

**Annual Report and Financial Statements
for the Year Ended 31 July 2012**

**Report of the Members of the Board for the year from
1 August 2011 to 31 July 2012**

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OPERATING AND FINANCIAL REVIEW NATURE, OBJECTIVES AND STRATEGIES

The members present their Annual Report and the audited financial statements for the year ended 31 July 2012.

Legal Status

The College was established on 1 April 1993 under the Further and Higher Education Act 1992 for the purpose of conducting South Tyneside College. The College is an exempt charity for the purposes of the Charities Act 1993 as amended by the Charities Act 2006.

The College was incorporated as South Tyneside College.

Vision and Mission

Governors reviewed the College's vision and mission statements during 2011/12.

The vision statement was set as:

"To be an outstanding college providing world class education and training."

And the mission was set as:

"Preparing people for the future."

Implementation of Strategic Plan

In July 2011 the College adopted a strategic plan for the period 1 August 2011 to 31 July 2014.

The strategic plan is reviewed and updated annually. The Board of Governors monitors the performance of the College against these plans. The College's strategic aims are to:

1. Provide high quality teaching and learning.
2. Create a high quality learning environment.
3. Be financially sound, modernise and grow, providing outstanding value for money.
4. Provide a curriculum that meets the needs of all stakeholders.
5. Work in partnership with employers, agencies and the community.

A series of strategic objectives have been developed for each strategic aim for the 2011-2014 plan. These are:

Strategic Objectives

Strategic Aim 1 - Provide high quality teaching and learning

1. continue to manage and support the development of teachers in the classroom to ensure teaching and learning is consistently outstanding
2. further develop the use of ILT to support teaching and learning
3. develop the tutorial programme to ensure the support learners receive is outstanding, demanding targets are set and overseas learners are fully supported
4. continually review the teaching of higher-level skills to ensure compliance with the academic infrastructure for higher education
5. continue to develop a strong staff development culture where training and development is focused on business needs
6. continue to apply the highest professional standards to the employment, development and deployment of the people employed by the College
7. develop and utilise externally validated quality systems to underline our commitment to high-quality training

Strategic Aim 2 – Create a high quality learning environment

8. maintain the College campus to the highest standards to provide the best environment in which to work and study, review of the College's accommodation needs, making changes and providing new or improved facilities as determined
9. develop a cross College timetabling approach to ensure maximum utilisation of college resources allowing funding to be targeted to provide improvements to facilities
10. continue to focus on capital funding opportunities to provide new buildings and facilities over the longer term

Strategic Aim 3 – Be financially sound, modernise and grow, providing outstanding value for money

11. maintain and develop a strong financial base to support the continued success of the College

12. continue to ensure that the College receives and gives good value with the resources at its disposal
13. constantly review the organisational structure and delivery models to prepare for changes in funding and to place the College in a position of strength during times of cuts in public sector funding
14. develop the College structures and staffing to ensure long-term prosperity by shaping the organisation to be ready to seize the opportunities of growth in the economy
15. continue to view the skill mix of staff across the College to ensure the highest levels of quality and value for money
16. maintain high levels of technical competence and capability to meet both curriculum and business needs

Strategic Aim 4 - Provide a curriculum that meets the needs of all stakeholders

17. offer a comprehensive portfolio of skills training from skills for life to higher-level skills that responds to identified national regional and local skills needs and be innovative in our offer so that it is proactive to employer needs
18. develop and grow the marine offer to retain their position as a leading provider in maritime training
19. develop employer engagement plans for every course to ensure full-time and part-time students at the College have opportunities for employer related work, work experience, visits, talks and placements
20. support the unemployed into work through utilisation of special initiatives such as the Skills Funding Agency (SFA) six-month unemployed programme and its successors
21. work with employers and other agencies to develop provision relevant to the skills needs of individuals and businesses and work with relevant agencies and voluntary groups to support individuals preparing to return to work
22. seek to increase the number of apprenticeship opportunities available to young people and adults

Strategic Aim 5 - Work in partnership with employers, agencies and the community

23. develop current and new marine partnerships to enhance market share in and emphasise their position as a leading provider in maritime training

24. work closely with the local authority to support and develop the community strategy to ensure the continued improvement of the lives and aspirations of the residents of the borough
25. extend the work of the College to engage more employers across the region and develop partnership opportunities
26. work closely with partner schools to offer vocational opportunities, A level partnerships and progression opportunities to develop the post-16 offer in the borough
27. work in partnership with schools and other providers to develop and deliver 14-16 provision, creating new curriculum opportunities and working to reduce the number of young people not engaged in employment, education or training (NEETs)
28. further develop partnerships with universities to provide opportunities for higher education for local regional and international customers and develop our overseas commercial partnerships
29. work closely with the LEP, JobCentre plus, voluntary and partner organisations to develop education and training opportunities for new and emerging employment areas
30. continue to work with statutory and voluntary sector organisations to create learning opportunities for adult learners in the College and by supporting community-based organisations to obtain and manage project funding from a range of sources to plug the gap generated from cuts in SFA funding

The College is making good progress against these objectives and is currently compiling its self-assessment report for 2011/12.

Financial Objectives

The College set itself the following financial objectives for 2011/12:

1. maintaining a sound financial base (solvency and liquidity) based on the following:
 - a. we will maintain cash days of 35 or more at all times
 - b. we will achieve the operating surplus as budgeted
 - c. we will have a current ratio of more than 1.38:1 by 31 July 2012
2. maintain strong financial management by producing management accounts on a monthly basis (excluding August), incorporating an income and expenditure account, balance sheet, 12-month rolling cash flow forecast, capital expenditure, financial performance indicators, staffing information and funding information (including plans)

3. strengthening procedures for testing the desirability and affordability of any proposals which have a financial implication by 31 July 2012
4. introducing post-implementation review procedures in order to assess the success or otherwise of major investments (building, information technology, staffing, marketing and so on) exceeding £1,000,000 by 31 July 2012
5. maintaining the confidence of funding bodies, suppliers and professional advisors

The College has achieved all these objectives during 2011/12.

Performance Indicators

FE Choices (formerly the "Framework for Excellence") has four key performance indicators:

- Success Rates
- Learner Destinations
- Satisfaction survey (formerly Learner Views)
- Satisfaction survey (formerly Employer Views)

Financial indicators (Financial Health and Financial Management and Control) are outside the Framework for Excellence reporting. The College is committed to observing the importance of the measures and indicators. The financial health is monitored through the completion of the annual finance record for the SFA. The financial health of the College is currently rated as outstanding as per the SFA rating criteria.

FINANCIAL POSITION

In 2011/12, the College achieved an historic cost surplus of £3,180,000 (2010/11:£1,615,000). The operating surplus for the year was £2,840,000 (2010/11: £1,216,000). There was a cash inflow of £4,601,000 (2010/11: cash inflow of £4,341,000) from operating activities. This resulted in an increase in cash balances of £4,533,000 (2010/11: £1,911,000) at the year end. At the year end the College retains a positive balance on general reserves (excluding pension reserves) of £9,138,000 (2010/11: £5,868,000).

The College has been improving its financial position in order to invest in the refurbishment of its premises.

Tangible fixed asset additions during the year were £3,076,000. The main additions are continued investment in the premises at South Shields. The College received a grant of £1,000,000 from SFA towards this work.

The College has significant reliance on the education funding bodies for its principal funding source. In 2011/12 they provided 59.7% of the College's total income.

The College has one subsidiary company, South Tyneside Training Services Limited, the surplus from which is transferred to the College by gift aid. The sole activity of the company during the year was the lease arrangements for equipment in the marine simulation unit. Company turnover in 2011/12 was £167,100 and the company broke

even after gift aid. The results of the company have been fully consolidated within the financial statements of the College.

Treasury Policies and Objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions and the effective management of risks associated with those activities. The College has a treasury management policy.

All borrowing is authorised by the College Board of Governors and complies with the requirements of the College financial memorandum. The need for borrowing takes into account the College's operating cash flow needs, investment plans and availability of credit.

Cash Flows

At £4,601,000 (2010/11 £4,341,000) operating cash inflow was strong. £1,972,000 of this cash inflow was used to purchase fixed assets, both equipment purchases and the completion of the first phase of the College's refurbishment programme and the start of the second phase, £4,533,000 was the increase in cash in the year and this will go towards the remainder of the 2012 refurbishment programme as well as building up cash reserves for future developments.

Liquidity

In August 2011 the College took out a £2,000,000 loan to help finance its capital refurbishment programme. The balance of the capital cost was met from SFA grants and college reserves.

The College has comfortably met its loan covenant requirements during 2011/12.

Payment Performance

The College endeavours to pay all validated invoices within 30 days of the invoice date unless different terms have been agreed with the supplier.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student Numbers

In 2011/12 the College has delivered activity that has produced £13,857,000 in main allocation funding (2010/11 £14,290,000). The College had approximately 4,000 FE funded and 5,500 non FE funded learners.

Student Achievements

Overall success rates rose in 2011/12 to 85% from 87%.

Curriculum Developments

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

During 2011/12 this review has led to a number of changes in our planning for 2012/13 to take account of funding changes and reductions.

The College is growing the range of courses aimed at people who are unemployed and works closely with Job Centre Plus to produce an offer that will assist learners into work.

Staff Restructuring

The College continued to review its staffing to ensure that it meets requirements. This meant that around 20 staff left the College during the year due to redundancies, at a cost of £375,000.

Future Developments

The College continues to look to diversify income streams, increase its Marine provision and the number of international students and to continue to ensure its curriculum meets the needs of young people, adults and employers.

In order to deliver this the College has prepared a property strategy that looks to make the best and best value use of the facilities it has. A major part of this has been the relocation of activity from the Hebburn campus to South Shields for the start of the 2011/12 year. The College has received two rounds of Enhanced Renewal Grant from the SFA so far towards its refurbishment programme.

RESOURCES

The College has various resources it can deploy in pursuit of its strategic objectives.

Tangible resources include the South Shields campus and the Marine Safety Training Centre on the South Shields riverside.

The College has £8,647,000 of net assets (including £11,600,000 pension liability).

The College employs 381 people (expressed as Full Time Equivalents (FTEs)) of whom 176 FTE are teaching staff.

REPUTATION

The College has a good and improving reputation locally, nationally and internationally, in particular for its marine courses. Maintaining a quality brand is essential if the College is to continue to attract both local and marine students, where it competes with colleges throughout the UK and overseas.

PRINCIPAL RISKS AND UNCERTAINTIES

The College continues to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation.

The Senior Management Team undertakes a review of the risks to which the College is exposed. They identify systems and procedures already in place and additional actions which should mitigate any potential impact on the College. The Senior Executive Group consider the high level risks and the risks of any new areas of work being undertaken by the College.

A high level risk register is maintained which is reviewed by the Audit Committee on an annual basis. The register identifies 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.

Outlined below is a description of the principal risk factors that may affect the College, not all of which are in the College's control. Other factors beside those listed below may also adversely affect the College.

1. Government Funding

The College has significant reliance on continued government funding through further education funding bodies and HEFCE. In 2011/12, 59.7% of the College's revenue was ultimately public 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 level or on the same terms.

The College is aware of a number of issues which may impact on future funding:

- The demand led funding system for SFA funded adult provision has applied since August 2008 but is set to change in 2013/14 with reported significant cuts in the total funding available to colleges. The impact of these changes for South Tyneside College is not yet known.
- The changes in HE funding will impact on College numbers and income, the full effect will not be known until the new system is embedded.
- Funding, particularly for young people, was reduced in 2011/12 and the College continues to benefit from transitional protection which will be withdrawn in future years. In addition a new funding mechanism will be introduced in 2013/14 and it is too soon to determine fully what the impact will be on the College.

The risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements;
- The College subcontracts some delivery and if funding reduces this can be decreased first reducing the impact on delivery on College premises;
- Ensuring the College continues to improve quality of delivery and success rates both to maximise funding and encourage learners to study at the College;

- A considerable focus is placed on maintaining and managing key relationships with funding bodies; and
- Ensuring the College focuses on priority sectors and courses which will continue to benefit from public funding.

2. Tuition Fee Policy

The Fee assumption remains at 50% for Further Education but FE loans are introduced in 2013 and the increase in Higher Education fees has just occurred. With a large proportion of the College's "HE" fees being paid by marine employers, it is unclear what the impact will be on demand.

The risk is mitigated by:

- Ensuring the College continues to improve quality of learning and success rates; and
- 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 pension scheme deficit on the College's balance sheet in line with the requirements of Financial Reporting Standard (FRS) 17. The deficit could increase if auto enrolment increases the number of members in the pension scheme.

4. Accommodation Strategy

Due to government funding cut backs, the College needs to develop its accommodation strategy into something it can fund without significant funding body support, which is challenging given the age and state of the buildings.

The risk is that the buildings continue to deteriorate and learners wish to go elsewhere.

The risk is mitigated by:

- The College has recently closed the Hebburn campus which was in the most need of refurbishment and the site is up for sale with any sales proceeds earmarked to be reinvested in the College estate;
- Ensuring the College promotes the benefits of South Tyneside College; and
- Continuing to invest in maintaining and refurbishing our buildings to extend their life.

5. Demographic Changes and Increased Competition

The College is entering a period of increased competition for 16-18 places as the number of available places in the borough increases whilst demographic changes mean the number of 16-18 year olds is decreasing.

Adult recruitment becomes more challenging due to significant changes in HE and FE funding and the requirement for significant loans for many students. Government priorities for adult funding are highly targeted around employability and specific skills sets.

The risk is mitigated by:

- Continuing to improve the quality of provision and success rates to encourage learners to the College;
- Promote the College offer to reduce the number of learners who travel out of the borough to study;
- Working with the schools to improve the offer to young people.
- Ensuring the curriculum offer meets priority areas
- Working with a variety of partners to deliver specialist funding

STAKEHOLDER RELATIONSHIPS

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

- Students;
- Education sector funding bodies;
- Staff;
- Local employers;
- Employers in the Marine Industry;
- Local Authorities;
- LEP's;
- Jobcentre plus;
- The Local Community;
- Other FE Institutions;
- Schools and Universities;
- Trade Unions; and
- Professional Bodies.

The College recognises the importance of these relationships and engages in regular communication with them.

Equal Opportunities and Employment of Disabled Persons

South Tyneside College values and recognises the social and cultural diversity in which it operates and seeks to promote equality, and respect the dignity of all staff and those individuals to whom it provides services. The College aims to provide conditions which encourage everyone to participate in learning and actively combat harassment. The College has a fundamental belief in the right of everyone to be treated with dignity and respect, regardless of: age, disability/learning difficulties, ethnic origin, gender, marital/civil partnership status or domestic responsibilities, religion or belief, sexual orientation, socio economic background, transgender, health (including mental health).

The College's Equal Opportunities Policies are published on the College's Intranet site.

The College welcomes applications from people with disabilities. Where an existing employee becomes disabled, every effort is made to ensure that employment within the College continues. The College's policy is to provide training, career development and opportunities for promotion, which are identical to those for other employees.

Disability Statement

The College seeks to achieve the objectives set down in the Disability Discrimination Act 2005 as amended by the Special Education Needs and Disability Acts 2001 and 2005. The College publishes a Disability Statement annually entitled "A Guide to Access". The statement provides information to organisations, individual enquirers, students and staff about the range of support services and facilities currently available in the College and also includes details of how to access those services. The Guide is printed in standard and large print formats and can be made available in Braille and audio formats on request.

- The College conducted a full access audit during 2003/04, and continues to make reasonable adjustments to existing accommodation and to improve access when as part of the College refurbishment programme, eg new ramps were installed as part of the refurbishment programme in the summer of 2012;
- The College has an Additional Learning Support Co-ordinator, who provides information, advice and arranges support where necessary for students with learning difficulties and disabilities;
- There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre;
- The admissions policy for all students is published on the intranet. A decision not to offer a place are dealt with under this policy;
- The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities;
- Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published;
- Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction; and

- The College has invested significantly in improving its facilities for Learners with Learning Difficulties and Disabilities and doubled the size of its unit to support learners with autism spectrum disorder.

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 Board on 12 December 2012
and signed on its behalf by:**



L. Watson
Chairman

PROFESSIONAL ADVISERS

Bankers

Barclays plc
PO Box 378
71 Grey St
Newcastle upon Tyne
NE99 1JP

Financial Statement and Regularity Auditors

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89 Sandyford Road
Newcastle Upon Tyne
NE1 8HW

Internal Auditors

KPMG LLP
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DZ

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the revised UK Corporate Governance Code ("the Code") issued by the FRC in June 2010. Its purpose is to help the reader of the Financial Statements understand how the principles have been applied.

In the opinion of the Governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2012. The Board 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.

The Board

The members who served on the Board of Governors during the year and subsequent to the year end were as listed below:

Name	Date of Appointment	Term of Office	Date of Resignation	Status of Appointment	Committees Served
Mr S Boak	October 2011 October 2012	1 year 4 years		External Governor	Audit
Ms J Branley	July 2006 July 2010	4 years 4 years		External Governor	Finance & Resources Quality, Curriculum & Students
Mr D Byrne	October 2011 October 2012	1 year 4 years		External Governor	Finance & Resources
Mr M De Vies	June 2010	4 years		Staff Governor	Finance & Resources Quality, Curriculum & Students
Ms G Hayton	July 2009 July 2010	1 year 4 years	20/9/12	External Governor	Audit Governance & Search
Dr B Malik	October 2006 October 2007 October 2011	1 year 4 years 3 years		External Governor	Audit Governance and Search
Ms I Riley	October 2011 October 2012	1 year 4 years		External Governor	Quality, Curriculum & Students Governance & Search

Ms K Shutt	December 2011	1 year	31/7/12	Student Governor	Quality, Curriculum & Students
Mrs C Smith	October 2007 October 2008 October 2012	1 year 4 years 3 years		External Governor	Quality, Curriculum & Students Governance & Search Audit Finance and Resources
Mr R Staward	October 2007 October 2008 October 2012	1 year 4 years 3 years		External Governor	Audit Governance & Search
Mr J Watson	October 2004 August 2008	4 years 4 years	31.7.12	External Governor	Finance & Resources
Mr L Watson	October 2008 October 2009	1 year 4 years		External Governor	Finance & Resources Quality, Curriculum & Students
Mr A Watts	October 2011 October 2012	1 year 4 years		External Governor	Finance & Resources
Mr L Waugh	December 2011	1 year	31/7/12	Student Governor	Quality, Curriculum & Standards
Mr N Whalen-Griffiths	August 2012	1 year		External Governor	Audit
Mr R Whitelaw	August 2007 July 2008 July 2012	1 year 4 years 3 years		External Governor	Finance & Resources
Ms L Whiterod	Oct 2009	Whilst employed as Principal		Principal	Finance & Resources Governance & Search Quality, Curriculum & Students

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

The Board is provided with regular and timely information at each meeting on the overall financial performance of the College together with information on performance against funding targets, proposed capital expenditure, quality matters, human resource issues and health and safety and environmental issues. The Board meets six times per year for Board Meetings.

The Board conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Board. These Committees for 2011/12 were Audit, Finance & Resources, Governance and Search, Performance Review, Quality, Curriculum & Students. Full minutes of all meetings, except those deemed to be confidential by the Board are available from Clerk to the Board, South Tyneside College, St. George's Avenue, South Shields, NE34 6ET.

The Clerk to the Board maintains a register of financial and personal interests of the Governors. The register is available for inspection at the above address.

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 Board, who is responsible to the Board for ensuring compliance with all applicable procedures and regulations. The appointment, evaluation and removal of the Clerk are matters for the Board as a whole.

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

The Board has an independent non-executive element and no individual or group dominates its decision making process. The Board 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 judgment.

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

Appointments to the Board

Any new appointments to the Board are a matter for the consideration of the Board as a whole. The Board has a Governance and Search Committee which is comprised of 6 members which is responsible for the selection and nomination of new members and for re-appointment of existing members for the Board's consideration. The Board is responsible for ensuring that appropriate training is provided as required.

With the exception of the Principal, Members of the Board are appointed for a term of office not exceeding 4 years.

Performance Review Committee

Throughout the year ended 31 July 2012 the College's Performance Review Committee comprised 5 members. The Committee's responsibilities are to make recommendations to the Board on remuneration and benefits of the Principal, the Clerk to the Board and senior post holders.

Details of remuneration for the year ended 31 July 2012 are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee is comprised of 5 members of the Board (excluding the Principal and Chair). The Committee operates in accordance with written terms of reference approved by the Board.

The Audit Committee meets four times per year and provides a forum for reporting by the College's internal and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the education funding bodies as they affect the College's business.

The College's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee. Management is responsible for the implementation of agreed recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

The Audit Committee also advises the Board on the appointment of internal, regularity and financial statements auditors and their remuneration for both audit and non-audit work.

Internal Control

Scope of responsibility

The Board 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 Board has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum between South Tyneside College and the funding bodies. The Principal is also responsible for reporting to the Board any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an 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 has been in place in the College for the year ended 31 July 2012 and up to the date of approval of the annual report and financial statements.

Capacity to handle risk

The Board 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 Board 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 year ending 31 July 2012 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Board.

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 Board;
- regular reviews by the Board of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- budgets delegated to Schools and Departments;
- clearly defined capital investment control guidelines; and
- the adoption of formal project management disciplines, where appropriate.

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

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. 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; and
- comments made by the College's financial statements auditors, the regularity auditors, in their management letters and other reports.


The Principal is advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor 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, 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 Board's meeting papers include regular consideration of risk and control and receive 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 October 2012 meeting, the Board carried out the annual assessment for the year ended 31 July 2012 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2012.

Going concern

After making appropriate enquiries, the Board considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Board on 12 December 2012 and signed on its behalf by:


.....
L. Watson
Chairman 17.12.12
Date:


.....
L. Whiterod
Principal
Date: 17/12/12

STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE BOARD

The members of the Board are required to present audited financial statements for each financial year.

Within the terms and conditions of the Financial Memorandum agreed between the Skills Funding Agency (SFA) and the Board of the College, the Board, through its Principal, is required to prepare financial statements for each financial year in accordance with the 2007 *Statement of Recommended Practice – Accounting for Further and Higher Education Institutions* and with the Accounts Direction issued jointly by the SFA and the Young Peoples Learning Agency which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

The Board is also required to prepare an Operating and Financial Review which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

The Board 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 the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

Members of the Board 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 SFA are used only in accordance with the Financial Memorandum with the SFA and any other conditions that the SFA may prescribe from time to time. Members of the Board must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Board are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds by the SFA are not put at risk.

Approved by order of the members of the Board on 12 December 2012 and signed on its behalf by:



.....
L. Watson
Chairman

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF SOUTH TYNESIDE COLLEGE

We have audited the group and parent institution financial statements (the "financial statements") of South Tyneside College for the year ended 31st July 2012 which comprise the consolidated income and expenditure account, the consolidated and parent institution balance sheets, the consolidated statement of historical cost surpluses and deficits, the consolidated statement of total recognised gains and losses and the consolidated cash flow statement, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Members of the Board of South Tyneside College and the auditors

As explained more fully in the Statement of Responsibilities of the Member's of the Board, set out on page 21 the Board are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the institution's Board in accordance with Article 25 of the college's articles of government and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's institution's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31st July 2012 and of the group's surplus of income over expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

Opinion on other matters prescribed in the Audit Code of Practice issued by the Learning and Skills Council

In our opinion:

- proper accounting records have been kept, and
- the financial statements are in agreement with the accounting records.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
89 Sandyford Road, Newcastle

Notes:

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

Independent Auditors' Report on Regularity to the Board of South Tyneside College ('the Board') and the Chief Executive of Skills Funding

In accordance with the terms of our engagement letter dated 8 June 2012 and further to the requirements of the Chief Executive of Skills Funding, we have carried out a review to obtain assurance about whether, in all material respects, the expenditure and income of South Tyneside College ('the College') for the year ended 31 July 2012 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

This report is made solely to the Board and the Chief Executive of Skills Funding. Our review work has been undertaken so that we might state to the Board and the Chief Executive of Skills Funding those matters we are required to state to them 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 Board and the Chief Executive of Skills Funding, for our review work, for this report, or for the opinion we have formed.

Respective responsibilities of the Members of the Board of South Tyneside College and Auditors

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

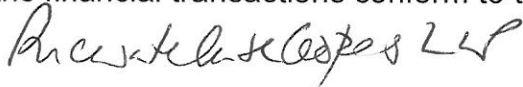
Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council ('the LSC'). We report to you whether, in our opinion, in all material respects, the college's expenditure and income for the year ended 31 July 2012 have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Basis of opinion

We conducted our review in accordance with the Audit Code of Practice and the Regularity Audit Framework issued by the LSC. Our review included examination, on a test basis, of evidence relevant to the regularity and propriety of the college's income and expenditure.

Opinion

In our opinion, in all material respects the expenditure and income for the year ended 31 July 2012 have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.



PricewaterhouseCoopers LLP

Chartered Accountants, 89 Sandyford Road, Newcastle.

South Tyneside College
Consolidated Income and Expenditure Account

	Notes	2012 £'000	2011 £'000
INCOME			
Funding body grants	2	17,389	18,447
Tuition fees and education contracts	3	9,719	10,002
Other income	4	1,899	1,655
Endowment and investment income	5	111	23
Total income		29,118	30,127
EXPENDITURE			
Staff costs	6	15,466	18,077
Exceptional restructuring costs	6	375	1,543
Other operating expenses	8	8,511	7,188
Depreciation	11	1,772	2,002
Interest and other finance costs	9	154	101
Total expenditure		26,278	28,911
Surplus on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items and tax		2,840	1,216
Profit / (Loss) on disposal of assets		123	(38)
Surplus on continuing operations after depreciation of tangible fixed assets at valuation, exceptional items and disposal of assets but before tax		2,963	1,178
Surplus for the year retained within general reserves	10	2,963	1,178

The income and expenditure account is in respect of continuing activities

There were no operations that were acquired or discontinued by South Tyneside College during the year.

South Tyneside College

Consolidated Statement of Historical Cost Surpluses and Deficits

	Notes	2012 £'000	2011 £'000
Surplus on continuing operations before taxation	10	2,963	1,178
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	19	217	270
Accelerated release of revaluation reserve relating to the property strategy	19	-	167
		<hr/>	<hr/>
Historical cost surplus for the year before taxation		3,180	1,615
		<hr/>	<hr/>
Historical cost surplus for the year after taxation		3,180	1,615
		<hr/>	<hr/>

Consolidated Statement of Total Recognised Gains and Losses

	Notes	2012 £'000	2011 £'000
Surplus on continuing operations after depreciation of assets at valuation and tax	10	2,963	1,178
Unrealised surplus on revaluation of fixed assets		-	205
Actuarial (loss)/gain in respect of pension scheme	26	(3,980)	140
		<hr/>	<hr/>
Total recognised losses since last report		(1,017)	1,523
		<hr/>	<hr/>
Reconciliation			
Opening reserves and endowments		4,679	3,156
Total recognised (loss)/gain for the year		(1,017)	1,523
		<hr/>	<hr/>
Closing reserves and endowments		3,662	4,679
		<hr/>	<hr/>

South Tyneside College
Balance sheets as at 31 July 2012

	Notes	Group	College	Group	College
		2012 £'000	2012 £'000	2011 £'000	2011 £'000
Fixed assets					
Tangible assets	11	16,986	16,986	15,685	15,685
Investments	12	-	2	-	2
Total fixed assets		16,986	16,988	15,685	15,687
Current assets					
Debtors	13	894	894	1,276	1,276
Cash at bank and in hand		9,049	9,047	4,492	4,490
Total current assets		9,943	9,941	5,768	5,766
Less: Creditors – amounts falling due within one year	14	(4,815)	(4,815)	(4,561)	(4,561)
Net current assets		5,128	5,126	1,207	1,205
Total assets less current liabilities		22,114	22,114	16,892	16,892
Less: Creditors – amounts falling due after more than one year	15	1,867	1,867	187	187
Less: Provisions for liabilities	17	-	-	145	145
Net assets excluding pension liability		20,247	20,247	16,560	16,560
Net pension (liability)	26	(11,600)	(11,600)	(7,530)	(7,530)
NET ASSETS INCLUDING PENSION LIABILITY		8,647	8,647	9,030	9,030
Deferred capital grants	18	4,985	4,985	4,351	4,351
Reserves					
Income and expenditure account excluding pension reserve	20	9,138	9,138	5,868	5,868
Pension reserve	26	(11,600)	(11,600)	(7,530)	(7,530)
Income and expenditure account including pension reserve	20	(2,462)	(2,462)	(1,662)	(1,662)
Revaluation reserve	19	6,124	6,124	6,341	6,341
Total reserves		3,662	3,662	4,679	4,679
TOTAL FUNDS		8,647	8,647	9,030	9,030

The financial statements on pages 25 to 51 were approved by the Board on 12 December 2012 and were signed on its behalf on that date by:

L Watson
Chair

L Whiterod
Principal

South Tyneside College
Consolidated Cash Flow Statement

	Notes	2012 £'000	2011 £'000
Cash inflow from operating activities	21	4,601	4,341
Returns on investments and servicing of finance	22	27	22
Capital expenditure and financial investment	23	(1,972)	(2,398)
Financing	24	1,877	(53)
		<hr/>	<hr/>
Increase in cash in the year	25	<u>4,533</u>	<u>1,911</u>
Reconciliation of net cash flow to movement in net funds/(debt)			
Increase in cash in the period		4,533	1,911
Cash inflow from new secured loan	24	(2,000)	(286)
Loan repayment in year	24	123	339
		<hr/>	<hr/>
Movement in net funds in the period		2,656	1,964
Net funds at 1 August	25	4,233	2,269
		<hr/>	<hr/>
Net funds at 31 July		<u>6,889</u>	<u>4,233</u>

SOUTH TYNESIDE COLLEGE

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2012

1. Statement of principal accounting policies

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

Basis of Preparation

These financial statements were prepared in accordance with the Statement of Recommended Practice (SORP): *Accounting in Further and Higher Education 2007* and in accordance with applicable Accounting Standards. They conform to guidance published jointly by the SFA and the EFA in the 2011/12 Accounts Direction Handbook.

Basis of accounting

The financial statements are prepared under the historical cost convention modified to include the revaluation of certain freehold land and buildings and in accordance with applicable United Kingdom Accounting Standards.

Going Concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Operating and Financial Review. The financial position of the College, its cashflow, liquidity and borrowings are described in the Financial Statements and accompanying Notes.

The College took out a £2m loan in August 2011 for 10 years. The College's forecasts and financial projections indicate it will be able to operate within this facility and covenants for the foreseeable future.

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

Consolidation of subsidiary undertaking

The College owns a 100% interest in its subsidiary undertaking, South Tyneside Training Services Limited. These financial statements are prepared on a consolidated basis with the addition of a non-consolidated balance sheet for the College. In accordance with FRS 2, intra-group sales and profits are eliminated fully on consolidation.

Recognition of Income

The recurrent grants from HEFCE represents the funding allocations attributable to the current financial year and are credited direct to the income and expenditure account.

Further Education Funding Body recurrent grants are recognised in line with best estimates of what is receivable and depend on the particular income stream involved. Any over or under-achievement of the Adult Skills Budget, outside the tolerance agreed by the SFA, is adjusted for and reflected in the level of

SOUTH TYNESIDE COLLEGE

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2012 CONTINUED

1. Statement of principal accounting policies (continued)

recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body at the end of November following the year end. 16-18 learner responsive funding is not normally subject to a reconciliation and is therefore not subject to contract adjustments.

Income from Tuition Fees is recognised in the period to which it relates and includes all fees chargeable to students or their sponsors. Income from contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

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

Non-recurrent grants from Funding Councils or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with the depreciation over the life of the assets.

Maintenance of Premises

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

Foreign Currency Translation

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

Post Retirement Benefits

Retirement benefits for employees of the College are provided by The Teachers' Pension Scheme (TPS) and the Tyne and Wear Local Government Pension Scheme (LGPS). These are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme.

Contributions to the schemes are charged to the income and expenditure account 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 present and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in note 26, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis. The scheme is therefore treated as defined contribution schemes and the contributions recognised as they are paid each year.

SOUTH TYNESIDE COLLEGE

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2012 CONTINUED

1. Statement of principal accounting policies (continued)

The assets of the LGPS are measured using closing market values. LGPS liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to operating surplus. The expected return on the scheme's assets and the increase during the period in the present value of these schemes liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Tangible Fixed Assets

The College's policy is to carry all assets at historical cost, except for inherited assets which are included on the balance sheet at a valuation existing at 31 July 1999 when the College implemented FRS 15 for the first time.

a. Land and Buildings

The College's buildings are specialised buildings and therefore it is not appropriate to value them on the basis of open market value. Land and buildings inherited from the Local Education Authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost or the open market value for existing use where this is readily obtainable. Land and buildings acquired since incorporation are included in the balance sheet at cost.

The roofs on freehold buildings are categorised as discrete assets, separate from the remainder of the building. Roofs are depreciated over 15 years whereas the remaining buildings are depreciated to residual value over their expected useful economic life to the College.

The useful economic life (at the time of valuation) for inherited buildings varies between 10 and 40 years according to the assessment by the valuing surveyor. Buildings purchased or constructed since incorporation and are not part of the current building programme are depreciated as follows.

Roofing	15 years
Refurbishment of existing buildings	15 to 40 years
New Buildings	40 years
Purchased buildings	Assessment of economic life –Up to 40 years

Freehold land is not depreciated.

Where land and buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over

SOUTH TYNESIDE COLLEGE

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2012 CONTINUED

1. Statement of principal accounting policies (continued)

the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

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

The College has a minor capital works plan and refurbishment policy for the development of its estates.

Assets under construction are accounted for at cost, based on the value of architects certificates and other direct costs incurred to 31 July 2012. They are not depreciated until they are brought into use.

b. Equipment

Equipment costing less than £1,000 per item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the Local Education Authority is included in the balance sheet at valuation, cost less depreciation, or depreciated replacement cost.

Equipment is depreciated on a straight line basis over its useful economic life as follows:

Vehicles	5 years
Computing Equipment	3 - 5 years
Marine Simulation Unit	up to 15 years
Other Equipment	up to 10 years

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

c Heritage Assets

The College has a number of historical artefacts and these are included at valuation. Professional valuations are carried out every 5 years with changes in value being charged to the revaluation reserve. The College does not depreciate these assets due to their nature. The assets consist of a variety of objects of interest left to the College including paintings, maritime instruments (including telescopes, globes, sextants etc), models of ships, trophies, technical books and documents. These assets have been donated to the College who maintain them and many of which are used for display purposes around the College. The College uses these as part of a permanent collection and does not hold them for trading purposes.

SOUTH TYNESIDE COLLEGE

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2012 CONTINUED

1. Statement of principal accounting policies (continued)

Leased Assets

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Leasing agreements that transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or useful economic lives of the equivalent owned assets.

Taxation

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

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its input. 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 company is subject to corporation tax and VAT in the same way as any commercial organisation.

Liquid Resources

Liquid resources include sums on short-term deposits with recognised banks and building societies.

Provisions

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

SOUTH TYNESIDE COLLEGE

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2012 CONTINUED

1. Statement of principal accounting policies (continued)

Agency arrangements

The College acts as an agent in the collection and payment of Discretionary Support Funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in note 31, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant.

South Tyneside College
Notes to the Accounts (continued)

2 Funding council grants

	2012 £'000	2011 £'000
YPLA / EFA recurrent grant	9,707	10,788
SFA recurrent grant	4,150	3,502
Recurrent grant - HEFCE	2,415	2,595
YPLA / EFA non recurrent grants	505	385
SFA non recurrent grant	315	855
Releases of deferred capital grants (note 18)	297	322
Total	17,389	18,447

3 Tuition fees and education contracts

	2012 £'000	2011 £'000
Tuition fees	8,338	8,190
Education contracts	1,381	1,812
Total	9,719	10,002

4 Other income

	2012 £'000	2011 £'000
Catering and residences	1280	1210
Sundry income	446	252
Non funding body deferred capital grants	173	193
	1,899	1,655

Tuition fees funded by bursaries

Included within the above amounts are tuition fees funded by bursaries of £35,000 (2010/11 £46,000).

5 Endowment and investment income

	2012 £'000	2011 £'000
Other investment income	111	23
Total	111	23

South Tyneside College
Notes to the Accounts (continued)

6 Staff costs

The average number of persons (including senior post-holders) employed by the College during the year, described as full-time equivalents, was:

	2012	2011
	No.	No.
Teaching staff	176	224
Non teaching staff	205	262
	381	486
Staff costs for the above persons		
	2012	2011
	£'000	£'000
Wages and salaries	11,803	14,143
Social security costs	864	1,021
Other pension costs (including FRS 17 adjustments of £20,000 – 2011 £60,000)	1,615	1,898
Payroll sub total	14,282	17,062
Contracted out staffing services	1,184	1015
	15,466	18,077
Exceptional restructuring costs	375	1543
	15,841	19,620

The number of senior post-holders and other staff who received emoluments, including pension contributions and benefits in kind, in the following ranges was:

	Senior post-holders		Other staff	
	2012	2011	2012	2011
	No.	No.	No.	No.
£60,001 to £70,000	-	-	1	-
£70,001 to £80,000	-	-	1	1
£80,001 to £90,000	-	-	-	1
£90,001 to £100,000	2	2	-	-
£100,001 to £110,000	-	-	-	-
£110,001 to £120,000	-	-	-	-
£120,001 to £130,000	-	-	-	-
£130,001 to £140,000	-	1	-	-
£140,001 to £150,000	1	-	-	-
	3	3	2	2

South Tyneside College

Notes to the Accounts (continued)

7 Senior post-holders' emoluments

Senior post-holders are defined as the Principal and holders of the other senior posts whom the Governing Body has selected for the purposes of the articles of government of the College relating to the appointment and promotion of staff who are appointed by the Governing Body.

	2012 No.	2011 No.
The number of senior post-holders including the Principal was:	3	3

Senior post-holders' emoluments are made up as follows:

	2012 £'000	2011 £'000
Salaries	288	282
Pension contributions	42	40
Total emoluments	330	322

The above emoluments include amounts payable to the Principal (who is also the highest paid senior post-holder) of:

	2012 £'000	2011 £'000
Salaries	123	121
	123	121
Pension contributions	17	17

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme and Local Government Pension Scheme and are paid at the same rate as for other employees.

The members of the Board other than the Principal 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.

South Tyneside College
Notes to the Accounts (continued)

8 Other operating expenses

	2012 £'000	2011 £'000
Teaching costs	2,902	1,906
Non teaching costs	3,508	3,210
Premises costs	2,101	2,072
Total	8,511	7,188

Other operating expenses include:

	2012 £'000	2011 £'000
Auditors' remuneration:		
Financial statements audit	23	23
STTS Financial statements audit	1	1
Internal audit	29	35
Other services provided by the financial statements auditors	2	5
Other services provided by the internal auditors	16	15
Losses on disposal of tangible fixed assets (where not material)	0	41
Hire of plant and machinery – operating leases	523	205
Hire of other assets – operating leases	40	105

9 Interest and other finance costs

	2012 £'000	2011 £'000
Repayable within five years, by instalments	-	1
Repayable wholly or partly in more than five years	84	-
	84	1
Pension finance costs (note 26)	70	100
Total	154	101

10 Surplus on continuing operations for the period

The surplus on continuing operations for the year is made up as follows:

	2012 £'000	2011 £'000
College's surplus for the year	2,963	1,178
Total	2,963	1,178

South Tyneside College
Notes to the Accounts (continued)

11 Tangible fixed assets (Group and College)

	Land and buildings Freehold £'000	Heritage Assets £'000	Equipment £'000	Total £'000
Cost or valuation				
At 1 August 2011	28,162	319	7,724	36,205
Additions	2,644	-	432	3,076
Disposals	(37)	-	(126)	(163)
At 31 July 2012	30,769	319	8,030	39,118
Depreciation				
At 1 August 2011	15,776	-	4,744	20,520
Charge for the year	939	-	833	1,772
Elimination in respect of disposals	(37)	-	(123)	(160)
At 31 July 2012	16,678	-	5,454	22,132
Net book value at 31 July 2012	14,091	319	2,576	16,986
Net book value at 31 July 2011	12,386	319	2,980	15,685

The transitional rules set out in FRS 15 Tangible Fixed Assets have been applied on implementing FRS15 accordingly, the book values at implementation have been retained.

Inherited land and buildings were valued at depreciated replacement cost or open market value for existing use by a firm of independent chartered surveyors. Other tangible fixed assets inherited from the Local Education Authority at set up have been valued by the Corporation on a depreciated replacement cost basis.

Land and buildings with a net book value of £5,991,000 (2011: £6,210,000) have been financed by exchequer funds. Should these assets be sold, the College may be liable, under the terms of the Finance Memorandum with the Council, to surrender the proceeds.

South Tyneside College

Notes to the Accounts (continued)

Tangible fixed assets - heritage assets

The College owns a wide variety of heritage assets, many of which are associated with the College's marine history. Some of these heritage assets are antiques which were previously used in teaching and some of these assets have been donated by sponsors. Examples of heritage assets owned by the college include paintings, display models of ships and navigational equipment. These assets are on display across the College and are the responsibility of the Vice Principal - Maritime and Higher Education

	Group and college £'000
Cost or valuation	
1 August 2011	319
Disposals	-
Revaluation	-
31 July 2012	<u>319</u>

The college's external valuer, Anderson & Garland, carried out a full revaluation of the college's heritage assets as at 31 July 2011. The revaluation of these assets was based on valuation for insurance purposes. Gains on revaluation of assets to the value of £205,000 have been recognised, notably £50,000 on a 16 inch equatorial reflecting telescope, with these gains being recognised in the Statement of Total Recognised Gains and Losses.

12 Investments

	College 2012 £'000	College 2011 £'000
Investments in subsidiary companies	2	2
Total	<u><u>2</u></u>	<u><u>2</u></u>

The College owns 100% of the £1 issued ordinary shares of South Tyneside Training Services Limited, a company incorporated in England and Wales. The interest in the company was acquired on 22 March 1994 for £2,500 cash. The principal activity of the company is the leasing of equipment. The financial statements of the company have been consolidated with those of the College in the preparation of these financial statements.

The Board believes that the carrying value of the investment is supported by their underlying net assets.

South Tyneside College
Notes to the Accounts (continued)

13 Debtors

	Group	College	Group	College
	2012	2012	2011	2011
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	570	530	875	839
Amounts owed by group undertakings:				
Subsidiary undertakings	-	40	-	36
Prepayments and accrued income	324	324	401	401
Total	894	894	1,276	1,276

14 Creditors: amounts falling due within one year

	Group	College	Group	College
	2012	2012	2011	2011
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	269	269	74	74
Payments received in advance	1,456	1,456	460	460
Trade creditors	1,084	1,084	1,005	1,005
Other taxation and social security	256	256	300	300
Accruals	1,593	1,593	2,387	2,387
Amounts owed to the SFA / YPLA	157	157	335	335
Total	4,815	4,815	4,561	4,561

15 Creditors: amounts falling due after one year

	Group	College	Group	College
	2012	2012	2011	2011
	£'000	£'000	£'000	£'000
Bank loans	1,756	1,756	-	-
Other loans	111	111	184	184
Other creditor	-	-	3	3
Total	1,867	1,867	187	187

South Tyneside College **Notes to the Accounts (continued)**

16 Borrowings

(a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group 2012 £'000	College 2012 £'000	Group 2011 £'000	College 2011 £'000
In one year or less	269	269	74	74
Between one and two years	269	269	74	74
Between two and five years	622	622	110	110
In five years or more	976	976	-	-
Total	2,136	2,136	258	258

An interest free loan of £286,000 from Salix Finance was agreed to finance energy efficient boilers and computers, of which £185,000 remains repayable over a period of 3 years. The College has also taken out a £2,000,000 loan with Barclays to help finance its capital refurbishment programme. This loan is repayable over a period of 10 years.

17 Provisions for liabilities and charges

	Restructuring £'000	Group and College Enhanced pensions £'000	Other £'000	Total £'000
At 1 August 2011	145	-	-	145
Expenditure in the period	(145)	-	-	(145)
At 31 July 2012	0	0	0	0

The opening balance related to a provision for restructuring cuts and has been released against restructuring costs incurred in the year.

18 Deferred capital grants

	Group and College funding body grants £'000	Other grants £'000	Total £'000
At 1 August 2011	3,043	1,308	4,351
Cash received	1,092	12	1,104
Released to income and expenditure account	(297)	(173)	(470)
At 31 July 2012	3,838	1,147	4,985

South Tyneside College
Notes to the Accounts (continued)

19 Revaluation reserve

Group and College	2012 £'000	2011 £'000
At 1 August	6,341	6,573
Revaluations in the period	-	205
Transfer from revaluation reserve to general reserve in respect of:		
Disposals	-	-
Depreciation on revalued assets	(217)	(270)
Accelerated release of revaluation reserves relating to the property strategy	-	(167)
At 31 July	<u>6,124</u>	<u>6,341</u>

20 Movement on general reserves

Group and College	2012 £'000	2011 £'000
Income and expenditure account reserve		
At 1 August	(1,662)	(3,417)
Surplus retained for the year	2,963	1,178
Transfer from revaluation reserve	217	437
Actuarial (loss)/gain in respect of pension scheme	(3,980)	140
At 31 July	<u>(2,462)</u>	<u>(1,662)</u>
Balance represented by:		
Pension reserve	(11,600)	(7,530)
Income and expenditure account reserve excluding pension reserve	9,138	5,868
At 31 July	<u>(2,462)</u>	<u>(1,662)</u>

South Tyneside College
Notes to the Accounts (continued)

21 Reconciliation of consolidated operating surplus to net cash inflow from operating activities

	2012 £'000	2011 £'000
Surplus on continuing operations after depreciation of assets at valuation	2,840	1,178
Depreciation (note 11)	1,772	2,002
Deferred capital grants released to income (note 18)	(470)	(515)
Profit on disposal of tangible fixed assets	123	38
Interest payable (note 9)	84	1
Interest receivable (note 5)	(111)	(23)
FRS 17 pension finance income/(costs)	70	100
Decrease in debtors	382	94
Increase in creditors	56	1,383
(Decrease)/increase in provisions	(145)	83
Net cash inflow from operating activities	<u>4,601</u>	<u>4,341</u>

22 Returns on investments and servicing of finance

	2012 £'000	2011 £'000
Other interest received	111	23
Interest paid	(84)	(1)
Net cash inflow from returns on investment and servicing of finance	<u>27</u>	<u>22</u>

23 Capital expenditure and financial investment

	2012 £'000	2011 £'000
Purchase of tangible fixed assets	(3,076)	(3,660)
Deferred capital grants received	1,104	1,262
Net cash outflow from capital expenditure and financial investment	<u>(1,972)</u>	<u>(2,398)</u>

South Tyneside College
Notes to the Accounts (continued)

24 Financing

	2012 £'000	2011 £'000
Debt due beyond a year:		
New unsecured loans repayable by 2022	2,000	286
Repayment of amounts borrowed	(123)	(339)
Net cash inflow/(outflow) from financing	1,877	(53)

25 Analysis of changes in net funds

	At 1 August 2011 £'000	Cash flows £'000	Other changes £'000	At 31 July 2012 £'000
Cash in hand, and at bank	4,492	4,533	-	9,025
	<u>4,492</u>	<u>4,533</u>	<u>-</u>	<u>9,025</u>
Debt due within 1 year	(74)	(146)	-	(220)
Debt due after 1 year	(185)	(1,731)	-	(1,916)
Total	4,233	2,656	-	6,889

South Tyneside College

Notes to the Accounts (continued)

26 Pension and similar obligations

The College's employees belong to two principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is administered by Tyne and Wear Pension fund. Both are defined-benefit schemes.

Total pension cost for the year	2012 £'000	2011 £'000
Teachers Pension Scheme: contributions paid	920	1,161
Local Government Pension Scheme:		
Contributions paid	680	810
FRS 17 charge	700	810
Charge to the Income and Expenditure Account (staff costs)	1,380	1,620
Total Pension Cost for Year	2,300	2,781

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2004 and of the LGPS 31 March 2010.

Contributions amounting to £180,000 (2011: £203,000) were payable to the scheme and are included in creditors.

Teachers' Pension Scheme

The TPS is an unfunded defined benefit scheme. Contributions on a "pay-as-you-go" basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the scheme for the purpose of determining contribution rates.

The pensions cost is normally assessed no less than every four years in accordance with the advice of the Government Actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation (under the new provisions)	31 March 2004
Actuarial method	Prospective benefits
Investment returns per annum	6.5 per cent per annum
Salary scale increases per annum	5.0 per cent per annum
Notional value of assets at date of last valuation	£162,650 million
Proportion of members' accrued benefits covered by the notional value of the assets	98.88%

Following the implementation of Teacher's Pension (Employers' Supplementary Contributions) Regulations 2000, the Government Actuary carried out a further review on the level of employer contributions. For the period from 1 August 2011 to 31 July 2012 the employer contribution was 14.1 per cent. The employee rate was 6.4% for the period to 31st March 2012, with rates between 6.4% and 8.8% depending on the member's salary from 1st April 2012.

South Tyneside College **Notes to the Accounts (continued)**

26 Pension and similar obligations (continued)

FRS 17

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by South Tyneside Local Authority. The total contribution made for the year ended 31 July 2012 was £891,228, of which employer's contributions totalled £684,963 and employees' contributions totalled £206,265. The agreed contribution rates for future years are 14.9 per cent for employers and range from 5.5% to 7.5% cent for employees.

FRS 17

Principal Actuarial Assumptions	At 31 July 2012	At 31 July 2011
Rate of increase in salaries	4.60%	5.20%
Rate of increase for pensions in payment / inflation	2.10%	2.80%
Discount rate for scheme liabilities	4.10%	5.30%
Inflation assumption (CPI)	2.10%	2.80%
Commutation of pensions to lump sums		

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 2012	At 31 July 2011
<i>Retiring today</i>		
Males	21.60	21.50
Females	23.80	23.70
<i>Retiring in 20 years</i>		
Males	23.40	23.30
Females	25.70	25.60

South Tyneside College
Notes to the Accounts (continued)

26 Pension and similar obligations

Local Government Pension Scheme (continued)

The college's estimated share of the assets and liabilities in the scheme and the expected rates of return were:

	Long-term rate of return expected at 31 July 2012	Value at 31 July 2012 £'000	Long-term rate of return expected at 31 July 2011	Value at 31 July 2011 £'000
Equities	7.50%	12,514	7.90%	12,661
Government bonds	2.50%	1,386	3.90%	1,292
Corporate Bonds	3.20%	2,298	4.70%	2,173
Property	7.00%	1,709	7.40%	1,592
Cash	1.40%	361	1.50%	243
Other	6.50%	722	7.90%	768

Total market value of assets	18,990	18,730
Present value of scheme liabilities		
- Funded	(30,590)	(26,260)
- Unfunded	-	-
Related deferred tax liability		
Deficit in the scheme	(11,600)	(7,530)

Analysis of the amount charged to income and expenditure account

	2012 £'000	2011 £'000
Employer service cost (net of employee contributions)	(650)	(740)
Past service cost	(50)	(70)
Total operating charge	<u>(700)</u>	<u>(810)</u>

Analysis of pension finance income / (costs)

	2012 £'000	2011 £'000
Expected return on pension scheme assets	1320	1,230
Interest on pension liabilities	(1,390)	(1,330)
Pension finance costs	<u>(70)</u>	<u>(100)</u>

Amount recognised in the statement of total recognised gains and losses (STRGL)

	2012 £'000	2011 £'000
Actuarial (loss)/gain on pension scheme assets	(1,070)	240
Actuarial losses on scheme liabilities	(2,910)	(100)
Actuarial (loss)/gain recognised in STRGL	<u>(3,980)</u>	<u>140</u>

South Tyneside College
Notes to the Accounts (continued)

26 Pension and similar obligations

Local Government Pension Scheme (continued)

Movement in surplus/(deficit) during year

	2012	2011
	£'000	£'000
Deficit in scheme at 1 August	(7,530)	(7,570)
Movement in year:		
Employer service cost (net of employee contributions)	(650)	(740)
Employer contributions	680	810
Past service cost	(50)	(70)
Net interest/return on assets	(70)	(100)
Actuarial (loss)/gain	(3,980)	140
Deficit in scheme at 31 July	<u>(11,600)</u>	<u>(7,530)</u>

Asset and Liability Reconciliation

	2012	2011
	£'000	£'000
Reconciliation of Liabilities		
Liabilities at start of period		
Opening present value of liabilities	(26,260)	(24,430)
Interest cost	(1,390)	(1,330)
Current service cost	(650)	(740)
Contributions by participants	(210)	(250)
Actuarial loss	(2,910)	(100)
Benefits paid	880	660
Past Service cost	(50)	(70)
Liabilities at end of period*	<u>(30,590)</u>	<u>(26,260)</u>

Reconciliation of Assets

Assets at start of period	18,730	16,860
Expected return on assets	1,320	1,230
Actuarial (loss)/gain	(1,070)	240
Employer contributions	680	810
Employee contributions	210	250
Benefits paid	(880)	(660)
Assets at end of period	<u>18,990</u>	<u>18,730</u>

The estimated value of employer contributions for the year ended 31st July 2013 is £640,000.

South Tyneside College **Notes to the Accounts (continued)**

26 Pension and similar obligations

Local Government Pension Scheme (Continued)

History of experience gains and losses

	2012	2011	2010	2009
Difference between the expected and actual return on assets:	(1,070)	240	1,640	(1,910)
Amount £'000*				
Experience gains and losses on scheme liabilities:	(160)	940	270	(70)
Amount £'000*				
Total amount recognised in STRGL:	(3,980)	140	2,360	(4,250)
Amount £'000*				

In accordance with Paragraph 79 of FRS17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. The history of experience loss on liabilities shown has not been restated for periods ending 2008 and 2007 and includes the experience relating to unfunded liabilities.

27 Capital commitments

	Group and College	
	2012	2011
	£'000	£'000
Commitments contracted for at 31 July	<u>2,815</u>	<u>1,698</u>
Authorised but not contracted at 31 July	<u>NIL</u>	<u>NIL</u>

Capital commitments relate to £2,815,000 balance of works out of the £3,437,000 capital project.

28 Financial commitments

At 31 July the College had annual commitments under non-cancellable operating leases as

	Group and College	
	2012	2011
	£'000	£'000
Land and buildings		
Expiring within one year	23	-
Expiring within two and five years inclusive	-	45
Expiring in over five years	-	-
	<u>23</u>	<u>45</u>
Other		
Expiring within one year	297	26
Expiring within two and five years inclusive	863	1,263
Expiring in over five years	-	-
	<u>1,160</u>	<u>1,289</u>

South Tyneside College

Notes to the Accounts (continued)

29 Contingent liability

The College was advised by its pension actuaries to take a bond from its catering contractor of £102,000 against default on its employer pension contributions. The college does not feel it is required to make a provision for this matter and has not taken up the bond.

30 Related party transactions

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

Transactions with the LSC and its successor organisations and HEFCE are detailed in notes 2, 14, and 18.

31 Amounts disbursed as agent

Learner support funds			
		2012 £'000	2011 £'000
Funding body grants – hardship support		364	274
Funding body grants – childcare		109	103
		<hr/> 473	<hr/> 377
Disbursed to students		(461)	(298)
Staffing			
Administration costs		(12)	(15)
		<hr/>	<hr/>
Balance unspent as at 31 July, included in creditors		<hr/> -	<hr/> 64

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 income and expenditure account. The income and expenditure consolidated in the College's financial statements relates to the purchase of some equipment from the access fund and the payment of accommodation by the College on the student's behalf.