



## NESCOT CORPORATION

# Report and Financial Statements for the Year Ended 31 July 2018



## Reference and Administrative Details

### Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College. These persons are the most senior members of the College and are represented by the following in the year ended 31 July 2018:

<b>Frances Rutter</b>	Chief Executive and Principal
<b>Cliff Shaw</b>	Deputy Principal (Curriculum & Quality)
<b>Maria Vetrone</b>	Deputy Principal (Finance & Resources)

### Board of Governors

A full list of Governors of the Corporation is given on pages 26 and 27 of these financial statements.

### Professional advisers

<b>External Auditors</b> MHA MacIntyre Hudson New Bridge Street House 30-34 New Bridge Street London EC4V 6BJ	<b>Internal Auditors</b> RSM 6th Floor 25 Farringdon Street London EC4A 4AB
<b>Funding Auditors</b> KPMG 1 Forest Gate Brighton Road Crawley W Sussex RH11 9PT	<b>Bankers</b> HSBC Bank plc 54 Clarence Street Kingston upon Thames Surrey KT1 1NS

### Principal and Registered Office

North East Surrey College of Technology (NESCOT) Reigate Road Ewell Epsom Surrey KT17 3DS
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## NATURE, OBJECTIVES AND STRATEGIES

The Members of the Corporation present their annual report together with the financial statements and auditor's report for the North East Surrey College of Technology (NESCOT) for the year ended 31 July 2018.

### Legal status

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

### Public Benefit

The College is an exempt charity under Part 3 of the Charities Act 2011 and, following the Machinery of Government changes in July 2016, is regulated by the Secretary of State for Education. The Members of the Corporation, who are trustees of the charity and Governors of the College, are disclosed on pages 26 and 27.

In setting and reviewing the College's key strategic priorities, the Corporation 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 key strategic priorities, the College provides the following identifiable public benefits through the advancement of education:

- High-quality teaching, learning and assessment
- Widening participation and addressing social exclusion
- The advancement of citizenship and community development
- Excellent progression and employment record for students
- Strong student support systems
- Links with employers, industry and commerce
- Links with Local Enterprise Partnerships (LEPs)

The Corporation is aware of its responsibilities in relation to charitable purposes in making decisions on the College's educational and vocational character and mission and in relation to the effective and efficient use of resources.

To deliver its key strategic priorities, NESCOT has developed as a comprehensive College, with a wide range of subjects taught at all levels and a diverse student body. The College is proud of its long history as a technical and professional education institution, from which enduring commitments to widening participation and technical and professional preparation are derived. It remains ambitious for its future as a college, with a strong brand and reputation for technical and professional excellence and international presence.

## Vision statement

The Members reviewed the College's vision and mission during 2017-18, led by the College's Chief Executive and Principal. The new vision of the College as approved by the Members is:

**"To be the college of choice for students, employers and staff."**

## Implementation of the Strategic Plan NESCOT 2023

The Corporation and management have re-considered the educational character and size of the College to ensure that it best serves the needs of its students, and has a strong curriculum and financial base for the future. In order to make a sustainable contribution to national, regional and local priorities, the College aims to continue to consolidate existing provision against a robust curriculum quality and financial framework.

The Corporation has adopted a new corporate Strategic Plan for the period 2018-2023, 'NESCOT 2023'. The Strategic Plan includes developments in the curriculum; quality; partnerships; human resources and organisational development; the estate; and financial plans. The Corporation monitors the performance of the College against these plans, which are reviewed and updated annually.

The College continues to provide a wide ranging technical and professional curriculum offer to Level 3 and beyond. Apprenticeship and High Needs provision has grown significantly in recent years. The College is well placed to respond to the curriculum changes required by the government's Post-16 Skills Plan.

## Key strategic priorities

The College has six key strategic priorities which underpin the delivery of the vision:

1. Outstanding teaching, learning and assessment in an inspirational and safe environment.
2. Stability and growth.
3. Helping our students to develop the skills, attitudes and qualifications they need to succeed at work.
4. Engaged with employers and other organisations to offer courses that are innovative, relevant, and in demand.
5. Developing strong relationships with schools and community groups to give clear information, advice and guidance.
6. Employer of choice.





The achievement of these key strategic priorities will deliver high-quality, student centred and business focused education and training that responds to the cultural diversity of the community, enriches lives and contributes to economic prosperity. The overall College offer is regularly reviewed and realigned to meet national, regional and local needs. Growth is planned to be achieved within a streamlined and cost-efficient curriculum model that aims to maximise income and reduce cost through more effective design of the curriculum and more efficient utilisation of teaching hours.

Each of the College's six key strategic priorities (KSPs) is further underpinned by a number of annual and longer term objectives. These are summarised as follows:

***KSP1: Outstanding teaching, learning and assessment in an inspirational and safe environment***

1. Delivering outstanding teaching, learning and assessment that challenges and inspires our students to help them reach their goals.
2. Providing holistic support to keep our students safe.
3. Developing the use of technology to improve the way students learn and to prepare them for their future careers.
4. Continuing to invest in the College estate to support the achievement of key priorities.

***KSP2: Stability and growth***

1. Achieving sustainable growth and economies of scale in core business from increased student numbers.
2. Achieving sustainable growth from joint venture partnerships and commercial activity.
3. Maintaining a sound contribution to overhead from teaching departments.
4. Encouraging innovation across the College.



***KSP3: Helping our students to develop the skills, attitudes and qualifications they need to succeed at work***

1. Developing the tutorial and enrichment programme to support our students' broader learning.
2. Delivering a strong careers education programme, with emphasis on employability skills.
3. Delivering a curriculum that successfully attracts and engages with a diverse student population.

***KSP4: Engaged with employers and other organisations to offer courses that are innovative, relevant, and in demand***

1. Developing links with employers to source high quality and meaningful work experience placements that benefit our students and employers.
2. Developing a forward thinking and cost effective curriculum that meets LEP priorities and skills gaps, and reflects industry needs.
3. Working with employers of all sizes and types to increase the availability and quality of apprenticeships.
4. Working with local authorities to deliver a comprehensive High Needs provision.

***KSP5: Developing strong relationships with schools and community groups to give clear information, advice and guidance***

1. Delivering an effective school liaison offer through strong relationships with schools, aligning curriculum resource to support this activity.
2. Creating opportunities to work directly with young people to ensure they are receiving impartial information, advice and guidance.
3. Providing a wider college experience for young people.

***KSP6: Employer of choice***

1. Providing professional and personal development opportunities for all staff to improve their knowledge, skills and practice.
2. Striving for a collaborative and inclusive workplace, where good practice is shared and staff are motivated and supported.
3. Providing staff with the tools they need to do their jobs well.
4. Delivering a clear and well understood means of recognising and rewarding effort and achievement.

The achievement of objectives and associated targets is regularly monitored by College management and reviewed by the Corporation through the Annual Operating Plan and Key Performance Indicators (KPIs) using a variety of dashboards.

## CORPORATE PERFORMANCE

### Performance Indicators

The College is committed to observing the importance of sector measures and indicators and uses the FE Choices data available on the GOV.UK website, which looks at measures such as success rates. The College adopts a wide range of measures and indicators to review the achievement of financial, academic and curriculum objectives and targets, which are regularly reported to the Corporation.

### League tables

In July 2018, the Education and Skills Funding Agency (ESFA) published the results of the FE Choices annual surveys covering employer satisfaction and learner satisfaction. For learner satisfaction, the College was ranked 33<sup>rd</sup> of 170 GFE colleges with a score of 85.1 (national average 81). For employer satisfaction, the College was ranked 21<sup>st</sup> of 184 GFE colleges with a score of 95.6 (national average 80.9). For both measures, NESCOT's results were higher than our local competitor colleges as well as against national averages.

### Funding targets and student numbers

The College received government funding in 2017-18 from the ESFA and the Office for Students (OfS). Performance in relation to funding targets and student numbers is as follows:

#### 1. Funding targets

**ESFA 16-18 funding** - The College achieved 96% of its ESFA 16-18 lagged funding target of £8,639k of grant income, which excludes bursary funds.

**ESFA 19+ funding** - The College achieved 99.7% of its ESFA Adult Education Budget (AEB) funding target of £4,551k of grant income, excluding discretionary support funds. As this exceeds 97%, the College will be awarded 100% of the allocation with no clawback.

**ESFA Apprenticeship funding** - The College achieved 95.7% of its ESFA non levy apprenticeship funding target of £3,516k.

**Office for Students (OfS) funding** - The College achieved 438% of its Higher Education (HE) learner FTE target relating to OfS funding of £349k.

#### 2. Student numbers

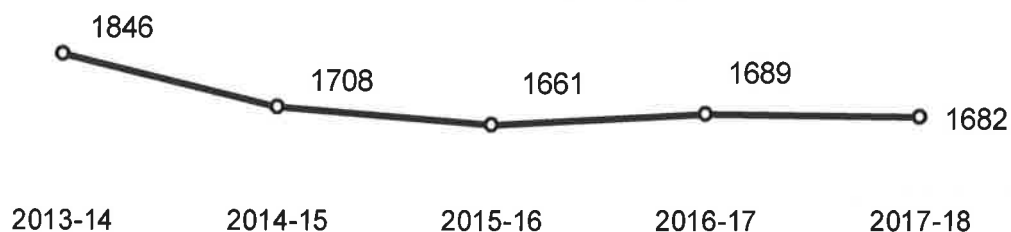
The College's ESFA funded 16-18 student numbers (headcount) decreased by seven in 2017-18 to 1,682 students.

The headcount numbers for students aged 19+ increased by 838 to 3,504. In 2017-18, these increases had been achieved from successful growth bids delivered by our subcontracting and joint venture partners.

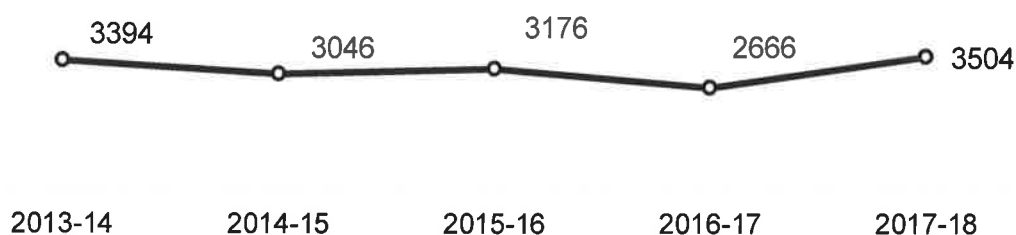
The following graphs depict movement in the College's Further Education (FE) student numbers since 2013-14.



### ESFA 16-18 Student Numbers



### ESFA 19+ Student Numbers



For the year ended 31 July 2018, the College delivered activity that has produced £18.2m in funding body main allocations (2016-17 – £17.0m).

The College had a total of 9,424 students in 2017-18, 7,486 of which were funded and 1,938 non-funded, as analysed below:

	Headcount
ESFA funded 16-18 students	1,682
ESFA funded 19+ classroom students (including traineeships)	3,504
ESFA funded apprentices	1,650
OfS funded students	650
<b>Total funded students</b>	<b>7,486</b>
<b>Total non-funded students</b>	<b>1,938</b>
<b>Total students</b>	<b>9,424</b>

### Financial performance

The College is required to complete the annual Finance Record for the ESFA.

Financial performance in the sector is measured against a number of ESFA established measures and targets. The following table confirms the actual results for the year ended 31 July 2018 against high level key measures and targets:

ESFA Key Performance Indicator	Target 2017-18	Actual 2017-18	Performance assessment
Operating surplus/sector EBITDA as % of income	7.67%	10.1%	✓
Staff costs as % of income (excluding subcontracted income)	66%	66%	✓
Cash days in hand	90.00	96.41	✓
Borrowing as % of income	0.28%	0.27%	✓
Reliance on ESFA income	64.6%	68.74%	✗
Financial Health Score	Outstanding	Outstanding	✓

The College met all of the key ESFA targets during the year to achieve 'outstanding' financial health' although reliance on ESFA income was higher than planned. The College continues to work towards increasing other, and generating new, income streams.

The Finance Strategy 2023 incorporates a range of KPIs and targets to support the achievement of Key Strategic Priority 2 for stability and growth. It is updated periodically, and has been used to inform the 2018-19 Budget and 2019-20 Forecast. High level Finance Strategy KPIs include the following, with an indication of College performance against each for 2017-18 outturn:

High level KPIs for Key Strategic Priority 2 – Stability and Growth	
1. Maintain 'outstanding' financial status from the ESFA	✓
2. Achieve 3% surplus of total income or more per annum	✗
3. Invest 3% of total income per annum as capital investment	✓
4. Maintain operating cash in the range of 60 to 120 days	✓

The College met all of the Finance Strategy high level KPIs during the year although it fell short of achieving target operating surpluses of 3% of total income. This would have required surpluses of over £770k to have been achieved. The College achieved £26k for the year ended 31 July 2018, being 0.1% of total income but ahead of in-year planned operating surpluses.

The College continues to work on strategies for income growth and cost reduction whilst maintaining a relevant and high quality curriculum, supported by a fit for purpose estate and infrastructure to ensure longer term sustainability.

## Academic and curriculum performance

The College's progress in achieving its key academic and curriculum targets is as follows:

- The College's qualification achievement rate has fallen by 1.2% from 84.9% in 2016-17 to 83.7% in 2017-18. This is 0.7% below the national average of 84.4%. It should be noted that the overall number of starts had increased by 1,319 in 2017-18.
- For vocational qualifications, the achievement rates for 16-18 year olds remained at 83.0% as in 2016-17 but for 19+ students increased by 2.4% from 89.3% to 91.7%.
- Achievement rates for diplomas at Level 2 are good at 84% for students aged 16-18 (83% national average). Achievement rates for diplomas at Level 3 for students aged 19 years and over are excellent at 95% (83% national average) and for students aged under 19, although at 87% are 1% below the national average of 88%, have increased by 3%. Achievement rates for our Access to HE programme is outstanding at 100%.
- Overall achievement rates for students on apprenticeship programmes have declined at 67% from 80%, 2% below the national average of 69%. However, achievement rates increased by 7% for 16-18 year olds to 68% (70% national average) and by 5% for 19-24 year olds to 73% (70% national average).
- English and maths are mandatory components of study programmes for students who did not achieve GCSE Grade 4 (C) or above at school. There were 2,456 functional skills enrolments (an increase of 1,029 on 2016-17). Achievement decreased by 9% on the previous year to 70% (68% national average). However, achievement for the 599 enrolments for 16-18 year olds at 59% was maintained but remains below the national average of 63%.
- 478 and 381 students were enrolled on GCSE English and GCSE maths respectively in 2017-18. For 16-18 year old resit students, high grade pass rates (9 to 4) were 26% (26% national average) and 18% (16% national average). The rates in 2016-17 were 16% and 31% respectively.
- The average progress for GCSE English from grade 3/D was 0.14 (national average - 0.12) and from grade 2/E was +0.34 (national average +0.34). The average progress for GCSE Maths from grade 3/D was -0.16 (national average -0.20) and from grade 2/E was +0.20 (national average -0.00).
- High grade achievement for Level 2 programmes has increased from 34% in 2016-17 to 39% in 2017-18. For Level 3 programmes, high grade achievement has remained at 37% in 2017-18.
- 98% of full time students had positive intended destinations on leaving the College in 2017-18. Of the 81% known actual destinations for full time student leavers in 2016-17, 93% were positive destinations.

Achievement rates have remained around the sector average for the past three years with 86% in 2015-16, 85% in 2016-17 and 84% in 2017-18. Long course achievement for 16-18 year olds has decreased slightly from 79% to 78% and for adult students has increased from 77% to 82%. Vocational achievement (excluding English and maths) has increased for adult students from 89% to 92% and has been maintained at 83% for 16-18 year olds. Achievement on 16-18 vocational courses is good in some areas but has declined and requires improvement in others.

In 2017-18, good progress was made by the majority of students on most vocational programmes, with 11 internal curriculum areas securing over 85% achievement rates: Plastering (95%); Foundation Learning (95%); Catering (93%); Computing (92%); Performing Arts (91%); Adult Skills 4 Work (91%); Sport (89%); Brickwork (88%); Counselling (88%); Animal Studies (87%);

and Early Years (86%). However, relatively low achievement or retention on some courses (Beauty; Music; Hairdressing; Business & Accounting; and Plumbing) resulted in some students not making the progress expected of them.

The ALPs score for BTEC Level 3 vocational courses has fallen from 5 to 6. Two subjects are classified as outstanding:

- Travel & Tourism
- Public Services

Methods of teaching and learning are under continuous review and development to ensure that the curriculum meets the needs of the local population and that targets for performance are met.

In January 2016, the College received a short inspection by Ofsted, the government inspectors of schools and colleges. Ofsted's independent assessment of the College was that it continues to be **good** and that safeguarding is **effective**.

### Student achievements

The College delivers a range of vocational provision to a high standard, including a number of BTEC courses. In the past few years, the College has won the 'BTEC Student of the Year' in Animal Studies and in Computing, and 'Overall Student of the Year' at the annual Pearson Awards.

Many students are involved in competitions or take part in events showcasing their particular talent to new students. For example, students in Foundation Learning develop their enterprise and independence skills by producing work for resale or providing catering for outside events.

Teachers in Computing and Media use competitions effectively to motivate and encourage students to produce work of an exceptionally high standard and most recently students from these areas have won Gold and Silver medals at World Skills. The College has won more medals than any college in England. The College also successfully supported one of its students from Computing to compete in the international finals in Abu Dhabi in 2017. Two Computing students won Medallions of Excellence at Elite Euro Skills 2018 competitions in Budapest, Hungary. The pair were part of the 22 strong Team UK group. NESCOT students won two silver medals, one bronze medal and one highly commended place at the WorldSkills UK national finals November 2017. In addition, four Computing students have achieved places in the UK squad for the biennial WorldSkills International event, and will compete to become the sole IT competitor in Kazan, Russia 2019. One student won a 2nd place in the Huawei ICT global competition in China during the year.



## FINANCIAL PERFORMANCE

### Financial results for the year ended 31 July 2018

The financial statements comprise the results of the activities of the NESCOT Group.

The College has five subsidiary companies. Only one of these was active during the year ended 31 July 2018: Nescot Business Services Ltd (NBS), 100% owned by the College. The College sold its interest in Nescot Consortium Limited (NCL) in August 2017, with a dividend payment received in June 2017 via NBS. NCL was 60% owned by NBS. NCL comprised of the College's share of educational interests in Saudi Arabia, channelled through the NESCOT UK College as a legal entity.

The financial results for the year ended 31 July 2018 are summarised in the following table:

	NESCOT Group £000	NESCOT College £000
Total income	25,449	25,777
Total expenditure	(25,725)	(25,725)
<b>Deficit/surplus before other gains and losses</b>	<b>(276)</b>	<b>52</b>
Loss on investments	(428)	0
Share of operating deficit in joint venture	(26)	(26)
<b>Deficit/surplus before tax</b>	<b>(730)</b>	<b>26</b>
Taxation	(70)	0
<b>Deficit/surplus for the year</b>	<b>(800)</b>	<b>26</b>

Although the overall financial position of NESCOT College continues to be strong, the NESCOT Group results for the year deliver an operating deficit of £800k. NBS received a cash dividend payment of £328k from NCL in 2016-17, which allowed a surplus to be shown in the 2016-17 Group accounts. The College's share of the remaining assets of NCL was £428k with a sale price of £1. With the sale being completed in 2017-18, the loss on investments on disposal of £428k materialised in 2017-18 and are recognised in the Group accounts. In addition, NBS paid Capital Gains Tax of £70k. The cash payment of £328k received by the College this year was paid by NBS as a donation from reserves earned in 2016-17 and is therefore income to the College but not income to the Group this year, and is therefore removed on consolidation in 2017-18. The total of these transactions is £826k and represented in the consolidated statements as the movement between the College surplus of £26k and the Group loss of £800k.

Total income for the Group was £25,449k (£30,912k 2016-17), reduced by 17.7% from the previous year as a result of the sale of NCL. Total expenditure was £25,725k (£30,195k 2016-17), reduced by 14.8% from the previous year. The Group generated a deficit before other gains and losses of £276k (£717k surplus 2016-17). After the loss on the disposal of NCL assets, and an operational deficit from a joint venture in the UK, the NESCOT Group generated a deficit for the year before tax of £730k (£1,277k surplus 2016-17) and after tax of £800k (£1,231k surplus 2016-17). Total Comprehensive Income for the Group was £2,234k (£4,845k 2016-17) and £3,060k for the College (£4,276k 2016-17), boosted by an actuarial gain of £2.8m in respect of pension schemes and a further £208k in release of depreciation charges.

Total income for the College was £25,777k (£24,184k 2016-17), increased by 6.6% from the previous year predominantly due to additional 16-18 student numbers in 2016-17 and associated lagged funding; growth funding from the ESFA for 19+ classroom provision and non-levy apprenticeships; additional tuition fee income from advanced learner loans in partnership with a private training provider; and additional funding from local authorities for students with high needs. Total income also includes £328k donation from NBS. The College continues to place significant

reliance on the education sector funding bodies for its principal funding sources, largely from the ESFA and some funding from the Office for Students for higher education provision. In 2017-18, the ESFA provided 68.7% of the College's total income.

Total expenditure for the College was £25,725k (£24,077k 2016-17), increased by 6.8% from the previous year predominantly due to an increase in staff costs related to uncontrollable pension scheme costs; additional subcontractor costs to deliver growth in provision; an increase in bad debt provision; and higher than expected Awarding Body examination fees and charges.

The College generated a surplus before other gains and losses of £52k (£106k 2016-17). After an operating deficit from a joint venture of £26k, the College generated a surplus for the year of £26k (£666k 2016-17). This represents 0.1% of total income, which is ahead of the annual target set for 2017-18 although behind the College's Finance Strategy parameter of at least 3%. The College's financial forecasting during the year was accurate.

The College has spent a total of approximately £51m in the redevelopment of its estate in Epsom over the last five years, which has transformed the College into a modern and up to date learning and teaching environment, as well as becoming a commercial hub for the local area. A further £1,500k is planned in 2018-19. The College's Property Strategy to 2020 has been updated in 2018-19 for the next 10 years, which will include further ambitious developments of the estate.

The College maintains an Asset Management Plan. This is a tactical plan for managing the College's infrastructure and other assets to deliver an agreed standard of service and optimise asset value. The College's Asset Management Plan takes a five year rolling view and covers all campus buildings and floors costed for planned maintenance purposes.

The College added £5,798k to non current asset values during the year. Major refurbishments to the value of £5,038k were completed to the main student car park; the student refectory; and key areas of curriculum including Performing Arts and Media. A substantial programme of IT infrastructure upgrade was also started during the year. Additional equipment was also procured to the value of £1,056k, relating predominantly to the fit out of the newly refurbished areas with up to date IT networking and devices, and replacement of IT devices across the College in accordance with College replacement policy. Assets no longer in the course of construction totalling £297k have been taken into account in the valuations. The redevelopment of the College estate and infrastructure has been managed without any borrowing.

The College has accumulated reserves of £54,518k after FRS102 pension adjustments and defined benefit obligations of £3,401k. The College has cash balances of £6,692k.

All key financial ratios are positive, although reliance on ESFA income is currently behind target and operating surpluses are currently insufficient to maintain longer term sustainability. Operating surpluses are still being achieved, although these continue to reduce down year on year as the College's cost base rises at a faster rate than income generation. The Balance Sheet is strong, demonstrating solvency and liquidity. Cash balances are reducing as planned, whilst the College continues to invest in the redevelopment of the estate and infrastructure, and remain within Finance Strategy parameters and ahead of sector benchmarks. The College has a healthy level of cash days in hand, and net current assets and total fund balances/reserves that are robust, ahead of budgets and sector benchmarks. The College's EBITDA for 2017-18 was 10.1%, contributing to the College's outstanding financial health grade. This performance is ahead of target and well ahead of sector averages, indicating that the College is efficient and effective in generating cash from operations. The College's gearing ratio is 0% (excluding some small financial lease commitments), very significantly ahead of sector benchmarks. The College does not anticipate any borrowing requirement in the foreseeable future.

The ESFA automated financial health grade was 'outstanding' at 31 July 2018 and forecast to be 'outstanding' throughout 2018-19 and throughout the period of the financial plan.



## Treasury policies and objectives

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

The College has a separate treasury management policy in place, adopting the key recommendations of CIPFA's 'Treasury Management in the Public Services: Code of Practice' (the Code), as described in Section 4 of that Code. The College delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Finance and General Purposes (F&GP) Committee. For the execution and administration of treasury management decisions, responsibility is delegated to the Deputy Principal (Finance & Resources), who acts in accordance with the College's policy, if they are a CIPFA member, in accordance with CIPFA's 'Standard of Professional Practice on Treasury Management'.

The College regards its investment priorities to be security and liquidity in its overall Treasury Management Policy. It balances risk and return within these priorities to achieve optimum income on its investments. The College also adopts an ethical investment policy based on the premise that the College's choice of where to make equity investments should reflect the ethical values it espouses in public life. The College will not knowingly invest in companies whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the College.

The College's Treasury Management Policy states that the College's performance will be measured against the Bank of England base rate as follows:

Value of investments	Benchmark target for return on investments
£ under £0.5m	Base rate + 0.25%
£ over £0.5m	Base rate + 0.50%

The College's treasury performance to 31 July 2018, using the Bank of England base rate of 0.5% at this date, is as follows:

	Benchmark target	College funds average balances	Benchmark target return	Actual return
	%	£	£	£
<b>£ under £0.5m</b>	0.75%	NIL	NIL	NIL
<b>£ over £0.5m</b>	1.00%	£6,692,000	£66,920	£31,000

The College continues to underperform against treasury management targets and is significantly behind the benchmark target of £66.9k. This performance is being reviewed, with options being considered for the employment of external cash managers and investment in other higher-return financial and non-financial instruments.

The College does not adopt a policy of short term borrowing for temporary revenue purposes. The College has no borrowing.

## Cash flows and liquidity

At £1,407k, net cash flow from operating activities was strong. The net cashflow resulted from a good cash generation performance from the College, with expenditures such as the interest cost on the LGPS and depreciation being non-cash items. Also giving a boost to the cash balance at year-end was a higher than budgeted creditors figure, due to the timing of invoices received.

## Reserves Policy

The College aims to maintain a level of cash reserves that enables it to fulfil its future commitment to existing students, notwithstanding unforeseen adverse events. The College's Treasury Management Policy requires that the College ensures that adequate cash resources are available to fund daily activities from the College's cash balances or from any designated borrowing facilities. This policy is operated to ensure compliance with the minimum liquidity levels as defined in the College's Finance Strategy and in the Treasury Management Policy.

The College maintains a cash flow forecast updated on a rolling basis to the end of the current academic year and into the following two academic years to ensure that future cash requirements are identified and that investments and any borrowings that may be required are managed accordingly. The College invests surplus funds in a mix of financial instruments to include readily available funds and term deposits whilst ensuring optimum returns. The College monitors and forecasts cash flows and reports routinely to the F&GP Committee and to the Corporation, highlighting any significant variances.

The College's policy is to maintain cash facilities of at least two months of operating and payroll costs to allow for unforeseen liquidity requirements, and up to five months of operating and payroll costs as a maximum to provide for investment purposes. At 31 July 2018, these parameters required cash reserves of between £3.7m and £9.2m to be maintained. An average throughout the year would equate to the maintenance of cash reserves of between £3.8m and £9.5m. The College maintained average cash balances of £6,133k, well within the College's Treasury Management Policy parameters.

The College's current 'house' bankers are HSBC plc, with whom the College deposits cash reserves in a current account and overnight money markets. The College also holds nearly £2.6m cash reserves with Metro Bank at higher interest rates.

At 31 July 2018, the College held a total of £6,692k in cash reserves analysed as follows:

Account	Balance	Interest Rate	Comment
HSBC Current	£16k	0%	Sweep facility
HSBC Money Market	£4,080k	0.3%	Instant access
Metrobank Instant	£NIL	0.25%	Instant access
Metrobank Deposit	£2,596k	0.50%	100 day notice

The Bank of England base rate remained at 0.5% throughout the year. The College earned a total of £31k in interest from cash balances in the year ended 31 July 2018.

## Annual capital expenditure and planned maintenance programme

In recent years, the College has received SFA and EFA grant funding of £11.7m to update and improve its campus. The SFA and EFA funding was matched by £30m of College funding. The impact of these works significantly reduced the College's backlog maintenance. The College now has an annual programme of capital expenditure for further refurbishment of the estate and to maintain asset values, and approximately £250k per annum in planned maintenance.

## **Taxation**

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. The College is partially exempt in respect of Value Added Tax (VAT), so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature. The College's subsidiary companies are subject to corporation taxes and VAT in the same way as any commercial organisation.

## **Payment performance**

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2017 to 31 July 2018, the College paid only 76 per cent of its invoices within 30 days, up from 68 per cent in the previous year. The College incurred no interest charges in respect of late payment for this period, but will endeavour to improve this statistic with immediate effect.

## **Events after the end of the reporting period**

The College experienced a severe IT outage in October 2018 which affected most systems and telephony. The College took immediate action to confirm that no data breaches had occurred and to restore systems. All relevant external agencies were informed. External IT consultants were appointed to assist the College to restore systems and to strengthen the College's IT security arrangements. The established programme of work to upgrade the College's IT infrastructure has also been accelerated.

## **CURRICULUM DEVELOPMENTS AND FUTURE PROSPECTS**

### **Curriculum developments**

There is a strong match between the College's curriculum at all levels and national priorities and local needs. This is a result of a clear strategic direction laid out by governors and senior managers, a five-year academic strategy to 2023 and beyond, and effective arrangements with partners, including the Local Enterprise Partnership (LEP), businesses, and university partners. The College has recently invested in new facilities and introduced new courses in many areas of the curriculum in order to better meet LEP priorities, including Motor Vehicle; Electrical; Catering; Hair and Media Make-Up; and Games Design (visual effects and animation).

Courses have been designed to ensure that students are able to move securely into the labour market. Most students complete work experience placements as part of their study programmes. The College is the most successful in England at the annual World Skills event. Several curriculum areas have strong links with industry, and this has led to a number of new initiatives such as the introduction of higher level apprenticeships and new employer-endorsed courses in Computing and Media.

Other courses prepare students for university. These include:

- Access courses for adults.
- Development of Level 4/5 courses including HNCs and degrees where they clearly fit the needs of our students.
- A wide range of Level 3 provision, which accounts for the majority of 16-18 enrolments, achieves good success rates, and provides good progression to further study or employment.

### **Future prospects, challenges and opportunities**

The College continues to work in an increasingly challenging and dynamic operating environment in the FE sector. The current main prospects, challenges and opportunities relate to:

1. Technical education reforms
2. 16 to 18 student enrolments and effect on funding and finance
3. Apprenticeship reforms
4. Devolved Adult Education Budget (AEB) funding

#### **1. Technical education reforms**

The Technical and Further Education Bill 2017 received Royal Assent on 27 April 2017 and is now an Act of Parliament. It allows a series of reforms to technical education to be underpinned by a transformation of the current system, which is made up of around 13,000 separate qualifications. It is being replaced with a more streamlined model of 15 world class 'routes' that should better suit the needs of students and businesses. The government is working with employers and colleges to design these routes, from construction to creative based design professions, so that when young people leave college they have the skills, knowledge and expertise that employers want, as the Industrial Strategy boosts opportunities and spreads them to all sections of society and all regions of the country.

There will be two genuine routes of equal footing to develop world class skills for young people, either via a well-established academic route or a technical skills route with a new and improved upgraded system. The emphasis in the FE sector is now on the delivery of 'T-levels' and apprenticeships. The College has developed and is implementing FE and Apprenticeship strategies to meet the new requirements.

#### **2. 16-18 student enrolments and effect on funding and finance**

Key aspects of 16-18 education include the following:

- No change to funding formulae/rates 2018-19 and 2019-20
- T-levels: work placements in 2018 with T-level pilots in 2020
- BTECs may transform when T-levels start
- Some capital and workforce funding may be available in 2019 or 2020

With the continuing national decline in the 16-18 demographic and increasing competition for these students from schools, colleges, universities and private training providers, student enrolments are spread increasingly thinly across the sector. With flat cash funding and reducing student numbers, the financial challenges for FE colleges are now very significant. The College continues to review its Finance Strategy and five year financial forecasts to ensure that activities are properly planned and sustainable.

### **3. Apprenticeship reforms**

National apprenticeship numbers remain below last year's levels and funding rates in some areas have been reduced with the result that college income across the sector from apprenticeships in 2018-19 is forecast to be 2% below income in 2016-17, despite the introduction of the apprenticeship levy.

Apprenticeship reforms include the following:

- The 0.5% levy has replaced core funding
- 20,000 employers directly influence the apprenticeship market
- A new register of training providers
- Tighter controls on subcontracting
- A new regulator (Institute for Apprenticeships)
- Training content overhauled (standards)
- A new product (degree apprenticeships)
- Some other innovations (End Point Assessment, 20% off the job, 10% co-financing)

The College continues to review its strategy for the delivery of apprenticeships to ensure that it meets sector requirements cost effectively and efficiently.

### **4. Devolved AEB funding**

Adult education funding rates are fixed until 2019-20. Adult education challenges include a new hybrid system of delivery. The government plans to devolve control of the AEB to six combined authority areas and the Greater London Authority in 2019. This will involve devolution of around £700m (about 50% of the national AEB), an estimated £450m of which is spent by FE colleges. The ESFA will be responsible for managing the remainder of the budget.

The impact of these reforms will be that the College may not have access to current levels of AEB funding in future, which will affect its capacity to continue to meet the needs of 19+ learners. The College is accelerating its review of curriculum provision for adult learners to determine how local needs can continue to be met sustainably.

This forms the backdrop for the College's academic and financial planning for 2018-19 and beyond. The College is taking positive and active steps to ensure that it can continue to operate successfully in the new FE landscape.

## RESOURCES

The College has various resources that it can deploy in pursuit of its key strategic priorities as defined in NESCOT 2023.

### Financial

The College has £54.5m of net assets, including £3.4m pension liability, and no debt.

### People

The College employs 389 people (expressed as full time equivalents including sessional and casual staff), of whom 146 (full time equivalents) are teaching staff.

### Reputation

The College works hard to maintain a good reputation with the local community, and has an excellent reputation regionally and nationally. Maintaining a quality brand is essential for the College's success in attracting students and external relationships.

## PRINCIPAL RISKS AND UNCERTAINTIES

The College has undertaken further work during the year 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 College has strategic and operational risk registers in place with mitigating action plans that are regularly monitored by management to manage defined risks, and which are particularly focused on financial sustainability and maintaining curriculum and academic quality. The College's most significant strategic risks as recorded in the latest strategic risk register relate to:

1. Secure maintenance and management of key information systems and data
2. Achievement of funding body and apprenticeship recruitment targets
3. Management and control of partnership arrangements and subcontractors
4. Management and control of staff costs
5. Business planning of international partnerships
6. Management of the College's commercial activities
7. Management of reform of Apprenticeship provision

A strategic risk register is maintained at the College level, which is updated regularly by the SMT and reviewed at each meeting of the Audit Committee. The risk register identifies key risks; the likelihood of those risks occurring and preventing the College's key strategic priorities from being achieved; their potential impact on the College; and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

The College also maintains an operational risk register at departmental level. The College has a Risk Management Action Group, which undertakes a comprehensive review of operational risks to which the College is exposed. The Group meets termly and identifies systems, procedures, controls and specific actions to prevent identified risks materialising and adversely impacting on the College. In addition to the termly reviews, the Risk Management Action Group will also



consider any risks which may arise as a result of a new area of work being undertaken by the College.

## STAKEHOLDER RELATIONSHIPS

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

- Students
- Education sector funding bodies
- FE Commissioner
- Staff
- Local employers (with specific links)
- Local authorities
- Local Enterprise Partnerships (LEPs)
- The local community
- Other FE and HE institutions
- Trade unions
- Professional bodies



The College recognises the importance of these relationships and engages in regular communication with them through the College internet and intranet sites and through meetings and events.

The College considers good communication with its staff to be important. To this end, the College circulates a regular electronic newsletter from the Chief Executive and Principal keep all staff informed of activity in their area or any essential updates. Each term, there is a Core Brief meeting of the College Management Team (CMT). The College encourages staff and student involvement through membership of formal committees. There is a Staff Consultative Committee (SCC) with representatives meeting with the Chief Executive and Principal twice a term. The 'Student Voice' has regular meetings at which staff and management are present. Four student representatives attend Corporation meetings.

## Equality

The College is committed to ensuring equality of opportunity for all who learn and work at NESCOT. We respect and value positively differences in race; gender; gender reassignment; sexual orientation; disability; faith or belief; age; background; and personal circumstances. All forms of prejudice and discrimination are unacceptable and will not be tolerated at the College. This is monitored by the Equality and Diversity Management Group where progress against EDIMS is monitored on a planned basis. The College's Equality and Diversity Policy is published on the College's website and staff intranet.

The College seeks to ensure that it meets its public sector equality duty to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not. In particular:

- a) Equality and diversity are central to all that we do, and fundamental to our mission and values. The College has prepared appropriate policies and action plans, which are monitored by the Equality and Diversity Management Group. The Equality and Diversity

Policy has been developed and is reviewed to ensure that it meets the requirements of the Equalities Act 2010.

- b) The College will ensure that all staff receive training in equality and diversity and are update trained as necessary. All teaching and assessment materials are regularly monitored to ensure that they promote equality and diversity and that all students receive training at induction. Opportunities to celebrate diversity are promoted throughout the year.
- c) As a College, we have complied with the Gender Pay Gap Regulations, which are a key step in addressing the gender pay gap and ensuring that the workplace works for everyone. It is now a legal requirement to publish this data every April.
- d) The College is a 'Disability Confident Employer' and has committed to the principles and objectives of the Disability Confident scheme. The College considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. Where an existing employee becomes disabled, every effort is made to support the employee and ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion which, as far as possible, provide identical opportunities to those of non-disabled employees. The College was awarded the 'Two Ticks' symbol ('Positive about Disabled People') in October 2004 and which has now transferred to the new Disability Confident scheme. This is in recognition of the support that is provided for disabled job applicants, and for staff with disabilities, and is regularly reassessed against this standard and was last assessed in September 2017. This assessment will be reviewed again in September 2019. As part of this commitment, the College has agreed the following:
  - (i) Actively looking to attract and recruit disabled people.
  - (ii) Providing a fully inclusive and accessible recruitment process.
  - (iii) Offering an interview to disabled people who meet the minimum criteria for the job.
  - (iv) Flexibility when assessing people so disabled job applicants have the best opportunity to demonstrate that they can do the job.
  - (v) Proactively offering and making reasonable adjustments as required.
  - (vi) Encouraging our suppliers and partner firms to be Disability Confident.

The College's Equality and Diversity Management Group ensures that effective systems to monitor and evaluate equality and diversity practice are in place by:

- Setting and monitoring equality and diversity performance indicators.
- Monitoring and analysing data on student applications, enrolment, retention and achievement in terms of age, ethnicity, gender and disability with a view to comparing trends and highlighting and improving or narrowing the gap of any imbalances identified.
- Monitoring and analysing student progression and destinations in terms of age, ethnicity, gender and disability, including progression within the College, progression into other educational institutions and, where possible, progression to employment.
- Monitoring and analysing staff recruitment, grievance and disciplinary, staff progression and gender pay gap in terms of age, gender, and disability.
- Monitoring and analysing the take-up of staff training and development opportunities.

- Ensuring College policies in relation to Equality and Diversity are regularly monitored, reviewed and updated, in line with legal requirements.
- Producing an Annual Equality and Diversity Report for approval by the Board of Governors and publication on the College website.

### **Support for students with learning difficulties and/or disabilities**

The College welcomes students with learning difficulties and/or disabilities. The Children and Families Act 2014 sets out the requirement for schools and colleges to make available the local SEND offer to prospective and existing students and their families.

The College provides on-going tailored support to make sure that students are successful in their learning. Students with learning difficulties or disabilities have a choice of pathways:

- Mainstream courses with learning support.
- Courses for students who have mild to moderate learning difficulties and/or disabilities and those who have no formal qualifications or are not in education.
- Preparation for Working Life for students with moderate learning difficulties in a supported learning environment in Seasons Learning Hub 1.
- Seasons Learning Hub 2 for students with more profound difficulties focussing on Independent Living.
- Transition into Employment (TIE) or Progressing into Employment (PIE) programmes are also available if appropriate for the young person.

To meet individual needs, some or all of the following may be provided to our students:

- 1:1 support for language, literacy and numeracy outside of normal class.
- Specialist software or adapted handouts, course notes.
- Mentoring.
- Learning support assistant for in class support or 1:1 support.
- A British Sign Language communicator and/or note taker.
- Access arrangements for exams such as a reader, scribe or extra time.
- If students have a medical condition or physical disability, a care plan will be drawn up to share with the staff that work with them.
- Sensory support.
- Access to the College Nurse and Counsellors.
- Bespoke support can also be accessed from external agencies.
- Financial support and/or bursaries may be available.

### **Disability statement**

The College seeks to achieve the general and specific duties set down in the Equality Act 2010, and in particular makes the following commitments:

- a) There is specialist equipment, such as electronic note pads, adjustable height furniture, hearing loop, and other physical aids which can be used by students with learning difficulties/disabilities.
- b) The admissions policy for all students is advertised on the College website and is clearly displayed in our Advice and Guidance area. Appeals against a decision not to offer a place are dealt with under the Complaints Policy.
- c) There are a number of learning support assistants who provide in-class support. Specialist Support Tutors are also employed who support learners with specific difficulties and/or disabilities on a 1:1 or small group basis in addition to class times.
- d) There is a programme of staff development to ensure the provision of a high level of appropriate support for learners who have learning difficulties and/or disabilities.
- e) Appropriate courses are described in programme information guides, and achievements and destinations are recorded and published in the standard college format.
- f) Counselling and welfare services are described in the College Prospectus.

### Prevent Duty

In July 2015, a legal duty was placed on colleges, amongst others, to show “due regard to the need to prevent people from being drawn into terrorism.” The College has put in place certain safeguards in recognition of this and has included the matter on its risk register so that it can be monitored regularly by the Corporation.

### Trade Union Facility Publication Requirements

The Trade Union Act 2016 introduced a requirement for public sector employers to publish information annually in respect of facility time. The regulations were published in March 2017 and came into force on 1 April 2017, although employers had until 31 July 2018 to publish the first data set.

Facility time is paid time taken by a relevant union official for trade union duties when acting as a representative of the union, for example, accompanying a worker to a hearing, attending union training courses etc. The government's explanation outlined that these requirements were designed to promote transparency and public scrutiny of facility time and to encourage public sector employers to moderate the amount of money spent on facility time in light of that scrutiny.

The College has one trade union representative for UNISON and none for UCU. Therefore, as the calculation could lead to an individual employee's wages being identifiable, the Regulations state that a notional hourly cost must be used instead. A notional hourly cost has been used in the calculations for NESCOT. Below on page 24 is the data that was submitted for the College:



**Trade union facility time data – 1 April 2017 to 31 March 2018**

**Your organisation**

North East Surrey College of Technology (NESCOT)

**Employees in your organisation**

50 to 1,500 employees

**Trade union representatives and full-time equivalents**

Trade union representatives: 1

FTE trade union representatives: 1

**Percentage of working hours spent on facility time**

0% of working hours: 0 representatives

1 to 50% of working hours: 1 representatives

51 to 99% of working hours: 0 representatives

100% of working hours: 0 representatives

**Total pay bill and facility time costs**

Total pay bill: £13,232,000

Total cost of facility time: £2,820

Percentage of pay spent on facility time: 0.02%

**Paid trade union activities**

Hours spent on paid facility time: 94

Hours spent on paid trade union activities: 0

Percentage of total paid facility time hours spent on paid TU activities: 0.00%

**Disclosure of information to auditors**

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

Approved by order of the Members of the Corporation on 13 December 2018 signed on its behalf by:



**Professor Sam Luke**  
Chair of NESCOT Corporation





## GOVERNANCE CODE

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2017 to 31 July 2018 and up to the date of approval of the annual report and financial statements.

The ESFA requires colleges to comply with either the AoC's college governance code, the UK corporate code or the charity code. This statement shows how colleges could report compliance with the governance code.

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership); and
- ii. in full accordance with the guidance to colleges from the Association of Colleges in 'The Code of Good Governance for English Colleges' ('the Code').

In the opinion of the Members, the College complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 2018. The Corporation recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of the Code, which it formally adopted on 10 July 2015.

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





## THE CORPORATION

The Members who served on the Corporation during the year and up to the date of signature of this report were as follows:

### FE CORPORATION 2017 – 2018

NAME	ELIGIBILITY	COMMITTEES SERVED	ELECTED	RE-ELECTED	TERM OF OFFICE EXPIRES / RESIGNED	ATTENDANCE RECORD <sup>1</sup>
Mr K Shaikh	External	Audit; CQC	24/03/2018		2020	6/7
Mr J Roberts	Teaching Staff Governor	CQC	01/09/2017		2019	10/10
Professor S Luke	External	Corporation (Chair); F&GP; NBS Ltd; Search & Governance (Chair); SSPRC; Growth sub-committee (Chair)	01/09/2013	2015	2019	29/29
Mr C Muller	External	CQC (Chair)	05/04/2011	2013; 2016	2020	7/14
Mr C Shortt	External	F&GP: Search & Governance	10/07/2009	2012; 2014; 2015; 2016; 2017; 2018	2019	14/17
Mr P Stamps	External	F&GP (15/09/2017-08/12/2017 & 01/04/2018 onwards - Chair); Audit 06/10/2017 - 15/03/2018); NBS Ltd; SSPRC; Search and Governance; Growth sub-committee	06/12/2013	2016	2020	29/31
Ms M Kilminster	External	Audit	01/08/2016	2018	2022	10/13
Ms C Biscoe	External	Audit (Chair until 15/03/2018)	15/05/2015	2017	15/03/2018	5/5
Dr M West	External	F&GP (from 03/03/2017 – 01/04/2018 Chair); Audit 01/04/2018 onwards – Chair)	07/10/2016		07/10/2018	9/13
Ms L Reddick	External	CQC	01/08/2016	2018	2022	9/10
Ms G Ozolua	External	F&GP	04/02/2017		2019	7/12

<sup>1</sup> Actual number of attendances against possible attendances

NESCOT Corporation  
Statement of Corporate Governance and Internal Control

NAME	ELIGIBILITY	COMMITTEES SERVED	ELECTED	RE-ELECTED	TERM OF OFFICE EXPIRES / RESIGNED	ATTENDANCE RECORD <sup>1</sup>
Ms F Rutter	Group CEO & Principal	FGP, CQC, Search & Governance	01/04/2017			29/30
Mr G Hodge	Non-teaching staff Governor	Audit	16/01/2017		2019	10/10
Ms S Pritchett	External	Growth sub-committee	06/10/2017		2019	1/1
Ms M Martin	External	F&GP	06/10/2017		2019	12/12
Ms Alexandra Cartmell <sup>2</sup>	Student Governor (HE)	CQC	01/09/2017		2018	4/9
Mr Kieran Sainsbury <sup>3</sup>	Student Governor (HE)		01/09/2017		2019	4/7
Ms Emily Hall <sup>4</sup>	Student Governor (FE)	CQC	01/09/2017		2018	3/9
Mr Daksin Chandrasekera	Student Governor (FE)	CQC	05/10/2018		2019	1/1

Mr David Round was Clerk to the Corporation in 2017-18.

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

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets six times per academic year.

The Corporation conducts its business through a number of committees. Each committee has documented terms of reference, which have been approved by the full Corporation. These committees are: Finance and General Purposes; Curriculum and Quality; Senior Staff Performance and Remuneration; Search and Governance; and Audit. A Growth Committee, which is a sub-committee of Finance and General Purposes Committee, was established in September 2017.

Full minutes of all meetings, except those deemed to be confidential, are posted on the College's website and are available from the Clerk to the Corporation at:

**North East Surrey College of Technology (NESCOT)**  
**Reigate Road**  
**Ewell**  
**Epsom**  
**Surrey**  
**KT17 3DS**

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

<sup>2</sup> Student Governor (HE) with voting powers 2017/18

<sup>3</sup> Student Governor (HE) without voting powers 2017/18

<sup>4</sup> Student Governor (FE) with voting powers 2017/18

## NESCOT Corporation Statement of Corporate Governance and Internal Control

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

Formal agendas, papers and reports are supplied to Members in a timely manner, prior to Corporation Board meetings. Briefings are provided on an ad hoc basis as and when required.

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

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

### **Appointments to the Corporation**

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search and Governance Committee comprised: the Chair; the Vice-Chair; one member of the Corporation; the Chief Executive and Principal; and one member of senior management. The Committee is responsible for advising the Corporation on the appointment of Members (other than staff or student Members), and such other matters relating to membership and appointments as requested by the Corporation. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for terms of office not exceeding four years with the exception of Staff Governors who are appointed for two years and Student Governors who are appointed for one year.

### **Corporation performance**

It is good governance practice that the Corporation reviews its own performance on a regular basis. It is also a recommendation in the Code. Following review at the Search and Governance Committee, the Corporation approved the implementation of a Governor appraisal system as part of the Corporation Board effectiveness strategy and in compliance with the Code. The Corporation also reviews its own performance at the end of meetings and captures this feedback in the minutes. Other components of the strategy are:

- a self-assessment questionnaire to be completed by Governors; and
- periodic independent review of Corporation Board performance.

The Governor appraisal system was launched on 16 February 2016 including copies of the templates for collating feedback. The online Board self-evaluation questionnaire was issued at the end of January 2016 and has been used since. All external Governors and Staff Governors complete the questionnaire annually.

### **Senior Staff Performance and Remuneration Committee**

Throughout the year ended 31 July 2018, the College's Remuneration Committee comprised: The Chair of the Corporation; the Vice Chair of the Corporation; and Chairs of the Finance and General Purposes, Curriculum and Quality, and Audit Committees. The Committee's responsibilities are to make recommendations to the Corporation on the remuneration and benefits of the Chief Executive and Principal, and other senior post holders.

Details of remuneration for the year ended 31 July 2018 are set out in Note 8 to the financial statements.

### **Audit Committee**

The Audit Committee comprises up to five members of the Corporation (excluding the Accounting Officer and the Chair). The Committee has authority to appoint additional external co-opted members as necessary. The Committee operates in accordance with documented terms of reference approved by the Corporation. Its purpose is to advise the Corporation on the adequacy and effectiveness of the College's systems of internal control and its arrangements for risk management, control and governance.

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

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

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

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

## **INTERNAL CONTROL**

### **Scope of responsibility**

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

The Corporation has delegated the day-to-day responsibility to the Chief Executive and Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he or she is personally responsible, in accordance with the responsibilities assigned to them in the Conditions of Funding Agreement between the College and the funding bodies. They are also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

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

The system of internal control is 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 at the College for the year ended 31 July 2018 and up to the date of approval of the annual report and accounts.

### **Capacity to handle risk**

The Corporation has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ended 31 July 2018 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

### **The risk and control framework**

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body;
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines; 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 ESFA's Post-16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis.

The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. As a minimum annually, the Head of Internal Audit (HIA) provides the Corporation with a report on internal audit activity at 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 the Accounting Officer, the Chief Executive and Principal, has responsibility for reviewing the effectiveness of the system of internal control. The Chief Executive and Principal's review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors;
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework; and
- comments made by the College's external/ financial statements auditors, the reporting accountant for regularity assurance, and the appointed funding auditors in their management letters and other reports.

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

## NESCOT Corporation Statement of Corporate Governance and Internal Control

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 Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Management Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2018 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the Senior Management Team and internal audit, and taking account of events since 31 July 2018.

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

### GOING CONCERN

The last update of the 2018-19 Budget and One Year Forecast, and the last update of the Finance Strategy 2023, indicated that the College has met the majority of its high level and operational KPIs for 2017-18 and that it is capable of further increasing its income, with total income expected to reach £28.4m in 2020. However, the cost base is also expected to reach £28.4m in 2020 to support growth in the business, realising a balanced budget after interest, tax, depreciation and amortisation (ITDA). Although well below original Finance Strategy targets, the latest plans have been adjusted to reflect the significant challenges of the current FE operating environment and are based on cautious and realistic underlying assumptions.

The College's financial health remains 'outstanding' throughout the period of the financial plans, with positive ESFA key performance indicators. The College's financial position is currently being maintained due to strong cash generation and cash reserves, healthy working capital, and no borrowing requirements, resulting in high liquidity and solvency. Where KPIs are adverse, management action is taken to address the underlying underperformance. However, the College's cost base is increasing at a faster rate than income and causing the reduction and elimination of operating surpluses year on year.

A Finance Strategy was developed and approved by Corporation in December 2015 for the first time, which included a five year financial plan to 2020 intended to support the delivery of the NESCOT Corporate Strategy 2020. The five year financial plan has been updated from current year forecasts and projections to 2023, to support the NESCOT Corporate Strategy 2023. The financial plan is driven by the College's Academic Strategy and student number targets, which incorporates growth assumptions over the planning period. The Finance Strategy also has a number of other assumptions and variables built in, including increasing costs (eg inflation, pension schemes, awarding body charges) and further funding cuts and reconfiguration of funding. Assumptions to increase other non-government income streams are also developed within the five year financial planning model.

Performance against the five year financial plan is being managed and reported using a comprehensive Financial KPI Dashboard. The current Dashboard indicates strong but declining financial performance each year through to 2023. The year 2018-19 will be the most challenging with a balanced budget. The College continues to review options for increasing income and reducing the cost base with particular focus on staff costs.



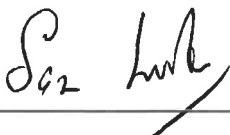
NESCOT Corporation  
Statement of Corporate Governance and Internal Control

The College participated in the Surrey Area Based Review in 2016, which concluded that the College could remain as an independent FE college but to also explore options for partnership that will deliver greater financial resilience in the longer term.

The Corporation has carried out a robust assessment of the principal risks facing the College, which has included solvency and liquidity risks.

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

Approved by order of the Members of the Corporation on 13 December 2018 and signed on its behalf by:

Signed: A handwritten signature in black ink, appearing to read "S Luke", written over a horizontal line.

**Professor Sam Luke**  
**Chair of NESCOT Corporation**



Signed: A handwritten signature in blue ink, appearing to read "Frances Rutter", written over a horizontal line.

**Frances Rutter**  
**Chief Executive and Principal**



NESCOT Corporation  
Statement of Regularity, Propriety and Compliance

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

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

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

Signed: A handwritten signature in blue ink, appearing to read "Sam Luke", written over a horizontal line.

13 December 2018

**Professor Sam Luke**  
Chair of NESCOT Corporation



Signed: A handwritten signature in blue ink, appearing to read "Frances Rutter", written over a horizontal line.

13 December 2018

**Frances Rutter**  
Chief Executive and Principal



NESCOT Corporation  
Statement of Responsibilities of the Members of the Corporation

The Members of the Corporation are required to present audited financial statements for each financial year. Within the terms and conditions of the Conditions of Funding Agreement with the Education and Skills Funding Agency (ESFA), the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the 2015 'Statement of Recommended Practice – Accounting for Further and Higher Education Institutions' and with the 'College Accounts Direction 2017 to 2018' issued by the ESFA and 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 Corporation is required to:

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

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

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

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from the ESFA are used only in accordance with the Conditions of Funding Agreement with the ESFA and any other conditions that the ESFA may prescribe from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, Members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds by the ESFA are not put at risk.

Approved by order of the Members of the Corporation on 13 December 2018 and signed on its behalf by:

Signed: \_\_\_\_\_

A handwritten signature in black ink, appearing to read "Sam Luke", written over a horizontal line.

**Professor Sam Luke**  
**Chair of NESCOT Corporation**

## Independent Auditor's Report to the Corporation of North East Surrey College of Technology (NESCOT) on the Financial Statements

### Opinion

We have audited the financial statements of NESCOT for the year ended 31 July 2018 which comprise the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Governors, as a body, in accordance with the Group's Articles of Government. Our audit work has been undertaken so that we might state to the Governors, 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 Governors, as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 July 2018 and of the Group deficit for the year then ended; and
- have been properly prepared in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education.

### Basis for opinion

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

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Governors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The Governors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

## Independent Auditor's Report to the Corporation of North East Surrey College of Technology (NESCOT) on the Financial Statements

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Members' Report or operating and financial review or the statement of corporate governance and internal control.

We have nothing to report in respect of the following matters in relation to which the Post 16 Audit Code of Practice issued by the Department for Education requires us to report to you if our opinion:

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

### **Responsibilities of Governors**

As explained more fully in the Governors' responsibilities statement, the Governors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report to the Corporation of North East Surrey College of Technology (NESCOT) on the Financial Statements

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Governors.
- Conclude on the appropriateness of the Governors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the College's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

MHA MacIntyre Hudson

MHA MacIntyre Hudson  
Chartered Accountants and Statutory Auditors  
New Bridge Street House  
30-34 New Bridge Street  
London  
EC4V 6BJ

13/12/2018

## Independent Reporting Accountant's Assurance Report on Regularity to the Corporation of North East Surrey College of Technology (NESCOT) and the Secretary of State for Education acting through the Department for Education ('the Department')

In accordance with the terms of our engagement letter and further to the requirements of the Conditions of Funding Agreement with the Education and Skills Funding Agency, we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by North East Surrey College of Technology during the period 1 August 2017 to 31 July 2018 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

This report is made solely to the Corporation of North East Surrey College of Technology and the Department in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Corporation of North East Surrey College of Technology and the Department 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 North East Surrey College of Technology and the Department for our work, for this report, or for the conclusion we have formed.

### **Respective responsibilities of North East Surrey College of Technology and the reporting accountant**

The Corporation of North East Surrey College of Technology 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 established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Code. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

### **Approach**

We conducted our engagement in accordance with the Code issued by the Department. We performed a limited assurance engagement as defined in that framework.

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

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

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



Independent Reporting Accountant's Assurance Report on Regularity to the Corporation of North East Surrey College of Technology (NESCOT) and the Secretary of State for Education acting through the Department for Education ('the Department')

The work undertaken to draw to our conclusion includes:

- Reviewing the Minutes of the meetings of the governing body and other evidence made available to us.
- Review of the objectives and activities of the College, with reference to the income streams and other information available to us as auditors of the College.
- Testing of a sample of payroll payments to staff.
- Testing of a sample of payments to suppliers and other third parties.
- Testing of a sample of grants received and other income streams.

### 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 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Signed:

*MHA MacIntyre Hudson*

**MHA MacIntyre Hudson**  
**Chartered Accountants and Statutory Auditors**  
**New Bridge Street House**  
**30-34 New Bridge Street**  
**London**  
**EC4V 6BJ**

**Date:** 13/12/2018

**Nescot College**  
**Consolidated Statements of Comprehensive Income and Expenditure**

	Notes	Year ended 31 July 2018		Year ended 31 July 2017		Year ended 31 July 2017	
		Group	College	Group	College	Group	College
		£'000	£'000	£'000	£'000	£'000	£'000
<b>INCOME</b>							
Funding body grants	2	18,488	18,488	17,712	17,712	16,960	16,960
Tuition fees and education contracts	3	5,509	5,509	11,270	5,248	11,270	5,248
Other grants and contracts	4	412	412	477	477	477	477
Other income	5	1,289	1,289	1,409	1,297	1,409	1,297
Endowment and investment income	6	32	32	646	52	646	52
Donations and endowments	7	0	328	150	150	150	150
<b>Total income</b>		<b>25,731</b>	<b>26,059</b>	<b>31,664</b>	<b>24,936</b>	<b>30,912</b>	<b>24,184</b>
<b>EXPENDITURE</b>							
Staff costs	8	13,610	13,610	15,840	12,940	15,840	12,940
Other operating expenses	9	9,652	9,652	11,679	9,159	10,927	8,407
Depreciation	12	2,569	2,569	2,792	2,502	2,792	2,502
Interest and other finance costs	10	176	176	637	228	637	228
<b>Total expenditure</b>		<b>26,007</b>	<b>26,007</b>	<b>30,947</b>	<b>24,829</b>	<b>30,195</b>	<b>24,077</b>
<b>(Deficit)/surplus before other gains and losses</b>		<b>(276)</b>	<b>52</b>	<b>717</b>	<b>106</b>	<b>717</b>	<b>106</b>
Loss on disposal of assets	12	0	0	573	573	573	573
Gain/(loss) on investments	26	(428)	0	0	0	0	0
Share of operating deficit in joint venture	13	(26)	(26)	(13)	(13)	(13)	(13)
<b>(Deficit)/surplus before tax</b>		<b>(730)</b>	<b>26</b>	<b>1,277</b>	<b>666</b>	<b>1,277</b>	<b>666</b>
Taxation	11	(70)	0	(46)	0	(46)	0
<b>(Deficit)/surplus for the year</b>		<b>(800)</b>	<b>26</b>	<b>1,231</b>	<b>666</b>	<b>1,231</b>	<b>666</b>
Transfer from revaluation reserve	19	208	208	257	257	257	257
Actuarial gain in respect of pensions schemes	25	2,826	2,826	3,353	3,353	1,334	1,334
Foreign exchange gains/(losses)		0	0	3	0	3	0
<b>Total Comprehensive Income for the year</b>		<b>2,234</b>	<b>3,060</b>	<b>4,845</b>	<b>4,276</b>	<b>2,826</b>	<b>2,257</b>
<b>Represented by:</b>							
Unrestricted comprehensive income		2,234	3,060	4,845	4,276	2,826	2,257
Restricted comprehensive income		0	0	0	0	0	0
		<b>2,234</b>	<b>3,060</b>	<b>4,845</b>	<b>4,276</b>	<b>2,826</b>	<b>2,257</b>
<b>Surplus for the year attributable to:</b>							
Non controlling interest		0	0	46	0	46	0
Group		( 800)	26	1,185	666	1,185	666
				<b>1,231</b>	<b>666</b>	<b>1,231</b>	<b>666</b>
<b>Total Comprehensive Income for the year attributable to:</b>							
Non controlling interest		0	0	47	0	47	0
Group		2 234	3 060	4,797	4,276	2,778	2,257
		<b>2,234</b>	<b>3,060</b>	<b>4,845</b>	<b>4,276</b>	<b>2,826</b>	<b>2,257</b>

Upon receipt of the Local Government Pension Scheme results schedule for 2018, the College challenged the actuarial assumptions therein and received revised calculations for 2017 and 2018, necessitating restatement of the 2017 financial statements. The provision for defined benefit obligations reduced from £7,768k to £5,749k, with a corresponding increase in Comprehensive income and Reserves.

Funds received from the Education and Skills Funding Agency (ESFA) for disbursement to students requiring financial assistance in respect of learning materials, educational trips and free meals, and to assist employers in employing apprentices were treated as agency funding in the 2017 Financial Statements. The 2017 figures have been restated, recognising the £752k received and disbursed as income and expenditure. The income and expenditure are equal in value and hence there is no effect on surplus.

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

	Income and Expenditure account	Revaluation reserve	Restricted Reserves	Total excluding Non controlling interest £'000	Non Controlling interest £'000	Total £'000
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Group</b>						
<b>Balance at 1st August 2016</b>	34,500	14,061	50	48,611	638	49,248
Surplus/(deficit) from the income and expenditure account	1,185	0	0	1,185	46	1,231
Other comprehensive income	3,355	0	0	3,355	1	3,356
Transfers between revaluation and income and expenditure reserves	257	(257)	0	0	0	0
	4,797	(257)	0	4,540	47	4,588
Equity dividends paid	(598)	0	0	(598)	(401)	(999)
<b>Restated balance at 31st July 2017</b>	<b>38,699</b>	<b>13,804</b>	<b>50</b>	<b>52,553</b>	<b>284</b>	<b>52,837</b>
Surplus/(deficit) from the income and expenditure account	(750)	0	(50)	(800)	0	(800)
Other comprehensive income	2,826	0	0	2,826	0	2,826
Eliminated on disposal of subsidiary	0	0	-	0	(284)	(284)
Transfers between revaluation and income and expenditure reserves	208	(208)	0	-	0	-
<b>Total comprehensive income for the year</b>	<b>2,284</b>	<b>(208)</b>	<b>(50)</b>	<b>2,026</b>	<b>(284)</b>	<b>1,742</b>
<b>Balance at 31st July 2018</b>	<b>40,981</b>	<b>13,595</b>	<b>0</b>	<b>54,577</b>	<b>0</b>	<b>54,577</b>
<b>College</b>						
<b>Balance at 1st August 2016</b>	33,587	14,061	0	47,648	0	47,648
Surplus/(deficit) from the income and expenditure account	666	0	0	666	0	666
Other comprehensive income	3,353	0	0	3,353	0	3,353
Transfers between revaluation and income and expenditure reserves	257	(257)	0	0	0	0
	4,276	(257)	0	4,019	0	4,019
<b>Restated balance at 31st July 2017</b>	<b>37,863</b>	<b>13,804</b>	<b>0</b>	<b>51,667</b>	<b>0</b>	<b>51,667</b>
Surplus/(deficit) from the income and expenditure account	26	0	0	26	0	26
Other comprehensive income	2,826	0	0	2,826	0	2,826
Transfers between revaluation and income and expenditure reserves	208	(208)	0	0	0	0
<b>Total comprehensive income for the year</b>	<b>3,060</b>	<b>(208)</b>	<b>0</b>	<b>2,851</b>	<b>0</b>	<b>2,851</b>
<b>Balance at 31st July 2018</b>	<b>40,923</b>	<b>13,595</b>	<b>0</b>	<b>54,519</b>	<b>0</b>	<b>54,519</b>

**Nescot College**  
**Consolidated Statement of Financial Position as at 31 July**

	Notes	Group 2018 £'000	College 2018 £'000	Group Restated 2017 £'000	College 2017 £'000	Group Filed 2017 £'000	College 2017 £'000
<b>Non-current assets</b>							
Tangible fixed assets	12	66,021	66,021	63,161	62,791	63,161	62,791
		<b>66,021</b>	<b>66,021</b>	<b>63,161</b>	<b>62,791</b>	<b>63,161</b>	<b>62,791</b>
<b>Current assets</b>							
Stocks		15	15	13	13	13	13
Deferred tax asset	11	0	0	137	0	137	0
Trade and other receivables	14	2,083	2,083	4,935	1,677	4,935	1,677
Cash and cash equivalents	20	6,692	6,692	10,923	9,903	10,923	9,903
		<b>8,790</b>	<b>8,790</b>	<b>16,008</b>	<b>11,593</b>	<b>16,008</b>	<b>11,593</b>
<b>Less: Creditors – amounts falling due within one year</b>	15	(4,437)	(4,437)	(6,858)	(4,024)	(6,858)	(4,024)
<b>Net current assets</b>		<b>4,353</b>	<b>4,353</b>	<b>9,150</b>	<b>7,569</b>	<b>9,150</b>	<b>7,569</b>
<b>Total assets less current liabilities</b>		<b>70,373</b>	<b>70,373</b>	<b>72,311</b>	<b>70,360</b>	<b>72,311</b>	<b>70,360</b>
<b>Less: Creditors – amounts falling due after more than one year</b>	16	(12,105)	(12,162)	(13,376)	(12,594)	(13,376)	(12,594)
<b>Provisions</b>							
Defined benefit obligations	18	(3,401)	(3,401)	(5,749)	(5,749)	(7,768)	(7,768)
Other provisions	18	(291)	(291)	(350)	(350)	(350)	(350)
<b>Total net assets</b>		<b>54,577</b>	<b>54,519</b>	<b>52,837</b>	<b>51,667</b>	<b>50,818</b>	<b>49,648</b>
<b>Restricted reserves</b> [list out as appropriate]		0	0	50	0	50	0
<b>Unrestricted reserves</b>							
Income and expenditure account		40,981	40,923	38,699	37,863	36,629	35,844
Revaluation reserve	19	13,595	13,595	13,804	13,804	13,804	13,804
		<b>54,576</b>	<b>54,519</b>	<b>52,503</b>	<b>51,667</b>	<b>50,483</b>	<b>49,648</b>
<b>Non-controlling interest</b>		0	0	284	0	284	0
<b>Total reserves</b>		<b>54,576</b>	<b>54,519</b>	<b>52,837</b>	<b>51,667</b>	<b>50,818</b>	<b>49,648</b>

Upon receipt of the Local Government Pension Scheme results schedule for 2018, the College challenged the actuarial assumptions therein and received revised calculations for 2017 and 2018, necessitating restatement of the 2017 financial statements. The provision for defined benefit obligations reduced from £7,768k to £5,749k, with a corresponding increase in Comprehensive income and Reserves.

Funds received from the Education and Skills Funding Agency (ESFA) for disbursement to students requiring financial assistance in respect of learning materials, educational trips and free meals, and to assist employers in employing apprentices were treated as agency funding in the 2017. The 2017 figures have been restated, recognising the £752k received and disbursed as income and expenditure. The income and expenditure are equal in value and hence there is no effect on surplus.

The financial statements on pages 40 to 43 were approved and authorised for issue by the Corporation on 13th December 2018 and were signed on its behalf on that date by:

**Sam Luke**  
Chair



**Frances Rutter**  
Accounting Officer



**Nescot College**  
**Consolidated Statement of Cash Flows**

	Notes	2018 £'000	2017 £'000
<b>Cash inflow from operating activities</b>			
Surplus/(deficit) for the year		(800)	1,231
<b>Adjustment for non cash items</b>			
Depreciation		2,569	2,792
(Increase)/decrease in stocks		(2)	13
(Increase)/decrease in debtors		2,851	(2,848)
Increase/(decrease) in creditors due within one year		(2,421)	(98)
Increase/(decrease) in creditors due after one year		(1,271)	(1,000)
Increase/(decrease) in provisions		(59)	399
Dividend received		0	11
Pensions costs less contributions payable		297	0
Interest on LGPS		171	0
Other		33	0
<b>Adjustment for investing or financing activities</b>			
Investment income		(32)	(646)
Interest payable		1	411
Taxation paid		70	22
Loss on sale of fixed assets		0	(573)
Dividend received		0	0
<b>Net cash flow from operating activities</b>		<b>1,407</b>	<b>(286)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of fixed assets		0	573
Disposal of non-current asset investments		151	0
Investment income		32	646
Payments made to acquire fixed assets		(5,798)	(3,186)
		<b>(5,614)</b>	<b>(1,967)</b>
<b>Cash flows from financing activities</b>			
Interest paid		0	(409)
Interest element of finance lease rental payments		(1)	(2)
Capital element of finance lease rental payments		(23)	(22)
Dividend paid		0	(598)
		<b>(24)</b>	<b>(1,031)</b>
<b>Increase / (decrease) in cash and cash equivalents in the year</b>		<b>(4,231)</b>	<b>(3,284)</b>
Cash and cash equivalents at beginning of the year	20	10,923	14,207
Cash and cash equivalents at end of the year	20	6,692	10,923

## **NESCOT Corporation**

### **Notes to the Financial Statements for the Period from 1 August 2017 to 31 July 2018**

#### **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 these 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 SORP); the College Accounts Direction for 2017 to 2018; and the Financial Reporting Standard 102 (FRS102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS102.

The preparation of financial statements in compliance with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the College's accounting policies.

##### **Basis of accounting**

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

##### **Basis of consolidation**

The consolidated financial statements include the College and its subsidiary NBS Limited, controlled by the Group, for the financial year to 31 July 2018. Control is achieved where the Group has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Intra-group sales and profits are eliminated fully on consolidation. Associated companies and joint ventures are accounted for using the equity method. All financial statements are made up to 31 July 2018.

##### **Going concern**

The financial statements are prepared on a going concern basis. The College is reliant on the continuing support of the external funding bodies and its banks in order to continue to operate on this basis.

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Report of the Members of the Corporation. The financial position of the College, its cashflow, liquidity and borrowings are described in the financial statements and accompanying Notes.

The College currently has around £7m of cash balances and around £55m of reserves. The College's forecasts and financial projections indicate that it will be able to operate for the foreseeable future. Accordingly, the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future and for this reason will continue to adopt the going concern basis in the preparation of its financial statements.

##### **Income recognition**

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS102. 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.

Income from the sale of goods or services is recognised within the Statement of Comprehensive Income when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

## **NESCOT Corporation**

### **Notes to the Financial Statements for the Period from 1 August 2017 to 31 July 2018**

#### **Income recognition (continued)**

Fee income is stated gross of any expenditure which is not a discount and recognised within the Statement of Comprehensive Income over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

The recurrent grant from the Office for Students (OfS) represents the funding allocation attributable to the current financial year and is recognised within the Statement of Comprehensive Income.

Recurrent grants from the ESFA are recognised in line with the latest estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Education Budget (AEB) is adjusted for and reflected in the level of recurrent grant recognised in the Statement of Comprehensive Income. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body at the beginning of December following the year end, and the results of the funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

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

All income from short-term deposits is recognised in the Statement of Comprehensive Income in the period in which it is earned.

Investment income is recognised within the Statement of Comprehensive Income on a receivable basis.

#### **Donations and endowments**

Donations with restrictions are recorded within the Statement of Comprehensive Income under donations and endowments on entitlement to the income. The restricted income received is held in the temporarily restricted reserve until such time that expenditure is incurred in accordance with the restrictions.

Donations with no restrictions are recorded within the Statement of Comprehensive Income under donations on entitlement to the income.

Where a donor establishes an endowment, there will be no performance-related conditions. Any conditions required by the donor are restrictions on the use of these funds. Therefore, new endowments will be recorded within the Statement of Comprehensive Income, under donations and endowments, on entitlement to the income. The restricted income received is held in the temporarily (expendable) or permanently restricted reserve until such time that expenditure is incurred in accordance with the restrictions.

The gain or loss on the value of any investments held by the endowment fund is recorded within the Statement of Comprehensive Income under the gain or loss on investments. The gain or loss should normally be retained in the capital element of the fund to which it relates.

Investment income received from the endowment fund's investments is recorded within investment income and held within the temporarily or permanently restricted reserve to the extent that it has not been spent in line with the restrictions of the donation.

Where endowment funds are invested for the longer term in order to generate an income and maintain or grow the capital value of the fund, investment gains and losses will be credited / charged to the endowment based on periodic valuations. These will generally be attributable to the capital segment of the fund, as the accumulated income segment is, by definition, held for spending in the short term.



## **NESCOT Corporation**

### **Notes to the Financial Statements for the Period from 1 August 2017 to 31 July 2018**

#### **Agency arrangements**

The College acts as an agent in the collection and payment of certain AGE grants. Related payments received from the ESFA and subsequent disbursements to students are excluded from the Statement of Comprehensive Income and are shown separately in Note 27, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant.

#### **Capital grant funding**

The SORP identifies three types of Government grant as being capital grants for land, other capital grants and revenue grants. It also allows a choice of accounting policy for these grants, namely the accrual model or the performance model, although it specifies that grants for land must be accounted for under the performance model.

Under the accrual method, income and other capital grants are recognised in income on a systematic basis over the period in which the related costs are recognised (income) or over the expected useful life of the asset (capital).

Under the performance method, income and capital grants are recognised in income when performance-related conditions are met.

The College has adopted the accrual method of accounting for capital grants.

#### **Pension schemes**

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

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 quinquennial valuations using a prospective benefit method. As stated in Note 25, 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 scheme and the contributions recognised as they are paid each year.

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

The College's net obligation in respect of the LGPS defined benefit pension plan (and other post-employment benefits) is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) and any unrecognised past service costs are deducted.

The liability discount rate is the yield at the balance sheet date on credit rated bonds denominated in the currency of, and having that have maturity dates approximating to the terms of the College's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the College, the recognised asset is limited to the total of any unrecognised past service costs and the present value of benefits available in the form of any future refunds from the plan, reductions in future contributions to the plan or on settlement of the plan and takes into account the adverse effect of any minimum funding requirements.

## **NESCOT Corporation**

### **Notes to the Financial Statements for the Period from 1 August 2017 to 31 July 2018**

#### **Enhanced pensions**

The actual cost of any enhanced ongoing pension to a former member of staff is paid by the College annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the College's Statement of Comprehensive Income in the year that the member of staff retires. In subsequent years a charge is made to provisions in the Balance Sheet using the enhanced pension spreadsheet provided by the funding bodies.

#### **Short term employment benefits**

Short term employment benefits such as salaries and compensated absences 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.

#### **Finance leases**

Leases in which the College assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Lease payments are accounted for as described below.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### **Operating leases**

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

#### **Foreign currency translation**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant Influence or joint control, the relevant proportion of the cumulative amount is recycled to the Statement of Comprehensive Income.

## **NESCOT Corporation**

### **Notes to the Financial Statements for the Period from 1 August 2017 to 31 July 2018**

#### **Foreign currency translation (continued)**

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity.

#### **Non current assets - tangible fixed assets**

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

#### **Land and buildings**

Land and buildings inherited from the Local Education Authority (LEA) and buildings acquired since incorporation are stated in the balance sheet at valuation on the basis of depreciated replacement cost, as the open market value for existing use is not readily obtainable. Land and building acquired, and building improvements made, since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of between 5 and 60 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life.

The College land was revalued as at 1st August 2014 in preparation for FRS102, which has been taken as 'deemed cost' and frozen. This now removes the need for any future revaluations.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account, and are released to the Statement of Comprehensive Income over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

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

#### **Assets under construction**

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July 2018. They are not depreciated until they are brought into use.

#### **Equipment**

Non-computer equipment costing less than £1,000 per individual item is written off to the Statement of Comprehensive Income in the period of acquisition. Computer equipment costing less than £500 per individual item is written off to the Statement of Comprehensive Income in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the Local Education Authority (LEA) is included in the balance sheet at valuation. The period of depreciation for computer equipment has been increased from 3 years to 5 years to reflect the longer economic benefit that the College is experiencing from these assets. Inherited equipment has been depreciated on a straight-line basis over its remaining useful economic life to the College of between one and three years from incorporation and is now fully depreciated. All other equipment is depreciated over its useful economic life as follows:

- Computer equipment 5 years.
- Other equipment 5 years.
- Furniture and fittings 10 to 15 years.

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each Balance Sheet. Where equipment is acquired with the aid of grants designated for capital purposes, it is capitalised and depreciated in accordance with the above policy, with the related grant being treated as a liability in the Balance Sheet and released to the Statement of Comprehensive Income over the expected useful economic life of the related equipment.

## **NESCOT Corporation**

### **Notes to the Financial Statements for the Period from 1 August 2017 to 31 July 2018**

#### **Maintenance of premises**

The costs of routine corrective maintenance are recognised in the Statement of Comprehensive Income in the period that it is incurred.

#### **Investment properties**

Investment property is land and buildings held for rental income or capital appreciation rather than for use in delivering services.

Investment properties are measured initially at cost and subsequently at fair value where these can be publicly traded or their value can otherwise be reliably measured, with movements recognised in the Statement of Comprehensive Income. If this is not possible, investment properties will be measured at cost less impairment.

Properties are not depreciated but are revalued or reviewed annually according to market conditions as at 31 July each year.

#### **Investments**

Non-current investments are held on the Balance Sheet at amortised cost less impairment.

Investments in jointly controlled entities, associates and subsidiaries are carried at cost less impairment in the College's accounts.

Current asset investments are held at fair value with movements recognised in the Statement of Comprehensive Income.

#### **Stock**

Stock is held at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stock.

#### **Cash and cash equivalents**

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

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

#### **Provisions, contingent liabilities and contingent assets**

Provisions are recognised in the financial statements when:

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

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.

## **NESCOT Corporation**

### **Notes to the Financial Statements for the Period from 1 August 2017 to 31 July 2018**

#### **Provisions, contingent liabilities and contingent assets (continued)**

A contingent asset arises where an event has taken place that gives the College a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

#### **Taxation**

The College is an exempt charity within the meaning of Part 3 of the Charities Act 2011, as such, is a charity within the meaning of Section 506 (1) of the Income and Corporation Taxes Act 1988. It is therefore a charity within the meaning of Para 1 of schedule 6 to the Finance Act 2010 and accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 478-488 of the Corporation Tax Act 2010 (CTA 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 receives no similar exemption in respect of Value Added Tax. For this reason, the College is generally unable to recover input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to fixed assets is included in their cost.

The College's subsidiaries are liable to Corporation Tax in the same way as any other commercial organisation.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

#### **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.

**NESCOT Corporation****Notes to the Financial Statements for the Period from 1 August 2017 to 31 July 2018**

- 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 25, will impact the carrying amount of the pension liability. The actuary has used a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 to value the pensions liability at 31 July 2018. 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.

**Nescot College**  
**Notes to the Accounts (continued)**

**2 Funding body grants**

	Year ended 31 July 2018		Year ended 31 July 2017		Year ended 31 July 2017	
	Group	College	Group	College	Group	College
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Recurrent grants</b>						
Education and Skills Funding Agency - adult	5,016	5,016	3,709	3,709	3,709	3,709
Education and Skills Funding Agency – 16 -18	8,788	8,788	8,639	8,639	8,639	8,639
Education and Skills Funding Agency - apprenticeships	3,551	3,551	3,463	3,463	3,463	3,463
Office for Students	349	349	365	365	365	365
<b>Specific Grants</b>						
Releases of government capital grants	442	442	410	410	410	410
Release of other government grants	341	341	1,126	1,126	374	374
<b>Total</b>	<b>18,488</b>	<b>18,488</b>	<b>17,712</b>	<b>17,712</b>	<b>16,960</b>	<b>16,960</b>

Funds received from the Education and Skills Funding Agency (ESFA) for disbursement to students requiring financial assistance in respect of learning materials, educational trips and free meals, and to assist employers in employing apprentices were treated as agency funding in the 2017. The 2017 figures have been restated, recognising the £752k received and disbursed as income and expenditure. The income and expenditure are equal in value and hence there is no effect on surplus.

**3 Tuition fees and education contracts**

	Year ended 31 July 2018		Year ended 31 July 2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Adult education fees	444	444	525	525
Apprenticeship fees and contracts	83	83	50	50
Fees for FE loan supported courses	1,156	1,156	1,225	1,225
Fees for HE loan supported courses	2,468	2,468	1,911	1,911
Full cost recovery fees	1,224	1,224	1,419	1,419
Total tuition fees	5,375	5,375	5,130	5,130
Education contracts	134	134	6,140	118
<b>Total</b>	<b>5,509</b>	<b>5,509</b>	<b>11,270</b>	<b>5,248</b>

**4 Other grants and contracts**

	Year ended 31 July 2018		Year ended 31 July 2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Local authority high needs	363	363	441	441
European Social Fund	0	0	0	0
Other grants and contracts	50	50	36	36
<b>Total</b>	<b>412</b>	<b>412</b>	<b>477</b>	<b>477</b>



**Nescot College**  
**Notes to the Accounts (continued)**

**5 Other income**

	Year ended 31 July 2018		Year ended 31 July 2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	375	375	383	383
Other income generating activities	754	754	719	719
Miscellaneous income	160	160	307	195
	<u>1,289</u>	<u>1,289</u>	<u>1,409</u>	<u>1,297</u>
<b>Total</b>				

**6 Investment income**

	Year ended 31 July 2018		Year ended 31 July 2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other investment income - bank interest	32	32	646	52
	<u>32</u>	<u>32</u>	<u>646</u>	<u>52</u>

**7 Donations - College only**

	Year ended 31 July	
	2018	2017
	£'000	£'000
Unrestricted donations	328	150
<b>Total</b>	<u>328</u>	<u>150</u>

**Nescot College**  
**Notes to the Accounts (continued)**

**8 Staff costs**

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

	Group	Group
	2018	2017
	No.	No.
Teaching staff	146	203
Non teaching staff	243	247
	<b>389</b>	<b>450</b>
<b>Staff costs for the above persons</b>		
	2018	2017
	£'000	£'000
Wages and salaries	10,652	10,925
Social security costs	841	767
Oth	2,039	1,944
Employer Levy	36	13
<b>Payroll sub total</b>	<b>13,568</b>	<b>13,649</b>
Contracted out staffing services	0	2,142
	<b>13,568</b>	<b>15,791</b>
Fundamental restructuring costs - non contractual	43	49
	<b>13,610</b>	<b>15,840</b>

**Key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College. The College deems this to be the Chief Executive and Principal, and two Deputy Principals.

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

	2018	2017
	No.	No.
The number of key management personnel including the Accounting Officer was:	4	4

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

	Senior post-holders		Other staff	
	2018	2017	2018	2017
	No.	No.	No.	No.
£60,001 to £70,000	0	0	1	2
£70,001 to £80,000	0	0	0	0
£80,001 to £90,000	0	1	1	0
£90,901 to £100,000	0	1	0	0
£100,001 to £110,000	1	1	0	0
£150,001 to £160,000	1	0	0	0
	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>

**Nescot College**  
**Notes to the Accounts (continued)**

**8 Staff costs (continued)**

Key management personnel compensation is made up as follows:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Salaries - gross of salary sacrifice and waived emoluments	359	340
Employers National Insurance	42	31
Benefits in kind	11	0
	<u><b>412</b></u>	<u><b>370</b></u>
Pension contributions	56	45
<b>Total key management personnel compensation</b>	<u><b>467</b></u>	<u><b>416</b></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 figures include one post filled by two persons during the course of the year, one of which was employed via an employment agency.

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Salaries	152	148
Employers National Insurance	20	7
Benefits in kind	1	0
	<u><b>173</b></u>	<u><b>155</b></u>
Pension contributions	29	10
	<u><b>202</b></u>	<u><b>164</b></u>

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Compensation paid to the former post-holder - non-contractual	<u><b>35</b></u>	<u><b>0</b></u>

The severance payment was approved by the College's remuneration committee.

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

**Nescot College**  
**Notes to the Accounts (continued)**

**9 Other operating expenses**

	Year ended 31 July 2018		Year ended 31 July 2017		Year ended 31 July 2017	
	Group	College	Group	College	Group	College
	£'000	£'000	Restated £'000	£'000	Filed £'000	£'000
Teaching costs	4,382	4,382	3,982	3,982	3,982	3,982
Non teaching costs	4,249	4,249	5,260	4,050	3,298	3,298
Premises costs	1,022	1,022	2,437	1,127	1,127	1,127
<b>Total</b>	<b>9,652</b>	<b>9,652</b>	<b>11,679</b>	<b>9,159</b>	<b>8,407</b>	<b>8,407</b>

Funds received from the Education and Skills Funding Agency (ESFA) for disbursement to students requiring financial assistance in respect of learning materials, educational trips and free meals, and to assist employers in employing apprentices were treated as agency funding in the 2017. The 2017 figures have been restated, recognising the £752k received and disbursed as income and expenditure. The income and expenditure are equal in value and hence there is no effect on surplus.

**Other operating expenses include:**

	2018 Group	2018 College	2017 Group	2017 College
	£'000	£'000	£'000	£'000
Auditors' remuneration:				
Financial statements audit	37	37	38	38
Internal audit	31	31	22	22
Hire of assets under operating leases	65	65	57	57

**Nescot College**  
**Notes to the Accounts (continued)**

**10 Interest payable - Group and College**

	2018 £'000 Group	2018 £'000 College	2017 £'000 Group	2017 £'000 College
On finance leases	1	1	2	2
On provision of bonds	0	0	409	0
Net interest on enhanced pension liability	3	3	4	4
Net interest on defined pension liability (note 25)	171	171	222	222
<b>Total</b>	<b>176</b>	<b>176</b>	<b>637</b>	<b>228</b>

**11 Taxation - Group only**

	2018 £'000	2017 £'000
<b>Tax liability included in creditors - amounts falling due within</b>		
Provided in previous year	114	309
Extinguished on disposal of subsidiary	(114)	0
Provided during the reporting period	70	119
Payments during the year	(70)	(324)
Foreign exchange differences, average v closing rates	0	10
<b>Liability as at 31st July</b>	<b>0</b>	<b>114</b>
 <b>Charge for the year</b>		
Provided during the reporting period	70	119
Deferred tax charge/(credit)	0	(73)
<b>Charge for the year in statement of consolidated income</b>	<b>70</b>	<b>46</b>
 <b>Deferred tax asset</b>		
Bought forward from previous year	137	67
Credit/(charge) for the reporting period	0	73
Foreign exchange differences, average v closing rates	0	(3)
Eliminated on disposal of subsidiary	(137)	0
<b>Deferred tax asset as at 31st July</b>	<b>0</b>	<b>137</b>

**Nescot College**  
**Notes to the Accounts (continued)**

**12 Tangible fixed assets (Group)**

	Land and buildings	Equipment	Assets in the Course of Construction	Total
	Freehold £'000	£'000	£'000	£'000
<b>Cost or valuation</b>				
At 1 August 2017	71,959	9,724	297	81,980
Additions	4,742	1,056		5,798
Transfer from assets under construction	297		(297)	0
Disposals	0	(1,308)	0	(1,308)
<b>At 31 July 2018</b>	<b>76,998</b>	<b>9,473</b>	<b>(0)</b>	<b>86,470</b>
<b>Depreciation</b>				
At 1 August 2017	12,239	6,580	0	18,819
Charge for the year	1,555	1,014	0	2,569
Elimination in respect of disposals	0	(938)	0	(938)
<b>At 31 July 2018</b>	<b>13,794</b>	<b>6,656</b>	<b>0</b>	<b>20,450</b>
<b>Net book value at 31 July 2018</b>	<b>63,204</b>	<b>2,817</b>	<b>(0)</b>	<b>66,021</b>
Net book value at 31 July 2017	59,720	3,145	297	63,161

The transfer from Assets in the Course of Construction to Land and Buildings represents assets completed and ready to use during the year.

**Nescot College**  
**Notes to the Accounts (continued)**

**12 Tangible fixed assets (College only)**

	Land and buildings  Freehold	Equipment	Assets in the Course of Construction	Total
	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>				
At 1 August 2017	71,959	8,417	297	80,673
Additions	4,742	1,056		5,798
	297		(297)	0
Disposals	0	0	0	0
<b>At 31 July 2018</b>	<b>76,998</b>	<b>9,473</b>	<b>(0)</b>	<b>86,470</b>
<b>Depreciation</b>				
At 1 August 2017	12,239	5,642	0	17,881
Charge for the year	1,555	1,014	0	2,569
Elimination in respect of disposals	0	0	0	0
<b>At 31 July 2018</b>	<b>13,794</b>	<b>6,656</b>	<b>0</b>	<b>20,450</b>
<b>Net book value at 31 July 2018</b>	<b>63,204</b>	<b>2,817</b>	<b>0</b>	<b>66,021</b>
Net book value at 31 July 2017	59,720	2,775	297	62,791

The net book value of equipment includes an amount of £10,478 (2016/17 £31,435) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £20,956 (2016/17 £20,956)

The transfer from Assets in the Course of Construction to Land and Buildings represents assets completed and ready to use during the year.



## Nescot College

### Notes to the Accounts (continued)

#### 13 Joint ventures

The College operates a restaurant on its premises, in a joint venture with Le Raj of Epsom. Profits or losses are shared on a 50:50 basis, with the College share of losses in the current year amounting to £26k. The partners have agreed to end their partnership on 15 December 2018, at which point the College will open a new restaurant on the same premises.

#### 14 Trade and other receivables

	Group	College	Group	College
	2018	2018	2017	2017
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade receivables	1,398	1,398	860	860
Other receivables	54	54	9	9
Amounts owed by group undertakings:				
Subsidiary undertakings	0	0	0	0
Associate undertakings	0	0	0	0
Prepayments and accrued income	259	259	3,609	351
Amounts owed by the ESFA	372	372	457	457
<b>Total</b>	<b>2,083</b>	<b>2,083</b>	<b>4,935</b>	<b>1,677</b>

**Nescot College**  
**Notes to the Accounts (continued)**

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

	<b>Group 2018 £'000</b>	<b>College 2018 £'000</b>	<b>Group 2017 £'000</b>	<b>College 2017 £'000</b>
Bank loans and overdrafts	0	0	775	0
Obligations under finance leases	10	10	23	23
Trade payables	157	157	152	152
Amounts owed to group undertakings:				
Non-controlling interests	0	0	601	0
Joint venture partners	12	12	0	0
Subsidiary undertakings	0	0	0	397
Corporation tax	0	0	114	0
Other taxation and social security	412	412	410	410
Accruals and deferred income	3,126	3,126	4,359	2,618
Deferred income - government capital grants	442	442	410	410
Deferred income - government revenue grants	14	14	14	14
Amounts owed to the ESFA	264	264	0	0
<b>Total</b>	<b>4,437</b>	<b>4,437</b>	<b>6,858</b>	<b>4,024</b>

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

	<b>Group 2018 £'000</b>	<b>College 2018 £'000</b>	<b>Group 2017 £'000</b>	<b>College 2017 £'000</b>
Loans from subsidiaries or associates	0	58	0	58
Other loans	0	0	774	0
Obligations under finance leases	0	0	10	10
Employee terminal benefits	0	0	65	0
Deferred income - government capital grants	12,105	12,105	12,526	12,526
<b>Total</b>	<b>12,105</b>	<b>12,162</b>	<b>13,376</b>	<b>12,594</b>

**Nescot College**  
**Notes to the Accounts (continued)**

**17 Maturity of debt**

**(a) Bank loans and overdrafts**

Bank loans and overdrafts are repayable as follows:

	<b>Group 2018 £'000</b>	<b>College 2018 £'000</b>	<b>Group 2017 £'000</b>	<b>College 2017 £'000</b>
In one year or less	0	0	775	0
Between one and two years	0	0	194	0
Between two and five years	0	0	581	0
In five years or more	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1,549</b>	<b>0</b>

Bank loan eliminated on disposal of 60% shareholding in Nescot Consortium Ltd, August 2017

**(b) Finance leases**

The net finance lease obligations to which the institution is committed are:

	<b>Group 2018 £'000</b>	<b>College 2018 £'000</b>	<b>Group 2017 £'000</b>	<b>College 2017 £'000</b>
In one year or less	10	10	23	23
Between two and five years	0	0	10	10
In five years or more	0	0	0	0
<b>Total</b>	<b>10</b>	<b>10</b>	<b>33</b>	<b>33</b>

Finance lease obligations are secured on the assets to which they relate.

**Nescot College**  
**Notes to the Accounts (continued)**

**18 Provisions**

	Defined benefit Obligations £'000	Restructuring £'000	Group and College Enhanced pensions £'000	Other £'000	Total £'000
<b>At 1 August 2017 restated</b>	5,749	15	149	186	6,099
Expenditure in the period	0	(15)	0	(47)	(62)
Transferred from income and expenditure account	(2,348)	0	3	0	(2,345)
<b>At 31 July 2018</b>	<b>3,401</b>	<b>0</b>	<b>152</b>	<b>139</b>	<b>3,692</b>

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 25.

The enhanced pension provision relates to the cost of staff who have already left the College's employ and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date. This provision has been recalculated in accordance with guidance issued by the funding bodies.

The principal assumptions for this calculation are:

	2018	2017
Price inflation	1.3%	1.3%
Discount rate	2.3%	2.3%

**19 Revaluation reserve**

	2018 Group and College £'000	2018 Group and College £'000	2017 Group and College £'000	2017 Group and College £'000
Balance as at 1st August previous year		13,804		14,061
less charges to comprehensive income				
Release in respect of depreciation in year	(208)		(257)	
		(208)		(257)
<b>Balance as at 31st July</b>		<b>13,595</b>		<b>13,804</b>

**20 Cash and cash equivalents**

	At 1 August 2017 £'000	Cash flows £'000	Other changes £'000	At 31 July 2018 £'000
Cash and cash equivalents	10,923	(4,231)		6,692
<b>Total</b>	<b>10,923</b>	<b>(4,231)</b>	<b>-</b>	<b>6,692</b>

**21 Capital commitments**

	Group and College 2018 £'000	2017 £'000
Commitments contracted for at 31 July	614	540

**Nescot College**  
**Notes to the Accounts (continued)**

**22 Lease Obligations**

At 31 July 2018, the College had minimum lease payments under non-cancellable operating leases as follows:

	<b>Group and College</b>	
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Future minimum lease payments due</b>		
<b>Land and buildings</b>		
Not later than one year	0	0
Later than one year and not later than five years	0	0
later than five years	0	0
	<b>0</b>	<b>0</b>
<b>Other</b>		
Not later than one year	55	58
Later than one year and not later than five years	148	169
later than five years	0	0
	<b>202</b>	<b>226</b>
<b>Total lease payments due</b>	<b>202</b>	<b>226</b>

**23 Contingent liabilities**

There are no circumstances requiring provision for contingent liabilities.

**24 Events after the reporting period**

The College experienced a severe IT outage in October 2018 which affected most systems and telephony. The College took immediate action to confirm that no data breaches had occurred and to restore systems. All relevant external agencies were informed. External IT consultants were appointed to assist the College to restore systems and to strengthen the College's IT security arrangements. The established programme of work to upgrade the College's IT infrastructure has also been accelerated.

## Nescot College

### Notes to the Accounts (continued)

#### 25 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 Surrey County Council. Both are multi-employer defined-benefit plans. The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2016.

Total pension cost for the year	2018 £'000	2017 £'000
Teachers Pension Scheme: contributions paid	1,144	1,116
Local Government Pension Scheme:		
Contributions paid	1,299	1,508
FRS 102 (28) charge	468	229
Charge to the Statement of Comprehensive Income	1,767	1,737
Enhanced pension charge to Statement of Comprehensive Income	13	13
<b>Total Pension Cost for Year</b>	<b>2,924</b>	<b>2,866</b>

Employer and employee contributions amounting to £97,000 (2017: £100,000) payable to the TPS and £86,000 (2017: £86,000) payable to the LGPS 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. Retirement and other pension benefits are paid by public funds provided by Parliament.

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.

#### 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 (including administration fees of 0.08%);
- total scheme liabilities for service to the effective date of £191,500 million, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £176,600 million giving a notional past service deficit of £14,900 million;
- an employer cost cap of 10.9% of pensionable pay.
- the assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%

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

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:  
<https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx>

#### Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £1,144,000 (2017: £1,116,000).

**Nescot College**  
**Notes to the Accounts (continued)**

**25 Defined benefit obligations (continued)**

**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.

**Local Government Pension Scheme**

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Surrey County Council. The total contribution made for the year ended 31 July 2018 was £1,299,000, of which employer's contributions totalled £1,042,000 and employees' contributions totalled £257,000. The agreed contribution rates for future years are 19.1 % for employers and range from 5.5% to 12.5% cent for employees, depending on salary.

Upon receipt of the LGPS results schedule for 2018, the College challenged the actuarial assumptions therein, and received revised calculations for 2017 and 2018, necessitating restatement of the 2017 figures. The rate of pension increase as at 31st July 2017 was reduced from 2.3% to 2.2% and the discount rate was increased from 2.8% to 2.9%. Additionally, the mortality rates were updated to reflect the Continuous Mortality Investigation (CMI) 2016 index. The net effect was a reduction in the funding deficit from £7,768k to £5,749k.

**Principal Actuarial Assumptions**

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2018 by a qualified independent actuary:

	<b>At 31 July 2018</b>	<b>At 31 July 2017 Restated</b>	<b>At 31 July 2017 Filed</b>
Rate of increase in salaries	2.00%	2.00%	2.00%
Future pensions increases	2.10%	2.20%	2.30%
Discount rate for scheme liabilities	3.00%	2.90%	2.80%
Inflation assumption (CPI)	2.10%	2.20%	2.20%
Commutation of pensions to lump sums (pre- April 2008 service)	25%	25%	25%
Commutation of pensions to lump sums (post- April 2008 service)	63%	63%	63%

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

	<b>At 31 July 2018 years</b>	<b>At 31 July 2017 years Restated</b>	<b>At 31 July 2017 years Filed</b>
<i>Retiring today</i>			
Males	21.90	21.90	22.50
Females	24.10	24.10	24.60
<i>Retiring in 20 years</i>			
Males	22.90	22.90	24.10
Females	25.50	25.50	26.40

**Sensitivity analysis**

	<b>At 31 July 2018 £'000</b>	<b>At 31 July 2017 £'000 Restated</b>	<b>At 31 July 2017 £'000 Filed</b>
Discount rate -0.5%	3,342	3,230	3,450
CPI rate +0.5%	3,073	2,946	3,140

**Nescot College**  
**Notes to the Accounts (continued)**

**25 Defined benefit obligations (continued)**

**Local Government Pension Scheme (Continued)**

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

	2018 £'000	2017 £'000 Restated	2017 £'000 Filed
Fair value of plan assets	31,379	28,713	28,713
Present value of plan liabilities	(34,671)	(34,348)	(36,363)
[Present value of unfunded liabilities]	(109)	(114)	(118)
<b>Net pensions (liability)/asset (Note 19)</b>	<b>(3,401)</b>	<b>(5,749)</b>	<b>(7,768)</b>

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

	2018 £'000	2017 £'000 Restated	2017 £'000 Filed
<b>Amounts included in staff costs</b>			
Current service cost	1,315	1,106	1,106
Past service cost	0	9	9
<b>Total</b>	<b>1,315</b>	<b>1,115</b>	<b>1,115</b>
<b>Amounts included in Interest and other finance</b>			
Net interest costs	171	222	222
	<b>171</b>	<b>222</b>	<b>222</b>
<b>Amounts recognised in Other Comprehensive Income</b>			
Return on pension plan assets	1,567	1,036	1,036
Experience losses arising on defined benefit obligations	(2)	1,410	1,407
Changes in assumptions underlying the present value of plan liabilities	1,251	897	(1,119)
<b>Amount recognised in Other Comprehensive Income</b>	<b>2,816</b>	<b>3,343</b>	<b>1,324</b>

The value recognised in Other Comprehensive Income as actuarial gain of £2,826k in 2018 and £3,353k in 2017 includes £10k in actuarial gains related to Enhanced Pensions.



**Nescot College**  
**Notes to the Accounts (continued)**

**25 Defined benefit obligations (continued)**

**Local Government Pension Scheme (Continued)**

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

	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>£'000</b>	<b>Restated £'000</b>	<b>Filed £'000</b>
Surplus/(deficit) in scheme at 1 August	(5,749)	(8,863)	(8,863)
Movement in year:			
Current service cost	(1,315)	(1,106)	(1,106)
Employer contributions	1,018	1,108	1,108
Past service cost	0	(9)	(9)
Net interest on the defined (liability)/asset	(171)	(222)	(222)
Actuarial gain or loss	2,816	3,343	1,324
<b>Net defined benefit (liability)/asset at 31 July</b>	<b><u>(3,401)</u></b>	<b><u>(5,749)</u></b>	<b><u>(7,768)</u></b>

**Asset and Liability Reconciliation**

	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>£'000</b>	<b>Restated £'000</b>	<b>Filed £'000</b>
<b>Changes in the present value of defined benefit obligations</b>			
<b>Defined benefit obligations at start of period</b>	<b>34,462</b>	<b>35,579</b>	<b>35,579</b>
Current Service cost	1,315	1,106	1,106
Interest cost	1,007	893	893
Contributions by Scheme participants	254	230	230
Experience gains and losses on defined benefit obligations	2	(1,431)	(1,428)
Changes in demographic assumptions	0	(1,268)	(486)
Changes in financial assumptions	(1,251)	371	1,605
Estimated benefits paid	(1,009)	(1,027)	(1,027)
Past Service cost	0	9	9
Curtailments and settlements	0	0	0
<b>Defined benefit obligations at end of period</b>	<b><u>34,780</u></b>	<b><u>34,462</u></b>	<b><u>36,481</u></b>

**Reconciliation of Assets**

<b>Fair value of plan assets at start of period</b>	<b>28,713</b>	<b>26,695</b>	<b>26,695</b>
Interest on plan assets	836	671	671
Return on plan assets	1,567	1,036	1,036
Employer contributions	1,018	1,108	1,108
Contributions by Scheme participants	254	230	230
Estimated benefits paid	(1,009)	(1,027)	(1,027)
<b>Fair value of plan assets at end of period</b>	<b><u>31,379</u></b>	<b><u>28,713</u></b>	<b><u>28,713</u></b>

## **Nescot College**

### **Notes to the Accounts (continued)**

#### **26 Related party transactions**

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

In 2018, Governors were reimbursed £256 for travel expenses (2017:£118). The Principal was reimbursed £972 for travel and subsistence expenses related to College business (2017: £1k) and incurred expenditure of £8,943.74 on the College's credit card for College business. The two holders of the post of Deputy Principal Curriculum & Quality during the year were reimbursed a total of £11K (2017:£Nil).

The College received a £328k (2017:£Nil) donation from Nescot Business Services Ltd, it's wholly-owned subsidiary. The income is eliminated on consolidation in the Group accounts. In 2017, the College balance sheet contained a debtor balance of £397k in respect this proposed donation, eliminated on consolidation. The proposed donation was reduced in 2018 in relation to a capital gains charge of £70k.

College has £58k creditor balance (2017: £58k) in respect of 2004/5 loans from Nescot Trust, its wholly-owned subsidiary. The creditor is eliminated on consolidation in the Group accounts.

College and Group expenses include £27k of payments made to LR Academy (2017: £Nil), a joint venture with Le Raj of Epsom in respect of losses incurred. College and Group balance sheets contain a creditor of £11k (2017:£13k) in respect of liabilities incurred from further losses.

College and Group expenses contain £25k paid to Click CMS (2017:£Nil) for work separate to the provision of key management personnel services (Deputy Principal, Curriculum and Quality).

In 2017, the College recharged £134k to its 60% owned subsidiary Nescot Consortium Ltd in respect of providing bonds and other general expenses. The subsidiary was disposed of in August 2017, with a loss on investment of £428k