

South Tyneside College

**Report and Financial Statements
for the Year Ended 31 July 2016**

South Tyneside College

Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

Key management personnel are defined as members of the College Senior Executive Group and were represented by the following in 2015/16:

Dr Lindsey Whiterod, Chief Executive Officer; Accounting Officer
Ms Helen Beaton, Deputy Chief Executive
Mr Gary Hindmarch, Principal South Shields Marine School
Ms Alison Maynard, Principal Professional and Vocational College
Ms Catherine Donnelly, Director of Human Resources
Mr Len Stule, Director of External Funding (until 31 January 2016)

Board of Governors

A full list of Governors is given on page 13 of these financial statements.

Mr Neil Longstaff acted as Clerk to the Board throughout the period.

PROFESSIONAL ADVISERS

Bankers

Barclays PLC
Percy Street
Newcastle upon Tyne
NE19 4QL

Financial statement and regularity auditor

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

Internal auditor

RSM LLP
Springfield House
76 Wellington Street
Leeds
LS1 2AY

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STRATEGIC REPORT

NATURE, OBJECTIVES AND STRATEGIES

The members present their report and the audited financial statements for the year ended 31st July 2016.

Legal Status

The Board was established on 1st 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 Part 3 of the Charities Act 2011.

The Board was incorporated as South Tyneside College.

Vision and Mission

Governors reviewed the College's vision and mission statements during 2015/16. The vision statement was agreed to continue as:

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

And the mission was agreed as:

"To provide the highest quality education and training, preparing people for the future."

Public Benefit

South Tyneside College is an exempt charity under Part 3 of the Charities Act 2011, is regulated by the Secretary of State for Education as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity are disclosed on pages 13 to 16.

In setting and reviewing the College's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirement that all organisations wishing to be recognised as charities must demonstrate, explicitly, that their aims are for the public benefit.

In delivering its mission, the College provides the following identifiable public benefits through the advancement of education:

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce.

The delivery of public benefit is covered throughout the Strategic Report.

Implementation of Strategic Plan

The College adopted a strategic plan for the period 1 August 2015 to 31 July 2020.

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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 in an ever changing world.
5. Work in partnership with employers, agencies and the community.

The college has agreed a number of priorities in order to meet these objectives which are:

"Over the next five years we will focus on the delivery of our STC 2020 strategy which will require refashioning existing stakeholder relationships and forging new ones to ensure we have the skills, networks and resources to address the specific challenges of the FE and HE landscape. We will also build the capacity of the College to be a lead player in the reshaping of the sector.

Our priorities will be:

- To provide high quality employer focused vocational education regionally, nationally and internationally
- To continue to improve the quality of everything we do – to aim to be outstanding
- To innovate in the curriculum to be at the leading edge of learning
- To increase our visibility so that we can engage a wider audience in supporting, funding and championing our work – from policymakers to the general public
- To diversify the skills of our staff so that we can deliver the best possible education and training and respond quickly to new funding opportunities"

A series of performance indicators have been agreed to monitor the successful implementation of these priorities.

Financial Objectives

The College set itself the following financial objectives for 2015/16:

1. maintaining a sound financial base (solvency and liquidity) based on the following:
 - we will maintain cash days of 35 or more at all times.
 - we will achieve the operating surplus as budgeted.
 - we will have a current ratio of more than 1.4.
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. maintaining the confidence of funding bodies, suppliers and professional advisors.

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4. improve the College's treasury management by making use of term deposits where possible.
5. Review costs and income projections in light of the changing financial environment.

The College has achieved all these objectives during 2015/16.

Performance Indicators

The College is committed to observing the importance of sector measures and indicators and use the FE choices website which looks at measures such as success rates.

College financial health is monitored through the completion of the annual finance record for the Skills Funding Agency (SFA). The financial health of the College is currently rated as good as per the SFA rating criteria.

FINANCIAL POSITION

The Group generated a deficit before other gains and losses in the year of £555,000 (2014/15 – surplus of £372,000). £350,000 (2014/15 £350,000) of this loss is due to a charge on the Tyne and Wear Local Government Pension Scheme. Total comprehensive income is (£4,929,000), (2014/15 - £2,740,000). Of this loss, £4,300,000 (£2014/15 £990,000) is an actuarial loss on the pension scheme. The total comprehensive income in 2014/15 is stated after accounting for the disposal of the Hebburn site.

The Group has accumulated reserves of £2,218,000 and cash and short term investment balances of £5,367,000. The Group wishes to continue to accumulate reserves and cash balances in order to create a contingency fund and to continue investment in the refurbishment of its premises.

Tangible fixed asset additions during the year were £5,073,000. The main additions are continued investment in the premises at South Shields, which included the refurbishment of a two story teaching block and four large workshops along with the development of a facility for enclosed spaces training and the construction of a second fire chamber for firefighting training. The College also upgraded forty eight rooms in the halls of residence. The College received grants of £1,238,000 during the year from North East Local Enterprise Partnership and HEFCE towards this work.

The College has significant reliance on the education funding bodies for its principal funding source. In 2015/16 they provided 47% of the College's total income.

The College has one subsidiary company, South Tyneside Training Services Limited. The company was dormant throughout the year.

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.

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Cash Flows

At £1,814,000 (2014/15 £3,430,000) net cash flow from operating activities was reasonably strong. £5,073,000 of this cash inflow was used to purchase fixed assets (equipment purchases and the fifth phase of the College's refurbishment programme) and £1,366,000 was used to repay the College's only loan meaning the College is now debt free. The decrease in cash in the year was £5,603,000 but the college still has a strong cash position of £5,367,000, including cash on deposit.

Liquidity

In August 2011 the College took out a £2m loan to help finance its capital refurbishment programme. The balance of the capital cost is met from SFA grants and College reserves. The College exercised the break clause on the fifth anniversary in May 2016 of the loan and repaid it in full.

Reserves Policy

The policy of the College is to maintain a prudent level of resources designed to meet the long-term cyclical needs of capital investment and any other unforeseen contingencies. The Board feels that the current level of reserves meets this purpose.

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 2015/16 the College has delivered activity that has produced £10,669,000 in main FE allocation funding (2014/15: £11,896,000). The College had approximately 5,500 FE funded and 4,600 non FE funded learners.

Student Achievements

Overall success rates in 2015/16 are 86.0% (2014/15 83.5%).

Curriculum Developments

The College continues to specialise in training for the merchant navy where it is internationally recognised. These courses include training at FE and HE level as well as full cost training to meet the needs of the industry.

The curriculum offer is reviewed and updated on a regular basis to ensure that provision meets the needs of learners and employers. The College works with a number of selected partners to ensure the curriculum meets the needs of learners.

During 2015/16 this review has led to a number of changes in our planning for 2016/17 to take account of funding changes, and ensuring that we are meeting the needs of employers in the local community, shipping companies, both in the UK and worldwide, for now and in the future.

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Staff Restructuring

The College continued to review its staffing to ensure that it meets curriculum requirements.

Future Prospects

The College continues to look to continue 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 within the current funding constraints.

After reviewing its forecasts and projections the governors have a reasonable expectation that the College has adequate resources to continue in operational existence for the foreseeable future. The College therefore continues to adopt the going concern basis in preparing its financial statements. This is confirmed by our current financial health rating of good, as validated by the SFA.

Events after the End of the Reporting Period

The College is part of wave four of the Area Review process, a government programme to look at the future of colleges to improve their resilience for the future. As part of this process South Tyneside College and Tyne Metropolitan College are in the early stages of merger talks with a view to working towards merger on 1 August 2017 should the discussions and consultation prove it will benefit learners, potential learners, employers and other stakeholders.

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 £9,126,000 of net assets (including £14,130,000 pension liability).

The College employs 355 people (expressed as Full Time Equivalents (FTEs)) of whom 147 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 at least termly the high level risks and the risks of any new areas of work being undertaken by the College.

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A high level risk register is maintained which is reviewed by the Board and 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. Operational risk registers are kept by each curriculum/service area in the College and are reviewed on a quarterly basis.

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 besides those listed below may also adversely affect the College.

1. Government Funding

The College has significant reliance on continued government funding through further education sector funding bodies and HEFCE. In 2015/16, 47% 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 continued pressures in funding for adult provision, in particular for classroom based provision and any changes that may occur once allocations are made by the combined authority rather than SFA;
- The changes in HE funding have reduced demand from UK companies and for part time HE courses and it is not known if this will continue; and
- Uncertainty over the level of funding for 16-18 delivery and changes in the requirements for funding could have an adverse impact on future allocations.

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 direct college delivery; and
- 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;
- Ensuring the College focuses on priority sectors and courses which will continue to benefit from public funding; and
- Ensuring the curriculum model is efficient in terms of delivery.
- The College is strengthening its internal delivery team to increase the volume of direct delivery.

2. Apprenticeship Reforms

The College has been successful at increasing the number of apprentices through the careful selection of a number of partners to assist in delivery. The introduction of the apprenticeship levy will change our ability to deliver in this way to large employers. In addition the apprenticeship reforms will mean that some employers may have to contribute to the cost of an apprenticeship for the first time which may reduce demand

The risk is mitigated in a number of ways:

- The College has strengthened its in house delivery team to provide a more comprehensive offer to employers; and

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- The College is working with its partners to establish a new relationship post levy introduction

3. Tuition Fee Policy

The Fee assumption remains at 50% for Further Education but FE loans are extended in 2016 which may change demand for learning. HE loans reduced College income due to a large proportion of the College's HE fees being paid by marine employers where the HE loan system doesn't meet their needs and we have been unable to charge the employers as much as we could have drawn down in a loan. There is a risk that the same thing may occur in FE courses which are now covered by FE loans where employers have traditionally contributed to the fee.

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; and
- Increased emphasis on credit control to ensure all fees are collected in a timely manner.

4. 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 Financial Reporting Standard 102. The deficit could increase if auto enrolment increases the number of members in the pension scheme.

5. Accommodation Strategy

Due to government funding cut backs, the College needs to develop its accommodation strategy such that it can be funded without significant funding body support, which is challenging given the age and state of the buildings. There is a risk that the buildings continue to deteriorate and learners wish to go elsewhere.

The risk is mitigated by:

- The sale of the Hebburn campus which was in the site in greatest need of refurbishment, the proceeds of which are partially being reinvested in upgrading the other College sites; and
- Continued investment in maintaining and refurbishing our buildings to extend their life, taking advantage of grants wherever possible.

6. Demographic Changes and Increased Competition

The College is in 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.

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; and
- Working with the schools to improve the offer to young people.

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STAKEHOLDER RELATIONSHIPS

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

- Students;
- Education sector funding bodies;
- FE Commissioner;
- Staff;
- Local employers;
- Employers in the Marine Industry;
- Local Authorities;
- LEPs;
- Job Centre 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 in accordance with our stakeholder strategy.

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 produces an Annual Equality Report to ensure compliance with all relevant legislation including the Equality Act 2010. The College undertakes equality impact assessments on all new policies and updates them as policies are amended.

All new staff receive Equality and Diversity training as part of their induction programme and refresher training is carried out on an ongoing basis.

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 Equality Act 2010. 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

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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 continues to make reasonable adjustments to existing accommodation and to improve access as part of the College refurbishment programme;
- The College has Additional Learning Support Co-ordinators, who provide information, advice and arrange 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 learner 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 Auditor

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditor 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 auditor are aware of that information.

**Approved by order of the members of the Board on 14 December 2016
and signed on its behalf by:**



A Watts
Chair

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STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure.

The College endeavours to conduct its business:

- In accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- In full accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code"); and
- Having due regard to the UK Corporate Governance Code insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the Board has adopted and complied with the Code. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the governors, the College complied with all the provisions of the old Foundation Code of Governance and is now working towards compliance with the new Code. The Board of Governors 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 account of Code of Good Governance for English Colleges, which it formally adopted on 8 July 2015.

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

The Board of Governors

The members who served on the Board of Governors (the Board) during the year and up to the date of signature of this report were as listed below:

Name	Date of Appointment (s)	Term of Office	Date of Resignation/ End of Office	Status of Appointment	Committees Served	Full Board Attendance (up to 31.07.2016)
Mr D Byrne	October 2011 October 2012 October 2016	1 year 4 years 3 years		College Governor	Finance & Resources. SSMS Quality & Curric Appraisal, Growth Strategy, Merger Comm	100%
Mr G Clark	July 2014 July 2015	1 Year 3 Years		College Governor	Appraisal -	100%

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					Finance & Resources. Merger Comm	
Mr T Cornick	August 2015 August 2016	1 Year 3 Years		College Governor	Audit, Gov & Search - SSMS Quality & Curric.- Growth Strategy	100%
Mr P Davidson	Nov 2015 Nov 2016	1 Year 3 Years		College Governor	Audit, Gov & Search – PVC Quality Comm – Growth Strategy – Appraisal – Merger Comm – Dr Winterbottom Ch Trust	75%
Mr M Grady	Nov 2015 Nov 2016	1 Year 3 Years		College Governor	Finance & Resources - Governance & Search. PVC Quality, Comm Appraisal - Dr Winterbottom Ch Trust- Growth Strategy	100%
Mrs H Harrison	July 2014 July 2015	1 Year 3 Years	March 2016	College Governor	PVC Quality, Comm	100%
Mr M Overton	Nov 2014 Nov 2015	1 Year 3 Years		College Governor	Audit, Gov & Search. Finance & Resources - Appraisal PVC Quality, Comm - Merger Comm	80%
Mr J Calcutt	Sept 2015	1 Year (office of V. Pres. of St. Union)	31 June 2016	Student Governor	SSMS Quality & Curric. PVC Quality, Comm	67%
Mr S Mere	July 2016	1 Year (office of		Student Governor	SSMS Quality & Curric.	100%

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		V. Pres. of St. Union)			PVC Quality, Comm	
Mrs A Rowley	July 2014	4 years	March 2016	Staff Governor	SSMS Quality & Curric. PVC Quality, Comm	100%
Mr A Reynier	July 2016	4 Years		Staff Governor	SSMS Quality & Curric. PVC Quality, Comm	100%
Mrs C Smith	October 2007 October 2008 November 2012	1 year 4 years 3 years	31 October 2015	College Governor	PVC Quality, Comm Governance & Search. Audit. Performance Review	100%
Mr R Staward	October 2007 October 2008 November 2012	1 year 4 years 3 years	31 October 2015	College Governor	Audit. Governance & Search. PVC Quality, Comm Performance Review.	80%
Mr T Sermugam	Sept 2015	1 Year (office of Pres. of St. Union)	31 June 2016	Student Governor	SSMS Quality & Curric. Prof & Voc - Quality.	100%
Mr M Bell	July 2016	1 Year (office of Pres. of St. Union)		Student Governor	SSMS Quality & Curric. Prof & Voc - Quality.	0%
Mr A Walton	March 2016	1 Year		College Governor	Finance & Resources - SSMS Quality & Curric - Growth Strategy	50%
Mr L Watson	October 2008 October 2009 October 2013	1 year 4 years 3 years	October 2016	College Governor	Finance & Resources.- PVC Quality, Comm - Gov & Search - Appraisal Audit, Gov & Search - Dr Winterbottom Ch Trust	80%
Mr A Watts	October 2011 October 2012	1 year 4 years		College Governor	Finance & Resources.	100%

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	October 2016	3 Years			PVC Quality, Curric & Comm. Performance Review SSMS Quality & Curric. Growth Strategy – Career College – Merger Comm	
Mrs S Wear	October 2013 October 2014	1 Year 3 Years		College Governor	Audit, Gov & Search - Growth Strategy	60%
Mr N Whalen-Griffiths	August 2012 August 2013 August 2016	1 year 3 years 4 years		College Governor	Audit, Gov & Search SSMS Quality & Curric. Performance Review	60%
Ms L Whiterod	Oct 2009	Whilst employed as Chief Executive		Chief Executive	Finance & Resources. Gov & Search. PVC Quality, Comm. - SSMS Quality & Curric. Growth Strategy	100%
Mr Des Young	July 2014 July 2015	1 Year 3 Years		College Governor	Finance & Resources - Appraisal – Growth Strategy	60%

Mr N Longstaff acts as Clerk to the Board of Governors.

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 four times per year for Board Meetings.

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The Board conducts its business through a number of committees. Each committee has terms of reference, composition and membership, which have been approved by the Board. These Committees for 2015/16 were initially Audit; Finance & Resources; Governance and Search; Performance Review; Appraisal; Professional & Vocational Quality, Curriculum & Community, South Shields Marine School Quality and Curriculum. Mid-year the Board undertook a comprehensive review of its governance structure, which resulted in the following committees: Audit, Governance and Search; Finance and Resources; Performance Review and Appraisal; Professional & Vocational Quality, Curriculum & Community; South Shields Marine School Quality and Curriculum; Growth Strategy Working Group; Dr Winterbottom Charitable Fund; Career College North East Board and a Merger Committee. 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 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, 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 Chair of the Board and Chief Executive 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 an Audit, Governance and Search Committee which is comprised of a minimum of 5 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 Chief Executive, Members of the Board are appointed for a term of office not exceeding 4 years and the maximum length of office in total is 8 years apart from the Chief Executive who serves as a governor whilst in post.

Board Performance

The Board has a comprehensive self-assessment strategy on the effectiveness of its performance, both as a collective and individually. To that end:

- All governors annually complete a review and development form and forward this to the Chair, in advance of a meeting with the Chair, at which they discuss and assess their individual performance.
- The performance of the Chair is reviewed annually. Questionnaire responses are forwarded by governors and by Senior Post Holders, to the Vice-Chair. The Vice Chair

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leads on the review outcomes and provides a summary report to the Board on the outcome of the review.

- The performance of the Board is assessed annually. The Clerk to the Board leads the review on behalf of the Chair, with individually completed questionnaires returned to the Clerk to the Board, who provides a summary paper for the Board.
- Committees each review their performance annually against their terms of reference, reporting on the outcomes of the assessment and making any arising recommendations on changes to their terms of reference, to the Board.
- The Audit, Governance and Search Committee reviews the performance of internal and external auditors annually and make any arising recommendations to the Board.
- An annual reassessment of skills and experience is undertaken and the outcomes made available to the Audit, Governance and Search Committee in their standing item review of board membership and composition.
- Comply or Explain Statements are made against the Governance Code.
- The Clerk to the Board annually reviews (or sooner if required, e.g. due to legislative changes) the Board's Instrument and Articles and supporting bye-laws, policies and code of conduct.

In addition to the above the performance of the Chief Executive and the Clerk to the Board is reviewed by the Performance Review and Appraisal Committee annually and reported to the Board.

Performance Review Committee

Throughout the year ended 31 July 2016 the College's Performance Review Committee comprised 5 members. The Committee's responsibilities are to make decisions on remuneration and benefits of the Chief Executive, the Clerk and senior post holders.

Details of senior post-holders remuneration for the year ended 31 July 2016 are set out in note 6 to the financial statements.

Audit Committee

The Audit Committee, now Audit, Governance and Search, comprises a minimum of 5 members of the Board (excluding the Chief Executive and Chair when Audit matters are under consideration). The Committee operates in accordance with written terms of reference approved by the Board.

The Committee meets three 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 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 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 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 as well as reporting annually to the Board.

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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 Chief Executive, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum between South Tyneside College and the funding bodies. She 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 2016 and up to the date of approval of the annual report and accounts.

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 2016 and up to the date of approval of the annual report and accounts. 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 EFA and SFA's Joint Audit Code of Practice. The work of the internal audit service is

South Tyneside College

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. At 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 Chief Executive 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 auditor;
- 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 reporting accountant for regularity assurance, in their management letters and other reports.

The Accounting Officer has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit 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, 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 December 2016 meeting, the Board carried out the annual assessment for the year ended 31 July 2016 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2016.

Based on the advice of the Audit Committee and the Chief Executive, the Board is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for "the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets".

Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. This is based on financial planning taking into account government policy for funding colleges and assessing our levels of reserves. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

South Tyneside College

Approved by order of the members of the Board on 14 December 2016 and signed on its behalf by:



.....
A Watts
Chair
14 December 2016



.....
L. Whiterod
Chief Executive
14 December 2016

South Tyneside College

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

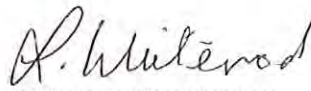
The Board has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agency terms and conditions of funding, under the financial memorandum in place between the College and the Skills Funding Agency. As part of our consideration we have had due regard to the requirements of the financial memorandum.

We confirm, on behalf of the Board, that after due enquiry, and ***to the best of our knowledge***, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency's terms and conditions of funding under the College's financial memorandum.

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



.....
A Watts
Chair
14 December 2016



.....
L. Whiterod
Chief Executive & Accounting Officer
14 December 2016

South Tyneside College

STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE BOARD OF GOVERNORS

The members of the Board of Governors 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 Chief Executive as Accounting Officer, is required to prepare financial statements for each financial year in accordance with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education Institutions* and with the Accounts Direction for 2015 to 2016 issued jointly by the SFA and the EFA 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 a Strategic Report 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.

The maintenance and integrity of the 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

South Tyneside College

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 Governing Body on 14 December 2016 and signed on its behalf by:



.....
A Watts
Chair

South Tyneside College

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF SOUTH TYNESIDE COLLEGE

We have audited the Group and College financial statements ("the financial statements") of South Tyneside College for the year ended 31 July 2016 set out on pages 28 to 57. 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) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

Respective Responsibilities of the Corporation of South Tyneside College and Auditor

As explained more fully in the Statement of the Responsibilities of the Members of the Corporation set out on page 22, the Corporation is responsible for the preparation of financial statements which 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.

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 and the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporation; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Strategic Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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:

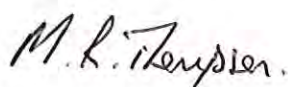
- give a true and fair view of the state of the Group's and of the College's affairs as at 31 July 2016 and of the Group's and of the College's income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education.

South Tyneside College

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Joint Audit Code of Practice (June 2016) issued jointly by the Skills Funding Agency and the Education Funding Agency requires us to report to you if, in our opinion:

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



Mick Thompson
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House, 110 Quayside,
Newcastle upon Tyne,
NE1 3DX

20 December 2016

South Tyneside College

REPORTING ACCOUNTANT'S ASSURANCE REPORT ON REGULARITY TO THE BOARD OF SOUTH TYNESIDE COLLEGE AND THE SECRETARY OF STATE ACTING THROUGH THE SKILLS FUNDING AGENCY

In accordance with the terms of our engagement letter dated 23 October 2015 and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by South Tyneside College during the period 1 August 2015 to 31 July 2016 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

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

Respective responsibilities of South Tyneside College and the reporting accountant

The corporation of South Tyneside College is responsible, under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Our responsibilities for this engagement are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. We performed a limited assurance engagement as defined in that framework.

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

A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would

South Tyneside College

become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

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

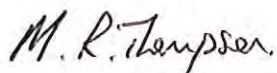
The work undertaken to draw our conclusion included:

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

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

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



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

20 December 2016,

South Tyneside College

South Tyneside College Consolidated Statements of Comprehensive Income

	Notes	Year ended 31 July 2016		Year ended 31 July 2015	
		Group	College	Group	College
		£'000	£'000	£'000	£'000
INCOME					
Funding body grants	2	12,635	12,635	14,171	14,171
Tuition fees and education contracts	3	11,404	11,404	13,163	13,163
Other income	4	2,918	2,918	3,587	3,587
Investment income	5	62	62	85	85
Total income		27,019	27,019	31,006	31,006
EXPENDITURE					
Staff costs	6	14,383	14,383	14,765	14,765
Restructuring costs	6	248	248	298	298
Other operating expenses	7	10,534	10,534	13,355	13,355
Depreciation	9	2,049	2,049	1,835	1,835
Interest and other finance costs	8	360	360	381	381
Total expenditure		27,574	27,574	30,634	30,634
(Deficit)/surplus before other gains and losses		(555)	(555)	372	372
(Loss) / Profit on disposal of assets	9	(79)	(79)	3,358	3,358
(Deficit)/surplus before tax		(634)	(634)	3,730	3,730
Taxation		-	-	-	-
(Deficit)/surplus for the year		(634)	(634)	3,730	3,730
Actuarial loss in respect of pension scheme		(4,300)	(4,300)	(990)	(990)
Revaluation of heritage assets		5	5	-	-
Total Comprehensive Income for the year		(4,929)	(4,929)	2,740	2,740

South Tyneside College

South Tyneside College

Consolidated and College Statement of Changes in Reserves

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Group			
Balance at 1st August 2014	4,068	7,247	11,315
Surplus from the income and expenditure account	3,730	-	3,730
Other comprehensive income	(990)	-	(990)
Transfers between revaluation and income and expenditure reserves	172	(172)	-
Total comprehensive income for the year	2,912	(172)	2,740
Balance at 31st July 2015	6,980	7,075	14,055
Deficit from the income and expenditure account	(634)	-	(634)
Other comprehensive income	(4,300)	5	(4,295)
Transfers between revaluation and income and expenditure reserves	172	(172)	-
Total comprehensive income for the year	(4,762)	(167)	(4,929)
Balance at 31st July 2016	2,218	6,908	9,126
College			
Balance at 1st August 2014	4,068	7,247	11,315
Surplus from the income and expenditure account	3,730	-	3,730
Other comprehensive income	(990)	-	(990)
Transfers between revaluation and income and expenditure reserves	172	(172)	-
Total comprehensive income for the year	2,912	(172)	2,740
Balance at 31st July 2015	6,980	7,075	14,055
Deficit from the income and expenditure account	(634)	-	(634)
Other comprehensive income	(4,300)	5	(4,295)
Transfers between revaluation and income and expenditure reserves	172	(172)	-
Total comprehensive income for the year	(4,762)	(167)	(4,929)
Balance at 31st July 2016	2,218	6,908	9,126

South Tyneside College

South Tyneside College Balance sheets as at 31 July

	Notes	Group	College	Group	College
		2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Tangible fixed assets	9	28,920	28,920	25,975	25,975
Heritage assets	9	324	324	319	319
Investments	10	-	2	-	2
		29,244	29,246	26,294	26,296
Current assets					
Trade and other receivables	11	2,512	2,512	1,333	1,333
Investments	12, 17	1,000	1,000	-	-
Cash and cash equivalents	17	4,367	4,365	9,970	9,968
		7,879	7,877	11,303	11,301
Less: Creditors – amounts falling due within one year	13	(7,454)	(7,454)	(7,222)	(7,222)
Net current assets		425	423	4,081	4,079
Total assets less current liabilities		29,669	29,669	30,375	30,375
Less: Creditors – amounts falling due after more than one year	14	(6,413)	(6,413)	(6,822)	(6,822)
Provisions					
Defined benefit obligations	16	(14,130)	(14,130)	(9,480)	(9,480)
Other provisions	16	-	-	(18)	(18)
Total net assets		9,126	9,126	14,055	14,055
Unrestricted reserves					
Income and expenditure account		2,218	2,218	6,980	6,980
Revaluation reserve		6,908	6,908	7,075	7,075
Total unrestricted reserves		9,126	9,126	14,055	14,055

The financial statements on pages 28 to 57 were approved and authorised for issue by the Corporation on 14 December 2016 and were signed on its behalf on that date by:


A Watts
Chair


L Whiterod
Accounting Officer

South Tyneside College

South Tyneside College Consolidated Statement of Cash Flows

	Notes	2016 £'000	2015 £'000
Cash inflows from operating activities			
Surplus/(deficit) for the year		(634)	3,730
Adjustment for non cash items:			
Depreciation		2,049	1,835
(Increase)/decrease in debtors		(1,179)	1,381
Increase in creditors due within one year		427	11
Increase/(decrease) in creditors due after one year		762	(370)
Decrease in provisions		(18)	(35)
Pensions costs less contributions payable		350	260
Adjustment for investing or financing activities:			
Investment income		(62)	(85)
Interest payable		40	61
Loss / (gain) on sale of fixed assets		79	(3,358)
		<u>1,814</u>	<u>3,430</u>
Net cash flow from operating activities			
Cash flows from investing activities			
Proceeds from sale of fixed assets		-	4,295
Transfer to current asset investments		(1,000)	-
Investment income		62	85
Payments made to acquire fixed assets		(5,073)	(5,473)
		<u>(6,011)</u>	<u>(1,093)</u>
Cash flows from financing activities			
Interest paid		(40)	(61)
Repayments of amounts borrowed		(1,366)	(241)
		<u>(1,406)</u>	<u>(302)</u>
(Decrease) / increase in cash and cash equivalents in the year		<u>(5,603)</u>	<u>2,035</u>
Cash and cash equivalents at beginning of the year	17	9,970	7,935
Cash and cash equivalents at end of the year	17	4,367	9,970

South Tyneside College
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2016

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

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

The functional and presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

Transition to the 2015 FE HE SORP

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the College has amended certain accounting policies to comply with FRS 102 and the 2015 FE HE SORP. The trustees have also taken advantage of certain exemptions from the requirements of FRS 102 permitted by FRS 102 Chapter 35 ‘Transition to this FRS’.

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 26.

The 2015 FE HE SORP requires colleges to prepare a single statement of comprehensive income, and not the alternative presentation of a separate income statement and a statement of other comprehensive income. This represents a change in accounting policy from the previous period where separate statements for the Income and Expenditure account and for the Statement of Total Recognised Gains and Losses were presented.

The application of first time adoption allows certain exemptions from the full requirements of the FRS 102 and the 2015 FE HE SORP in the transition period. The following exemptions have been taken in these financial statements:

- Revaluation at deemed cost – as at 1st August 2014, the College has restated freehold land at market value and taken this as deemed cost.
- Lease incentives – the College has continued to recognise the residual benefits associated with lease incentives on the same basis as that applied at the date of transition.
- The College has taken advantage of the exemptions provided in FRS 102 1.12 and the 2015 FE HE SORP 3.3, and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and the College balance sheet discloses cash at both the current and preceding reporting dates.

South Tyneside College

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2016 CONTINUED

1. Statement of principal accounting policies (continued)

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the use of previous valuations as deemed cost at transition for certain non-current assets.

Basis of consolidation

The consolidated financial statements include the College and its subsidiary, South Tyneside Training Services Limited (dormant), controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS 102, the activities of the student union have been consolidated within the College because the College controls those activities. All financial statements are made up to 31 July 2016.

Going Concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Strategic Report. The financial position of the College, its cash flow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The College currently has no loans.

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 its Financial Statements.

Recognition of Income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

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

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.

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS 102.

South Tyneside College

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2016 CONTINUED

1. Statement of principal accounting policies (continued)

Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

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.

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.

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.

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 the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. 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.

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

Actuarial gains and losses are recognised immediately in other recognised 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.

Non-current Assets - Tangible fixed assets

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

South Tyneside College

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2016 CONTINUED

1. Statement of principal accounting policies (continued)

Investments in subsidiaries

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

Land and Buildings

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

- | | |
|---------------------------------------|--|
| • Roofing | 2 to 20 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.

Freehold buildings are depreciated over their expected useful economic life to the College of between 20 and 40 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 15 and 40 years.

Where land and buildings are acquired with the aid of specific government grants, they are capitalised and depreciated as above. The related grants are credited to a deferred income account within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

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 buildings, which were revalued in 1992 as deemed cost but to revalue the land and to treat that 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.

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 item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

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

- | | |
|---------------------|--------------|
| Vehicles | 5 years |
| Computing Equipment | 2 - 10 years |

South Tyneside College

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2015 CONTINUED

1. Statement of principal accounting policies (continued)

Marine Simulation Unit	up to 15 years
Other Equipment	up to 20 years

Where equipment is acquired with the aid of specific government grants, they are capitalised and depreciated as above. The related grants are credited to a deferred income account within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

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.

Intangible Assets

Intangible Assets such as software development costs is depreciated on a straight line basis over its useful economic life of 5 years.

Leased Assets

Costs in respect of operating leases are charged on a straight line basis over the lease term. Any lease premiums or incentives relating to leases signed after 1st August 2014 are spread over the minimum lease term. The College has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1st August 2014.

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.

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

South Tyneside College

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2016 CONTINUED

1. Statement of principal accounting policies (continued)

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.

Cash and Cash Equivalents

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.

Liquid resources include sums on short-term deposits with recognised banks and building societies. Investments that are payable or receivable within one year are not discounted.

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 Group 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.

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.

South Tyneside College

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2016 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 and Bursaries. 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.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 23, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. 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.

South Tyneside College

South Tyneside College

Notes to the Accounts (continued)

2 Funding council grants

	Year ended 31 July 2016		Year ended 31 July 2015	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Recurrent grants				
Skills Funding Agency	3,498	3,498	4,396	4,396
Education Funding Agency	7,201	7,201	7,500	7,500
Higher Education Funding Council	545	545	628	628
Specific Grants				
Skills Funding Agency	858	858	1,149	1,149
Education Funding Agency	128	128	32	32
Releases of government capital grants	405	405	466	466
Total	12,635	12,635	14,171	14,171

3 Tuition fees and education contracts

	Year ended 31 July 2016		Year ended 31 July 2015	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Adult education fees	4,066	4,066	5,136	5,136
Apprenticeship fees and contracts	322	322	655	655
Fees for FE loan supported courses	296	296	756	756
Fees for HE loan supported courses	2,373	2,373	837	837
International students fees	4,014	4,014	5,095	5,095
Total tuition fees	11,071	11,071	12,479	12,479
Education contracts	333	333	684	684
Total	11,404	11,404	13,163	13,163

4 Other income

	Year ended 31 July 2016		Year ended 31 July 2015	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	1,196	1,196	1,149	1,149
Other income generating activities	465	465	524	524
Non funding body government capital grants	42	42	48	48
Miscellaneous income	1,215	1,215	1,866	1,866
Total	2,918	2,918	3,587	3,587

South Tyneside College

South Tyneside College Notes to the Accounts (continued)

5 Investment income

	Year ended 31 July 2016		Year ended 31 July 2015	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other investment income	62	62	85	85
Total	62	62	85	85

6 Staff costs - Group and College

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

	2016 No.	2015 No.
Teaching staff	147	161
Non teaching staff	208	210
	355	371

Staff costs for the above persons

	2016 £'000	2015 £'000
Wages and salaries	10,158	10,906
Social security costs	789	786
Other pension costs	1,754	1,616
Payroll sub total	12,701	13,308
Contracted out staffing services	1,682	1,457
	14,383	14,765
Restructuring costs - contractual	248	298
	14,631	15,063

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the Senior Executive Group which comprises the Chief Executive, Deputy Chief Executive, 2 Principals and 2 Directors. Staff costs include compensation paid to key management personnel for loss of office.

South Tyneside College

South Tyneside College

Notes to the Accounts (continued)

6 Staff costs - Group and College (continued)

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

	2016 No.	2015 No.
The number of key management personnel including the Accounting Officer was:	<u>6</u>	<u>6</u>

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

	Key management personnel		Other staff	
	2016 No.	2015 No.	2016 No.	2015 No.
£50,001 to £60,000	2	1	-	-
£60,001 to £70,000	-	1	-	-
£70,001 to £80,000	-	2	-	-
£80,001 to £90,000	2	-	-	-
£90,001 to £100,000	1	1	-	-
£150,001 to £160,000	1	1	-	-
	<u>6</u>	<u>6</u>	<u>-</u>	<u>-</u>

Key management personnel emoluments are made up as follows:

	2016 £'000	2015 £'000
Salaries	522	523
Benefits in kind	-	-
	<u>522</u>	<u>523</u>
Pension contributions	83	79
Total emoluments	<u>605</u>	<u>602</u>

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

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

	2016 £'000	2015 £'000
Salaries	<u>160</u>	<u>157</u>
Pension contributions	<u>26</u>	<u>22</u>

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.

South Tyneside College

South Tyneside College Notes to the Accounts (continued)

7 Other operating expenses

	Year ended 31 July		Year ended 31 July	
	2016	2016	2015	2015
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	6,185	6,185	8,225	8,225
Non teaching costs	2,789	2,789	3,194	3,194
Premises costs	1,560	1,560	1,936	1,936
Total	10,534	10,534	13,355	13,355

Other operating expenses include:

	2016	2015
	£'000	£'000
Auditors' remuneration:		
Financial statements audit	23	23
Internal audit	26	30
Other services provided by the financial statements auditor	5	21
Other services provided by the internal auditors	12	21
Hire of assets under operating leases	824	847

8 Interest payable - Group and College

	2016	2015
	£'000	£'000
On bank loans, overdrafts and other loans:	40	61
Pension finance costs (note 23)	320	320
Total	360	381

South Tyneside College

South Tyneside College

Notes to the Accounts (continued)

9 Tangible fixed assets (Group and College)

	Land and buildings Freehold	Equipment	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 August 2015	42,397	5,560	47,957
Additions	4,057	1,016	5,073
Disposals	(108)	(23)	(131)
At 31 July 2016	46,346	6,553	52,899
Depreciation			
At 1 August 2015	19,199	2,783	21,982
Charge for the year	1,458	591	2,049
Elimination in respect of disposals	(31)	(21)	(52)
At 31 July 2016	20,626	3,353	23,979
Net book value at 31 July 2016	25,720	3,200	28,920
Net book value at 31 July 2015	23,198	2,777	25,975

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 for existing use where this is readily obtainable. Land and buildings acquired since incorporation are included in the balance sheet at cost.

Land assets have been revalued in July 2014 at market value by BNP Paribas, a firm of independent chartered surveyors. The effect of the £1.5m revaluation relating to the college's main Westoe site, playing fields and Wapping Street land assets has been included in these financial statements (see note 26).

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 Principal - South Shields Marine School.

	Group and college
	£'000
Cost or valuation	
1 August 2015	319
Revaluation	5
31 July 2016	324

The college's external valuer, Anderson & Garland, carried out a full revaluation of the college's heritage assets as at 31 July 2016. The revaluation of these assets was based on valuation for insurance purposes. Gains on revaluation of assets to the value of £5,000 have been recognised, with small valuation increases identified on a number of assets.

South Tyneside College

South Tyneside College

Notes to the Accounts (continued)

10 Fixed asset investments

	College 2016 £'000	College 2015 £'000
Investments in subsidiary companies	2	2
Total	<u>2</u>	<u>2</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. This company is no longer trading.

11 Debtors

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Amounts falling due within one year:				
Trade receivables	2,244	2,244	848	848
Prepayments and accrued income	268	268	485	485
Total	<u>2,512</u>	<u>2,512</u>	<u>1,333</u>	<u>1,333</u>

12 Current investments

	Group 2016 £'000	College 2015 £'000	Group 2016 £'000	College 2015 £'000
Short term deposits	1,000	1,000	-	-
Total	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>-</u>

A £1m deposit is held at Lloyds Bank attracting interest at a rate of 1.25% per annum. This deposit matures in June 2017.

13 Creditors: amounts falling due within one year

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Bank loans and overdrafts	-	-	195	195
Trade payables	493	493	529	529
Payments received in advance	2,888	2,888	3,025	3,025
Holiday pay accrual	492	492	450	450
Other taxation and social security	243	243	236	236
Accruals and deferred income	2,310	2,310	2,332	2,332
Deferred income - government capital grants	427	427	398	398
Amounts owed to the Skills Funding Agency	601	601	57	57
Total	<u>7,454</u>	<u>7,454</u>	<u>7,222</u>	<u>7,222</u>

South Tyneside College

South Tyneside College Notes to the Accounts (continued)

14 Creditors: amounts falling due after one year

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Bank loans	-	-	1,171	1,171
Deferred income - government capital grants	6,413	6,413	5,651	5,651
Total	6,413	6,413	6,822	6,822

15 Maturity of debt

(a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
In one year or less	-	-	195	195
Between one and two years	-	-	195	195
Between two and five years	-	-	585	585
In five years or more	-	-	391	391
Total	-	-	1,366	1,366

The College took out a £2,000,000 loan in 2011 with Barclays PLC to help finance its capital refurbishment programme. A margin review date became available during the year and the College exercised its option to repay the outstanding balance in full.

16 Provisions

	Group and College		Total
	Defined benefit Obligations £'000	Restructuring £'000	£'000
At 1 August 2015	9,480	18	9,498
Expenditure in the period	-	(18)	(18)
Transferred from income and expenditure account	4,650	-	4,650
At 31 July 2016	14,130	-	14,130

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

The restructuring provision relates to retraining funding for staff affected by the college's restructuring programme. These funds have been full utilised during the year.

South Tyneside College

South Tyneside College Notes to the Accounts (continued)

17 Cash and cash equivalents

	At 1 August 2015 £'000	Cash flows £'000	At 31 July 2016 £'000
Cash and cash equivalents	9,970	(5,603)	4,367
Total	9,970	(5,603)	4,367

18 Financial instruments

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
<i>Financial assets measured at amortised cost</i>				
Trade debtors	2,244	2,244	848	848
Current investments	1,000	1,000	-	-
	3,244	3,244	848	848

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
<i>Financial liabilities measured at amortised cost</i>				
Bank loan	-	-	1,366	1,366
Trade payables	493	493	529	529
Amounts owed to the Skills Funding Agency	601	601	57	57
	1,094	1,094	1,952	1,952

19 Capital commitments

	Group and College 2016 £'000	2015 £'000
Commitments contracted for at 31 July	-	3,190

South Tyneside College

South Tyneside College Notes to the Accounts (continued)

20 Lease obligations

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

	Group and College	
	2016	2015
	£'000	£'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	31	41
Later than one year and not later than five years	42	-
	<u>73</u>	<u>41</u>
Other		
Not later than one year	688	749
Later than one year and not later than five years	1,794	2,306
	<u>2,482</u>	<u>3,055</u>

21 Contingent liabilities

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.

22 Events after the reporting period

The college is part of wave four of the Area Review process, a government programme to look at the future of colleges to improve their resilience for the future. As part of this process South Tyneside College and Tyne Metropolitan College are in the early stages of merger talks with a view to working towards merger on 1 August 2017, should the discussions and consultation prove it will benefit learners, potential learners, employers and other stakeholders.

South Tyneside College

South Tyneside College

Notes to the Accounts (continued)

23 Defined benefit obligations

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

Total pension cost for the year	2016 £'000	2015 £'000
Teachers Pension Scheme: contributions paid	864	834
Local Government Pension Scheme:		
Contributions paid	860	890
FRS 102 (28) charge	30	(60)
Charge to the Statement of Comprehensive Income	890	830
Total Pension Cost for Year within staff costs	1,754	1,664

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2013.

Contributions amounting to £203,000 (2015: £209,000) were payable to the scheme and are included in creditors.

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act.

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

South Tyneside College

South Tyneside College

Notes to the Accounts (continued)

23 Defined benefit obligations (continued)

Valuation of the Teachers' Pension Scheme

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

- employer contribution rates were set at 16.48% of pensionable pay;
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay.

The new employer contribution rate for the TPS will be implemented in September 2015.

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

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

Scheme Changes

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

The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual rate of 1/57th; and a Normal Pension Age equal to State Pension Age, but with options to enable members to retire earlier or later than their Normal Pension Age. Importantly, pension benefits built up before 1 April 2015 will be fully protected.

In addition, the Proposed Final Agreement includes a Government commitment that those within 10 years of Normal Pension Age on 1 April 2012 will see no change to the age at which they can retire, and no decrease in the amount of pension they receive when they retire. There will also be further transitional protection, tapered over a three and a half year period, for people who would fall up to three and a half years outside of the 10 year protection.

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

The pension costs paid to TPS in the year amounted to £864,000 (2015: £834,000)

FRS 102 (28)

Under the definitions set out in FRS 102 (28.11), 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 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.

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Notes to the Accounts (continued)

23 Defined benefit obligations (continued)

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 2016 was £1,099,142, of which employer's contributions totalled £860,399 and employees' contributions totalled £238,743. The agreed contribution rates for future years are 18.4% for employers and range from 5.5% to 12.5% for employees, depending on salary.

Principal Actuarial Assumptions

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

	At 31 July 2016	At 31 July 2015
Rate of increase in salaries	3.30%	3.50%
Future pensions increases	1.80%	2.00%
Discount rate for scheme liabilities	2.40%	3.50%
Inflation assumption (CPI)	1.80%	2.00%
Inflation assumption (RPI)	2.90%	3.10%

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 2016	At 31 July 2015
	years	years
<i>Retiring today</i>		
Males	23.20	23.10
Females	24.80	24.70
<i>Retiring in 20 years</i>		
Males	25.30	25.10
Females	27.10	27.00

South Tyneside College

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Notes to the Accounts (continued)

23 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

The fair value of the plan assets and the return on those assets were as follows:

	Asset allocation at 31 July 2016	Fair Value at 31 July 2016	Asset allocation at 31 July 2015	Fair Value at 31 July 2015
		£'000		£'000
Equities	66.30%	18,232	65.90%	16,265
Government Bonds	3.80%	1,045	3.60%	888
Corporate Bonds	11.50%	3,163	11.60%	2,863
Property	10.00%	2,750	9.60%	2,369
Cash	3.00%	825	2.80%	691
Other	5.40%	1,485	6.50%	1,604
Total market value of assets		27,500		24,680
Actual return on plan assets		2,830		2,190

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

	2016 £'000	2015 £'000
Fair value of plan assets	27,500	24,680
Present value of plan liabilities	(41,630)	(34,160)
Net pensions liability (Note 16)	(14,130)	(9,480)

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

	2016 £'000	2015 £'000
Amounts included in staff costs		
Current service cost	(890)	(790)
Past service cost	-	(40)
Total	(890)	(830)
Amounts included in interest expense		
Net interest on defined benefit liability (note 8)	320	320
Total	320	320

Amounts recognised in Other Comprehensive Income

Return on pension plan assets	1,970	1,280
Experience losses arising on defined benefit obligations	(6,270)	(2,270)
Amount recognised in Other Comprehensive Income	(4,300)	(990)

South Tyneside College

South Tyneside College Notes to the Accounts (continued)

23 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

Movements in net defined benefit liability during the year

	2016 £'000	2015 £'000
Deficit in scheme at 1 August	(9,480)	(8,230)
Movement in year:		
Current service cost	(890)	(790)
Employer contributions	860	890
Past service cost	-	(40)
Net interest on the defined (liability)/asset	(320)	(320)
Remeasurement gains on plan assets	1,970	1,280
Actuarial loss	(6,270)	(2,270)
Net defined benefit liability at 31 July	<u>(14,130)</u>	<u>(9,480)</u>

Asset and Liability Reconciliation

	2016 £'000	2015 £'000
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Movements in present value of defined benefit obligations

Defined benefit obligations at start of period	(34,160)	(30,350)
Current Service cost	(890)	(790)
Interest expense on defined benefit obligation	(1,180)	(1,230)
Contributions by participants	(240)	(240)
Actuarial loss	(6,270)	(2,270)
Net benefits paid out	1,110	760
Past Service cost	-	(40)
Defined benefit obligations at end of period	<u>(41,630)</u>	<u>(34,160)</u>

Movements in fair value of plan assets

Fair value of plan assets at start of period	24,680	22,120
Income on assets	860	910
Remeasurement gain on plan assets	1,970	1,280
Contributions by the employer	860	890
Contributions by participants	240	240
Net benefits paid out	(1,110)	(760)
Assets at end of period	<u>27,500</u>	<u>24,680</u>

South Tyneside College

South Tyneside College Notes to the Accounts (continued)

24 Related party transactions

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

Total expenses paid to or on behalf of Governors during the year were £448; 4 governors (2015 £354; 2 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meeting, training and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2015: None).

Groundwork South Tyneside and Newcastle - a company in which A Watts (Chair of Governors) is Executive Director.

The College purchased training services value £16,000 (2015: £26,000) from Groundwork South Tyneside and Newcastle. The procurement of these services was carried out in accordance with the College's financial regulations.

Pritchard Gordon Tankers Ltd - a company where N Whalen Griffiths (a governor of the College) is Head of Personnel.

The College provided Pritchard Gordon Ltd. with £136,000 (2015: £129,000) of training within the College's marine schools. The rates charged to this company are consistent with the rates charged to other marine customers.

Port of Tyne - a company where S Wear (a governor of the College) is an employee.

The College provided Port of Tyne with £22,000 (2015: £35,000) of training courses. The rates charged to this company are consistent with the rates charged to other customers for these courses.

South Tyneside Manufacturing Forum - a company where L Whiterod (Accounting Officer of the College) is a Director.

The College paid £1,000 membership and services fees (2015: £3,000) the South Tyneside Manufacturing Forum. L Whiterod did not participate nor have any influence in the decision to subscribe for this membership.

South Tyneside College Academy Trust Sponsored by South Tyneside College - a local primary school sponsored by South Tyneside College

The College provided the academy trust with ICT, finance and management services at a total cost of £58,000 (2015 £58,000), with these services being provided at a less than cost basis.

South Tyneside College

South Tyneside College

Notes to the Accounts (continued)

25 Amounts disbursed as agent

Learner support funds

	2016 £'000	2015 £'000
Funding body grants – bursary support	477	495
Funding body grants – discretionary learner support	348	437
Funding body grants – residential bursaries	4	27
	829	959
Disbursed to students	(528)	(880)
Administration costs	(40)	(47)
	261	32

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the Statement of Comprehensive Income.

26 Transition to FRS 102 and the 2015 FE HE SORP

The year ended 31st July 2016 is the first year that the College has presented its financial statements under FRS 102 and the 2015 FE HE SORP. The following disclosures are required in the year of transition. The last financial statements prepared under previous UK GAAP were for the year ended 31st July 2015 and the date of transition to FRS 102 and the 2015 FE HE SORP was therefore 1st August 2014. As a consequence of adopting FRS 102 and the 2015 FE HE SORP, a number of accounting policies have changed to comply with those standards.

An explanation of how the transition to FRS 102 and the 2015 FE HE SORP has affected the College's financial position, financial performance and cash flows, is set out below.

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South Tyneside College

Notes to the Accounts (continued)

26 Transition to FRS 102 and the 2015 FE HE SORP (continued)

Balance sheet

		1st August 2014			31st July 2015		
	Notes	As previously reported £'000	Effect of transition to FRS102 £'000	FRS102 £'000	As previously reported £'000	Effect of transition to FRS102 £'000	FRS102 £'000
Fixed assets							
Tangible fixed assets	a	22,097	1,177	23,274	24,798	1,177	25,975
Heritage assets	b	-	319	319	-	319	319
		<u>22,097</u>	<u>1,496</u>	<u>23,593</u>	<u>24,798</u>	<u>1,496</u>	<u>26,294</u>
Current assets							
Trade and other receivables		2,714	-	2,714	1,333	-	1,333
Cash and cash equivalents		7,935	-	7,935	9,970	-	9,970
		<u>10,649</u>	<u>-</u>	<u>10,649</u>	<u>11,303</u>	<u>-</u>	<u>11,303</u>
Less: Creditors – amounts falling due within one year	c, e	(6,778)	(946)	(7,724)	(6,374)	(848)	(7,222)
Net current assets		<u>3,871</u>	<u>(946)</u>	<u>2,925</u>	<u>4,929</u>	<u>(848)</u>	<u>4,081</u>
Total assets less current liabilities		<u>25,968</u>	<u>550</u>	<u>26,518</u>	<u>29,727</u>	<u>648</u>	<u>30,375</u>
Less: Creditors – amounts falling due after more than one year	c	(1,365)	(5,554)	(6,919)	(1,171)	(5,651)	(6,822)
Provisions							
Defined benefit obligations		(8,230)	-	(8,230)	(9,480)	-	(9,480)
Other provisions		(53)	-	(53)	(18)	-	(18)
Total net assets		<u>16,320</u>	<u>(5,004)</u>	<u>11,316</u>	<u>19,058</u>	<u>(5,003)</u>	<u>14,055</u>
Deferred capital grants	c	6,702	(6,702)	-	6,730	(6,730)	-
Unrestricted reserves							
Income and expenditure account		3,867	202	4,069	6,749	231	6,980
Revaluation reserve	a	5,751	1,496	7,247	5,579	1,496	7,075
Total unrestricted reserves		<u>16,320</u>	<u>(5,004)</u>	<u>11,316</u>	<u>19,058</u>	<u>(5,003)</u>	<u>14,055</u>

There are no differences between the balance sheets of Group and the College arising from the transition to FRS102 and the 2015 FE HE SORP.

South Tyneside College

South Tyneside College Notes to the Accounts (continued)

26 Transition to FRS 102 and the 2015 FE HE SORP (continued)

Consolidated Income and Expenditure Account

Consolidated Income and Expenditure Account		31st July 2015		
	Notes	As previously reported £'000	Effect of transition to FRS102 £'000	FRS102 £'000
Income				
Funding body grants		14,171	-	14,171
Tuition fees and education contracts		13,163	-	13,163
Other income		3,587	-	3,587
Investment income	d	315	(230)	85
Total income		31,236	(230)	31,006
Expenditure				
Staff costs		14,765	-	14,765
Fundamental restructuring costs		298	-	298
Other operating expenses		13,355	-	13,355
Depreciation		1,835	-	1,835
Interest and other finance costs	d	61	320	381
Total expenditure		30,314	320	30,634
Surplus before other gains and losses		922	(550)	372
Profit on disposal of assets		3,358	-	3,358
Surplus for the year		4,280	(550)	3,730
Actuarial loss in respect of pension schemes	f	-	(990)	(990)
Total Comprehensive Income for the year		4,280	(1,540)	2,740

South Tyneside College

South Tyneside College Notes to the Accounts (continued)

26 Transition to FRS 102 and the 2015 FE HE SORP (continued)

Notes to the transition reconciliations

a) Revaluation of land and buildings at deemed cost

On adoption of FRS 102, the College followed the transitional provision to retain the book value of buildings, which were revalued in 1992 as deemed cost but to revalue the land and to treat that as deemed cost but not to adopt a policy of revaluations of these properties in the future.

b) Presentation of heritage assets on the balance sheet

Heritage assets were previously included within the tangible fixed asset balance on the balance sheet and further analysis was provided within the notes to the accounts. Heritage assets are now presented separately on the face of the Balance Sheet in line with the requirements of FRS102.

c) Non-government grants accounted for under performance model

The College has previously been in receipt of certain capital grants from sources other than those classified as "government" under FRS 102 and the 2015 FE HE SORP. Under the previous UK GAAP and 2007 SORP, these were able to be capitalised and amortised over the remaining useful economic life of the relevant fixed assets. This accounting treatment is no longer available for non-government grants and the grants have therefore been accounted for under the performance model and treated as if they had been credited to Comprehensive Income immediately that the performance conditions had been met. A corresponding adjustment has been made to the income recognised in the 2015 results that related to the annual amortisation of the capital grants involved. To the extent that performance conditions have not been met, amounts already received are included in deferred income.

d) Change in recognition of defined benefit plan finance costs

The net pension finance cost recognised in the Income and Expenditure account for the year ended 31st July 2015 under the previous UK GAAP was the net of the expected return on pension plan assets and the interest on pension liabilities. FRS 102 requires the recognition in the Statement of Comprehensive Income, of a net interest cost, calculated by multiplying the net plan obligations by the market yield on high quality corporate bonds (the discount rate applied). The change has had no effect on net assets as the measurement of the net defined benefit plan obligation has not changed. Instead, the decrease in the surplus for the year has been mirrored by a reduction in the actuarial losses presented within Other Comprehensive Income

e) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 15 days unused leave for teaching staff and 8 days unused leave for non-teaching staff. In addition, certain non-teaching employees are entitled to carry forward up to 5 days of any unused holiday entitlement at the end of the leave year. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £480,000 was recognised at 1 August 2014, and £450,000 at 31 August 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £42,000 has been charged to Comprehensive Income in the year ended 31 July 2016.

f) Presentation of actuarial gains and losses within Total Comprehensive Income

Actuarial gains and losses on the College's defined benefit plans were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS 102 to be presented within the Statement of Comprehensive Income, as movements in Other Comprehensive Income.