable children and the children of key workers throughout lockdown.

Considerable work was undertaken in advance of re-opening in July 2020 with key risk assessments being circulated to the Board. The College remained fully open from September to December 2020 with learning being delivered through a mix of online and face to face. The College was subjected to further lockdown measures in January 2021.

The College mitigated the spread of COVID-19 through robust policies and procedures which proved to be effective in keeping the virus under control.

The College has also operated a staff and student mental well-being programme aimed at supporting staff and students through this difficult period. This work will continue into the following financial year.

In January 2021 the College was again challenged to move to remote learning for the vast majority of its learners and apprentices. Teachers and learners are now more adept at engaging with agile learning and quality assurance processes. The Colleges' practices are much improved with lessons being learned from the first lockdown. The College has also seen more demand for on site learning from both vulnerable learners and learners of key workers and has responded appropriately to those requirements.

## **OBJECTIVES AND STRATEGY**

The governing body present their annual report together with the financial statements and auditor's report for Gateshead College for the year ended 31 July 2020.

### **Legal status**

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

In 2019/20 the College assessed the strategic and financial value of its more commercial business and its subsidiary companies and plans were put in place to either close or transfer the business of a number of subsidiaries to alternative providers.

Post 31 July 2020, the College transferred the ownership of Zero Carbon Futures (UK) Limited, and also transferred the assets and undertaking of the Tyneside Training Services Ltd business from the College to a third party acquirer.

### **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 purpose is to ensure its students "are the most highly prized in the jobs market".

### **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 a very high overall success rate in 2019/20 at 91.8%. Young people's achievement rates at 89.1% is 5.7% above the most recent national rate. 100% of A level students passed their courses with 87.2% achieving A\* – B which is 21.8% above the national average. The majority of recent apprentice starts make good progress and achieve their apprenticeship in a timely manner with an achievement rate of 68.8% which is 8.9% above the most recent national rate. Overall success rates for apprentices has been poor at the College in the recent past but at 69.4% is now 2.7% above the most recent national rate. Feedback from learners is extremely strong, with 91% 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 65% of Project Choice learners who progress to sustained employment compared to a national rate of 8%, many adults each year move from long term unemployment to sustained employment. Access to Higher Education learners gaining the highest achievement rate in the country at 86.3% which is 6.3% above the most recent national rate, and over 800 English for Speakers of Other Language qualifications were undertaken and individuals have gained 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 95% progressing to positive destinations.

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

For the students and apprentices in receipt of support, 97.9% said they were happy with the amount of support they received and 95.6% 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 96.8% 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's) 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 LEP's ambition, "better jobs".

### **Implementation of strategic plan**

The College normally prepares an updated strategic plan every 3 years, including an accommodation strategy and financial forecasts. The corporation monitors the performance of the College against these plans.

A strategic plan was prepared covering the period 2019 to 2022 and the governors approved the objectives at their meeting on 4 July 2019. However, very soon afterwards, the College became aware that the financial position was much worse than had been reported. Despite the financial difficulties encountered, the College has adopted the overarching strategic principles included in the plan and we can report on progress as follows:

#### **1. Highest Quality of Teaching & Learning and Student Outcomes:**

We will be focussed entirely on ensuring that our learners, apprentices and delivery staff achieve excellence and recognise that despite our recent success; delivering high performance in this area remains our top priority. We understand that aspiring to pioneering/innovative educational practice and concentrating on securing other skills such as resilience and entrepreneurship will provide our students with prosperous futures and serve the economic and skills needs of our region and our country. This will be achieved by:

- Providing a progressive curriculum that is well thought out, provides a range of experiences to develop work related skills, is aligned to local and regional priorities and informed, evaluated and up-dated by employers.
- Inspiring everyone to exceed expectations when delivering student outcomes, their future career pathways and job prospects; thereby maintaining our position as the best performing college in the country.
- Meticulously monitoring each individual student and apprentice to ensure they are on track to achieve the highest standard and providing holistic support where necessary, so no one falls behind and fails to achieve their potential.
- Ensuring learners and apprentices leave us with the confidence behaviours to thrive in the workplace and modern Britain and have strategies to deal with life's challenges.
- Ensuring teachers have extensive technical and academic knowledge and the pedagogical skills to secure cutting-edge, sustained knowledge and skills for our students.
- Always being aware of changing economic and skills needs and priorities so our curriculum provides support for economic development while providing value for money and supporting the regional and national economy.

OFSTED inspected the College in January 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.

A further OFSTED monitoring visit in November 2020 focused on the College's response to the global pandemic and a provider monitoring visit in January 2021 continues to provide support and challenge in its improvement journey.

## 2. High Performing Culture

We will build-on and continue to develop and embed our high performance culture, where expectations are clear, standards high and we have a culture of high support and high challenge to enable our people to achieve their aspirations. People will continue to be empowered to do their very best for students and employers with their achievements being recognised and rewarded when their impact on students and stakeholders is clearly evident. Embracing agile and innovative working practices staff will continue to take responsibility for their development and the quality of their work ensuring sector leading experiences and outcomes for our learners and an engaged and passionate workforce. This will be achieved by:

- Embracing agile and innovative working practices staff will continue to take responsibility for their development and the quality of their work ensuring sector leading experiences and outcomes for our learners and an engaged, focussed and passionate workforce.

- Continuing to challenge and support in a timely manner any performance/behaviours which are not aligned to college standards and values.
- Continuing to develop our culture of coaching and individual accountability and empowerment for performance and development-with student success being at the heart of everything we do
- Further develop the concept of the learning organisation and self-directed development of our people.
- Make linkages between performance and reward and recognition more overt and develop our performance related reward approach
- Develop a more outcomes focussed performance approach across the entire college and utilise agile working to improve productivity and engagement where applicable.
- Continue to involve, genuinely listen to and communicate effectively with our staff to continue to improve our customer service and quality of everything we do.

### 3. Exceptional Services and Customer Experience:

We will establish a reputation for delivering the highest quality standards of customer service across all elements of our business; for all stakeholders and students. Our workforce will embrace these standards and we will further integrate our model of 'Five Star Service' across the business seeing demonstrable evidence of this in-action and making a difference. We will provide this distinctive customer experience ensuring it has a clear impact on business outcomes and creates a competitive advantage. This will be achieved by:

- Further developing our five-star service business model and concept and embedding it across the organisation.
- Organising our business and our people in way that puts the customer at the centre of everything we do.
- Continuously developing the skills and behaviours of our people, empowering them to innovate in designing processes and services which meet customer needs and rewarding excellent practice – with an outcomes-focussed methodology
- Embracing new approaches and different ways of working in-line with our business plans and aspirations
- Maximising technology to drive performance for example digitising processes, personalising services and making better use of analytical tools and data to capture and utilise feedback from customers and employees.
- Ensuring we always operate in line with consumer protection legislation safeguarding all of our customers and students, assuring them of the highest standards of service and that we will deliver what we promise.

### 4. Growing our Business

We will continue to grow our business in a sustainable and quality-driven manner; by working together with industry, developing strong relationships and collaborating with employers to deliver the training they need to be successful now and into the future, leading to a more

productive, inclusive and sustainable regional economy. We will continue to grow our market share, building on our outstanding reputation and to be seen as the training provider of choice, providing expert advice, unrivalled customer service and outstanding training programmes. This will be achieved by:

- Focussing on growing areas of strategic importance which are aligned to regional priorities to build a stronger North East economy and one that reinforces the region's position as a contributor to regional, national and global economic growth.
- Working in partnership with employers to develop apprenticeships and wider higher level skills provision, ensuring our resources are best deployed to deliver maximum return on our investment.
- Continuing to provide the highest quality apprenticeship provision and services which are responsive, flexible and differentiated to meet the individual needs of customers in the following areas:-
  - Advanced Manufacturing
  - Automotive
  - Building Services
  - Business and Professional Services
  - Creative and Digital
  - Energy
  - Health and Social Care
- Providing employers with an unrivalled level of customer service, through our account management service, to ensure we deliver programmes that are aligned to employers' skills needs and the career opportunities in the region and which meets the aspirations of our students.
- Investing in our business processes to support our drive to be the training provider of choice by delivering outstanding service and value to all our stakeholders.
- Developing partnerships 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.
- Identifying and securing other funding opportunities to deliver skills programmes to support the needs of employers to develop their workforces.

The financial position of the College has meant that growth plans have been put on hold with the focus being on the day to day operation of the College.

## 5. Sustainability

We will continue to run our organisation effectively and efficiently to further improve our strong financial health and resilience allowing us to invest in our people, learning resources and facilities for the benefit of every student. This will be achieved by:

- Building on our strong and improving financial health, seeking out new opportunities to grow and diversify income, whilst ensuring that resources are carefully targeted to have the greatest possible impact on the regional economy.
- Further enhancing and continuing reviewing and evaluating our high quality estate, through aligning it to the future needs of our students, whilst ensuring it is run as cost effectively as possible.
- Focusing on our environmental impact through continuing to reduce our energy footprint by further investment in energy saving measures and waste reduction through enhanced recycling and the reuse of resources.
- Ensuring our core support services remain agile and responsive to the needs of the College, our students and customers, whilst improving the efficiency of their delivery.
- Prudent and targeted investment in our IT infrastructure and agile technology to meet the changing needs and expectation of our staff and students.
- Operating responsibly and ethically as a business, always doing the right things in the right way.
- Ensuring the College remains compliant and adheres to all legislative and governance/audit requirements to protect the college and our reputation for always delivering the highest quality within a well-run and well- governed framework.

In light on the financial position, the College has clearly been unsuccessful in improving its' financial standing and the financial health has deteriorated to 'inadequate'. However, the College has developed, and is in the process of implementing, a recovery plan which includes an improvement in financial health to 'requires improvement' in 2021 and 'good' in 2022.

## **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 has reviewed and articulated its estate strategy as part of the financial recovery.

The College's recovery plan includes a plan to dispose of excess properties with a view to generating cash that will be used to reduce the level of borrowings creating a more stable foundation on which the College can move forward.

The College maintenance programme was interrupted by cash constraints during the year and as a result, there were no significant additional developments to any particular College Campus or Building.

### *Financial*

The Group has net liabilities of £24.8m including pension liability of £39.4m (2018/19 net assets of £3.1m including pension liability of £17.3m). The Group has borrowings of £9.1 million (2018/19 £9.6m) and net current liabilities of £15.6m (2018/19 £11.1m)

### *People*

The College employed an average of 527 people (expressed as full time equivalents), of whom 278 are teaching staff (2019: 599 people of whom 286 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.

## **STAKEHOLDER RELATIONSHIPS**

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

- a. Students;
- b. Education Sector Funding Bodies;
- c. Staff;
- d. Local employers;
- e. Government Offices & Local Enterprise Partnerships;
- f. The local community;
- g. Other FE institutions;
- h. Trade Unions;
- i. Professional bodies.

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

## **CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE**

### **Accommodation Developments**

During the year to 31 July 2020 the College continued to stabilise 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 2019/20 the College exceeded or met its overall learner number targets for 16-18, Apprenticeships and HE, but fell short of learner number target for Adults.

<b>Further Education</b>	<b>2018-2019</b>	<b>2019-2020</b>	<b>%+/-</b>
	<b>Headcount</b>	<b>Headcount</b>	
16-18	2,452	2,612	+6.5%
19+	6,884	2,736	-60.3%
<b>Total FE</b>	<b>9,336</b>	<b>5,348</b>	<b>-42.7%</b>
<b>Apprentices</b>	<b>Headcount</b>	<b>Headcount</b>	
16-18	495	523	+5.7%
19+	1,398	1,425	+1.9%
<b>Total APPS</b>	<b>1,893</b>	<b>1,948</b>	<b>+2.9%</b>
<b>Higher Education</b>	<b>Headcount</b>	<b>Headcount</b>	
<b>HE</b>	<b>393</b>	<b>248</b>	<b>-36.4%</b>
<b>European Social Funds (ESF)</b>	<b>Headcount</b>	<b>Headcount</b>	
<b>ESF</b>	<b>3,789</b>	<b>0</b>	<b>-100.0%</b>

Student numbers, particularly Adult recruitment, were impacted by the national lockdown in 2019-20 from March to July 2020. This significantly impacted on student numbers that would normally have been recruited for the Colleges' short course offer.

Work on ESF contracts concluded in 2019 and no activity took place during 2020.

### **Student Success Rates**

Student success rates in 2019/20, 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

<b>FE</b>	<b>2018-19 Actual %</b>	<b>2019-20 Actual %</b>
Long course	90.3%	88.8%
Short course	97.4%	94.8%
<b>All</b>	<b>95.6%</b>	<b>91.8%</b>

### **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.

## **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 Independent Business Review (IBR) and Structures and Prospects Appraisal (SPA) is that the College will remain independent and is now in the process of implementing its' recovery plan.

## **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. The members of the Governing Body, who are trustees of the charity, are disclosed on page 30. In setting and reviewing the College's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education.

In delivering its mission, the College provides identifiable public benefits through the advancement of education to approximately 6,000 students, including 91 students with high needs. The College provides courses without charge to young people, to those who are unemployed and adults taking English and maths courses. The College adjusts its courses to meet the needs of local employers and provides training to 1,948 apprentices. The College is committed to providing information, advice and guidance to the students it enrolls and to finding suitable courses for as many students as possible regardless of their educational background.

## **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 £1.3m. 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 November 2019 and this proved to be realistic. 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 was not 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 the 2019 financial statements followed by a specific breach as a result of non compliance with the financial covenants as at July 2020. In addition, in the absence of a formal repayment arrangement, all support monies received from ESFA totalling £5.1m have also been included as being due to be paid within one year. The actual current ratio as at 31 July was 0.18.

### **Future Financial Objectives**

- 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**

1. 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 91.8% for the year to 31 July 2020 (2019: 95.6%), this is better than the national rate by 5.1%.
  - Financial Health: Due to the issues mentioned above regarding the unplanned deficit situation, the College's Financial Health rating remained as "inadequate" against the planned rating of "Outstanding".
  - Adjusted Current Ratio: (0.19) compared with plan of 1.09
  - EBITDA as a percentage of income – (12.8%) compared with plan of 1.50%
  - Borrowing as a percentage of income – 47.0% compared with plan of 27.6%
  - Delivery against funding targets: Gateshead College achieved most of its funding body contract targets in the year to 31 July 2020. Apprenticeship income and the Adult Education Budget (AEB) were adversely impacted by Covid-19. However, the College achieved the mid-year threshold set by the Education & Skills Funding Agency (ESFA) for AEB and as a result, were paid in full.
  - Destinations: The most recent set of destination data was collected in the year to 31 July 2019, with 95% 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% (No FE Choices Survey took place in 2019/20 due to pandemic).

- **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% (No FE Choices Survey took place in 2019/20 due to pandemic). 98.5% of learners said they are satisfied with their experience at the College.
- **Employee Satisfaction:** The College latest staff survey showed a score of 7.0 out of 10 overall employee satisfaction score using the new survey provider Reward Gateway. This is a decline on the score from 2018/19 which was 8.2.

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**

1. The consolidated operating deficit in the year was £8,494,000 (2018/19 £11,780,000 after charging £6,556,000 in fixed asset impairment losses. During the year, £2,122,000 of staff restructuring costs were incurred (2018/19 £217,000) plus interest charges (net of pension finance costs) of £371,000 (2018/19 £402,000). The deficit position in the year to 31 July 2020 was largely as a result of a shortfall of income against that planned, mainly apprenticeships and commercial, together with additional costs relative to the recovery plan and re-structuring.

The College has developed and is in the process of implementing 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. Liquidity is forecast to improve by sale of underutilised properties and other property rented out to third parties.

2. The College's portfolio of trading subsidiary companies as at 31 July 2020 consisted 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 activities were wound down during the year and the company has now ceased trading. The company incurred losses of £273,187 in the year.

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 2020 generating turnover of £797,660 and a pre tax trading profit of £31,894.

Gateshead College Foundation was incorporated on 18<sup>th</sup> 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 £18,381 in the year with a negative movement in funds of £13,149. The remaining funds as at 31 July 2020 were £1,128,867.

Zero Carbon Futures (UK) Limited was incorporated on the 29<sup>th</sup> 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 2020 with turnover of £335,616 and pre tax losses of £170,416. In light of the ongoing losses being incurred, the interests in the company were transferred to a third party on 1 November 2020.

Zero Carbon Futures (North) Limited was incorporated on 17<sup>th</sup> November 2011. Its primary purpose was to house the 'Plugged in Places' project previously operated by the now closed Regional Development Agency ONE North East. During the year to 31 July 2020, the company generated turnover of £114,082 and a pre tax profit of £327. The activities in the company were transferred to a third party on 1 November 2020 at which point the company ceased trading.

On the 15<sup>th</sup> 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 2020, and has subsequently been wound down.

Tyneside Training Services Ltd did not trade in the year with the activities being included within Gateshead College. These activities were transferred to a third party post year end with the company being retained.

3. Tangible fixed asset additions to the group during the year totalled £478,000 which represented the ongoing update of facilities and equipment at all College campuses.
4. The Group has significant reliance on the Education and Skills Funding Agency (ESFA) for its principal funding sources, largely from recurrent grants. In 2019/2020 the ESFA provided 80.4% of the College's total income (£25,198k from total income of £31,360k). As stated above, the College has accessed emergency funding from the ESFA of £5.1m to cover restructuring costs and general cash flow requirements to continue its operations during the period to July 2020 (and see below the statements regarding going concern).

## **Treasury Policies and Objectives**

5. 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 the earlier part of the financial year 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**

6. At the year end, there was an operating outflow of cash of £6,716,000 (2018/19 inflow of £1,337,000).

## **Liquidity**

7. During the year, the College received £5.1m in support funding from ESFA which is to be repaid with funds generated by a combination of property sales and improved trading performance. At the time of preparing these financial statements, the timeframe for repayment is still subject to agreement. In the absence of such agreement the liability has been included in these financial statements as being due for repayment within one year.
8. There was no additional funding received from other external sources and loan repayments of £519,000 were made during the year.
9. The College has borrowings of £14,215,000 at 31 July 2020 (2018/19 £9,629,000) which included the ESFA support funding mentioned above. 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 this was withdrawn part way through the year.  
Since 31 July 2020, the College has obtained further secured funding of £312k 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**

10. The College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities.

As at the balance sheet date the Group Income and Expenditure reserve stands at £14,586,000 reducing to a negative position of £24,804,000 after taking into account Defined Benefit Obligations of £39,390,000 (2019: £19,265,000 reducing to £1,945,000 after taking into account Defined Benefit Obligations of £17,320,000). The Defined Benefit Scheme liabilities increased by £21.5m following the annual actuarial re-calculation, largely as a result of a 0.8% fall in the discount rate and a stagnation of life expectancy of members.

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

### Group companies

The College has five subsidiary companies that traded in the year being:

- North East Apprenticeship Company Ltd - engaging with local SME's to create new work placement opportunities for apprentices.
- Zero Carbon Futures (UK) Ltd - a provider of electric vehicle and sustainable manufacturing training in the UK. The company was transferred to a third party on 1 November 2020.
- Zero Carbon Futures (North) Ltd - to house the 'plugged in places' project linked to electric vehicle charging which is now complete. The activities of the company were transferred to a third party on 1 November 2020.
- Amacus Ltd - delivering employability training to the unemployed - the company was wound down during the year.
- Gateshead Foundation - a charitable organisation established to provide support to students impacted by personal hardship

With the exception of Gateshead Foundation, any surpluses generated by the above are transferred to the College under deed of covenant, details being as follows:

	Gift aided to College	
	2020	2019
North East Apprenticeship Company Ltd	£9,693	£61,894
Zero Carbon Futures (UK) Ltd	£19,924	£0
Zero Carbon Futures (North) Ltd	£0	£0
Amacus Ltd	£0	£15,224

### PRINCIPAL RISKS AND UNCERTAINTIES

The Group has well developed strategies for managing risk and strives to embed risk management in all that it does. Risk management processes are designed to protect its assets, reputation and financial stability. The governing body has overall responsibility for

risk management and its approach to managing risks and internal controls is explained in the Statement on Corporate Governance.

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.

The main risk factors affecting the College are outlined below along with the action taken to minimise them. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

1. 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 2019/20, 81% 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.

The College is aware of several issues which may impact on future funding, including impacts of government policy, change in governmental funding priorities for education including the Apprenticeship Levy, 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.

2. 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

3. 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.

This risk is controlled via regular dialogue with Tyne & Wear Pension Scheme regarding the level of contributions payable and is included on page 27 as a going concern issue.

4. Failure to maintain the financial viability of the College:

The College's financial health continues to be 'inadequate' and 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

5. Covid-19:

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.

The College is taking action to mitigate any impact by continuing to maximise delivery of each funding stream to the best of its' ability.

6. Structures & Prospects Appraisal (SPA):

The College needs to meet the requirements stipulated by the outcome of the SPA. The process to recruit a permanent Principal/CEO has been concluded and progress in meeting the targets included in the recovery plan are being closely monitored.

## **EQUALITY AND DIVERSITY**

### **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 Health 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, to 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.

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.

Numbers of employees who were relevant period	FTE employee number
6	4.3

Percentage of time	Number of employees
0%	0
1-50%	6
51-99%	0
100%	0

Total cost of facility time	£49,102
Total pay bill	£23,120,838
Percentage of total bill spent on facility time	0.21%

Time spent on paid trade union activities as a percentage of total paid facility time	24%
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## 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, the group performance in the 2020 financial statements shows a significant deficit for the second year running of £8.5m and a net current liabilities position of £15.6m. (partially caused by the inclusion of all loan amounts as short term as outlined in note 15).

Additional support of £5.1m was provided by ESFA in the year which triggered intervention and the production of a detailed recovery plan and supporting cash flow forecasts for the period to July 2022. Further additional support of £0.3m has been received post 31 July 2020 resulting in total 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 small operating surplus before surplus/deficit on property disposals in the year ending 31 July 2021 and a healthy surplus in the year ending 31 July 2022. Current forecasts, taking into account in year trading performance, indicate that the College is likely to make a small operating surplus in the year prior to surplus/deficit on property disposals. It should be noted, however, that the impact of Covid-19 does create additional uncertainty and makes forecasting even more difficult than normal. Certain assumptions are made within the recovery plan which create material uncertainties as follows: -

- Cash flow projections for the next 12 months indicate that available funds will be at their lowest point in March 2022 and careful management of cash may be required. The College has modelled the impact on funding given various scenarios including the potential impact of the uncertainties below to verify that there will be sufficient funds available.
- The grant support received from the ESFA of £5.4m has been converted to a loan which is secured, in part, by charges on properties which are currently being sold. The terms of repayment included in the loan agreement exclude the potential benefit from the sale of these properties. As and when these secured properties are sold, the sum received will be used to offset loan repayments due to ESFA at the end of the loan meaning that the loan will be repaid earlier. One property sale has been concluded and a loan repayment of £1.1m made. A second sale transaction is close to completion which would reduce the loan by a further £1.55m.
- There was a technical breach of bank loan covenants as at 31 July 2019 and an actual breach of financial covenants as at 31 July 2020. 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 is 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 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 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, however, positive in that student recruitment in September 2020 has held up well and is in line with the level forecast in the recovery plan. There continues to be concern over the level of activity in respect of AEB funding where students are recruited in year and were lower due to the lockdown measures introduced from January 2021 onwards.

- ESFA have recently announced details of the treatment of AEB funding delivery shortfalls by providers in the year to 31 July 2021. Based on the current proposal and likely College AEB delivery forecasts, the College would be required to reimburse ESFA with a significant sum which has not been factored into the cash flow forecasts. ESFA have suggested that additional loan funding may be available to overcome this situation, with repayments commencing once the support funding already paid to the College has been repaid.
- A payment plan in respect of additional employers' pension contributions to Tyne & Wear Pension Scheme (TWPS) has been submitted to TWPS and the College is currently waiting for confirmation that the plan is to be accepted. Should the plan be rejected then further negotiation will be required to arrive at a mutually acceptable arrangement.
- The Further Education Commissioner continues to engage with the College to monitor progress against the recovery plan.

Following the conclusion of the Structure and Prospects Appraisal, the College is implementing the recovery plan and monitoring progress accordingly. A phase B Independent Business Review (IBR) has been conducted by FRP and confirms that substantial progress on the recovery plan has been achieved. Some risks remain which are outlined above but the consensus is that the College is able to stand alone going forward.

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.

## **EVENTS AFTER THE REPORTING PERIOD**

Additional ESFA support funding of £312k was received in August/September 2020.

On 9 December 2020, John Hogg resigned as Chair of Governors and remained on the governing body. He was replaced by Sarah Stewart as Chair of Governors on the same day.

Recruitment of a permanent Principal and permanent Finance Director commenced in January 2021.

In January 2021, further Covid-19 lockdown measures were introduced creating uncertainty over future financial projections.

The second FRP report was issued outlining a further review of the College's financial recovery plan. Whilst the report identified ongoing risks, particularly the impact of Covid-19, the report confirmed that substantial progress had been made in the Colleges' recovery plan to be able to operate as a viable standalone entity.

## **DISCLOSURE OF INFORMATION TO AUDITORS**

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

Approved by order of the members of the corporation on 26 March 2021 and signed on its behalf by:



Sarah Stewart

Chair

# Gateshead College

## Governance Statement

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1<sup>st</sup> August 2019 to 31<sup>st</sup> July 2020 and up to the date of approval of the annual report and financial statements.

### GOVERNANCE CODE

The College endeavours to conduct its business:

1. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
2. in full accordance with the guidance to Colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code") and the Charity Governance 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 2020. This opinion is based on its own review of compliance with the above mentioned Codes. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted in February 2018.

## THE CORPORATION

### Members of 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.

Appointee	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance in 2019/20
Aneela Ali	14/02/2020	4 years		Governor	Audit Committee wef 1 Aug 2020	5/8 – 62.5%
Richard Bathgate	Appointed June 2017, begins Sep 2017	2 years	November 2019	Staff		0/1 – 0%
Andy Cole	24/02/2020	Ex-officio		Interim Principal	Business Committee Corporate Services Committee People Committee Teaching & Learning Committee	7/7 – 100%
Judith Doyle	August 2013	Ex-officio	31/12/2019	Principal	Business Committee Corporate Services Committee People Committee Teaching & Learning Committee	2/2 – 100%
Simon Ennew – teaching staff governor	27/04/2020	2 years		Staff		2/2 – 100%

<b>Appointee</b>	<b>Date of Appointment</b>	<b>Term of office</b>	<b>Date of resignation</b>	<b>Status of appointment</b>	<b>Committees served</b>	<b>Attendance in 2019/20</b>
Martin Gannon	Appointed May 2018	4 years		Governor		5/10 – 50%
Darren Heathcote – support staff governor	01/03/2015 – reappointed September 2017	2 years		Staff	Audit Committee	9/10 – 90%
Martin Hedley	26/03/2020	4 years				1/4 – 25%
John Hogg	22/01/2020 Interim Chair to Dec 2020	4 years			Business Committee Corporate Services Committee Remuneration Committee	8/8 – 100%
Nick Hurn	Reappointed March 2018	4 years	January 2020	Governor	Chair – People Committee Teaching & Learning Committee	1/2 – 50%
Martin Jesper	Appointed October 2018	4 years	10/10/2019	Governor	Corporate Services Committee Remuneration Committee	1/1 – 100%
Andrew Lorimer	Appointed October 2018	4 years	07/10/2020	Governor		5/10 – 50%
Sarah McBean – student governor	26/05/2020	1 year		Student		1/1 – 100%
John McCabe	Appointed July 2019 Chair	4 years	17/01/2020	Governor	Chair – Corporate Services Committee	2/2 – 100%

<b>Appointee</b>	<b>Date of Appointment</b>	<b>Term of office</b>	<b>Date of resignation</b>	<b>Status of appointment</b>	<b>Committees served</b>	<b>Attendance in 2019/20</b>
					Chair – Business Committee Remuneration Committee	
Chris Macklin	Reappointed December 2016	4 years		Governor	Chair – Audit Committee People Committee	8/10 – 80%
David Mitchell	Reappointed October 2017	4 years			Chair – Teaching & Learning Committee Business Committee	9/10 – 90%
Georgina Moroney – student governor	26/05/2020	1 year		Student		1/1 – 100%
Kirsty Paterson – Sabbatical President	Appointed August 2018	1 year	30/06/2020	Sabbatical President of the Students' Union		7/9 – 78%
Claire-Jane Rewcastle	Appointed October 2018	4 years		Governor	Chair – Remuneration Committee People Committee	7/10 – 70%
Sarah Stewart	Appointed October 2018 – appointed as Chair December 2020	4 years		Governor	Business Committee Teaching & Learning Committee	10/10 – 100%
Chris Toon	01/01/2020	Ex-officio	23/02/2020	Acting Principal	Business Committee	2/2 – 100%



Appointee	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance in 2019/20
					Corporate Services Committee People Committee Teaching & Learning Committee	

### The governance framework

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

The corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The corporation met through the financial period at least on a monthly basis. This schedule of regular meetings ensured that the full Board had oversight of progress against an action plan designed to create and begin to execute the College's financial recovery.

The corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the corporation and towards the end of the year these were reviewed and revised, and a new committee structure subsequently adopted by the Board on 2 October 2020.

Committees for the financial year were Teaching and Learning, Corporate Services, Audit, Remuneration and People. Full minutes of all meetings, except those deemed to be confidential by the corporation, are available on the College's website or from the clerk to the corporation. Some of the committee's did not meet as frequently as they ordinarily would because the full Board met so regularly throughout the year.

The corporation maintains a register of financial and personal interests of the governors. The register is available for inspection from 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 provided on an ad hoc basis and Governor approval to matters by email is obtained for urgent decision making between meetings.

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

There is a clear division of responsibility in that the roles of the Chair and Accounting Officer are separate.

### **Appointments to the corporation**

Any new member appointments to the corporation are a matter for the consideration of the corporation as a whole. During the year, three new independent governors (including the Chair), plus two student governors and a teaching staff governor were appointed.

Post 31 July 2020, the corporation re-formed a governance committee, which is responsible for the selection and nomination of any new member for the corporation's consideration, board development, training and effectiveness etc. The corporation is responsible for ensuring that all governors understand their legal duties and responsibilities.

The governance committee has subsequently overseen a governor recruitment process, supported by Peridot, which will result in the recruitment of at least 4 new governors, including an Audit Committee Chair.

The Instrument and Articles of Government were amended on October 2 2020 and Members of the corporation are now appointed for a term of office not exceeding four years and can be reappointed for a further four year term. Re-appointments thereafter now only take place in exceptional circumstances. This does not affect the continued term of longer standing governors, provided they continue to perform in their role.

### **Corporation performance**

Because of the acute focus on financial recovery, the corporation did not carry out a self-assessment of its own effectiveness. In 2020/21, Education Training Foundation (ETF) supported the College to undertake a Board capability review. ETF endorsed the recent restructure of the committees and commented favourably on capability and capacity.

Board self-assessment is then scheduled to take place in June 2021. By that time, a number of new governors will have been appointed, as described above.

### **Remuneration Committee**

Throughout the year ending 31 July 2020 the College's Remuneration Committee comprised three members of the corporation. The Committee's responsibilities are to make

recommendations to the Board on the remuneration and benefits of the Accounting Officer and other key management personnel.

During the year, the remuneration committee made recommendations to the Board and steps were taken to restructure the executive team and bring remuneration levels back into line with sector norms.

### **Audit Committee**

The Audit Committee comprises two members of the corporation (excluding the Accounting Officer and Chair) and a co-optee. The Committee operates in accordance with written terms of reference approved by the corporation. (these were revised in the Summer of 2020)

The Audit Committee usually meets on a termly basis and provides a forum for reporting by the College's internal auditors, reporting accountants and financial statements auditors, who have access to the Committee for independent discussion without the presence of College management. During the course of this year however, the Governors set up a task and finish group, which included the Audit Chair, and a large part of the work of that group was to conclude the financial statements for 2018/19. This was a challenging exercise because of the identification of such a significant financial deficit for the previous year as well as other related matters as explained in the 2018/19 financial statements. The Interim Finance Director worked diligently with the external auditors to gather relevant financial information and this was reported to the Task and Finish Group.

The 2018/19 statements were approved by the Board in December 2020.

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. During the year, they looked at core corporate controls and systems.

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

The Audit Committee also advises the corporation on the appointment of internal auditors, reporting accountants and financial statements auditors and their remuneration for audit and non-audit work as well as reporting annually to the corporation. In the 2020/21 financial year, the Audit Committee will tender for both internal and external auditors.

## **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 Interim Principal/CEO, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Funding Agreement with the ESFA. He is also responsible for reporting to the corporation any material weaknesses or breakdowns in internal control.

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

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control was strengthened during the year ended 31 July 2020 with external reviews by PwC of College processes and controls over subcontracting arrangements as required annually by ESFA and Key Financial Controls, the latter covering payroll, expenses, general ledger, purchase ledger and debtor control.

### **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 2020 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the corporation.

During the course of the next financial year, the Audit Committee will scrutinise and revise the format of the College's risk register and ensure it identifies movement in key risks and indicates matters of concern at an early stage.

### **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.

The College has historically had an internal audit service, which operates in accordance with the requirements of the ESFA's *Post 16 Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are usually based on this analysis. The analysis of risks and the internal audit plans are then endorsed by the corporation on the recommendation of the audit committee. At minimum, annually, the Head of Internal Audit (HIA) would normally provide the governing body with a report on internal audit activity in the College. The report would include the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes. Due to the limited amount of internal audit activity undertaken during the year, the internal auditors were unable to provide the College with the level of assurance normally given. However, the Audit Committee takes assurance that the internal audit reports presented to the committee during the year did not identify any significant weaknesses and, hence, has no reason to believe that the level of effectiveness has been compromised as a result. A comprehensive internal audit plan for 2020/21 has been agreed with the internal auditors which is intended to provide the committee with a similar level of assurance as has been historically received.

### **Control weaknesses identified**

There were no major weaknesses identified in the College's systems arising from the specific Key Financial Controls review undertaken by PwC.

### **Statement from the audit committee**

Investigations during the 2019/20 audit period highlighted aspects of the Group's work where controls were not being effectively managed, which had led to the final reported deficit in the 2018/19 period. These areas were the focus of internal audit during 2019/20.

Throughout the 2019/20 period, required improvements were identified and implemented, and this work remains ongoing (including as a result of the internal audit reporting for the 2019/20 financial period), and actions continue to be taken to ensure that processes and systems are being continually assessed and strengthened.

The Audit Committee has considered the various reports received from external and internal auditors and College management, and has put in place systems and processes to tackle any issues that have arisen during the year. In our opinion, the College has adequate and effective audit arrangements, risk management and control is much improved, and the framework of governance is effective. It also has adequate processes for securing economy, efficiency and effectiveness. There remain opportunities to further improve, and actions have been identified which will be monitored. The improvements made and to come will support the College to achieve its objectives cost effectively with continuing awareness of risk.

## Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. His / her 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 in their management letters and other reports.

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

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement.

The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its March 2021 meeting, the corporation carried out the annual assessment for the year ended 31 July 2020 by considering documentation from the senior management team and internal audit and taking account of events since 31 July 2020.

Based on the advice of the Audit Committee and the Accounting Officer, the corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has 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"*.

**Approved by order of the members of the Corporation on 26 March 2021 and signed on its behalf by:**



Sarah Stewart  
Chair



Andy Cole  
Accounting Officer

# Gateshead College

## Statement of Regularity, Propriety and Compliance

The corporation has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the corporation's grant funding agreement and contracts with the ESFA. As part of our consideration we have had due regard to the requirements of the grant funding agreements and contracts with the ESFA.

We confirm on behalf of the corporation that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the corporation, or material non-compliance with the terms and conditions of funding, under the corporation's grant funding agreements and contracts with the ESFA, or any other public funder.

We confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the ESFA.



Andy Cole

Accounting Officer

Date: 26 March 2021



Sarah Stewart

Chair of Governors

Date: 26 March 2021

# Gateshead College

## 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 corporation'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 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 corporation and its surplus / deficit of income over expenditure for that period.

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

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess whether the corporation is a going concern, noting the key supporting assumptions qualifications or mitigating actions as appropriate
- 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 corporation.

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 its 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 the ESFA and any other public funds are used only in accordance with the ESFA's grant



funding agreements and contracts and any other conditions that may be prescribed from time to time by the ESFA or any other public funder. 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 corporation's resources and expenditure so that the benefits that should be derived from the application of public funds from the ESFA and other public bodies are not put at risk.

Approved by order of the members of the corporation on 26 March 2021 and signed on its behalf by:

A handwritten signature in black ink, reading "Sarah Stewart". The signature is written in a cursive style with a long horizontal flourish extending from the end of the name.

Sarah Stewart  
Chair of Governors

# Gateshead College

## Independent Auditors' Report to the 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 2020 which comprise the consolidated and College statement of comprehensive income, the consolidated and College balance sheet, the consolidated and College statement 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 2020 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 basis of accounting

We draw attention to note 1 of the financial statements which indicates that the Group has incurred a significant deficit of £8.5m and net current liabilities of £15.6m partly as a result of a breach in bank covenants which caused the loan to become repayable on demand.

Resolution of the breach of the bank covenants and the and the ongoing support of the bank is not yet formalised.

Uncertainties exist in the Group's and College's forecasting linked to future funding levels, and liabilities which give further uncertainty around the operational cash flow forecasts.

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

### **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 2019 to 2020 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 40 to 41, 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.

### **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 dated July 2017. 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: 26/03/21

# **Gateshead College**

## **Independent Reporting Accountants' 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 July 2017 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 01 August 2019 to 31 July 2020 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, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 01 August 2019 to 31 July 2020 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

### **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.

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 01 August 2019 to 31 July 2020 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

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.

#### **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**  
Chartered Accountants  
1 St James' Gate  
Newcastle upon Tyne  
NE1 4AD  
Date: 26/03/21

# Gateshead College

## Consolidated Statements of Comprehensive Income and Expenditure

	Notes	Year ended 31 July 2020		Year ended 31 July 2019	
		Group £'000	College £'000	Group £'000	College £'000
<b>INCOME</b>					
Funding body grants	2	25,445	25,338	33,596	33,009
Tuition fees and education contracts	3	3,027	2,680	6,402	5,842
Other grants and contracts	4	1,411	1,377	1,232	1,128
Other income	5	1,477	1,264	2,113	1,664
Donations and Endowments	6	-	-	-	77
<b>Total income</b>		<b>31,360</b>	<b>30,659</b>	<b>43,343</b>	<b>41,720</b>
<b>EXPENDITURE</b>					
Staff costs	7	23,120	22,249	23,724	22,226
Restructuring costs	7	2,122	2,072	217	202
Other operating expenses	8	11,219	11,077	21,342	21,138
Depreciation	10	2,662	2,574	2,550	2,448
Impairment	10	-	-	6,556	6,556
Interest and other finance costs	9	731	753	722	742
<b>Total expenditure</b>		<b>39,854</b>	<b>38,725</b>	<b>55,111</b>	<b>53,312</b>
<b>(Deficit)/surplus before other gains and losses</b>		<b>(8,494)</b>	<b>(8,066)</b>	<b>(11,768)</b>	<b>(11,592)</b>
Loss on disposal of assets	10	-	-	(12)	(12)
Gain / (Loss) on Investments		-	-	-	(150)
<b>(Deficit)/Surplus before tax</b>		<b>(8,494)</b>	<b>(8,066)</b>	<b>(11,780)</b>	<b>(11,754)</b>
Taxation		-	-	-	-
<b>(Deficit)/surplus for the year</b>		<b>(8,494)</b>	<b>(8,066)</b>	<b>(11,780)</b>	<b>(11,754)</b>
Unrealised surplus on revaluation of assets		-	-	-	-
Actuarial loss in respect of pensions schemes	22	(19,397)	(19,397)	(3,720)	(3,720)
<b>Total Comprehensive Income for the year</b>		<b>(27,891)</b>	<b>(27,463)</b>	<b>(15,500)</b>	<b>(15,474)</b>
<b>Represented by:</b>					
<b>Restricted comprehensive income</b>		-	-	-	-
<b>Unrestricted comprehensive income</b>		<b>(27,891)</b>	<b>(27,463)</b>	<b>(15,500)</b>	<b>(15,474)</b>
		<b>(27,891)</b>	<b>(27,463)</b>	<b>(15,500)</b>	<b>(15,474)</b>
<b>Surplus for the year attributable to:</b>					
Non-controlling interest		-	-	-	-
Group		<b>(8,494)</b>	<b>(8,066)</b>	<b>(11,780)</b>	<b>(11,754)</b>
<b>Total Comprehensive Income for the year</b>					
Non-controlling interest		-	-	-	-
Group		<b>(27,891)</b>	<b>(27,463)</b>	<b>(15,500)</b>	<b>(15,474)</b>

All items of income and expenditure relate to continuing activities.

# Gateshead College

## Consolidated and College Statement of Changes in Reserves

	Income and expenditure account £'000	Revaluation reserve £'000	Restricted reserves £'000	Total £'000
<b>Group</b>				
<b>Balance at 1 August 2018</b>	18,587	-	-	18,587
Surplus/(deficit) from the income and expenditure account	(11,780)	-	-	(11,780)
Other comprehensive income	(3,720)	-	-	(3,720)
Transfers between revaluation and income and expenditure reserves	-	-	-	-
	<u>(15,500)</u>	-	-	<u>(15,500)</u>
<b>Balance at 31 July 2019</b>	3,087	-	-	3,087
Surplus/(deficit) from the income and expenditure account	(8,494)	-	-	(8,494)
Other comprehensive income	(19,397)	-	-	(19,397)
Transfers between revaluation and income and expenditure reserves	-	-	-	-
<b>Total comprehensive income</b>	<u>(27,891)</u>	-	-	<u>(27,891)</u>
<b>Balance at 31 July 2020</b>	<u>(24,804)</u>	-	-	<u>(24,804)</u>
<b>College</b>				
<b>Balance at 1 August 2018</b>	17,087	-	-	17,087
Surplus/(deficit) from the income and expenditure account	(11,754)	-	-	(11,754)
Other comprehensive income	(3,720)	-	-	(3,720)
Transfers between revaluation and income and expenditure reserves	-	-	-	-
	<u>(15,474)</u>	-	-	<u>(15,474)</u>
<b>Balance at 31 July 2019</b>	1,613	-	-	1,613
Surplus/(deficit) from the income and expenditure account	(8,066)	-	-	(8,066)
Other comprehensive income	(19,397)	-	-	(19,397)
Transfers between revaluation and income and expenditure reserves	-	-	-	-
<b>Total comprehensive income</b>	<u>(27,463)</u>	-	-	<u>(27,463)</u>
<b>Balance at 31 July 2020</b>	<u>(25,850)</u>	-	-	<u>(25,850)</u>



# Gateshead College

## Balance sheets as at 31 July 2020

	Notes	Group 2020 £'000	College 2020 £'000	Group 2019 £'000	College 2019 £'000
<b>Non current assets</b>					
Tangible Fixed assets	10	54,042	54,042	56,226	56,056
		<b>54,042</b>	<b>54,042</b>	<b>56,226</b>	<b>56,056</b>
<b>Current assets</b>					
Stocks		68	68	68	68
Trade and other receivables	12	2,409	2,586	4,450	4,274
Investments		-	-	-	-
Cash and cash equivalents	17	1,039	629	3,895	2,304
		<b>3,516</b>	<b>3,283</b>	<b>8,413</b>	<b>6,646</b>
<b>Creditors – amounts falling due within one year</b>	13	(19,159)	(18,867)	(19,545)	(19,082)
<b>Net current liabilities</b>		<b>(15,643)</b>	<b>(15,584)</b>	<b>(11,132)</b>	<b>(12,436)</b>
<b>Total assets less current liabilities</b>		<b>38,399</b>	<b>38,458</b>	<b>45,094</b>	<b>43,620</b>
Creditors – amounts falling due after more than one year	14	(23,221)	(24,326)	(24,123)	(24,123)
<b>Provisions</b>					
Defined benefit obligations	16	(39,390)	(39,390)	(17,320)	(17,320)
Other provisions	16	(592)	(592)	(564)	(564)
<b>Total net assets</b>		<b>(24,804)</b>	<b>(25,850)</b>	<b>3,087</b>	<b>1,613</b>
<b>Unrestricted Reserves</b>					
Income and expenditure account		(24,804)	(25,850)	3,087	1,613
Revaluation reserve		-	-	-	-
<b>Total unrestricted reserves</b>		<b>(24,804)</b>	<b>(25,850)</b>	<b>3,087</b>	<b>1,613</b>
<b>Total reserves</b>		<b>(24,804)</b>	<b>(25,850)</b>	<b>3,087</b>	<b>1,613</b>

The financial statements on pages 47 to 81 were approved and authorised for issue by the corporation on 26 March 2021 and were signed on its behalf on that date by:

Sarah Stewart



Chair of Governors

Andy Cole



Accounting Officer

# Gateshead College

## Consolidated Statement of Cash Flows

	Notes	2020 £'000	2019 £'000
<b>Cash flow from operating activities</b>			
Surplus/(Deficit) for the year		(8,494)	(11,780)
<b>Adjustment for non-cash items</b>			
Depreciation	10	2,662	2,550
Impairment	10		6,556
(Increase)/decrease in stocks		-	(4)
(Increase)/decrease in debtors	12	2,041	5,068
Increase/(decrease) in creditors due within one year	13	(4,975)	(1,376)
Increase/(decrease) in creditors due after one year	14	(1,039)	(1,109)
Increase/(decrease) in provisions	16	28	(52)
Pensions costs less contributions payable	22	2,690	1,070
<b>Adjustment for investing or financing activities</b>			
Investment income		-	-
Interest payable	9	371	402
Taxation paid		-	-
Loss on sale of fixed assets	10	-	12
<b>Net cash flow from operating activities</b>		<u>(6,716)</u>	<u>1,337</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of fixed assets		-	-
Capital Grants Received / (Released / Repaid)		123	32
Investment income		-	-
Withdrawal of deposits		-	-
New deposits		-	-
Payments made to acquire fixed assets	10	<u>(478)</u>	<u>(1,295)</u>
		<u>(355)</u>	<u>(1,263)</u>
<b>Cash flows from financing activities</b>			
Interest paid	9	(371)	(402)
Interest element of finance lease rental payments		-	-
New unsecured loans	13	5,105	-
Repayments of amounts borrowed	15	(519)	(505)
Capital element of finance lease rental payments		-	-
		<u>4,215</u>	<u>(907)</u>
<b>Increase / (decrease) in cash and cash equivalents in the year</b>		<u>(2,856)</u>	<u>(833)</u>
Cash and cash equivalents at beginning of the year		3,895	4,728
Cash and cash equivalents at end of the year		1,039	3,895

# Gateshead College

## Notes to the Accounts

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

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

#### Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2019 (the 2019 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.

#### 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.

Amacus Ltd and Gateshead Sports Management (Malaysia) SDN BHD did not trade during the period.

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.

## 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 group performance in the 2020 financial statements shows a significant deficit for the second year running of £8.5m and a net current liabilities position of £15.6m. (partially caused by the inclusion of all loan amounts as short term as outlined in note 15).

Additional support of £5.1m was provided by ESFA in the year which triggered intervention and the production of a detailed recovery plan and supporting cash flow forecasts for the period to July 2022. Further additional support of £0.3m has been received post 31 July 2020 resulting in total 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 small operating surplus before surplus/deficit on property disposals in the year ending 31 July 2021 and a healthy surplus in the year ending 31 July 2022. Current forecasts, taking into account in year trading performance, indicate that the College is likely to make a small operating surplus in the year before surplus/deficit on property disposals. It should be noted, however, that the impact of Covid-19 does create additional uncertainty and makes forecasting even more difficult than normal. Certain assumptions are made within the recovery plan which create material uncertainties as follows: -

- Cash flow projections for the next 12 months indicate that available funds will be at their lowest point in March 2022 and careful management of cash may be required. The College has modelled the impact on funding given various scenarios including the potential impact of the uncertainties below to verify that there will be sufficient funds available.
- The grant support received from the ESFA of £5.4m has been converted to a loan which is secured, in part, by charges on properties which are currently being sold. The terms of repayment included in the loan agreement exclude the potential benefit from the sale of these properties. As and when these secured properties are sold, the sum received will be used to offset loan repayments due to ESFA at the end of the loan meaning that the loan will be repaid earlier. One property sale has been concluded and a loan repayment of £1.1m made. A second sale transaction is close to completion which would reduce the loan by a further £1.55m.
- There was a technical breach of bank loan covenants as at 31 July 2019 and an actual breach of financial covenants as at 31 July 2020. 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 is 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 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 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, however, positive in that student recruitment in September 2020 has held up well and is in line with the level forecast in the recovery plan. There continues to be concern over the level of activity in respect of AEB funding where students are recruited in year and were lower due to the lockdown measures introduced from January 2021 onwards.
- ESFA have recently announced details of the treatment of AEB funding delivery shortfalls by providers in the year to 31 July 2021. Based on the current proposal and likely College AEB delivery forecasts, the College would be required to reimburse ESFA with a significant sum which has not been factored into the cash flow forecasts. ESFA have suggested that additional loan funding may be available to overcome this situation, with repayments commencing once the support funding already paid to the College has been repaid.
- A payment plan in respect of additional employers' pension contributions to Tyne & Wear Pension Scheme (TWPS) has been submitted to TWPS and the College is currently waiting for confirmation that the plan is to be accepted. Should the plan be rejected then further negotiation will be required to arrive at a mutually acceptable arrangement.
- The Further Education Commissioner continues to engage with the College to monitor progress against the recovery plan.

Following the conclusion of the Structure and Prospects Appraisal, the College is implementing the recovery plan and monitoring progress accordingly. A phase B Independent Business Review (IBR) has been conducted by FRP and confirms that substantial progress on the recovery plan has been achieved. Some risks remain which are outlined above but the consensus is that the College is able to stand alone going forward.

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**

### *Revenue grant funding*

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 from devolved authorities are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. 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.

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

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

### *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 and any other arrangements. 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.

### *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.

### *Tyne & Wear Local Government Pension Scheme (LGPS)*

Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

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

## **Short term Employment benefits**

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

## **Enhanced Pensions**

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a College annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the College's income in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet.

## **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 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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.

Freehold buildings are depreciated over their expected useful economic life to the College of between 15 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 2 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.

### *Assets under construction*

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July. They are not depreciated until they are brought into use. There were no assets under construction as at 31 July 2020.

### *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:

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

## **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 1<sup>st</sup> 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.

## **Inventories**

Inventories are stated at the lower of their cost (using the first in first out method) and net realisable value, being selling price less costs to complete and sell. Where necessary, provision is made for obsolete, slow-moving and defective items.

## **Cash and cash equivalents**

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

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

## **Financial liabilities and equity**

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

All loans, investments and short-term deposits held by the group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the 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**

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to income in the period in which they arise.

## **Taxation**

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

The College is partially exempt in respect of Value Added Tax, so that it can only recover around 1.23% of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

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

## **Provisions and contingent liabilities**

Provisions are recognised when

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

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

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

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

## **Judgements in applying accounting policies and key sources of estimation uncertainty**

### *Judgements in applying accounting policies*

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

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

### *Other key sources of estimation uncertainty*

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

- 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 20, 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 2019 to value the pensions liability at 31 July 2020. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2 Funding body grants	Y/end 31 July 2020		Y/end 31 July 2019	
	Group £'000	College £'000	Group £'000	College £'000
<b>Recurrent grants</b>				
Education and Skills Funding Agency	10,783	10,676	15,486	14,899
– adult education budget				
Devolved Authorities – adult education budget	1,538	1,538	-	-
Education and Skills Funding Agency	11,471	11,471	11,896	11,896
- 16-19 classroom based				
Office for students	247	247	414	414
<b>Specific grants</b>				
Education and Skills Funding Agency	(19)	(19)	5,001	5,001
– European Funds				
Teacher Pension Scheme	502	502	-	-
Education and Skills Funding Agency	356	356	232	232
– Other Grants				
Releases of government capital	567	567	567	567
HE grant	-	-	-	-
<b>Total</b>	<b>25,445</b>	<b>25,338</b>	<b>33,596</b>	<b>33,009</b>

3 Tuition fees and education contracts	Y/end 31 July		Y/end 31 July	
	2020	2020	2019	2019
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Adult education fees	172	172	194	194
Apprenticeship contracts	391	391	848	797
Fees for FE loan supported courses	755	755	666	666
Fees for HE loan supported courses	771	771	1,292	1,292
<b>Total tuition fees</b>	<b>2,089</b>	<b>2,089</b>	<b>2,436</b>	<b>2,436</b>
Education contracts	938	591	3,402	2,893
<b>Total</b>	<b>3,027</b>	<b>2,680</b>	<b>6,402</b>	<b>5,842</b>

4 Other grants and contracts	Y/end 31 July		Y/end 31 July	
	2020	2020	2019	2019
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other grant income	604	597	720	616
Non-government capital grants	523	523	512	512
Coronavirus Job Retention Scheme grant	284	257	-	-
<b>Total</b>	<b>1,411</b>	<b>1,377</b>	<b>1,232</b>	<b>1,128</b>

The corporation furloughed 96 member of staff including curriculum support roles, library staff, cleaning and security staff under the government's Coronavirus Job Retention Scheme. The funding received of £284k relates to an element of the actual staff costs incurred which are included within the staff costs note below as appropriate. The College paid the furloughed staff in full in order that they were not financially disadvantaged.

5 Other income	Y/end 31 July		Y/end 31 July	
	2020	2020	2019	2019
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	65	65	112	112
Other income generating activities	458	243	766	376
Miscellaneous income	954	956	1,235	1,176
<b>Total</b>	<b>1,477</b>	<b>1,264</b>	<b>2,113</b>	<b>1,664</b>

<b>6 Donations – College only</b>	<b>Year end 31 July 2020 £'000</b>	<b>Year ended 31 July 2019 £'000</b>
Unrestricted donations	-	77
<b>Total</b>	<b>-</b>	<b>77</b>

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

## **7 Staff costs – Group and College**

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

	<b>2020 No.</b>	<b>2019 No.</b>
FTE		
Teaching staff	278	286
Non-teaching staff	249	313
	<b>527</b>	<b>599</b>

### **Staff costs - Group**

	<b>2020 £'000</b>	<b>2019 £'000</b>
Wages and salaries	16,156	18,362
Social security costs	1,555	1,782
Other pension costs	5,409	3,580
<b>Payroll sub total</b>	<b>23,120</b>	<b>23,724</b>
Contracted out staffing services	-	-
	<b>23,120</b>	<b>23,724</b>
Restructuring costs – Contractual	2,122	217
- Non contractual	-	-
<b>Total Staff costs - Group</b>	<b>25,242</b>	<b>23,941</b>

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

### Staff costs - College

	2020 £'000	2019 £'000
Wages and salaries	15,381	17,007
Social security costs	1,499	1,692
Other pension costs	5,369	3,527
	<hr/>	<hr/>
<b>Payroll sub total</b>	<b>22,249</b>	<b>22,226</b>
Contracted out staffing services	-	-
	<hr/>	<hr/>
	<b>22,249</b>	<b>22,226</b>
Restructuring costs – Contractual	2,072	202
- Non contractual	-	-
	<hr/>	<hr/>
<b>Total Staff costs - College</b>	<b>24,321</b>	<b>22,428</b>
	<hr/>	<hr/>

The corporation does have salary sacrifice arrangements in place, which include Childcare Vouchers and Cycle-to-Work schemes.

### 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.

Staff costs include compensation paid to key management personnel for loss of office.

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

	2020 No.	2019 No.
The number of key management personnel including the Accounting Officer was:	8	7
	<hr/>	<hr/>

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

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

	Key management personnel		Other staff	
	2020	2019	2020	2019
£60,001 to £65,000 p.a.	-	-	6	5
£65,001 to £70,000 p.a.	1	-	-	-
£70,001 to £75,000 p.a.	-	-	-	1
£90,001 to £95,000 p.a.	1	-	-	-
£100,001 to £105,000 p.a.	1	-	-	-
£110,001 to £115,000 p.a.	-	1	-	-
£115,001 to £120,000 p.a.	1	-	-	-
£120,001 to £125,000 p.a.	1	-	-	-
£125,001 to £130,000 p.a.	1	-	-	-
£140,001 to £145,000 p.a.	-	2	-	-
£145,001 to £150,000 p.a.	1	2	-	-
£165,001 to £170,000 p.a.	1	-	-	-
£175,001 to £180,000 p.a.	-	1	-	-
£270,001 to £275,000 p.a.	-	1	-	-
	<u>8</u>	<u>7</u>	<u>6</u>	<u>6</u>

Key management personnel compensation is made up as follows:

	2020 £'000	2019 £'000
Basic salary	841	986
Performance related pay and bonus	103	156
Benefits in kind	-	-
Pension contributions	129	157
Total key management personnel compensation	<u>1,073</u>	<u>1,299</u>

The above compensation includes amounts paid to the Principal and Chief Executive who is the Accounting Officer and who is also the highest paid member of staff. Their pay and remuneration is as follows:

	2020 £'000	2019 £'000
<b>Principal 1 (left 31 Dec 2019)</b>		
Basic salary	126	255
Performance related pay and bonus	42	17
Other including benefits in kind	-	-
Pension Contributions	-	37



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

### Principal 2 (commenced 24 Feb 2020)

Basic salary	66	-
Performance related pay and bonus	-	-
Other including benefits in kind	-	-
Pension contributions	16	-
	<u>250</u>	<u>309</u>

The governing body adopted AoC's Senior Staff Remuneration Code in July 2019 and assesses pay in line with its principles.

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.

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

	2020 £'000	2019 £'000
Principal's basic salary as a multiple of the median of all staff	6.3	9.6
Principal and CEO's total remuneration as a multiple of the median of all staff	5.4	6.9

### Compensation for loss of office paid to former key management personnel

	2020 £	2019 £
Compensation paid to the former post-holder	65,891	-
Estimated value of other benefits, including provisions for pension benefits	-	-

The severance payment was approved by the Corporation.

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

## 8 Other operating expenses

	2020 Group £'000	2020 College £'000	2019 Group £'000	2019 College £'000
Teaching costs	5,497	5,487	12,930	13,134
Non-teaching costs	3,689	3,542	4,387	4,074
Premises costs	2,033	2,048	4,025	3,930
<b>Total</b>	<b>11,219</b>	<b>11,077</b>	<b>21,342</b>	<b>21,138</b>

Other operating expenses include:	2020 £'000	2019 £'000
Auditors' remuneration:		
Financial statements audit*	51	72
Other services provided by the financial statements auditor (grant audits and taxation services)	7	13
Internal audit fees**	35	35
Other services provided by the internal auditors	6	3
Losses on disposal of non-current assets	-	12
Losses on disposal of investments	-	150
Depreciation	2,662	2,550
Hire of assets under operating leases	97	113
Payments to Subcontractors	3,011	6,690
Office for Students Access & Participation:		
Access Investment	-	-
Financial Support to Students	8	5
Disability Support	-	-
Research & Evaluation	-	-

\* includes £40,840 in respect of the College (2019: £63,450)

\*\* includes £35,000 in respect of the College (2019: £35,250)

## 9 Interest and other finance costs – Group

	2020 £'000	2019 £'000
On bank loans, overdrafts and other loans:	371	402
On intercompany loans:	-	-
	<u>371</u>	<u>402</u>
On finance leases	-	-
Net interest on defined pension liability (note 22)	<u>360</u>	<u>320</u>
<b>Total</b>	<u><b>731</b></u>	<u><b>722</b></u>

## 9 Interest and other finance costs – College

	2020 £'000	2019 £'000
On bank loans, overdrafts and other loans:	371	402
On intercompany loans:	22	20
	<u>393</u>	<u>422</u>
On finance leases	-	-
Net interest on defined pension liability (note 22)	<u>360</u>	<u>320</u>
<b>Total</b>	<u><b>753</b></u>	<u><b>742</b></u>

## 10 Tangible fixed assets (Group)

	Land and buildings		Equipment	Assets in the course of construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>					
At 1 August 2019	68,725	6,729	13,781	-	89,235
Additions	-	-	478	-	478
Disposals	-	-	-	-	-
<b>At 31 July 2020</b>	<b>68,725</b>	<b>6,729</b>	<b>14,259</b>	<b>-</b>	<b>89,713</b>
<b>Depreciation</b>					
At 1 August 2019	21,775	2,447	8,787	-	33,009
Charge for the year	1,486	204	972	-	2,662
Disposals	-	-	-	-	-
<b>At 31 July 2020</b>	<b>23,261</b>	<b>2,651</b>	<b>9,759</b>	<b>-</b>	<b>35,671</b>
<b>Net book value at 31 July 2020</b>	<b>45,464</b>	<b>4,078</b>	<b>4,500</b>	<b>-</b>	<b>54,042</b>
Net book value at 31 July 2019	46,949	4,283	4,994	-	56,226

## 10 Tangible fixed assets (College)

	Land and buildings		Equipment	Assets in the course of construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>					
At 1 August 2019	68,726	6,729	13,174	-	88,629
Additions	-	-	560	-	560
Disposals	-	-	-	-	-
<b>At 31 July 2020</b>	<b>68,726</b>	<b>6,729</b>	<b>13,734</b>	<b>-</b>	<b>89,189</b>
<b>Depreciation</b>					
At 1 August 2019	21,775	2,447	8,351	-	32,573
Charge for the year	1,487	204	883	-	2,574
Elimination in respect of disposals	-	-	-	-	-
<b>At 31 July 2020</b>	<b>23,262</b>	<b>2,651</b>	<b>9,234</b>	<b>-</b>	<b>35,147</b>
<b>Net book value at 31 July 2020</b>	<b>45,464</b>	<b>4,078</b>	<b>4,500</b>	<b>-</b>	<b>54,042</b>
Net book value at 31 July 2019	46,951	4,282	4,823	-	56,056

Land and buildings were valued in 1996 at depreciated replacement cost by independent chartered surveyors.

## 11 Non-current investments

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. The company ceased trading during the year to 31 July 2020.

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.

## 11 Non-current investments (continued)

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 2020, 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 2019/20 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. The company was sold to a third party on 1 November 2020.

Zero Carbon Futures (North) Limited was incorporated on 17th November 2011. The company's 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. The company's activities were transferred to a third party on 1 November 2020 and the company is now dormant.

On the 15th May 2014 Gateshead College set up a company based in Malaysia called Gateshead Sport Management (Malaysia) SDN.BHD. The company did not trade in the year and is in the process of being wound up.

## 12 Trade and other receivables

	Group 2020 £'000	College 2020 £'000	Group 2019 £'000	College 2019 £'000
Amounts falling due within one year:				
Trade receivables	475	415	1,052	895
Amounts owed by group undertakings:				
Subsidiary undertakings	-	256	-	23
Prepayments and accrued income	1,236	1,217	1,847	1,805
Amounts owed by the ESFA	292	292	1,012	1,012
Other Debtors *	406	406	539	539
<b>Total</b>	<b>2,409</b>	<b>2,586</b>	<b>4,450</b>	<b>4,274</b>

\* Other Debtors includes Debtor > 1 Year of £132,000 (2019: £256,000): VAT to be reclaimed from HMRC relating to Capital Goods Scheme.

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

	<b>Group</b>	<b>College</b>	<b>Group</b>	<b>College</b>
	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts	9,110	9,110	9,629	9,629
Obligations under finance leases	-	-	-	-
Trade payables	982	980	3,587	3,489
Amounts owed to group undertakings:				
Subsidiary undertakings	-	187	-	222
Other taxation and social security	738	681	936	828
Accruals and deferred income	966	940	1,577	1,494
Deferred income - government capital	1,032	1,032	1,097	1,097
Deferred income - government revenue grants	-	-	-	-
ESFA Loan	5,105	5,105	-	-
Amounts owed to the ESFA	448	448	817	817
Other Creditors	778	384	1,902	1,506
<b>Total</b>	<b>19,159</b>	<b>18,867</b>	<b>19,545</b>	<b>19,082</b>

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

	<b>Group</b>	<b>College</b>	<b>Group</b>	<b>College</b>
	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bank loans	-	-	-	-
Amounts owed to group undertakings	-	1,105	-	-
Deferred income - government capital	23,221	23,221	24,123	24,123
<b>Total</b>	<b>23,221</b>	<b>24,326</b>	<b>24,123</b>	<b>24,123</b>

The College has an agreement with the Gateshead College Foundation, to repay an 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.

## 15 Maturity of debt

### Bank Loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group	College	Group	College
	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
In one year or less	9,110	9,110	9,629	9,629
Between one and two years	-	-	-	-
Between two and five years	-	-	-	-
In five years or more	-	-	-	-
<b>Total</b>	<b>9,110</b>	<b>9,110</b>	<b>9,629</b>	<b>9,629</b>

The term loan is split into two elements £5,672,519 at 5.49% fixed for 25 years and £3,437,500 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 bank covenants. There was a technical breach following a delay in completing the 2019 financial statements within the required period and then a further breach of its' financial covenants resulting in the loan being 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 requested further work in respect of the IBR which has now been completed. Barclays are currently reviewing then content of the report and the College is awaiting feedback from Barclays with a view to agreeing future borrowing arrangements.

## 16 Provisions

	Group and College				
	Defined benefit obligations	Restructuring	Enhanced pensions	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 August 2019	17,320	-	564	-	17,884
Expenditure in the period	-	-	-	-	-
Additions in period	22,070	-	28	-	22,098
<b>At 31 July 2020</b>	<b>39,390</b>	<b>-</b>	<b>592</b>	<b>-</b>	<b>39,982</b>



## 16 Provisions (continued)

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in note 20.

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:

	2020	2019
Price inflation	2.2%	3.2%
Discount rate	2.0%	2.2%

## 17 Cash and cash equivalents (Group)

	At 1 August 2019 £'000	Cash flows £'000	Other changes £'000	At 31 July 2020 £'000
Cash and cash equivalents	3,895	(2,856)	-	1,039
Overdrafts	-	-	-	-
<b>Total</b>	<b>3,895</b>	<b>(2,856)</b>	<b>-</b>	<b>1,039</b>

## 18 Capital and other commitments

	Group and College 2020 £'000	2019 £'000
Commitments contracted for at 31 July	-	572

## 19 Lease obligations

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

	Group and College	
	2020	2019
	£'000	£'000
<b>Future minimum lease payments due</b>		
<b>Land and buildings</b>		
Not later than one year	24	113
Later than one year and not later than five years	-	-
Later than five years	-	-
	<u>24</u>	<u>113</u>

## 20 Contingencies

The College has been in receipt of significant income from the European Social Fund (ESF) in recent years, but received £0 in the year ended 31 July 2020 (2019: £5,001,369) The prior year funding 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.

## 21 Events after the reporting period

On 1 November 2020, the College transferred the ownership of Zero Carbon Futures (UK) Limited, and also transferred the assets and undertaking of the Tyneside Training Services Ltd business from the College to a third party acquirer.

The activities conducted under the trading name of Tyneside Training Services within the College were transferred to a third party on 1 September 2020.

## 22 Defined benefit obligations

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

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was as at 31 March 2016 and of the LGPS 31 March 2019.

<b>Total pension cost for the year</b>	<b>2020</b>	<b>2019</b>
	<b>£000</b>	<b>£000</b>
Stakeholder Pension Scheme: contributions	24	52
Teachers' Pension Scheme: contributions	1,503	1,111
Local Government Pension Scheme:		
Contributions paid – College	1,536	1,650
Contributions paid – ZCF North	16	17
FRS 102 (28) charge	<u>2,330</u>	<u>750</u>
Charge to the Statement of Comprehensive Income	3,882	2,417
Enhanced pension charge to Statement of Comprehensive Income	-	-
<b>Total Pension Cost for Year within staff costs</b>	<b><u>5,409</u></b>	<b><u>3,580</u></b>

## **22 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 £1,503,000 (2019: £1,111,000)

### **Local Government Pension Scheme**

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by the Tyne and Wear Pension Fund. The total contributions made for the year ended 31 July 2020 were £2,018,000, of which employer's contributions totalled £1,536,000 and employees' contributions totalled £482,000. The agreed contribution rates for future years are 17.3% for the College and range from 5.5% to 12.5% for employees, depending on salary according to a national scale.

## 22 Defined benefit obligations (continued)

In March 2020, the College has entered into an agreement with Tyne and Wear Pension Fund (TWPS) who manage the LGPS pension arrangements on behalf of the College. The agreement specifies that the College will ensure that employers contribution levels in the year to March 2021-23 will not be less than that paid in the year to March 2020. Current forecasts indicate that contributions in the period to March 2021 will be lower than the threshold and, in the circumstances, the College has submitted a proposal to TWPS to make additional payments in the future. As the scheme is accounted for as a defined benefit scheme this liability is outside the scope of FRS 102 section 21 provisions and contingencies and is instead considered under section 28.

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2020 by Aon Solutions UK Limited.

	At 31 July 2020	At 31 July 2019
Rate of increase in salaries	3.7%	3.7%
Future pensions increases	2.2%	2.2%
Discount rate for scheme liabilities	1.4%	2.2%
Inflation assumption (CPI)	2.2%	2.2%
Pension accounts revaluation rate	2.2%	2.2%

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

	At 31 July 2020 Years	At 31 July 2019 Years
<i>Retiring today</i>		
Males	21.8	21.9
Females	25.0	25.1
<i>Retiring in 20 years</i>		
Males	23.5	23.6
Females	26.8	26.9

## 22 Defined benefit obligations (continued)

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

	Long-term rate of return expected at 31 July 2020	Fair Value at 31 July 2020 £'000	Long-term rate of return expected at 31 July 2019	Fair Value at 31 July 2019 £'000
Equity instruments	53.5%	24,985	64.9%	30,659
Debt instruments	25.3%	11,815	15.9%	7,511
Property	9.2%	4,296	8.9%	4,204
Cash / Other	12.0%	5,604	10.3%	4,866
<b>Total fair value of plan assets</b>		<b>46,700</b>		<b>47,240</b>
<b>Weighted average expected long term rate of return</b>	<b>1.4%</b>		<b>2.2%</b>	
<b>Actual return on plan assets</b>		<b>(1,270)</b>		<b>2,850</b>

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

	2020 £'000	2019 £'000
Fair value of plan assets	46,700	47,240
Present value of plan liabilities	(86,090)	(64,560)
<b>Net pensions (liability)/asset (note 19)</b>	<b>(39,390)</b>	<b>(17,320)</b>

## 22 Defined benefit obligations (continued)

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

	2020 £'000	2019 £'000
<b>Amounts included in staff costs</b>		
Current service cost (less employer contributions)	1,200	2,400
Past service cost	1,130	-
<b>Total</b>	<b>2,330</b>	<b>2,400</b>

### Amounts included in finance costs

Net interest expense	360	320
	<b>2,690</b>	<b>2,720</b>

### Amount recognised in Other Comprehensive Income

Return on pension plan assets	(2,320)	2,850
Experience losses arising on defined benefit obligations	(17,060)	(6,570)
Changes in assumptions underlying the present value of plan liabilities	-	-
<b>Amount recognised in Other Comprehensive Income *</b>	<b>(19,380)</b>	<b>(3,720)</b>

\* The amount recognised in Other Comprehensive Income within the Consolidated Statement of Comprehensive Income & Expenditure is £19,397k, which includes £17k actuarial loss on unfunded enhanced pension scheme liabilities.

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

	2020 £'000	2019 £'000
Net defined benefit (liability)/asset in scheme at 1 August	(17,320)	(12,530)
Movement in year:		
Current service cost	(2,940)	(2,400)
Employer contributions	1,740	1,650
Past service cost	(1,130)	-
Net interest on the defined	(360)	(320)
Actuarial gain or loss	(19,380)	(3,720)
<b>Net defined benefit (liability)/asset at 31 July</b>	<b>(39,390)</b>	<b>(17,320)</b>

## 22 Defined benefit obligations (continued)

### Asset and Liability Reconciliation

	2020	2019
	£'000	£'000
<b>Changes in the present value of defined benefit obligations</b>		
<b>Defined benefit obligations at start of period</b>	64,560	54,580
Current service cost	2,940	2,400
Interest cost	1,410	1,520
Contributions by Scheme participants	480	520
Experience gains and losses on defined benefit obligations	17,060	6,570
Changes in financial assumptions	-	-
Estimated benefits paid	(1,490)	(1,030)
Past Service cost	1,130	-
Curtailments and settlements	-	-
<b>Defined benefit obligations at end of period</b>	<b>86,090</b>	<b>64,560</b>
<b>Changes in fair value of plan assets</b>		
<b>Fair value of plan assets at start of period</b>	47,240	42,050
Interest on plan assets	1,050	1,200
Return on plan assets	(2,320)	2,850
Employer contributions	1,740	1,650
Contributions by Scheme participants	480	520
Estimated benefits paid	(1,490)	(1,030)
<b>Fair value of plan assets at end of period</b>	<b>46,700</b>	<b>47,240</b>

The figures included in note 22 exclude the impact of the McCloud judgement.



## 23 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 such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

The total expenses paid to or on behalf of the Governors during the year was £408.00; 2 governors – John Hogg and David Mitchell (2019: £110.40; 1 governor – David Mitchell). This represents travel and subsistence expenses incurred in attending Governor meetings.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2019: None).

Purchase transactions in the year relating to additional services provided by the Clerk to the Corporation, Womble Bond Dickinson LLP amounted to £138,692 (2019: £34,157). There were balances outstanding at the year-end of £14,621 (2019: £24,968)

Mr M Gannon (Governor) is a trustee of North Music Trust who own Sage Gateshead,. Purchases in the year to 31 July 2020 totalled £93,361. The contract with North Music Trust was negotiated at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

## 24 Amounts disbursed as agent - Learner support funds

	2020 £'000	2019 £'000
16-18 bursary grants	446	578
Other bursary grants	159	206
Other Funding body grants	8	5
Interest earned	-	-
	<hr/> 613	<hr/> 789
Disbursed to students	(525)	(723)
Administration costs	(25)	(28)
	<hr/>	<hr/>
Balance unspent as at 31 July, included in creditors	<hr/> 63	<hr/> 38

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.

