NESCOT CORPORATION

Report and Financial Statements for the Year Ended 31 July 2019

Nescot


NESCOT
RECEPTION
SKILLS PARK

Contents

1 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 2019:

Frances Rutter
Chief Executive and Principal

Cliff Shaw
Deputy Principal
(Curriculum & Quality)

Maria Vetrone
Deputy Principal
(Finance & Resources)

Board of Governors

A full list of Governors of the Corporation is given on pages 33 of these financial statements.

Professional Advisers

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

Principal and Registered Office

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

2 Strategic Report of the Members of the Corporation

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 2019.

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 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 page 33.

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 identifiable public benefits through the advancement of education to over 9,000 students, including nearly 100 students with high needs. As an exempt charity, the College uses all of its income to advance technical and higher education by providing high quality teaching, learning and assessment tailored to the needs of students, business and society. The College provides courses without charge to young people, to those who are unemployed and adults taking English and maths courses. The College adjusts its courses to meet the needs of local employers and provides training to nearly 900 apprentices. The College is committed to providing information, advice and guidance to the students it enrols and to finding suitable courses for as many students as possible regardless of their educational background.

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 in 2017-18, led by the College's Chief Executive and Principal. The 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 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 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 October 2018 and July 2019, the Education and Skills Funding Agency (ESFA) published the results of the FE Choices annual surveys covering employer satisfaction and learner satisfaction, respectively. For employer satisfaction, the College was ranked 76th of 184 GFE colleges with a score of 85.8 (national average 81.0). For learner satisfaction, the College was ranked 76th of 168 GFE colleges with a score of 81.4 (national average 81) and 1st of local competitor GFE colleges.

Funding Targets and Student Numbers

The College received government funding in 2018-19 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 91% of its ESFA 16-18 lagged funding target of £8.57m of grant income, which excludes bursary funds.
ESFA 19+ funding	The College achieved 104% of its ESFA Adult Education Budget (AEB) funding target of £4.55m of grant income, excluding discretionary support funds. There is a 3% tolerance for over delivery. The College will be paid 103% of the allocation.
ESFA 19+ funding (procured)	The College has an additional procured allocation of £683k. The College achieved 102% of the target. However, there is no tolerance for over delivery. The College will be paid 101% of the allocation.
ESFA Apprenticeship funding	The College achieved 86% of its ESFA non-levy apprenticeship funding target of £2.68m.
Office for Students (OfS) funding	The College achieved 110% of its Higher Education budget income target of £3.87m.

2. Student Numbers (head count)

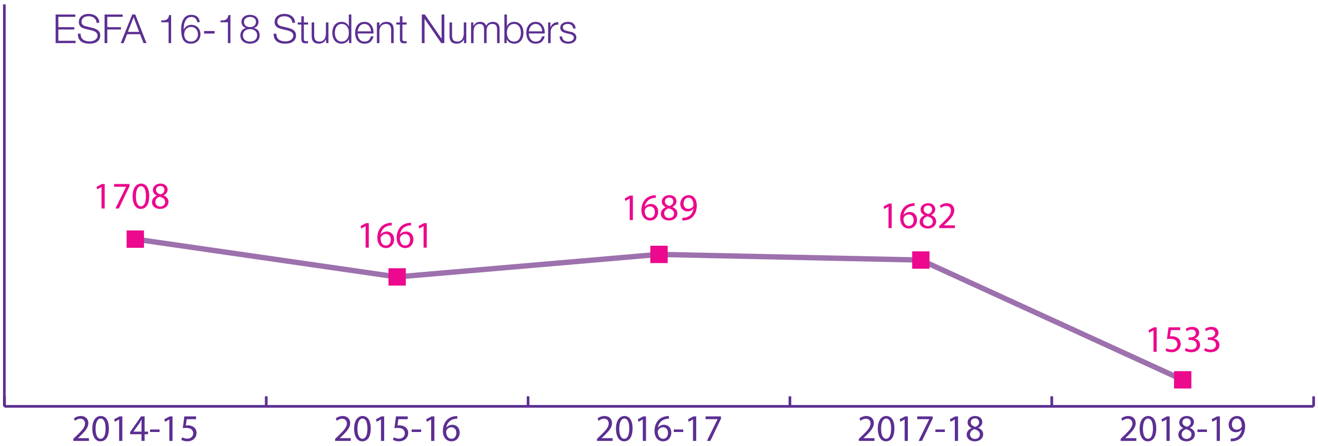
ESFA funded 16-18 student numbers
decreased by 149 students in 2018-19 to 1,533

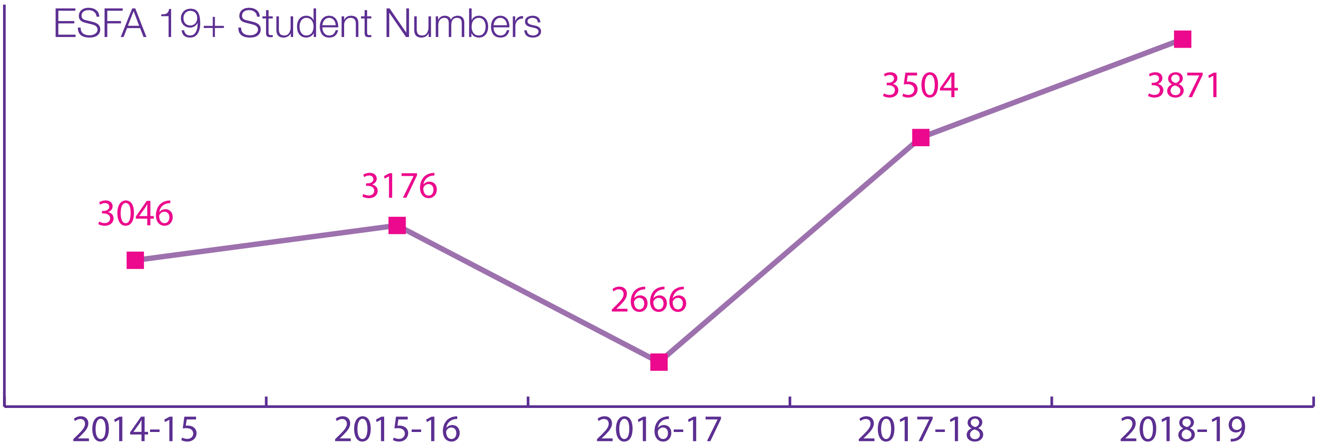
ESFA funded students aged 19+
increased by 367 to 3,871

Further Education (FE) students funded by advanced learning loans
increased by 259 to 766

Higher Education (HE) students
increased by 371 to 863

The following graphs depict movement in the College's FE student numbers since 2014-15.





For the year ended 31 July 2019, the College delivered activity that has produced £18.45m in funding body main allocations (2017-18 – £18.49m).

The College had a total of 9,398 students in 2018-19, 7,871 of which were funded and 1,527 non-funded, as analysed below:

	Headcount
ESFA funded 16-18 students	1,533
ESFA funded 19+ classroom students	3,871
ESFA funded apprentices	838
ESFA advanced loan funded 19+ classroom students	766
OfS funded students	863
Total funded students	**7,871**
Total non-funded students	**1,527**
Total students	**9,398**

Financial Performance

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

Financial performance in the sector is benchmarked against a number of ESFA established measures and targets. The following table confirms the College's actual results for the year ended 31 July 2019 against high-level ESFA key measures and targets:

ESFA Key Performance Indicator	National benchmark	Target 2018-19	Actual 2018-19	Performance assessment
EBITDA as % of income	5.6%	8.37%	10.62%	✓
Staff costs as % of income (excluding subcontracted income)	65.5%	65%	62.81%	✓
Cash days in hand	68.00	92.00	75.00	*
Adjusted current ratio	1.48	3.16	2.61	*
Borrowing as % of income	26.50%	0.28%	0.59%	✓
Financial Health Score	Good	Outstanding	Outstanding	✓

***Excluding cash outflow of £1m into a medium risk investment fund, these targets are achieved.**

The College achieved ESFA 'outstanding' financial health' status for the year ended 31 July 2019.

The College's 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 2019-20 Budget and 2020-21 Forecast. High level Finance Strategy KPIs include the following, with an indication of College performance against each for 2018-19 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 £800k to have been achieved. The College Group achieved £269k for the year ended 31 July 2019, being only 1% of total income but ahead of the in-year balanced budget.

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.

2 *Strategic Report of the Members of the Corporation continued...*

Academic and Curriculum Performance

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

- The College's achievement rates have improved against all of the key indicators. The College's qualification achievement rate has risen from 84.5% in 2017-18 to 87.3% in 2018-19 (all ages, all aims). This is the highest achievement rate for a number of years and now places the College above the national average. Achievement for adults has risen from 88.1% to 89.9% and achievement for young people has risen from 78.4% to 80.4% (all ages, all aims). Long achievement vocational achievement rates have risen from 84.5% in 2017-18 to 85.5% in 2018-19 for young people and from 80.9% to 83.3% for adults.

- HE achievement rates were in decline during the year from 84% to 74% due to the timing of achievements for the ASTM provision. The College's forecast based on students attending the final Assessment Board is for HE achievement rates to increase to 88% for the year.

- English and maths are mandatory components of study programmes for students who did not achieve GCSE Grade 4 (C) or above at school. The % of students who need to continue studies in English is 41% against and sector average of 41%. In maths, the number of students who need to continue their studies is higher than the sector average, 52% compared to 48%.

- Functional skills achievements have risen from 78.2% in 2017-18 to 82.5% in 2018-19 and are significantly above the national average. However, adults outperform young people although the College's direct delivery to young people is at the national average.

- More students achieved GCSE English and maths qualifications in 2018-19 with English achievement rates improving from 78.25% in 2017-18 to 82.5% in 2018-19. High grades for maths improved from 18% in 2017-18 to 25% in 2018-19. English improved from 26% to 28%. Both are now above the most recent national averages.

- The average progress students make in both English and maths is positive.

- High grades for vocational courses have improved at Level 2 from 38% in 2017-18 to 44% in 2018-19. High grades for vocational Level 3 have improved from 42% in 2017-18 to 43% in 2018-19. The underperformance of two Level 3 programmes have prevented further improvement at level 3. However, ALPS value-added scores for those courses in scope have declined despite the increase in high grades. Music; Public Services; Travel and Tourism; and Performing Arts have positive scores. Art and Design; Business; IT; Sport; Early Years; Health and Social Care; and Creative Media have negative scores. The College has invested in its own value-added system (OneGrade) in order to drive this forward. Further investigation into this area of work is underway to understand why high achievement and high grades are not adding the value that the College had expected to see.

- Overall apprenticeship achievement for the College's direct provision (i.e. not through sub-contractors) has improved for the first time in a number of years for 16-18 year olds, rising from 65% 2017-18 to 67% in 2018-19.

- Overall, apprenticeship achievement delivered by the College's sub-contractors has fallen from 99% to 93%. However, this is well in excess of the national average.



Progression and destinations for NESCOT students in 2018-19 are positive:

Destinations

- 100% capture of destinations for young people (2019 leavers).
- Destinations 96% positive (+2% improvement on 2017-18).

Actual destinations of 16 to 18 year olds (J2P data)

- Research shows that NESCOT performs better when it comes to students getting jobs after their college education. 9.6% more students are likely to be in paid employment (for 16 hrs per week or more) after finishing their 16-18 full time courses, than average.
- The College has around 10% higher FT employment than the average FE college and one of the highest surveyed.
- Those going into FT FE is almost 4% higher than the average FE college.
- Students going into apprenticeships is on par with an average FE college.
- Continued 3-year trend of positive destinations 6 months after leaving College.
- 83% of student destinations obtained (81% previous year); 94% of known destinations are positive; 46% (non-trade Level 3 FE) progressed to HE.

The College also continues to strongly meet the conditions of funding around work-placements:

- 99% completion of work placements by those students who have to undertake it.
- Continued funding acquired for extended industry placement capacity (target of 75 achieved, target doubled by the Department for Education (DfE) to 150 for 2019-20).

The College has established a new formal 14-16 curriculum offer with Blenheim High School, where pupils from the school attend NESCOT for two days each week to study vocational qualifications in Travel and Tourism; Media Makeup; Construction; and Motor Vehicle. The programme runs over two years and a new cohort has started in 2019-20. Other schools have now started to infill into this provision.

*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

Many of the College's students are involved in competitions or take part in events showcasing their particular talents. For example, students in Foundation Learning develop their enterprise and independence skills by producing work for resale or providing catering for external events. The College has a highly effective student industry internship programme for a number of these students, which has resulted in employment for them.

Teachers in Computing and Media use competitions effectively to motivate and encourage students to produce work of an exceptionally high standard and in recent years students from these areas have won Gold and Silver medals at World Skills. The College has won more medals than any college in England. 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.

Students' achievements are celebrated and recognised through a termly student awards ceremony, presented by the Chief Executive and Principal and guest presenters. An FE Awards Evening celebrates the best of NESCOT's students. Further examples include Ciara Kennedy, who has already won 11 medals and two ribbons at county and regional events, is competing in the Special Olympics Greater London Regional Indoor Athletics contest in Lee Valley. NESCOT Foundation Learning students won 'overall good' in a countryside competition for young people.

Nescot's business students triumphed at a regional Young Business Enterprise competition during the year, winning the top spot and three other prizes with their invention. Their team, Aspire, was named the best company at the North Surrey Young Enterprise Company Programme Showcase with their self-watering plant kit.

NESCOT students also helped to test a new computer game ahead of its launch in the UK. Games animation and VFX students have been doing work experience at Reef Entertainment, a Croydon-based video games publisher and distributor that is developing its own titles. NESCOT continues to ensure that its students engage with industry at every opportunity.

Nescot students have also raised significant amounts of money for charities. For example, Hair and Beauty students raised over £5,000 for the Rainbow Trust, which supports children aged up to 18 years old who have a life-threatening or terminal illness, and their families.

Financial Review

Financial Results for the Year Ended 31 July 2019

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

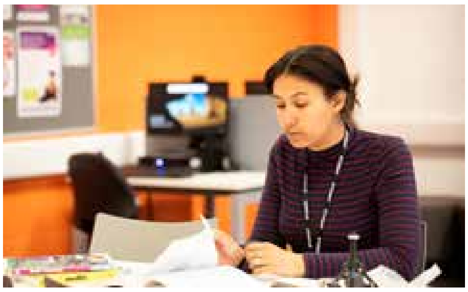
The College has four subsidiary companies. Only one of these was active during the year ended 31 July 2019, Nescot Enterprises Ltd (NEL), which is 100% owned by the College and included in the College Group financial statements. NEL's main activities encompassed non-primary purpose trading; and the the supply of a small number of administrative staff to the College.

The financial results for the year ended 31 July 2019 are summarised in the following table:

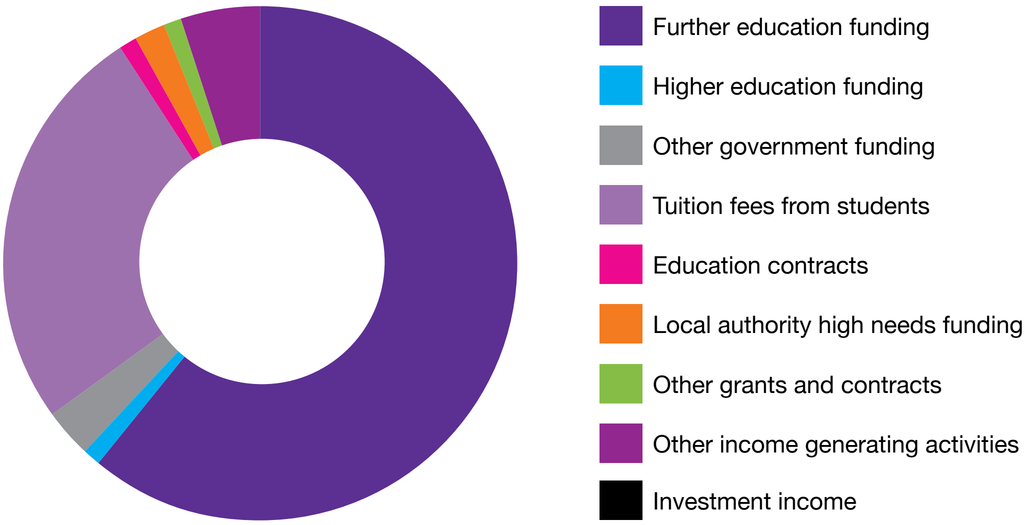
	NESCOT Group £000	NESCOT College £000
Total income	28,194	28,050
Total expenditure	(27,961)	(27,775)
(Deficit)/surplus before other gains and losses	**233**	**275**
Gain on disposal of assets	12	12
Gain on investments	39	39
Share of operating deficit in joint venture	(15)	(15)
(Deficit)/surplus before tax	**269**	**312**
Taxation	0	0
Deficit/surplus for the year	**269**	**312**

The College Group seeks to generate a surplus to produce sufficient cash to support strategic priorities and long term sustainability, targeting an annual operating surplus as a proportion of total income of at least 3%. Although the College Group delivered an operating surplus of £269k against a balanced budget for the year, the final outturn represents only 1% of total income.

Total income for the College Group was £28.19m (£25.73m 2017-18), increased by 10% from the previous year. Total expenditure was £27.96m (£26.01m 2017-18), increased by 7.5% from the previous year. The College Group generated a surplus before other gains and losses of £233k (£276k deficit 2017-18). After an operational deficit from a joint venture in the UK of £15k; gains on disposals of assets of £12k from the sale of gym equipment; and gains on investments of £39k, the NESCOT Group generated a surplus for the year of £269k (£731k deficit 2017-18). Total Comprehensive Income for the College Group was a loss of £1.92m (£2.23m surplus 2017-18) caused by an actuarial loss of £2.4m in respect of pension schemes.

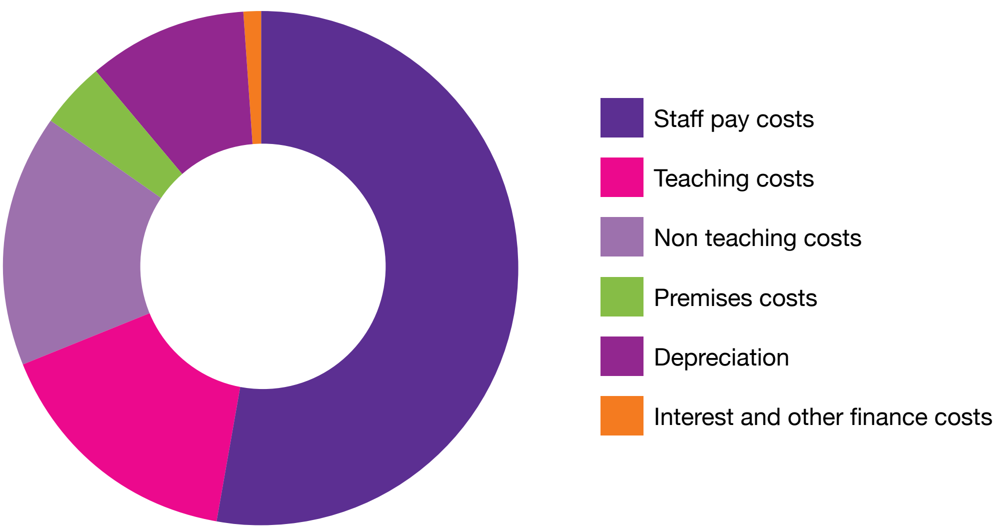


Total income for the College was £28.05m (£26.06m 2017-18), increased by 7.6% from the previous year. Key income analysis is as follows:



Growth in total income was predominantly due to additional tuition fee income from HE student loans, increasing by 37% to £3.9m; and additional funding from local authorities for students with high needs, increasing by 90% to £690k. 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 OfS for HE provision. In 2018-19, the ESFA provided 65.8% of the College's total income.

Total expenditure for the College was £27.78m (£26.01m 2017-18), increased by 6.8% from the previous year. Key expenditure analysis is as follows:



Staff pay costs increased by 9% to £14.84m, representing 52.9% of total income (including subcontracted income) and predominantly reflecting uncontrollable increases in pension costs. Non-pay costs for curriculum departments fell by 2.7% to £4.27m, reflecting the College's strategy to reduce costs and increase efficiency and profitability of curriculum delivery. Non pay costs of the professional and support services increased by 11% to £4.72m, reflecting the increasingly complex nature of the College's business and of sector regulatory and compliance requirements.

The College generated a surplus before other gains and losses of £275k (£52k 2017-18). After gains and losses, the College generated a surplus for the year of £312k (£26k 2017-18). This represents 1.1% of total income, which is ahead of the annual target set for 2018-19 although behind the College's Finance Strategy parameter of at least 3%. The College's financial forecasting during the year was accurate.

At 31 July 2019, the College Group held non-current investments with a market value of £1.04m. The Members, through the Senior Management Team, delegate the discretionary powers of management of the College's non-current investments to investment manager Smith & Williamson. The investment objective is to maximise long term return and it is measured against an agreed target.

The College Group's bank balances are held in cash funds managed by HSBC and Metro Bank, which totalled £5.69m at 31 July 2019.

The College operates two defined benefit pension schemes: the Teachers' Pension Scheme (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Surrey County Council. The latest formal actuarial valuation of the TPS was on 31 March 2019 and of the LGPS on 31 March 2016. The balance sheet at 31 July 2019 shows defined benefit obligations of £6.15m, increased by £2.74m from last year's valuation. NEL operates a defined contribution workplace pension scheme: the National Employment Savings Trust (NEST).

The College Group added £2.1m to tangible fixed asset values during the year. Major refurbishments to the value of £839k were completed to the College circulation areas and stairwells; the Sports Hall; for improvements in limited mobility access across campus; and key areas of curriculum including Foundation Learning and Learning Support; Plumbing; Performing Arts; and Media. A substantial programme of IT infrastructure upgrade was also continued during the year, including 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. These improvements totalled approximately £1m.

The College has spent a total of approximately £55m 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 £1.8m is planned in capital expenditure in 2019-20. The re-development of the College estate and infrastructure has been managed without any borrowing. The College's Property Strategy has been updated in 2018-19 for the next 10 years, which will include further ambitious developments of the estate.

The College Group 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 Group has accumulated reserves of £52.45m after FRS102 pension adjustments and defined benefit obligations of £6.15m.

All key financial ratios are positive, although operating surpluses are currently insufficient to maintain longer term sustainability. These are still being achieved, although they continue to be insufficient year on year as the College Group's cost base rises at a faster rate than income generation. The Balance Sheet is strong, demonstrating solvency and liquidity. Cash balances have reduced 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 Group has a healthy level of cash days in hand, and net current assets. Total fund balances/reserves that are robust, ahead of budgets and sector benchmarks. The College Group's EBITDA for 2018-19 was 10.62%, contributing to the College Group's outstanding financial health grade. This performance is ahead of target and well ahead of sector averages, indicating that the College Group is efficient and effective in generating cash from operations. The College Group's gearing ratio is 0% (excluding some small financial lease commitments), very significantly ahead of sector benchmarks. The College Group does not anticipate any borrowing requirement in the foreseeable future.

The ESFA automated financial health grade was 'outstanding' at 31 July 2019 and forecast to be 'outstanding' throughout 2019-20 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, and 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 at 31 July 2019, using the Bank of England base rate of 0.75% at this date, is as follows:

	Benchmark target %	College funds average balances £	Benchmark target return £	Actual return £
£ under £0.5m	1.00%	NIL	NIL	NIL
£ over £0.5m	1.50%	£5,611,000	£84,165	£64,000

The College continues to underperform against treasury management targets and is significantly behind the benchmark target of £84.2k. This performance continues to be reviewed, with options being considered for investment of additional funds with external cash managers in other higher-return 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 £2.09m, net cash flow from operating activities was strong. The net cash flow 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 2019, these parameters required cash reserves of between £3.2m and £8.0m to be maintained. An average throughout the year would equate to the maintenance of cash reserves of between £3.9m and £9.7m. The College maintained average cash balances of £5.6m, 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 £3k cash reserves with Metro Bank in an instant access account.

At 31 July 2019, the College held a total of £5.64m in cash reserves analysed as follows:

Account	Balance	Interest Rate	Comment
HSBC Current	£10k	0%	Sweep facility
HSBC Money Market	£5,623k	0.3%	Instant access
Metrobank Instant	£3k	0.5%	Instant access
Metrobank Deposit	£NIL	0.50%	100 day notice

The Bank of England base rate increased from 0.5% to 0.75% on 1 August 2018. The College earned a total of £25k in interest from cash balances in the year ended 31 July 2019.

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 £320k 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 2018 to 31 July 2019, the College paid 74 per cent of its invoices within 30 days, down from 76 per cent in the previous year. The College incurred no interest charges in respect of late payment for this period, but is endeavouring to improve this statistic.

Events After the End of the Reporting Period

There were none.

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 the Members 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 generally in the FE sector. The current main challenges relate to:

1 Apprenticeship policy

2 T Levels

3 Spending review

4 Insolvency regime

5 Devolved Adult Education Budget (AEB) funding

6 Post-18 education and funding review

7 Institutes of Technology

8 New OFSTED common inspection framework



1. Apprenticeship policy

Large employers have been able to transfer a greater proportion of their levy funds forward from April 2019. The levy transfer facility increases from 10 per cent to 25 per cent. The fee small employers pay when they take on apprentices will fall from 10 per cent to five per cent. No other policy changes are currently on the horizon, although there may well be in the future. The government is reviewing whether it will continue to fund all apprenticeships, following reports that the budget is set to be overspent, in large part because of the growing number of expensive management apprenticeship starts.

2. T levels

The pace of development of T levels is now accelerating. Those awarding organisations to have won contracts to develop the first of the new technical qualifications are due to be announced in February 2020.

3. Spending review

With the forthcoming general election in December 2019, it will be several weeks before the first spending announcement for the first budget. The current Chancellor fixed departmental spending budgets for 2020-21 in September 2019. All of the main parties have promised higher spending in FE, but these are unlikely to materialise, if at all, until after 2020-21.

4. Insolvency regime

Described as a “game changer” by the FE Commissioner, the insolvency regime, which will allow colleges to become insolvent for the first time, took effect from 31 January 2019. The ESFA has published its new approach to intervention. Exceptional financial support has been withdrawn. The ESFA new regime is a significant change for colleges, and those that “are evidently deteriorating” will expect greater challenges from the ESFA.

5. Devolved AEB funding

Seven devolved areas received a combined total of approximately £600m in AEB funding from August 2019. They are Cambridgeshire and Peterborough; Greater Manchester; Liverpool City; London; Tees Valley; West Midlands; and the West of England. The process has been many years in the making, with the first devolution deal, for Greater Manchester, agreed back in 2014. It is likely to lead to a fundamental change to the way that adult education is funded and delivered in the devolved areas. The Greater London Authority (GLA), with which NESCOT transacts for AEB, and which has the largest devolved budget and is the most advanced in its plans, has stated that it will eventually move away from simply paying providers to deliver qualifications to focusing on wider outcomes such as progression into work. There is widespread concern that the policy will lead to a postcode lottery for adult learners.

6. Post 18 education and funding review

The recent review of post-18 education and funding, conducted by Philip Augar, states that there is a “powerful” case for change in the FE sector that is subject to “inflexible” and administratively costly rules, and which in recent years has had its ability to innovate and plan for the long term “severely restricted” by the funding regime. To improve the quality, capability and capacity of the FE college network, Augar has made a number of recommendations. The key aspects of the proposals include increased capital and revenue funding for FE colleges; small local colleges to be “integrated into groups”; bringing back full funding for both Levels 2 and 3; ESFA funding rules to be simplified and providing an indicative AEB which allows colleges to plan and budget over a three-year period; investment in the FE workforce becoming a “priority”; conferring a protected title on colleges, as universities are entitled to, to “instil confidence in potential learners that their chosen college and the courses it offers are part of a respected national adult education network”; and Ofsted to become the lead responsible body for inspecting apprenticeships at all levels.

7. Institutes of Technology (IoT)
Between 10 and 15 IoTs are set to be created. They are intended to bring FE and HE providers together, along with employers, to deliver technical skills training with a particular focus on Levels 4 and 5. They will be backed by £170m of capital funding, which can be spent on "industry-standard facilities and equipment".

8. New OFSTED common inspection framework
A move away from outcomes and a greater focus on curriculum are among the changes made to Ofsted inspections, with the introduction of its new education inspection framework from September 2019.

Financial Outlook and Future Plans
There are 251 colleges in England and they are under serious financial pressure. The outlook for the sector has further deteriorated in the last 12 months despite some limited funds made available in recent Treasury budgets and despite the widespread agreement that education and skills matter for the country's future. For most colleges, including NESCOT, the 2019-20 budget round has been the most challenging in years. Key aspects of the funding environment in the sector, and which form the backdrop to the College's financial planning for 2019-20 onwards, include the following:

1 Demography and falling 16-18 numbers in education

2 Fixed funding rates

3 Rising staff costs

4 Apprenticeship spending controls

5 Constraints on the AEB

6 Intense competition

7 Higher pension costs

8 New costs and obligations

9 Tougher intervention regime

1. Demography and falling 16-18 numbers in education
The number of 16-to-18-year-olds in England reaches a low point in 2019-20 and this contributes to falling numbers both in education and in colleges. Total 16-to-18 student numbers in FE colleges were 2% less in 2018-19 than in 2017-8. The majority of colleges therefore received a smaller cash sum for 16-to-18 education in 2019-20. NESCOT received £786k less in allocation in 2019-20 as a result of lower than expected student enrolment in 2018-19 and lagged funding.

2. Fixed funding rates
The DfE has fixed funding rates in cash terms again for 2019-20. This is the 7th year in which government has not accounted for inflation when setting 16-18, AEB and apprenticeship rates. The official economic forecast predicts a 2% rise in the Consumer Price Index (CPI) and a 3% rise in average earnings in the next 12 months.

3. Rising staff costs
Colleges spend two-thirds of their income on staff and face pressure to increase pay levels to motivate staff and to keep up with jobs in comparable sectors. The DfE provided a teacher pay grant to schools in 2018 to support a two-year pay deal but nothing comparable for colleges. Colleges report staff turnover averaging 17% and face particular challenges recruiting and retaining maths, science and engineering teachers. NESCOT recently similarly experienced higher than usual staff turnover.

4. Apprenticeship spending controls

Apprenticeship income accounts for around 10% of FE college income. Although larger employers have not used their spending power in the first two years of the apprenticeship levy, this is starting to change and activity is increasing. The National Audit Office (NAO) reports that the 2019-20 budget is fully committed and that there will be an overspend in the 2020-21 budget if no remedial action is taken. The ESFA has issued 2019-20 allocations to colleges for the training of non-levy apprentices. These allocations are less than 2018-19 activity and will require many colleges to ration places. In some cases, colleges will be required to turn employers and 16-to-18 years olds away. NESCOT has received significantly reduced allocation for 16-18 non-levy apprentices and 19+ non-levy apprentices of 21% (£297k) and 30% (£277k) respectively in 2019-20.

5. Constraints on the AEB

The AEB is also fully committed in 2019-20. Half of the budget is now allocated to seven Mayoral Combined Authorities (MCAs) and the GLA. Some colleges have had 2019-20 allocations which are much less than their 2018-19 activity. Meanwhile, other colleges with activity in devolved areas are facing reductions because the authorities have new priorities. NESCOT has experienced a significant reduction in the AEB allocation of 34% (£1.8m) due to devolution of the budget.

6. Competitors able to run provision on income that covers marginal costs only

Colleges compete with schools for 16-to-18 year olds and with universities for HE students. Secondary schools receive higher levels of funding for pre-16 pupils and are able to use this money to subsidise sixth form provision. Some universities, meanwhile, are increasing their higher technical and degree apprenticeship activity. Universities, like schools and colleges, face significant financial pressures but many can support new developments from existing reserves. Competition from lean and agile private training providers is also now intense.

7. Higher pension costs

All colleges will pay higher contributions to the Teachers' Pension Scheme (TPS) from September 2019 and many will face higher contributions to the Local Government Scheme from April 2020. The DfE has provided funding for 11 months only in 2019-20 to cover the extra TPS costs. There will not be any funding for higher LGPS costs and there will not be any information on changes to contributions until early 2020. The College will pay £343k more in TPS costs in 2019-20.

8. New costs and obligations

Colleges will take on new technology costs in 2019-20 as a result of reductions in DfE funding to JISC (which provides network and other services to the sector). Colleges with HE provision will pay subscription fees from April 2019 for the OfS. Colleges continue to be expected to provide a wide variety of services, from careers advice to support for mental health, with development funding only.

9. Tougher intervention regime

Colleges in England now operate in a system in which the DfE or their creditors can invoke insolvency procedures and in which there is a very limited safety net if cash runs out. Banks have been reducing their lending to the sector since 2015. The DfE has published a new College Oversight and Intervention policy in April 2019, which will declare more colleges as having finances that "require improvement" and that will involve remedial action against these institutions and those whose finances are judged inadequate. The impact for 2019-20 budget setting is a stronger incentive to avoid deficits while conserving cash reserves and cash flow.

This forms the backdrop for the College's academic and financial planning for 2019-20 and beyond. The College is taking positive and active steps to ensure that it can continue to operate successfully in the evolving 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

Total income for the College Group was £28.19m in 2018-19. The College Group has £52.45m of net assets, including £6.15m pension liability, and no debt. Tangible resources include the main College site at Ewell Epsom.

People

The College employs 388 people (expressed as full time equivalents including sessional and casual staff), of whom 138 (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 work during the year to further develop and embed the system of internal control, including 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 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, particularly those in the European Union
6	Management of the College's commercial activities
7	Management of reform of Apprenticeship provision
8	Sufficiency of senior management capacity to manage College transformation

A strategic risk register is maintained at the College level, which is updated regularly by management 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.

Stakeholder Relationships

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

- Current, future and past students
- Education sector funding bodies
- FE Commissioner
- Staff and trade unions
- 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, keeping all staff informed of activity in their area or any essential updates. Each term, there is a Principal's Briefing with all staff, and 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; sexual orientation; disability; religion or belief and age. All forms of prejudice and discrimination are unacceptable and will not be tolerated at the College. This is monitored by the Equality and Diversity Group where progress against Equality and Diversity Impact Measures (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 polices and action plans, which are monitored by the Equality and Diversity 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) It is a legal requirement under the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017 for all organisations to publish every year the gender pay gap between male and female employees, based on the difference between their average earnings. This is a key step in addressing the gender pay gap and ensuring that the workplace works for everyone. It is a legal requirement to publish this data by 31 March each year, on their own website and on a government website, which the College has adhered to. The benefits of being committed to reducing the gender pay gap includes developing a reputation for being a fair and progressive employer, attracting a wider pool of potential recruits for vacancies, and the enhanced productivity that can come from a workforce that feels valued and engaged in a culture committed to tackling inequality.

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. This was previously known as the 'Two Ticks' symbol ('Positive about Disabled People'), which the College has participated in since 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 July 2019. This is assessed every three years and will be reviewed again in 2021. 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 Group ensures that effective systems to monitor and evaluate equality and diversity practice are in place by:

i) Setting and monitoring equality and diversity performance indicators.

ii) 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.

iii) 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.

iv) Monitoring and analysing staff recruitment, grievance and disciplinary, staff progression and gender pay gap in terms of age, gender, and disability.

v) Monitoring and analysing the take-up of staff training and development opportunities.

vi) Ensuring College policies in relation to equality and diversity are regularly monitored, reviewed and updated, in line with legal requirements.

vii) 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:

i) Mainstream courses with learning support.

ii) 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.

iii) Foundations students with moderate learning difficulties in a supported learning environment in Seasons Learning Hub 1.

iv) Seasons Learning Hub 2 for students with more complex difficulties focussing on independent living and life skills.

v) Supported Employment and Further Education Pathways 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:

i) Small group support for language, literacy and numeracy outside of normal class.

ii) Specialist software or adapted handouts and course notes.

iii) Mentoring.

iv) Learning support assistant for in class support or 1:1 support.

v) Sign Supported English communicator accessed from external agencies.

vi) Access arrangements for exams such as a reader, scribe or extra time.

vii) 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.

viii) Access to the College Nurse and Counsellors.

ix) 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) Following assessment, students may have access to assistive software such as Dragon, Read and Write Gold and Inspiration. CPens and laptops can also be made available. There is adjustable height furniture and other 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, particularly those accessing Level 2 and Level 3 programmes of study. This may be on a 1:1 or small group basis in addition to class times.

d) There is a programme of staff development to ensure that staff are aware of appropriate support for students who have learning difficulties and/or disabilities.

e) Courses and their entry requirements 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.

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 Time

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

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.

Throughout the year, the College had 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 is the data that was submitted for the College:

Trade union facility time data – 1 April 2018 to 31 March 2019
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: £13,643,000 Total cost of facility time: £870* Percentage of pay spent on facility time: 0.006%
Paid trade union activities Hours spent on paid facility time: 29 Hours spent on paid trade union activities: 0 Percentage of total paid facility time hours spent on paid TU activities: 0.00%

*nominal amount used as only one representative

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 12 December 2019 signed on its behalf by:

Signed: ....

Professor Sam Luke
Chair of NESCOT Corporation

3 Statement of Corporate Governance and Internal Control

Governance Statement

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2018 to 31 July 2019 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 AoC's college code.

The College endeavours to conduct its business:

a) in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership); and

b) 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 2019. 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 2018-19

Name	Eligibility	Committees Served	Elected	Re-Elected	Term Of Office Expires / Resigned	Attendance Record[1]
Mr K Shaikh	External	Audit; CQC	24/04/2018		2019	9/12
Mr J Roberts	Teaching Staff Governor	CQC	01/09/2017		2019	7/9
Professor S Luke	External	Corporation (Chair); F&GP; NBS Ltd; Search & Governance (Chair); SSPRC; Growth sub-committee (Chair)	01/09/2013	2015	2019	21/22
Mr C Muller	External	CQC (Chair)	05/04/2011	2013; 2016	2020	7/9
Mr C Shortt	External	F&GP: Search & Governance	10/07/2009	2012; 2014; 2015; 2016; 2017; 2018	2019	9/13
Mr P Stamps	External	F&GP (15/09/2017-08/12/2017 & 01/04/2018 onwards - Chair); NBS Ltd; SSPRC; Search and Governance; Growth sub-committee	06/12/2013	2016	2020	22/22
Ms M Kilminster	External	Audit; CQC	01/08/2016	2018	2022	8/12
Mr Vince Romagnuolo	External	F&GP	22/03/2019		2022	2/5
Dr M West	External	F&GP (from 03/03/2017 – 01/04/2018 Chair);	07/10/2016		07/10/ 2018	0/1
Ms L Reddick	External	CQC	01/08/2016	2018	2022	6/9
Ms G Ozolua	External	F&GP	04/02/2017		2019	0/5
Ms F Rutter	Group CEO & Principal	FGP, CQC, Search & Governance and Growth Sub-Committee	01/04/2017			22/24
Mr G Hodge	Non-teaching staff Governor	Audit	16/01/2017		2020	6/9
Ms S Pritchett	External	Growth sub-committee	06/10/2017		2019	9/11
Ms M Martin	External	F&GP	06/10/2017		2020	7/10
Mr S Enoch	External	Audit	13/12/2018		2021	7/8
Ms E Lawrence	External	Audit	13/12/2018		2021	7/8
Ms Felicity Fletcher	Student Governor (HE)	CQC	01/09/2017		2019	3/7
Mr Kieran Sainsbury	Student Governor (HE)		01/09/2017		2019	0/6
Mr Daksin Chandrasekera	Student Governor (FE)	CQC	05/10/2018		2020	5/9

[1]Actual number of attendances against possible attendances [2]Student Governor (HE) without voting powers 2018/19

Mr David Round was Clerk to the Corporation from 1 August 2018 to 22 March 2019.
Mrs Josephine Carr was Clerk to the Corporation from 25 March 2019 to 31 July 2019.

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 the College's registered address:

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.

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) a self-assessment questionnaire to be completed by Governors; and

b) 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 2019, 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 2019 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 2019 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 2019 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The Risk and Control Framework

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

a) comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body;

b) regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts;

c) setting targets to measure financial and other performance;

d) clearly defined capital investment control guidelines; and

e) 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:

a) the work of the internal auditors;

b) the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework; and

c) 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.

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 2019 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2019 by considering documentation from the Senior Management Team and internal audit, and taking account of events since 31 July 2019.

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 2019-20 Budget and One Year Forecast indicated that the College has met the majority of its high level and operational KPIs for 2018-19 and that it is capable of further increasing its income, with total income expected to reach £30.1m in 2021. However, the cost base is also expected to reach £29.9m in 2021 to support growth in the business, realising a forecast operating surplus of £196k after interest, tax, depreciation and amortisation (ITDA). These forecasts are ahead of the Finance Strategy targets set in April 2018, 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.

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, and awarding body charges) and further 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 generally declining financial performance each year through to 2023. The year 2019-20 will be the most challenging with another balanced budget. The College continues to review options for increasing income and reducing the cost base, with particular focus on staff costs and the profitability of curriculum delivery.

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 12 December 2019 and signed on its behalf by:

Signed: ....

Professor Sam Luke
Chair of
NESCOT Corporation

Signed: ....

Frances Rutter
Chief Executive
and Principal

4 Statement of Regularity, Propriety and Compliance

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

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

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

Signed:...

12 December 2019

Professor Sam Luke
Chair of
NESCOT Corporation

Signed:...

12 December 2019

Frances Rutter
Chief Executive
and Principal

5 Statement of Responsibilities of the Members of the Corporation

The Members of the Corporation, as charity trustees, are required to present audited financial statements for each financial year. Within the terms and conditions of the Corporation's grant funding agreements and contracts with the Education and Skills Funding Agency (ESFA), the Corporation, through its Accounting Officer, is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 2015 'Statement of Recommended Practice – Accounting for Further and Higher Education', the ESFA's 'College Accounts Direction, and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the Corporation and the surplus of income over expenditure for that period.

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

a) select suitable accounting policies and apply them consistently;

b) make judgements and estimates that are reasonable and prudent;

c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

d) prepare financial statements on the going concern basis, unless it is inappropriate to assume that the Corporation 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 Corporation.

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

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

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

Approved by order of the Members of the Corporation on 12 December 2019 and signed on its behalf by:

Signed: ……………………………………………………………..

Professor Sam Luke
Chair of
NESCOT Corporation

6 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 2019 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 2019 and of the Group surplus 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.

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.

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

7 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 2018 to 31 July 2019 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 2018 to 31 July 2019 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

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.

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 2018 to 31 July 2019 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Signed: .... **Date:** ....

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

8 Consolidated Statements of Comprehensive Income and Expenditure

	Notes	Year ended 31 July		Year ended 31 July	
		2019	2019	2018	2018
		Group	College	Group	College
		£'000	£'000	£'000	£'000
INCOME					
Funding body grants	2	18,445	18,445	18,488	18,488
Tuition fees and education contracts	3	7,406	7,406	5,509	5,509
Other grants and contracts	4	835	835	412	412
Other income	5	1,482	1,338	1,289	1,289
Investment income	6	25	25	32	32
Donations and endowments	7	0	0	0	328
Total Income		**28,194**	**28,050**	**25,731**	**26,059**
EXPENDITURE					
Staff costs	8	14,898	14,835	13,610	13,610
Other operating expenses	9	10,342	10,218	9,652	9,652
Depreciation	12	2,612	2,612	2,569	2,569
Interest and other finance costs	10	109	109	176	176
Total expenditure		**27,961**	**27,775**	**26,007**	**26,007**
(Deficit)/surplus before other gains and losses		**232**	**275**	**(276)**	**52**
Gain on disposal of assets	12	12	12	0	0
Gain/(loss) on investments	14	39	39	(428)	0
Share of operating deficit in joint venture	13	(15)	(15)	(26)	(26)
(Deficit)/surplus before tax		**269**	**312**	**(731)**	**26**
Taxation	11	0	0	(70)	0
(Deficit)/surplus for the year		**269**	**312**	**(800)**	**26**
Release of depreciation on revalued assets - transfer from revaluation reserve	20	202	202	208	208
Actuarial gain/(loss) in respect of pensions schemes	26	(2,394)	(2,394)	2,826	2,826
Total Comprehensive Income for the year		**(1,923)**	**(1,880)**	**2,234**	**3,060**
Represented by:					
Unrestricted comprehensive income		(1,923)	(1,880)	2,234	3,060
Restricted comprehensive income		0	0	0	0
		(1,923)	**(1,880)**	**2,234**	**3,060**
Surplus for the year attributable to:					
Non controlling interest		0	0	0	0
Group		269	312	(800)	26
		269	**312**	**(800)**	**26**
Total Comprehensive Income for the year attributable to:					
Non controlling interest		0	0	0	0
Group		(1,923)	(1,880)	2,234	3,060
		(1,923)	**(1,880)**	**2,234**	**3,060**

9 Consolidated and College Statement of Changes in Reserves

	Income and Expenditure Account	Revaluation Reserve	Restricted Reserves	Total excluding Non Controlling Interest	Non Controlling Interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Group						
Balance at 1st August 2017	**38,697**	**13,804**	**50**	**52,552**	**285**	**52,836**
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	0	(285)	(285)
Transfers between revaluation and income and expenditure reserves	208	(208)	0	0	0	0
	2,284	**(208)**	**(50)**	**2,026**	**(285)**	**1,740**
Balance at 31st July 2018	**40,981**	**13,595**	**0**	**54,576**	**0**	**54,576**
Surplus/(deficit) from the income and expenditure account	269	0	0	269	0	269
Other comprehensive income	(2,394)	0	0	(2,394)	0	(2,394)
Transfers between revaluation and income and expenditure reserves	202	(202)	0	0	0	0
Total comprehensive income for the year	**(1,923)**	**(202)**	**0**	**(2,125)**	**0**	**(2,125)**
Balance at 31st July 2019	**39,059**	**13,393**	**0**	**52,452**	**0**	**52,452**
College						
Balance at 1st August 2017	**37,863**	**13,804**	**0**	**51,667**	**0**	**51,667**
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
	3,060	**(208)**	**0**	**2,851**	**0**	**2,851**
Balance at 31st July 2018	**40,923**	**13,595**	**0**	**54,519**	**0**	**54,519**
Surplus/(deficit) from the income and expenditure account	312	0	0	312	0	312
Other comprehensive income	(2,394)	0	0	(2,394)	0	(2,394)
Transfers between revaluation and income and expenditure reserves	202	(202)	0	0	0	0
Total comprehensive income for the year	**(1,880)**	**(202)**	**0**	**(2,082)**	**0**	**(2,082)**
Balance at 31st July 2019	**39,043**	**13,393**	**0**	**52,436**	**0**	**52,436**

10 Consolidated Statement of Financial Position as at 31 July

	Notes	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Fixed assets					
Tangible fixed assets	12	65,515	65,508	66,021	66,021
Investments	14	1,039	1,039	0	0
		66,554	**66,547**	**66,021**	**66,021**
Current assets					
Stocks		13	13	15	15
Trade and other receivables	15	2,085	2,105	2,083	2,083
Cash and cash equivalents	21	5,690	5,636	6,692	6,692
		7,787	**7,755**	**8,790**	**8,790**
Less: Creditors - amounts falling due within one year	16	(3,496)	(3,414)	(4,437)	(4,437)
Net current assets		**4,292**	**4,341**	**4,352**	**4,353**
Total assets less current liabilities		**70,846**	**70,889**	**70,373**	**70,373**
Less: Creditors - amounts falling due after more than one year	17	(11,914)	(11,972)	(12,105)	(12,162)
Provisions					
Defined benefit obligations	26	(6,145)	(6,145)	(3,401)	(3,401)
Other provisions	19	(335)	(335)	(291)	(291)
Total net assets		**52,452**	**52,436**	**54,576**	**54,519**
Unrestricted reserves					
Income and expenditure account		39,059	39,043	40,981	40,923
Revaluation reserve	20	13,393	13,393	13,595	13,595
Total unrestricted reserves		**52,452**	**52,436**	**54,576**	**54,519**
Total reserves		**52,452**	**52,436**	**54,576**	**54,519**

The financial statements on pages 46 to 49 were approved and authorised for issue by the Corporation on 12 December 2019 and were signed on its behalf on that date by:

Signed:

....

Professor Sam Luke
Chair

Signed:

....

Frances Rutter
Accounting Officer

Nescot

11 Consolidated Statement of Cash Flows

	Notes	2019 £'000	2018 £'000
Cash inflow from operating activities			
Surplus/(deficit) for the year		269	(800)
Adjustment for non cash items			
Depreciation		2,612	2,569
(Increase)/decrease in stocks		2	(2)
(Increase)/decrease in debtors		(1)	2,851
Increase/(decrease) in creditors due within one year		(942)	(2,421)
Increase/(decrease in creditors due after one year		(190)	(1,271)
Increase/(decrease) in provisions		44	(59)
Pensions costs less contributions payable		259	297
Interest on LGPS		107	171
Investment income		(39)	0
Other		2	33
Adjustment for investing or financing activities			
Investment income		(25)	(32)
Interest payable		2	1
Taxation paid		0	70
Gain on sale of fixed assets		(12)	0
Net cash flow from operating activities		**2,087**	**1,407**
Cash flows from investing activities			
Proceeds from sale of fixed assets		12	0
Disposal of non-current asset investments		0	151
Investment income		25	32
Payments made to acquire investments		(1,000)	0
Payments made to acquire fixed assets		(2,106)	(5,798)
		(3,069)	**(5,614)**
Cash flows from financing activities			
Interest element of finance lease rental payments		(2)	(1)
Capital element of finance lease rental payments		(18)	(23)
		(20)	**(24)**
Increase / (decrease) in cash and cash equivalents in the year		**(1,002)**	**(4,232)**
Cash and cash equivalents at beginning of the year	21	6,692	10,923
Cash and cash equivalents at end of the year	21	5,690	6,692

12 Notes to the Financial Statements

for the Period from 1 August 2018 to 31 July 2019

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 2018 to 2019; 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 Nescot Enterprises Limited, controlled by the Group, for the financial year to 31 July 2019. 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 2019.

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 £6m of cash balances and around £52m 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.

Fee income is stated gross of any expenditure which is not a discount and recognised within the Statement of

Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...

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.

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.

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.

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.

Capital Grant Funding

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS 102. Other, non-governmental, capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the Balance Sheet and released to income as conditions are met.

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).

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 26, the TPS is a multi-employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the 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 LGPS is a funded scheme. 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 dedicated.

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.

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.

Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...

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.

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.


STUDENT

Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...

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 2019. 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.

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

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

Cash flows comprise increases or decreases in cash.

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.

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.

Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...

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.

- 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 26, will impact the carrying amount of the pension liability. The actuary has used a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 to value the pensions liability at 31 July 2019. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.


STAFF

2 Funding Body Grants

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Recurrent grants				
Education and Skills Funding Agency - adult	5,371	5,371	5,016	5,016
Education and Skills Funding Agency - 16 -18	9,049	9,049	8,788	8,788
Education and Skills Funding Agency - apprenticeships	2,809	2,809	3,551	3,551
Office for Students (OfS)	358	358	349	349
Specific grants				
Releases of government capital grants	338	338	442	442
Other funding grants	520	520	341	341
Total	**18,445**	**18,445**	**18,488**	**18,488**

3 Tuition Fees and Education Contracts

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Adult education fees	909	909	444	444
Apprenticeship fees and contracts	83	83	83	83
Fees for FE loan supported courses	1,157	1,157	1,156	1,156
Fees for HE loan supported courses	3,922	3,922	2,468	2,468
Full cost recovery fees	1,186	1,186	1,224	1,224
Total tuition fees	7,257	7,257	5,375	5,375
Education contracts	150	150	134	134
Total	**7,406**	**7,406**	**5,509**	**5,509**

4 Other Grants and Contracts

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Local authority high needs	690	690	363	363
Other grants and contracts	145	145	50	50
Total	**835**	**835**	**412**	**412**

5 Other Income

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	411	411	375	375
Other income generating activities	931	787	754	754
Miscellaneous income	140	140	160	160
Total	**1,482**	**1,338**	**1,289**	**1,289**

6 Investment Income

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Bank interest	25	25	32	32
Total	**25**	**25**	**32**	**32**

Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...

7 Donations - College only

	Year ended 31 July	
	2019	2019
	Group	College
	£'000	£'000
Unrestricted donations	0	328
Total	**0**	**328**

8 Staff Costs - Group and College

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

	2019	2018
	No.	No.
Teaching staff	138	146
Non teaching staff	250	243
Total	**388**	**389**

	2019	2018
	£'000	£'000
Staff costs for the above persons		
Wages and salaries	11,838	10,652
Social security costs	861	841
Other pension costs	2,116	2,039
Employer Levy	37	36
Payroll sub total	**14,852**	**13,568**
Fundamental restructuring costs - contractual	46	0
Fundamental restructuring costs - non contractual	0	43
Total	**14,898**	**13,610**

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the CEO & Principal; the Deputy Principal (Finance & Resources); and the Deputy Principal (Curriculum & Quality). Staff costs include compensation paid to key management personnel for loss of office.

	2019	2018
	No.	No.
Emoluments of key management personnel, Accounting Officer and other higher paid staff		
The number of key management personnel including the Accounting Officer was:	3	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	
	2019	2018	2019	2018
	No.	No.	No.	No.
£60,001 to £70,000	0	0	3	1
£70,001 to £80,000	0	0	1	0
£80,001 to £90,000	0	0	0	1
£90,901 to £100,000	1	0	0	0
£100,001 to £110,000	1	1	0	0
£150,001 to £160,000	1	1	0	0
Total	**3**	**2**	**4**	**2**

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Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...

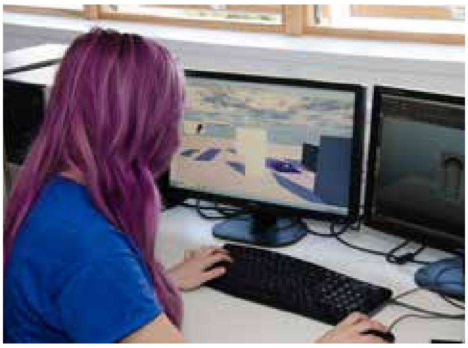
Key management personnel compensation is made up as follows:

	2019 £'000	2018 £'000
Salary and agency cost	342	359
Employers National Insurance	37	42
Benefits in kind	8	11
	387	**412**
Pension contributions	50	56
Total emoluments	**437**	**467**

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

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

	2019 £'000	2018 £'000
Salaries	151	150
Employers National Insurance	20	20
Benefits in kind	1	1
	172	**171**
Pension contributions	29	29
Total	**201**	**199**



	2019	2018
	£'000	£'000
Accounting Officer basic salary multiple		
Accounting Officer basic salary	151	150
Median salary, all staff	27	26
Multiple	**5.7**	**5.7**
Accounting Officer total remuneration multiple		
Accounting Officer total remuneration	180	179
Median remuneration, all staff	29	28
Multiple	**6.2**	**6.5**

The above multiples are calculated in accordance with the ESFA's recommendation to follow the Office for Students guidance in this regard. Basic salary is based on full-time equivalents for all staff, prior to any salary sacrifice. Agency staff are included at cost paid to the agency. Total remuneration further includes employer pension contributions, taxable and non-taxable benefits, market supplements, allowances and any other remuneration.

	2019	2018
	£	£
Compensation for loss of office paid to former key management personnel		
Compensation paid to the former post-holder - non-contractual	0	35

The severance payment in 2018 was approved by the College's remuneration committee.

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

9 Other Operating Expenses

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	4,265	4,265	4,382	4,382
Non teaching costs	4,838	4,720	4,249	4,249
Premises costs	1,239	1,234	1,022	1,022
Total	**10,342**	**10,218**	**9,652**	**9,652**

Other operating expenses include:

	2019 Group £'000	2019 College £'000	2018 Group £'000	2018 College £'000
Auditors' remuneration:				
Financial statements audit	41	41	37	37
Internal audit	31	31	31	31
Other services provided by the financial statements auditors	0	0	0	0
Other services provided by the internal auditors	44	44	0	0
Hire of assets under operating leases	83	83	65	65
Total	**199**	**199**	**132**	**132**

10 Interest payable - Group and College

	2019 £'000 Group	2019 £'000 College	2018 £'000 Group	2018 £'000 College
On finance leases	2	2	1	1
Net interest on enhanced pension liability	2	2	3	3
Net interest on defined pension liability (Note 26)	105	105	171	171
Total	**109**	**109**	**176**	**176**

11 Taxation - Group Only

	2019 £'000	2018 £'000
Corporation tax on subsidiary profits for the year	0	70
Total	**0**	**70**

12 Tangible Fixed Assets (Group)

	Land and Buildings	Equipment	Assets in the Course of Construction	Total
	Freehold			
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 August 2018	76,998	9,473	0	86,470
Additions	607	1,248	251	2,106
Disposals	0	(105)	0	(105)
At 31 July 2019	**77,605**	**10,616**	**251**	**88,472**
Depreciation				
At 1 August 2018	13,794	6,656	0	20,450
Charge for the year	1,569	1,043	0	2,612
Elimination in respect of disposals	0	(105)	0	(105)
At 31 July 2019	**15,363**	**7,594**	**0**	**22,957**
Net book value at 31 July 2019	**62,241**	**3,022**	**251**	**65,515**
Net book value at 31 July 2018	63,203	2,817	0	66,021

The net book value of equipment includes an amount of £106,296 (2017/18 – £10,478) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £5,595 (2017/18 – £20,956).

During the year, fully depreciated assets held under finance leases were disposed of, reducing both cost and deprecitation by £104,783. The receipts from the sale of £12,322 are reported in the Income Statement as gains on dispoal of assets.

12 *Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...*

12 Tangible Fixed Assets (College Only)

	Land and Buildings	Equipment	Assets in the Course of Construction	Total
	Freehold			
	£'000	**£'000**	**£'000**	**£'000**
Cost or valuation				
At 1 August 2018	76,998	9,473	0	86,470
Additions	607	1,242	251	2,100
Disposals	0	(105)	0	(105)
At 31 July 2019	**77,605**	**10,610**	**251**	**88,465**
Depreciation				
At 1 August 2018	13,794	6,656	0	20,450
Charge for the year	1,569	1,043	0	2,612
Elimination in respect of disposals	0	(105)	0	(105)
At 31 July 2019	**15,363**	**7,594**	**0**	**22,957**
Net book value at 31 July 2019	**62,241**	**3,016**	**251**	**65,508**
Net book value at 31 July 2018	63,203	2,817	0	66,021

The net book value of equipment includes an amount of £106,296 (2017/18 – £10,478) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £5,595 (2017/18 – £20,956).

During the year, fully depreciated assets held under finance leases were disposed of, reducing both cost and deprecitation by £104,783. The receipts from the sale, of £12,322 are reported in the Income statement as Gains on dispoal of assets.

13 Joint Venture

The College ended its partnership with Le Raj Academy of Epsom in December 2018, by mutual agreement. The entities had been running a restaurant from Nescot premises with profits or losses shared on a 50:50 basis. Trading losses were £15k (2018: £26k).

14 Non Current Investments

	College 2019 £'000	College 2018 £'000
Managed Fund	1,039	0
Total	**1,039**	**0**

In February 2019, the College invested £1m in a fund managed by Smith and Williamson LLP. The fund will be invested in a mixture of equities, bonds and currencies over a period of between one and five years with a view to achieving a balance between income and growth. The College has accepted a medium degree of risk in order to seek to increase the value of the portfolio over the longer term, which assumes that a higher proportion of investments will be made in equities and alternative investments than in cash and bonds. The level of investment is set such that the day to day operations of the College will not be affected by any volatility in its value.

15 Trade and Other Receivables

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Amounts falling due within one year:				
Trade receivables	983	950	1,398	1,398
Other receivables	24	24	54	54
Amounts owed by Group undertakings:				
Subsidiary undertakings	0	80	0	0
Prepayments and accrued income	577	551	259	259
Amounts owed by the ESFA	501	501	372	372
Total	**2,085**	**2,105**	**2,083**	**2,083**

Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...

16 Creditors: Amounts Falling Due Within One Year

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Obligations under finance leases	21	21	10	10
Trade payables	875	828	157	157
Amounts owed by group undertakings:				
Joint venture partners	0	0	12	12
Other taxation and social security	423	415	412	412
Accruals and deferred income	1,525	1,498	3,126	3,126
Deferred income - government capital grants	415	415	442	442
Deferred income - government revenue grants	13	13	14	14
Amounts owed to government funding agencies	224	224	264	264
Total	**3,496**	**3,414**	**4,437**	**4,437**

17 Creditors: Amounts Falling Due After One Year

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Loans from subsidiares or associates	0	58	0	58
Obligations under finance leases	82	82	0	0
Deferred income - government capital grants	11,832	11,832	12,105	12,105
Total	**11,914**	**11,972**	**12,105**	**12,162**

18 Maturity of Debt

Finance Leases

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

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
In one year or less	25	25	10	10
Between two and five years	89	89	0	0
In five years or more	0	0	0	0
Total	**114**	**114**	**10**	**10**

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

19 Other Provisions

	Defined Benefit Obligations £'000	Restructuring £'000	Enhanced Pensions £'000	Other £'000	Total £'000
At 1 August 2018	3,401	0	152	139	3,692
Expenditure in the period	355	10	11	18	394
Transferred from income and expenditure account	2,389	0	5	0	2,394
At 31 July 2019	**6,145**	**10**	**168**	**157**	**6,480**

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 26.

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:

	2019	2018
Price inflation	2.2%	1.3%
Discount rate	2.0%	2.3%

Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...

20 Revaluation Reserve

	2019 Group and College £'000	2019 Group and College £'000	2018 Group and College £'000	2018 Group and College £'000
Balance as at 1st August previous year		13,595		13,804
Less charges to comprehensive income	(202)		(208)	
Release in respect of depreciation in year		(202)		(208)
Total		**13,393**		**13,595**

21 Cash and Cash Equivalents

	At 1 August 2018 £'000	Cash flows £'000	Other changes £'000	At 31 July 2019 £'000
Cash and cash equivalents	6,692	(1,002)	0	5,690
Total	**6,692**	**(1,002)**	**0**	**5,690**

22 Capital Commitments

	Group and College	
	2019 £'000	2018 £'000
Commitments contracted for at 31 July	321	614

23 Lease Obligations

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

Future Minimum Lease Payments Due	Group and College	
	2019	2018
	£'000	£'000
Land and buildings		
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
	0	**0**
Other		
Not later than one year	83	55
Later than one year and not later than five years	220	148
	302	**202**
Total lease payments due	**302**	**202**

24 Contingent Liabilities

There are no circumstances requiring the reporting of contingent liability.

25 Events After the Reporting Period

There are no events after the reporting period to report.



26 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 2019 and of the LGPS 31 March 2016.

		2019		2018
		£'000		£'000
Total pension cost for the year				
Teachers Pension Scheme: contributions paid		726		752
Local Government Pension Scheme:				
Contributions paid	1,130		1,042	
FRS 102 (28) charge	355		468	
Charge to the Statement of Comprehensive Income		1,485		1,510
Enhanced pension charge to Statement of Comprehensive Income		11		13
Total Pension Cost for Year		**2,222**		**2,275**

Employer and employee contributions amounting to £91,000 (2018: £97,000) payable to the TPS and £97,000 (2018: £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' Pension Scheme Regulations 2014. These regulations apply to teachers in schools, colleges and other educational establishments. Membership is automatic for teachers and lecturers at eligible institutions. Teachers and lecturers are able to opt out of the TPS.

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

Under the definitions set-out in FRS 102 (28,11), the TPS is a multi-employer pension plan. The College is unable to identify its share of the underlying assets and liabilities of the plan.

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

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

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

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2019 onwards (compared to 16.48% during 2018/19). DfE has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2019/20 academic year.

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

The pension costs paid to TPS in the year amounted to £1,109,000 (2018: £1,143,000).

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds adminstered by Surrey County Council. The total contribution made for the year ended 31 July 2019 was £1,408,000, of which employer's contributions totalled £1,129,000 and employees' contributions totalled £279,000. 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.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2019 by a qualified independent actuary:

	At 31 July 2019	At 31 July 2018
Rate of increase in salaries	2.00%	2.00%
Future pensions increases	2.10%	2.10%
Discount rate for scheme liabilities	2.30%	3.00%
Inflation assumption (CPI)	2.10%	2.10%
Commutation of pensions to lump sums (pre- April 2008 service)	25%	25%
Commutation of pensions to lump sums (post- April 2008 service)	63%	63%

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

	At 31 July 2019	At 31 July 2018
	Years	Years
Retiring today		
Males	21.60	21.90
Females	23.60	24.10
Retiring in 20 years		
Males	22.50	22.90
Females	25.00	25.50

Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...

	At 31 July 2019	At 31 July 2018
	£'000	£'000
Sensitivity Analysis		
Discount rate -0.5%	3,978	3,342
CPI rate +0.5%	3,654	3,073

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

	2019	2018
	£'000	£'000
Fair value of plan assets	33,498	31,379
Present value of plan liabilities	(39,534)	(34,671)
Present value of unfunded liabilities	(109)	(109)
Net pensions (liability)/asset	**(6,145)**	**(3,401)**

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

	2019	2018
Amounts included in staff costs		
Current service cost	1,386	1,315
Past service cost	0	0
Total	**1,386**	**1,315**
Amounts included in interest and other finance costs		
Net interest costs	105	171
	105	**171**
Amounts recognised in Other Comprehensive Income		
Return on pension plan assets	778	1,567
Experience losses arising on defined benefit obligations	(8)	(2)
Changes in assumptions underlying the present value of plan liabilities	(3,159)	1,251
Amount recognised in Other Comprehensive Income	**(2,389)**	**2,816**

The value recognised in Other Comprehensive Income as actuarial loss of £2,394k in 2019 (2018: £2,826k gain) includes £5k of losses related to Enhanced Pensions (2018: £10k gain).

	2019	2018
	£'000	£'000
Movement in net defined benefit (liability/asset during the year		
Surplus/(deficit) in scheme at 1 August	(3,401)	(5,749)
Movement in year:		
Current service cost	(1,386)	(1,315)
Employer contributions	1,136	1,018
Net interest on the defined (liability)/asset	(105)	(171)
Actuarial gain or loss	(2,389)	2,816
Net defined benefit (liability)/asset at 31 July	**(6,145)**	**(3,401)**

Asset and Liability Reconciliation

	2019	2018
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	34,780	34,462
Current Service cost	1,386	1,315
Interest cost	1,052	1,007
Contributions by Scheme participants	279	254
Experience gains and losses on defined benefit obligations	8	2
Changes in demographic assumptions	(1,999)	0
Changes in financial assumptions	5,158	(1,251)
Estimated benefits paid	(1,021)	(1,009)
Defined benefit obligations at end of period	**39,643**	**34,780**
Reconciliation of Assets		
Fair value of plan assets at start of period	31,379	28,713
Interest on plan assets	947	836
Return on plan assets	778	1,567
Employer contributions	1,136	1,018
Contributions by Scheme participants	279	254
Estimated benefits paid	(1,021)	(1,009)
Fair value of plan assets at end of period	**33,498**	**31,379**

Notes to the Financial Statements for the Period from 1 August 2018 to 31 July 2019 continued...

The McCloud/Sargeant judgement ruled that the transitional protection for some members of public service schemes implemented when they were reformed consituted age discrimination. This provision is just under 2% of the total scheme liability as at 31 March 2019. The calculation of adjustment to past service costs, £7 billion, arising from the outcome of the Court of Appeal judgement is based on a number of key assumptions including:

- the form of the remedy adopted
- how the remedy will be implemented
- which members will be affected by the remedy
- the earnings assumptions
- the withdrawal assumption

The other financial and demographic assumptions adopted to calculate the past service cost are the same as those used to calculate the overall scheme liability. Adopting different assumptions, or making other adjustments to reflect behavioural changes stemming form the judgement, would be expected to change the disclosed past service cost. Similarly, allowing for variations in individual members' future service or salary progresssion is expected to produce higher costs. The past service cost is particularly sensitive to the difference between long term general pay growth and the CPI. If the long term salary growth assumptions were 0.5% pa lower, then the past service cost disclosed here would be expected to reduce by 50% and conversely a 0.5% pa increase would increase the estimated cost by 65%.

The College considers that their share of this provision is not material for incorporation in these accounts.

27 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 2019, Governors were reimbursed £196 for travel expenses (2018 :£256). The CEO & Principal was reimbursed £671 for travel and subsistence expenses related to College business (2018: £972) and incurred expenditure of £3,987.09 on the College's credit card for College business (2018: £8,943.74). The Deputy Principal (Curriculum & Quality) was reimbursed a total of £6,430.01 (2018: £11k between two post-holders).

In 2018, the College received a £328k donation from Nescot Business Services Ltd, its wholly-owned subsidiary at the time. The income was eliminated on consolidation in the Group accounts.

The College has £58k creditor balance (2018: £58k) in respect of 2004/5 loans from Nescot Trust, its wholly-owned subsidiary. The creditor is eliminated on consolidation in the Group accounts.

In 2019, College and Group expenses included £15k (2018: £26k) of payments made to Le Raj Academy, a joint venture with Le Raj of Epsom, in respect of losses incurred and termination of the contract. In 2018, College and Group balance sheets contained a creditor of £11k in respect of liabilities incurred from losses.

In 2019, College and Group expenses contained £24k (2018: £25k) paid to Click CMS for work separate and in addition to the provision of key management personnel services (the Deputy Principal,Curriculum and Quality).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