

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

**Report and financial statements
for the period
1 August 2017 to 31 July 2018**

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HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Report of the Governing Body

NATURE, OBJECTIVES AND STRATEGIES

The members present their report and the audited financial statements for the year ended 31 July 2018.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Hartlepool College of Further Education. The College is an exempt charity for the purposes of the Charities Act 2011. The College also has a subsidiary company called Hartlepool Business Development Centre Ltd which trades as Flagship Training Solutions.

Public Benefit

Hartlepool College is an exempt charity under the Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity are disclosed on pages 12 – 14.

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

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

- High Quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce
- Links with Local Enterprise Partnerships (LEPs)

Mission

The College's mission as approved by its members is: *'Excellence in further and higher education'*

Implementation of strategic plan

The College has a three year development plan which is reviewed and updated annually. The College produced a detailed three year financial plan in July 2016, which was approved by the Board of Governors and submitted to the SFA. The Corporation monitors the performance of the College against these plans. The plans are reviewed and updated each year. The College's Strategic Plan was reviewed and refreshed during 2017/18 for the following three years. The strategic aims are as follows:

1. To deliver teaching, learning and assessment practice which results in outstanding outcomes for all learners;
2. To offer a curriculum that is aspirational and meets the needs of learners, parents, employers and stakeholders;
3. To develop a highly skilled and motivated workforce which exemplifies and represents outstanding practice;
4. To deploy an effective and efficient resource to support and promote outstanding provision;

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Report of the Governing Body (continued)

5. To explore and develop transformational strategic partnerships which bring long term benefits to the College learning community and partners.

Each of these headline strategic aims are underpinned by a series of operating statements each with a milestone attached related to each year of the life of the strategy.

Financial objectives

The College's financial objectives are:

- To set challenging targets, applicable to all resources, to ensure that value for money is achieved in their procurement and efficiency and effectiveness in their operation.
- To ensure that the financial assets are safeguarded and augmented in order to secure the long-term viability and financial strength of the organisation.
- To ensure that the physical assets are maintained, developed and safeguarded in order to support the ongoing delivery of a broad, balanced and rich curriculum.
- To maintain a high standard of financial performance management, utilising information that is timely, fit for purpose and supports the decision-making process.
- To ensure that the principles of risk management are applied to all major areas of activity.

Performance indicators

FE Choices, formally the *Framework for Excellence* has four key performance indicators:

- Success rates
- Learner destinations
- Satisfaction Survey – formerly *Learner views*
- Satisfaction Survey – formerly *Employer views*

The College is committed to observing the importance of the measures and indicators within the framework and is monitoring these through a comprehensive performance management process where the Principal and Executive meet individual Heads of School at least termly to review a range of performance measures, including:

- Delivery of enrolments against the Curriculum Plan to ensure the College meets its funding targets
- Student Attendance (target 95%), retention (target 92%) and achievement (target 90%)
- Quality assurance in terms of Staff Observations, External Verifier reports and monitoring of courses that have Improvement Plans in place
- Staff and student feedback
- Health & Safety incidents and accidents
- Mandatory training compliance
- Financial performance including staff utilisation

Heads of School receive weekly Management Information Bulletins that summarise actual current performance against the above and highlight specific issues or concerns requiring intervention. The College position against all of the above is reported to College Leadership Committee and is reported termly to the Board via relevant sub-committees. In addition, the annual Financial Plan is approved by the Board via the Finance & General Purposes Committee and that Committee also has oversight of the Colleges financial health as reported in the Plan, Finance Record and verified by the Education & Skills Funding Agency. The current rating of Satisfactory is considered an acceptable outcome in light of the College's borrowing to income ratio arising from the development of the new campus building.

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Report of the Governing Body (continued)

The Colleges performance against other key financial indicators are as follows:

	2018	2017
Operating surplus/sector EBITDA as a % of income	2.65%	8.70%
Staff Costs as a % of income	74.57%	73.35%
Operating Cash flow	£1.621 m	£2.854 m
Cash days in hand/liquidity	45.19	76.69
Borrowing as a % of income	62.71%	62.57%
Reliance on ESFA income	77.83%	74.82%

FINANCIAL POSITION

Financial results

The Group generated a consolidated operating deficit for the year of £841k (2016/17: £624k deficit).

The Group has accumulated negative reserves of £2,712k which includes a pension deficit of £4,096k and cash and short term investment balances of £1,621k. The College wishes to continue to accumulate reserves and cash balances in order to create a contingency fund.

Tangible fixed asset additions during the year amounted to £277k and were purchases of equipment.

The College has significant reliance on the SFA and EFA for its principal funding sources, largely from recurrent grants. In 2017/18 the SFA and EFA provided approximately 78% of the College's total income.

The Corporation owns 100% of the issued share capital of the College's subsidiary company, Hartlepool Business Development Centre Limited. The Company provides education and training programmes for industry and commerce, together with commercial activities including restaurant, conferencing, and gym and an Apprenticeship Training Agency. The activities of the Hartlepool Business Development Centre are carried out through the Company.

Any surpluses generated by the subsidiary are transferred to the College under gift aid, when allowed. In the current year the deficit was £36k (2016/17: £54k profit).

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. Short term borrowing for temporary revenue purposes is authorised by the Principal. All other borrowing requires the authorisation of the Corporation.

Cash flows and liquidity

At £(230)k (2016/17: £847k inflow), operating cash outflow was mainly as a result of the colleges deficit position and decreases in creditors. The size of the College's total borrowing and its approach to interest rates ensure a reasonable cushion between the total cost of servicing debt and operating cashflow. Borrowings in 2017/18 and related repayments were linked to the College campus on Stockton Street.

Reserves Policy

The College reserves, along with Government capital grant and loans were used to assist in the financing of the new building which opened in September 2011. There were therefore a few years of planned deficits which saw reserves drop considerably. However in the last three years, the College has been attempting to build these

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Report of the Governing Body (continued)

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

reserves up as it recognises the need to have a buffer in these uncertain times. Free reserves, excluding pension deficit and revaluation currently stand at £199k and the College is looking to double this over the next three years as this would provide cover for a normal months outgoings. This will be achieved by getting back into a breakeven position and consolidating surpluses.

Future Developments

The governments Apprenticeships Reform launched in April 2017 and the College will continue to review its curriculum offer in conjunction with discussions with local employers and taking account of delivery costs and contributions of individual frameworks.

Other key Government strategies that will require implementation are the Skills Plan and plans for a more 'marketised' higher education system. Details are unclear at the moment but will require changes to be made.

Student numbers

In 2017/18 the College has delivered activity that has produced £10,832k in funding body main allocation funding (2016/17: £10,954k). The College had approximately 3567 ESFA -funded and 1184 non-ESFA-funded students.

Student achievements

The success rate for 2017/18 was 85.2% (2016/17 86.0%).

Curriculum developments

The College has an excellent reputation for curriculum innovation and change. It has introduced new courses in many areas of the curriculum in order to meet student needs better. A particular strength is in making students ready for the next stage in their lives.

Many students have low levels of prior educational achievement. The College is expanding the range of courses aimed at students who are returning to education. These include a range of self-improvement programmes focusing on improved literacy and numeracy skills.

Courses have been designed to provide students with the skills to move confidently into the labour market or progress to university. These include a range of Access courses for adults as well as a Preparation for Access course. The College also delivers a range of higher education courses in partnership with Teesside University, including foundation degrees and higher national certificates and diplomas.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2017 to 31 July 2018 the College paid all invoices within 30 days unless there was a query with the supplier account or the invoice itself and is therefore confident that the College complies with this target.

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Report of the Governing Body (continued)

RESOURCES

The College has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include College buildings which are relatively new and an annex at Exeter Street which is over 30 years old but maintained to a high standard.

Financial

The College has consolidated net liabilities of £2,712,000 (including a £4,096,000 pension liability) (2017: £3,362k) and loan financing of £7,913,000 (2017: £8,499,000).

People

The College employs 263 people (expressed as full-time equivalents), of whom 120 (2017: 127) are teaching staff.

Reputation

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success in attracting students and external partnerships. In 2017, the College received an Ofsted visit and achieved an overall grade of 'Good', with a further two 'Outstanding' grades.

Principal Risks and Uncertainties

The College has continued to undertake further work during the year to further develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation.

Based on the strategic and development plans, the Executive undertakes a comprehensive review of the risks to which the College is exposed. The Executive identifies systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk management action plans. In addition to the annual review, the Executive considers any risks to the organisation as part of the weekly Executive meetings.

A risk register is maintained by the College which is reviewed at least termly by the Audit Committee and more frequently where necessary. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are scored and prioritised using a risk matrix, which shows both gross and net risks.

Risk is managed at all levels throughout the organisation.

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Report of the Governing Body (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

Outlined below is a description of some of the principal risks as perceived by the organisation in 2017/18. Not all the factors are within the Group's control and other factors apart from those listed below may also adversely affect the Group.

1. *Below target delivery of funding body contracts*

The College relies significantly on continued government funding through contracts with the ESFA. In 2017/18, approximately 76% of the Group's revenue was ultimately public-funded and a similar level of reliance is expected to continue.

Group controls to mitigate the risk include:

- Experienced management in curriculum planning
- Clear executive steer to contract performance managers
- A robust quality assurance policy and committee structure
- Robust data management systems and procedures
- Executive priority and whole-Group approach in the event of early warning signs

2. *Impact of increased fees targets*

Individuals and employers are expected to contribute towards the cost of training and tuition. Each year the corporation approves a comprehensive fees and remission policy which details the fees to be charged in the coming year to individuals and employers. Where practicable, Hartlepool College will continue to increase tuition fees in line with the rising fee assumptions but is extremely mindful of the restrictions felt by both Employers and individuals in the current economic climate.

Group controls to mitigate the risk include:

- Comprehensive fees and remission policy, updated and approved annually but with flexibility to respond to local market forces
- Local market intelligence
- Bursary system

3. *Higher than anticipated staff costs*

The Group has robust processes in place to maximise staff utilisation and minimise use of temporary staff. The Group also plans to continue to adhere to AoC pay recommendations, provided that this is financially feasible.

Group controls to mitigate the risk include:

- Maintain close scrutiny of staff utilisation and strict authorisation processes for recruitment of additional and/or temporary staff
- Intention to implement AoC further recommendations if finances permit
- Estimated increases built into financial plans, including pension obligations
- Review of structures and management costs

4. *Failure to maintain the viability of the Group*

The Groups current financial health grade is classified as 'Satisfactory' and this is largely the consequence of the debt to income ratio due to the mortgage on the new building. Notwithstanding that, the continuing challenge to the Groups financial position remains the constraint on further education funding arising from the ongoing cuts in public sector spending whilst maintaining the student experience. This risk is mitigated in a number of ways:

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Report of the Governing Body (continued)

- By rigorous budget setting procedures and sensitivity analysis
- Regular in year budget monitoring
- Robust financial controls
- Exploring ongoing procurement efficiencies
- Monitoring bank loan covenants
- Monitor cash flow to ensure that loan repayments can be met

STAKEHOLDER RELATIONSHIPS

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

- Students
- Funding bodies
- FE Commissioner
- Staff
- Employers including the NHS Trust, Heerema, Huntsman Tioxide, Tata Steel, Babcock Engineering, Tallent Engineering, Fine Industries, EDF, Unipress and Darchem
- The local authority
- Local Enterprise Partnerships (LEP's)
- Government offices, regional development agencies and local enterprise partnerships
- The local community
- Other FE institutions
- Trade unions
- Professional bodies

The Group recognises the importance of these relationships and engages in regular communication with stakeholders through a wide variety of channels.

Trade union facility time

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

Numbers of employees who were relevant period	FTE employee number
	3

Percentage of time	Number of employees
0%	
1-50%	3
51-99%	
100%	

Total cost of facility time	£4,143
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Report of the Governing Body (continued)

Total pay bill	£9,764
Percentage of total bill spent on facility time	0.04%

Time spent on paid trade union activities as a percentage of total paid facility time	4.42
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Equal opportunities and employment of disabled persons

The Group is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, disability, religion or belief and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis. The Groups Equality Policy is published on the Groups Intranet site.

The Group publishes an Annual Equality Report and Equality Objectives to ensure compliance with all relevant equality legislation including the Equality Act 2010. The Group undertakes equality impact assessments on all new policies and procedures on a prioritised basis.

The Group is a 'Positive about Disabled' employer and has committed to the principles and objectives of the Positive about Disabled standard. The Group considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. Where an existing employee becomes disabled, every effort is made to ensure that employment with the Group continues. The Group'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.

Disability Statement

The College seeks to achieve the objectives set down in the Disability Discrimination Act 1995 as amended by the Special Educational Needs and Disability Acts 2001 and 2005.

- As part of the new build process the College updated its access audit. The results from the audit formed an important part of the detailed approval application to the LSC.
- The College employs a range of staff who provide information, advice, counselling and arrange support where necessary for students with disabilities. This includes staff with responsibilities for welfare and counselling and additional learner support.
- There is a range of specialist equipment which the College can make available for use by students and a range of assistive technology is available from the Learners' Resource Centre.
- The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- The College has made a significant investment in the appointment of specialist staff to support students with learning difficulties and/or disabilities. It has a number of learner support assistants who provide a variety of support for learning. A programme of staff development is available to

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Report of the Governing Body (continued)

- ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- Specialist programmes are described in College prospectuses and achievements and destinations are recorded in standard College format.
- Counselling and welfare services are described in the College Student Handbook which is issued to students together with the complaints and disciplinary procedure leaflets at induction.

Disclosure of information to auditor

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

Approved by order of the members of the Corporation on 12th December 2018 and signed on its behalf by:



Professor A Mullan
Chair of the Corporation

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Report of the Governing Body (continued)

Key Management Personnel, Board of Governors and Professional Advisers

Key Management personnel

Key Management personnel are defined as members of the College Executive and were represented by the following in 2017/18:

Darren Hankey	Principal and CEO: Accounting Officer
Karen Dales	Assistant Principal
Andrew Steel	Assistant Principal
Steven Wallis	Assistant Principal (left 15 th April 2018)
Shaun Hope	Assistant Principal (commenced 1 st May 2018)

Board of Governors

A full list of Governors is given on page 12 - 14 of these accounts

Mr A Theakston acted as Clerk to the Corporation throughout this period

Professional Advisers

Financial Statements and regularity auditor:	RSM UK Audit LLP 1 St James Gate Newcastle upon Tyne NE1 4AD
Internal auditor:	RSM Risk Assurance Services LLP 1 St James Gate Newcastle upon Tyne NE1 4AD
Banker:	Barclays Bank PLC Teesdale Business Park Stockton on Tees TS17 6YJ
Solicitor:	Eversheds LLP Central Square South Orchard Street Newcastle upon Tyne NE1 1XX

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Statement of Corporate Governance and Internal Control

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

The College endeavors to conduct its business:

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

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College has adopted and complied with the Code of Good Governance.

We have not adopted and therefore do not apply the UK Corporate Governance Code. However we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the governors, the College complies with all the provisions of the Code of Good Governance and it has complied throughout the year ended 31 July 2018. The Governing Body recognizes that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

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

The Corporation

The members who served the corporation during the year and up to the date of signature of this report were as follows:

<i>Name</i>	<i>Date of Appointment</i>	<i>Term of Office</i>	<i>Date of Resignation</i>	<i>Status of Appointment</i>	<i>Corporation Meeting Attendance</i>	<i>Committees Served</i>
Prof A Mullan (Chair)	30.06.17 (re-appointment)	4 years		External	4/4	Chair: Remuneration Chair: Search Chair: Staff Appeals Chair: Student Appeals Chair – Senior Staff Selection
Mr D Hankey	01.08.13	N/A		Principal	4/4	Finance & General Purposes Search Curriculum & Standards Estates Senior Staff Selection

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Statement of Corporate Governance and Internal Control for the Period from 1 August 2017 to 31 July 2018 (continued)

<i>Member</i>	<i>Date of Appointment</i>	<i>Term of Office</i>	<i>Date of Resignation</i>	<i>Status of Appointment</i>	<i>Corporation Meeting Attendance</i>	<i>Committees Served</i>
Mr M Ward	27.11.15	4 years		External	3/4	Chair: Finance & General Purposes Remuneration Student appeals Staff appeals Search Senior Staff Selection
Mrs J Regan	24.06.16	4 years		External	3/4	Audit Staff Appeals Senior Staff Selection (Mrs Regan was acting Audit Committee Chair from May 2018 when Mr Fallowfield resigned)
Mr S Salvin	29.11.15	4 years		External	3/4	Chair: Estates Curriculum & Standards Audit
Ms L Watson	09.07.16	4 years		External	3/4	Chair: Curriculum & Standards Finance & General Purposes Remuneration Senior Staff Selection
Mr P Mitchell	31.12.16 (re-appointment)	4 years		External	3/4	Staff Appeals Student Appeals Finance & General Purposes Senior Staff Selection
Mr S Fallowfield	30.06.13	4 years		External	0/3	Chair: Audit (Resigned from Board on 30/6/17 but remained chair of Audit Committee until May 2018)
Mrs M Roberts	13.03.17	4 years		Support Staff	3/4	Audit Search Estates Student Appeals
Ms L Nelson	23.03.16	4 years		External	3/4	Curriculum and Standards Remuneration
Mr N Godfrey	28.03.16	4 years		Academic Staff	4/4	Curriculum and Standards Estates Student Appeals
Mr J Kinnell	01.08.16	1 year	31.07.17	Student	1/4	

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Statement of Corporate Governance and Internal Control for the Period from 1 August 2017 to 31 July 2018 (continued)

Mr A Theakston acts as Clerk to the Corporation.

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, equality and diversity and environmental issues. The Corporation meets each term.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are audit, finance and general purposes, estates, curriculum and standards, remuneration, senior staff selection, staff appeals, student appeals and search. Full minutes of meetings, except those deemed to be confidential by the Corporation, are available on the Colleges website or from the Clerk to the Corporation at:

Hartlepool College of Further Education
Stockton Street
Hartlepool
TS24 7NT

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

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

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

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.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Statement of Corporate Governance and Internal Control for the Period from 1 August 2017 to 31 July 2018 (continued)

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 committee ordinarily comprising the Chairman, the Principal and two other members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation, other than the Principal and student members, are appointed for a term of office not exceeding four years.

Corporation Performance

The Corporations Self Assessment of its performance for 2017/18 is Satisfactory.

Remuneration Committee

Throughout the majority of the year ending 31 July 2018, the College's remuneration committee comprised the Chairman and three other members of the Corporation. The committee's responsibilities are to determine the remuneration and benefits of the Principal and other senior postholders.

Details of the remuneration for the year ended 31 July 2018 are set out in notes 6 and 7 to the financial statements.

Audit Committee

The audit committee ordinarily comprises four members of the Corporation (excluding the Accounting Officer and Chair). The committee operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal and financial statements and regularity 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 FE 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 recommendations and internal audit undertakes periodic follow-up reviews to ensure such recommendations have been implemented.

The audit committee also advises the Corporation on the appointment of internal and financial statements and regularity auditors and their remuneration for both audit and non-audit work as well as reporting annually to the Corporation. The Audit Committee Chair resigned from post in May 2018 for personal reasons and the new chair will be appointed in 2018/19, with Mrs J Regan acting as Chair for the remainder of 2017/18.

Internal Control

Scope of responsibility

The Corporation is ultimately responsible for the College's system on 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 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 is personally responsible, in accordance

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Statement of Corporate Governance and Internal Control for the Period from 1 August 2017 to 31 July 2018 (continued)

with the responsibilities assigned to him in the Financial Memorandum/ Financial Agreement between Hartlepool College and the funding bodies. He is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is 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 realized and the impact should they be realized, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Hartlepool College for the year ended 31 July 2018 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

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

The risk and control framework

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts
- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- the adoption of formal project management disciplines, where appropriate

Hartlepool 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. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the college. The report includes the HIA's independent opinion on the adequacy and effectiveness of the college system of risk management, controls and governance processes.

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. His review of the effectiveness of the system of internal control is formed by:

- the work of the internal auditors
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework
- comments made by the College's financial statements and regularity auditors in their management letters and other reports

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Statement of Corporate Governance and Internal Control for the Period from 1 August 2017 to 31 July 2018 (continued)

The Accounting Officer has been advised on the implications of the result of his 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 Accounting Officer and senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Senior management team and the Audit Committee also receive regular reports from internal audit and other forms of assurance, which include recommendations for improvement. The audit committee's role in this area is confined to a high level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and received reports thereon from the senior management team and audit committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2017 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2018.

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

Going Concern

Based on these financial statements, there is an indication that there may be a deterioration in the Colleges unmoderated financial health grade (as per the ESFA calculation framework). We are aware that this could result in further review of the Colleges financial position and forecast by the ESFA and FE Commissioner. However on the basis of our detailed 3 year forecasts, which indicate a return to profitability, sufficient cash to meet our debts as they fall due and headroom in terms of meeting covenants currently in place, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on 12th December 2018 and signed on its behalf by:



Professor A Mullan
Chair of the Corporation



D Hankey
Accounting Officer

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Governing Body's statement on the Colleges regularity, propriety and compliance with Funding body terms and conditions of funding

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

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

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 Education and Skills Funding Agency.

Approved by order of the members of the Corporation on 12th December 2018 and signed on its behalf by:



Professor A Mullan
Chair of the Corporation



D Hankey
Accounting Officer

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Statement of the Responsibilities of the Members of the Corporation

The members of the Corporation (who act as trustees for the charitable activities of the College) are required to present audited financial statements for each financial year.

The law applicable to charities in England and the terms and conditions of the Financial Memorandum between the Education and Skills Funding Agency and the Corporation of the College, requires the corporation of the college to prepare financial statements and the Report of the Governing Body for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions the annual Accounts Direction issued by the Education and Skills Funding Agency, and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and which give a true and fair view of the state of affairs of the College and of the College's surplus/deficit of income over expenditure for that period.

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

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

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

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

Members of the Corporation are responsible for ensuring that funds from the Education and Skills Funding Agency are used only in accordance with the authorities that govern them as defined by and in accordance with Further & Higher Education Act 1992, subsequent legislation and related regulations and the Financial Memorandum with the Education and Skills Funding Agency and any other conditions that may be prescribed from time to time.

Approved by order of the members of the Corporation on 12th December 2018 and signed on its behalf by:



Professor A Mullan
Chair of the Corporation

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Independent Auditor's Report to the Corporation of Hartlepool College of Further Education

Opinion

We have audited the financial statements of Hartlepool College of Further Education (the "College") and its subsidiaries (the "Group") for the year ended 31 July 2018 which comprise the consolidated and college statements of comprehensive income, the consolidated and college statements of changes in reserves, the consolidated and college balance sheets, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the College's affairs as at 31 July 2018 and of the Group's and the College's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group 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 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 or college'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 other information comprises the information included in the Report and Financial Statements other than the financial statements and our auditor's report thereon. The governors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Independent Auditor's Report to the Corporation of Hartlepool College of Further Education

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post-16 Audit Code of Practice 2017 to 2018 issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

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

Responsibilities of the Corporation of Hartlepool College of Further Education

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 19, the Corporation is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Corporation, as a body, in accordance with the Financial Memorandum published by the Education and Skills Funding Agency and our engagement letter dated 2 November 2017. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required under our engagement letter dated 2 November 2017 to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

RSM UK AUDIT LLP
Chartered Accountants
1 St James' Gate
Newcastle upon Tyne
NE1 4AD

Date *14/12/18*

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Consolidated Statement of Comprehensive Income for the year ended 31 July 2018

	Notes	College		Group	
		2018 £000	2017 £000	2018 £000	2017 £000
Income					
Funding body grants	2	10832	10954	10832	10954
Tuition fees and education contracts	3	1990	2154	2185	2594
Research grants and contracts	4	183	106	183	106
Other Income	4	800	678	829	805
Investment income	5	3	2	3	2
Total income		<u>13808</u>	<u>13894</u>	<u>14032</u>	<u>14461</u>
Expenditure					
Staff costs	6	9569	9778	9764	10094
Other operating expenses	8	3261	2979	3326	3175
Depreciation	12	1141	1127	1141	1128
Interest and other finance costs	9	569	680	569	680
Total expenditure		<u>14540</u>	<u>14564</u>	<u>14800</u>	<u>15077</u>
(Deficit)/Surplus on continuing operations after depreciation of tangible fixed assets		<u>(732)</u>	<u>(670)</u>	<u>(768)</u>	<u>(616)</u>
Loss on disposal of Asset		73	0	73	0
Deficit before taxation		<u>(805)</u>	<u>(670)</u>	<u>(841)</u>	<u>(616)</u>
Taxation	10	0	(8)	0	(8)
(Deficit) for the year		<u>(805)</u>	<u>(678)</u>	<u>(841)</u>	<u>(624)</u>
Re-measurement of net defined benefit pension	19	1491	4620	1491	4620
Total Comprehensive Income for the year		<u>686</u>	<u>3942</u>	<u>650</u>	<u>3996</u>

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Consolidated Statement of Changes in Reserves for the year ended 31 July 2018

Group	Income & Expenditure account £000	Revaluation Reserve £000	Total £000
Restated Balance as at 1 st August 2016	(8567)	1209	(7358)
Deficit for the year	(624)	0	(624)
Other comprehensive income	4620	0	4620
Transfers between revaluation and income and expenditure reserves	12	(12)	0
Balance at 31st July 2017	(4559)	1197	(3362)
Deficit for the year	(841)	0	(841)
Other comprehensive income	1491	0	1491
Transfers between revaluation and income and expenditure reserves	12	(12)	0
Total comprehensive income for the year	662	(12)	650
Balance as at 31 July 2018	(3897)	1185	(2712)

College	Income & Expenditure account £000	Revaluation Reserve £000	Total £000
Restated Balance as at 1 st August 2016	(8417)	1209	(7208)
Deficit from income and expenditure account	(678)	0	(678)
Other comprehensive income	4620	0	4620
Transfers between revaluation and income and expenditure reserves	12	(12)	0
Balance at 31st July 2017	(4463)	1197	(3266)
Deficit from income and expenditure account	(805)	0	(805)
Other comprehensive income	1491	0	1491
Transfers between revaluation and income and expenditure reserves	12	(12)	0
Total comprehensive income for the year	698	(12)	686
Balance as at 31 July 2018	(3765)	1185	(2580)

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Balance Sheet as at 31 July 2018 - Consolidated

	Notes	2018 £000	2017 £000
Fixed assets			
Tangible assets	12	44483	45420
		<u>44483</u>	<u>45420</u>
Current assets			
Stock		10	13
Debtors	14	916	834
Cash at bank and in hand		1621	2854
		<u>2547</u>	<u>3701</u>
Current Liabilities			
Creditors - amounts falling due within one year	15	2742	3244
Net current assets		<u>(195)</u>	<u>457</u>
Total assets less current liabilities		44288	45877
Creditors: amounts falling due after more than one year	16	42302	43456
Provisions for liabilities			
Defined benefit pension schemes	19	(4096)	(5114)
Other provisions	18	(602)	(669)
Total net assets		<u>(2712)</u>	<u>(3362)</u>
Reserves			
Income and expenditure reserve		(3897)	(4559)
Revaluation reserve		1185	1197
Total reserves		<u>(2712)</u>	<u>(3362)</u>

The financial statements on pages 22 to 51 were approved and authorised for issue by the Corporation on 12th December 2018 and were signed on its behalf by:



Professor A Mullan
Chair of the Corporation



D Hankey
Accounting Officer

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Balance Sheet as at 31 July 2018 – College

	Notes	2018 £000	2017 £000
Fixed assets			
Tangible assets	12	44483	45420
		<u>44483</u>	<u>45420</u>
Current assets			
Stock		9	11
Debtors	14	1246	1082
Cash at bank and in hand		1356	2592
		<u>2611</u>	<u>3685</u>
Current Liabilities			
Creditors- amounts falling due within one year	15	2674	3132
Net current (liabilities)/assets		<u>(63)</u>	<u>553</u>
Total assets less current liabilities		44420	45973
Creditors: amounts falling due after more than one year	16	(42302)	(43456)
Provisions for liabilities			
Defined benefit pension schemes	19	(4096)	(5114)
Other provisions	18	(602)	(669)
Total net liabilities		<u>(2580)</u>	<u>(3266)</u>
Reserves			
Income and expenditure reserve		(3765)	(4463)
Revaluation reserve		1185	1197
Total reserves		<u>(2580)</u>	<u>(3266)</u>

The financial statements on pages 22 to 49 were approved and authorised for issue by the Corporation on 12th December 2018 and were signed on its behalf by:



Professor A Mullan
Chair of the Corporation



D Hankey
Accounting Officer

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Consolidated Statement of Cash Flows for the year ended 31 July 2018

	Notes	2018 £000	2017 £000
Operating activities			
(Deficit)/Surplus for the year		(841)	(624)
Adjustment for non-cash items			
Depreciation		1141	1127
Taxation		0	8
Decrease in stocks		3	1
(Increase)/decrease in debtors		(82)	(36)
Increase/(decrease) in creditors due within one year		(512)	128
Decrease in creditors due after one year		(856)	(859)
Decrease in provisions		(66)	(31)
Pension costs less contributions payable		473	693
Investment income		(3)	(2)
Interest payable		441	450
Loss on disposal		72	0
Cash generated from operations		<u>(230)</u>	<u>855</u>
Taxation		0	(8)
Net Cash from operating activities		<u>(230)</u>	<u>847</u>
Cash flows from investing activities			
Investment income		3	2
Purchase of fixed assets		(277)	(124)
		<u>(274)</u>	<u>(122)</u>
Financing activities			
Interest paid		(441)	(450)
Repayments of borrowings		(288)	(273)
		<u>(729)</u>	<u>(723)</u>
(Decrease)/Increase in cash and cash equivalents in the year		<u>(1233)</u>	<u>2</u>
Cash and cash equivalents at the beginning of the year		2854	2852
Cash and cash equivalents at the end of the year		1621	2854

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

1

ACCOUNTING POLICIES

Statement of accounting policies

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

General Information

Hartlepool College of Further Education is a corporation under the Further and Higher Education Act 1992 as an English general college of further education. The address of the College's principal place of business is given on page 14. The nature of the Group's operations are set out in the Report of the Governing Body.

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting in Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2017 to 2018* and in accordance with Financial Reporting Standard 102 – “*The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland*” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

The consolidated financial statements are presented in sterling which is also the functional currency of the Group.

Monetary amounts in these financial statements are rounded to the nearest £1,000, except where otherwise indicated.

Basis of accounting

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

Basis of consolidation

The consolidated financial statements include the College and its subsidiary undertaking, Hartlepool Business Development Centre Limited. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal.

All intra-group transactions, balances and unrealised gains on transactions between group activities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made for the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

Reduced disclosures

In accordance with the 2015 FE HE SORP and FRS 102, the College in its separate financial statements, which are presented alongside the consolidated financial statements, has taken advantage of the disclosure exemptions available to it in respect of presentation of a cash flow statement and financial instruments.

Going Concern

The Corporation acknowledges the net current liability position of the consolidated balance sheet. However this is partially caused by the inclusion of deferred capital grants within short term creditors, for which no cash outflow will be required. On the basis of 3 year cash flow forecasts, based on reasonable assumptions and considered for potential sensitivities, the College is confident that it has adequate cash to meet its debts as they fall due.

The College is in dialogue with its lenders around the amendments to financial covenants, however we consider that the revised covenants indicated to us by the bank are achievable based on current projections. We are also aware of the risk surrounding our financial health grade (as determined by the ESFA metrics), as detailed on page 17.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

1 ACCOUNTING POLICIES (continued)

However based on the aforementioned cash headroom and forecast return to profitability, there remains a reasonable expectation that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Recognition of income

Revenue grant funding

Government revenue grants are accounted for under the accrual model and are recognised where a reliable estimate of the fair value of the asset received or receivable can be made on a systematic basis over the periods in which the related costs for which the grant compensates are recognised.

Funding body recurrent grants for Adult Education Budget is measured in line with best estimates for the year of what is receivable and depend on the particular income stream involved. Any under achievement of the Adult Education Budget (outside the permitted tolerance) 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 following the year end.

16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments and is recognised when receivable.

Grants from non-government sources, including grants relating to assets, are recognised in income when the College has met the performance-related conditions and the grant will be received. Income received in advance of performance related conditions being met is recognised as a liability.

Capital grant funding- government grants

Government capital grants for assets, including land, are accounted for under the accrual model. The grant income received or receivable will be recognised over the expected useful life of the asset, with any amount of the asset-related grant that is deferred being recognised as deferred income. The deferred income is allocated between creditors due within one year and those due after more than one year.

Other income

Income from the supply of services is recognised at fair value of the consideration received or receivable and represents the value of services to the extent there is a right to consideration.

Income from tuition fees, including employer funding for co-investment funded apprenticeship is recognised over the period for which it is received.

All income from short-term deposits is accrued in the period in which it is earned on a receivable basis.

The Group acts as an agent in distributing bursary support funds from funding bodies. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the Group where the Group does not have control of the economic benefit related to the transaction.

Retirement benefits

Retirement benefits to employees of the Group are principally provided by Teachers' Pensions Scheme (TPS) and the Local Government Pension Scheme (LGPS), which are multi-employer defined benefit plans.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

1 ACCOUNTING POLICIES (continued)

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 Group in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by the Government Actuary on the basis of valuations using a projected unit method. The TPS is a multi-employer scheme but sufficient information is not available to use defined benefit accounting and therefore it is accounted for as a defined contribution scheme, with the amount charged to the statement of comprehensive income being the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

The LGPS is a funded scheme, and the assets of the scheme are held separately. Pension schemes are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability/asset is charged to comprehensive income and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Short term Employment benefits

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

Enhanced pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by the Group 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 Group's income and expenditure account 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.

Fixed asset investments

College

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses in the separate financial statements of the college. Interests in subsidiaries are assessed for impairment at each reporting date. Any impairment losses or reversals of impairment losses are recognised immediately in comprehensive income.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

1 ACCOUNTING POLICIES (continued)

Tangible fixed assets

Land and buildings

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment costs. Freehold land is not depreciated as it is considered to have an infinite useful life. Freehold buildings are depreciated over their expected useful economic life to the College of 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life, normally 10 years.

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 income account within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

On adoption of FRS 102, the College followed the transitional provision to retain book value of land and buildings, which were revalued in 1994, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on existing tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it increases the future benefits to the Group, in which case it is capitalised and depreciated on the relevant basis.

Equipment

Equipment costing less than £500 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Inherited equipment has been depreciated on a straight line basis over its remaining useful economic life to the College and is now fully depreciated.

All other assets are depreciated over their useful economic life as follows:

- General equipment - 5% to 20% per year on a straight line basis
- Computer equipment - 25% per year on a straight line basis
- Motor vehicles - 25% per year on a straight line basis

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

Impairments of fixed assets

An assessment is made at each reporting date of whether there are indications that a fixed asset may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, an estimate is made of the recoverable amount of the asset.

Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use, are recognised as impairment losses. Impairment of revalued assets, are treated as a revaluation loss. All other impairment losses are recognised in comprehensive income.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Reversals of impairment losses are recognised in comprehensive income or, for revalued assets, as a

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

1 ACCOUNTING POLICIES (continued)

revaluation gain. On reversal of an impairment loss, the depreciation or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

Borrowing costs

Borrowing costs are recognised as expenditure in the period in which they are incurred.

Leased assets

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership are treated as finance leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Financial Instruments

The Group has chosen to adopt sections 11 of FRS102 in full in respect of financial instrument.

Financial assets and liabilities

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

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

All financial assets and liabilities are initially measured at transactional price (including transaction costs), except for those financial assets measured at fair value through the income or expenditure, which are initially measured at fair value (which is normally transaction price excluding transaction costs), unless arrangement constitutes a financial transaction. A financial asset or liability that is payable or receivable in one year is measured as the undiscounted amount expected to be received or paid net of impairment, unless it is a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest or similar debt instrument.

Financial Assets reported are:

Trade Debtors	£308,000
Amounts owed from ESFA	£363,000
Accrued Income	£112,000

Financial Liabilities reported are:

Bank Loans	£8,211,000
Trade Creditors	£251,000
Accruals	£926,000

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

1 ACCOUNTING POLICIES (continued)

Financial Liabilities continued:

Amounts owed to ESFA	£52,000
Teachers Pension Scheme	£85,000
Local Government Pension Scheme	£46,000
Additional Voluntary Contributions	£2,000

Financial assets and financial liabilities are offset only when there is a current legally enforceable right to set off the recognised amounts and the intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash at bank and in hand

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 a maturity of 3 months or less from the date of acquisition.

Taxation

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

The College 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 and capital costs are therefore shown inclusive of VAT with any partial recovery netted off against these figures.

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

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting period.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

1 ACCOUNTING POLICIES (continued)

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is not discounted. Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Provisions and contingent liabilities

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

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

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

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

Judgements in applying accounting policies and key sources of estimation uncertainty

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. The 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

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

1 ACCOUNTING POLICIES (continued)

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 19, will impact the carrying amount of pensions liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

2

FUNDING BODY GRANTS

	College		Group	
	2018	2017	2018	2017
	£000	£000	£000	£000
Recurrent grants				
Education & Skills Funding Agency - adult	1786	1850	1786	1850
Education & Skills Funding Agency – 16-18	5886	5920	5886	5920
Education & Skills Funding Agency - apprenticeships	2369	2394	2369	2394
Specific grants				
Releases of government capital grants - ESFA	791	790	791	790
Total	10832	10954	10832	10954

3

TUITION FEES AND EDUCATION CONTRACTS

	College		Group	
	2018	2017	2018	2017
	£000	£000	£000	£000
Tuition fees	745	869	940	1309
Education contracts	1245	1285	1245	1285
Total	1990	2154	2185	2594

Included within the above amounts are tuition fees funded by bursaries of £25k (2016/17 £26k).

4

RESEARCH GRANTS AND CONTRACTS

	College		Group	
	2018	2017	2018	2017
	£000	£000	£000	£000
European commission	0	0	0	0
Other grant income and contracts	183	106	183	106
Total	183	106	183	106

OTHER INCOME

	College		Group	
	2018	2017	2018	2017
	£000	£000	£000	£000
Catering and residences operations	328	320	437	468
Releases of deferred capital grants (non-funding council)	105	46	105	46
Other income	367	312	287	291
Total	800	678	829	805

5

INVESTMENT INCOME

	College		Group	
	2018	2017	2018	2017
	£000	£000	£000	£000
Interest receivable	3	2	3	2
Total	3	2	3	2

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

6

STAFF COSTS AND KEY MANAGEMENT PERSONNEL REMUNERATION

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

	Number	
	2018	2017
Teaching staff	120	127
Teaching and other support services	65	67
Administration and central services	63	67
Premises	15	15
Other	0	0
	<u>263</u>	<u>276</u>

All staff and key management are employed by the College. A recharge of salaries is made to the subsidiary for management and administration of the subsidiary by College staff.

	Group		College	
	2018	2017	2018	2017
	£000	£000	£000	£000
Wages and salaries	7486	7698	7334	7698
Social security costs	685	738	667	738
Other pension costs (including FRS102 adjustments of £345,000 (2017 £433,000))	1433	1527	1408	1527
	<u>9604</u>	<u>9963</u>	<u>9409</u>	<u>9963</u>
Restructuring costs - Contractual	160	131	160	131
	<u>9764</u>	<u>10094</u>	<u>9567</u>	<u>10094</u>

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

6		
STAFF COSTS (continued)	2018	2017
	£000	£000
Total staff costs, split by type of contract, were:		
Employment costs for staff on permanent contracts	9118	9263
Employment costs for staff on short-term and temporary contracts	301	398
FRS102 retirement benefit charge	345	433
	<u>9764</u>	<u>10094</u>

Key Management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Executive team which comprises the Principal and three Assistant Principals.

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

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

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

	Number of staff 2018		Number of staff 2017	
	Senior Postholders	Other Staff	Senior Postholders	Other Staff
Emoluments excluding pension contributions:				
£60001-70000	0	0	0	0
£70001-80000	2	0	3	0
£80001-90000	0	0	0	0
£90001-100000	1	0	1	0
£100001-110000	0	0	0	0
£110001-120000	0	0	0	0
£120001-130000	0	0	0	0
£130001-140000	0	0	0	0
£140001-150000	0	0	0	0

Note: One Senior post holder left April 2018 and was replaced in May 2018 so pay for both falls below the thresholds above.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

7

SENIOR POSTHOLDERS' EMOLUMENTS

Senior post-holders, who are also key management personnel, are defined as the Accounting Officer and holders of the other senior posts whom the Governing Body has selected for the purposes of the Articles of Government of the College relating to the appointment and promotion of staff who are appointed by the Governing Body.

	2018 Number	2017 Number
The number of senior post-holders including the Accounting Officer was:	4	4
Senior post-holders' emoluments are made up as follows:	£	£
Salaries – gross of salary sacrifice and waived emoluments	309182	318075
Employers National Insurance	38123	39408
Benefits in kind	0	0
Pension contributions	50953	51539
Total emoluments	398258	409022

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

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

	2018 £	2017 £
Salary	96000	97639
Benefits in kind	0	0
Employers National Insurance	12113	12353
	108113	109992
Pension contributions	15820	15820
Total emoluments	123933	125812

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

The Accounting Officer and the staff governors only receive remuneration in respect of services they provide undertaking their roles of Principal and staff members under contracts of employment and not in respect of their roles as governors. The other members of the Corporation did not receive any payments from the College in respect of their roles as governors. There have been no governors expenses during the period.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

8

OTHER OPERATING EXPENSES

	Group		College	
	2018	2017	2018	2017
	£000	£000	£000	£000
Teaching costs	1120	1013	1120	1013
Non-Teaching Costs	1491	1452	1426	1256
Premises Costs	715	710	715	710
	<u>3326</u>	<u>3175</u>	<u>3261</u>	<u>2979</u>

	2018	2017
	£000	£000
Deficit before taxation is stated after charging:		
Auditors' remuneration:		
Financial statements and regularity audit *	16	16.5
Internal audit **	16	11
Tax advice services provided by the financial statements and regularity auditor	1	1
Funding audit services	0	13
Hire of land & buildings – operating leases	0	0
Hire of other assets – operating leases	55	55

*Includes £15.5k in respect of the College (2017: £13k)

**Includes £11k in respect of the College (2017: £13k)

9

INTEREST AND OTHER FINANCE COSTS

	2018	2017
	£000	£000
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in more than 5 years	441	450
Net interest on defined pension liabilities (Note 18 & 19)	<u>128</u>	<u>230</u>
	<u>569</u>	<u>680</u>

10

TAXATION

	2018	2017
	£000	£000
UK Corporation tax	0	8
Deferred tax	0	0
	<u>0</u>	<u>8</u>

This taxation is in relation to the activities of the subsidiary company.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

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FINANCIAL INSTRUMENTS

The Group has the following Financial Instruments:

	2018 £000	2017 £000
Financial Assets		
Financial Assets measured at amortised cost	<u>783</u>	<u>689</u>
Financial Liabilities		
Financial Liabilities measured at amortised cost	<u>9573</u>	<u>10319</u>

12

TANGIBLE FIXED ASSETS - CONSOLIDATED

	Freehold Land & Buildings	Equipment	Total
	£000	£000	£000
Cost or Valuation			
At 1 August 2017	51298	8888	60186
Additions	0	277	277
Disposal	0	(205)	(205)
At 31 July 2018	<u>51298</u>	<u>8960</u>	<u>60258</u>
Depreciation			
At 1 August 2017	6487	8279	14766
Charge for the period	991	150	1141
Disposal	0	(132)	(132)
At 31 July 2018	<u>7478</u>	<u>8297</u>	<u>15775</u>
Net Book Value 31 July 2018	<u>43820</u>	<u>663</u>	<u>44483</u>
Net Book Value at 31 July 2017	<u>44811</u>	<u>609</u>	<u>45420</u>

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

12

TANGIBLE FIXED ASSETS - COLLEGE

	Freehold Land & Buildings	Equipment	Total
	£000	£000	£000
Cost or Valuation			
At 1 August 2017	51298	8888	60186
Additions	0	277	277
Disposal	0	(205)	(205)
At 31 July 2018	<u>51298</u>	<u>8960</u>	<u>60258</u>
Depreciation			
At 1 August 2017	6487	8279	14766
Charge for the period	991	150	1141
Disposal	0	(132)	(132)
At 31 July 2018	<u>7478</u>	<u>8297</u>	<u>15775</u>
Net Book Value 31 July 2018	<u><u>43820</u></u>	<u><u>663</u></u>	<u><u>44483</u></u>
Net Book Value at 31 July 2017	<u><u>44811</u></u>	<u><u>609</u></u>	<u><u>45420</u></u>

Inherited land and buildings were valued for the purpose of the 1994 financial statements on the basis of depreciated replacement cost by a firm of independent chartered surveyors.

Land and buildings include land valued at £1,355,000 (2017: £1,355,000). The historic cost of these assets is nil.

Land and Buildings with a net book value of £42,618k relate to the redevelopment of the College campus, for which in-principle approval was granted by the LSC on 30 July 2008 followed by detailed approval by the LSC on 8 September 2009. Should these assets be sold, the College may be liable, under the terms of its Financial Memorandum, to surrender the proceeds.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

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INVESTMENTS

	College 2018	College 2017
	£	£
Investment in subsidiary company at cost	<u>2</u>	<u>2</u>

The College owns 100% of the issued £1 ordinary shares of Hartlepool Business Development Centre Limited, a company incorporated in England and Wales. The principal activity of the company is the provision of education and training courses for industry and commerce and commercial activities including restaurant, conferencing and gym as well as operating as an Apprenticeship Training Agency.

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DEBTORS

	2018 £000	2017 £000
Consolidated:		
Amounts falling due within 1 year		
Trade debtors	308	238
Prepayments & accrued income	245	302
Amounts owed by the ESFA	<u>363</u>	<u>294</u>
	<u>916</u>	<u>834</u>
College:		
Amounts falling due within 1 year		
Trade debtors	129	15
Amounts owed by subsidiary undertaking	509	471
Prepayments & accrued income	245	302
Amounts owed by the ESFA	<u>363</u>	<u>294</u>
	<u>1246</u>	<u>1082</u>

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

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CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2018 £000	2017 £000
Consolidated		
Bank loans and overdrafts	298	288
Payments received in advance	1	8
Trade creditors	251	276
Other taxation and social security	341	389
Accruals	926	966
Deferred income – government capital grants	873	878
Deferred income – government revenue grants	0	0
Amounts owed to the ESFA	52	439
	<u>2742</u>	<u>3244</u>
College		
Bank loans and overdrafts	298	288
Payments received in advance	1	1
Trade creditors	183	238
Other taxation and social security	341	331
Accruals	926	957
Deferred income – government capital grants	873	878
Deferred income – government revenue grants	0	0
Amounts owed to the ESFA	52	439
	<u>2674</u>	<u>3132</u>

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

16		
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	2018	2017
	£000	£000
Consolidated and College		
Bank Loans	7913	8211
Government Grants (Capital)	34389	35245
Total Creditors falling due after more than one year	<u>42302</u>	<u>43456</u>

17		
BORROWINGS	2018	2017
	£000	£000
Consolidated and College		
Bank loan is repayable as follows:		
In one year or less	298	288
Between one and two years	309	298
Between two and five years	1014	972
In five years or more	6590	6941
	<u>8211</u>	<u>8499</u>

The bank loan is in the form of a £9.5million term loan, 75% of which is fixed at a base rate of 4.45% plus 1.75% lending margin and is secured on a portion of the freehold land and buildings of the College.

18 **PROVISIONS FOR LIABILITIES**

Group and College

	Defined Benefit Obligation	Enhanced Pension	Total
	£000	£000	£000
At 1 August 2017	5114	669	5783
Utilised provisions in the year	(1491)	(80)	(1571)
Additional provision in the year	473	15	488
At 31 July 2018	4096	604	4700

The enhanced pension provision relates to the cost of staff who have already left the College's employment. This provision has been recalculated in accordance with guidance issued by funding bodies.

The principal assumptions for this calculation are:

	2018	2017
Interest rate/price inflation	2.3%	2.3%
Net interest rate/discount rate	1.3%	1.3%

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

19

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 Middlesbrough Council. Both are multi-employer defined benefit schemes.

Total pension cost for the year	2017/18		2016/17	
	£000	£000	£000	£000
Teachers' Pension Scheme: contributions paid		664		692
Local Government Pension Scheme:				
Contributions paid	409		402	
FRS102 (28) charge	345		433	
Charge to the Statement of Comprehensive income		754		835
Enhanced pension charge to the Statement of Comprehensive Income		15		16
Total pension cost for the year within staff costs		1433		1543

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuations of the schemes were as at 31 March 2012 (TPS) and 31 March 2016 (LGPS).

Contributions amounting to £131,835 (2017: £134,232) were payable to the schemes at 31 July 2018 and are included within creditors.

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. 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.

The Teachers' Pension Budgeting and Valuation Account

Although members may be employed by various bodies, their retirement and other pension benefits are set out in regulations made under the Superannuation Act 1972 and are paid by public funds provided by Parliament. 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.

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

Valuation of the Teachers' Pensions Scheme

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions. Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors.

The latest actuarial valuation was carried out as at 31 March 2012 and in accordance with The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. The valuation report was published in June 2014. The key results of the valuation and subsequent consultation are:

- Total scheme liabilities for service (pensions currently payable and the estimated cost of future benefits) of £191.5 billion

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

19

DEFINED BENEFIT OBLIGATIONS (continued)

- Value of notional assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) of £176.6 billion
- Notional past service deficit of £14.9 billion
- Assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings
- Rate of real earnings growth is assumed to be 2.75%
- Assumed nominal rate of return is 5.06%

The TPS valuation for 2012 determined an employer rate of 16.48% (including a 0.08% administration fees), which was payable from September 2015. The next valuation of the TPS is currently underway based on March 2016 data, whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.

The pension costs paid to TPS in the year amounted to £664k (2017: £692k).

The TPS is a multi-employer pension plan and there is insufficient information to account for the scheme on as a defined benefit plan so it is accounted for as a defined contribution plan.

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate funds administered by Middlesbrough Council. The total contribution made for the year ended 31 July 2018 was £562,126 of which employer's contributions totalled £409k and employees' contributions totalled £158,403. The agreed contribution rates for future years are 13.6% for employers and range from 5.5% to 7.5% for employees, depending on salary.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

19

DEFINED BENEFIT OBLIGATIONS (continued)

Principal actuarial assumptions

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

	At 31 July 2018	At 31 July 2017
Inflation assumption - RPI	3.2%	3.1%
- CPI	2.1%	2.0%
Rate of increase in salaries	3.1%	3.0%
Rate of increase for pensions	2.1%	2.0%
Discount rate for scheme liabilities	2.8%	2.6%

Principal demographic assumptions

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 2018	At 31 July 2017
Retiring in 20 years: Males	25.1	25.0
Females	27.3	27.2
Retiring today: Males	22.9	22.8
Females	25.0	24.9

The amounts recognised in the balance sheet are as follows:

	Value at 31 July 2018 £000	Value at 31 July 2017 £000
Fair value of plan assets	20512	18856
Present value of funded obligations	(24510)	(23868)
Present value of unfunded liabilities	(98)	(102)
Net pensions (liability)	<u>(4096)</u>	<u>(5114)</u>

The Colleges share of the assets in the plan at the Balance Sheet date were:

Fair Value of Assets

	Value at 31 July 2018 £000	Value at 31 July 2017 £000
Equities	14974	14915
Government Bonds	0	0
Other Bonds	0	19
Property	1579	1207
Cash	3692	2414
Other	267	301
Total fair value of assets	<u>20512</u>	<u>18856</u>

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

19

DEFINED BENEFIT OBLIGATIONS (continued)

Changes in the present value of the defined benefit obligation are as follows:

	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000
Opening defined benefit obligation	23970	25423
Service cost (net of employee contributions)	755	835
Interest on scheme liabilities	619	606
Actuarial gain	(385)	(2466)
Benefits paid	(502)	(588)
Contributions by scheme participants	158	167
Unfunded pension payments	(7)	(7)
Past Service Cost	0	0
Closing defined benefit obligation	<u>24608</u>	<u>23970</u>

Changes in the present value of the defined benefit obligation are as follows:

	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000
Opening fair value of scheme assets	18856	16335
Expected return on assets	491	392
Actuarial gain/(loss)	1106	2154
Contributions by employer	410	402
Contributions by scheme participants	158	167
Benefits paid	(509)	(595)
Closing fair value of scheme assets	<u>20512</u>	<u>18855</u>

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

	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000
Amounts included in staff costs		
Current service cost	755	835
Past service cost	0	0
Total	755	835
 Actual return on plan assets	 <u>1597</u>	 <u>2546</u>

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Notes to the Financial Statements for the year ended 31 July 2018

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CAPITAL COMMITMENTS

As at 31 July 2018 amounts contracted by the College but not yet provided for totalled £nil. Amounts authorised but not contracted for at 31 July 2018 totalled £nil.

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FINANCIAL COMMITMENTS

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

	College	
	2018	2017
	£000	£000
Computer Equipment		
Expiring within one year	51	18
Expiring between two and five years inclusive	93	138
Expiring in over five years	0	0
Commitments contracted for at 31 July	<u>144</u>	<u>156</u>

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RELATED PARTY TRANSACTIONS

Owing to the nature of the College's operations and the composition of the board of governors being drawn from local public and private sector organizations, 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 organisations in which a member of the board of governors may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

Transactions with the funding bodies are detailed in notes 2, 14, 15 and 19.

Key management disclosure is given in note 6.

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AMOUNTS DISBURSED AS AGENT

	2018	2017
	£000	£000
Learner support funds		
Funding body grants	481	578
	<u>481</u>	<u>578</u>
Disbursed to students	(401)	(515)
Administration costs	(24)	(24)
Balance unspent as at 31 July, included in creditors	<u>56</u>	<u>39</u>

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

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Independent reporting Accountants report on regularity to the Corporation of Hartlepool College of Further Education and the Secretary of State for Education acting through the Education and Skills Funding Agency

Conclusion

We have carried out an engagement, in accordance with the terms of our engagement letter dated 2 November 2017 and further to the requirements of the grant funding agreements and contracts with the Education and Skills Funding Agency (the "ESFA"), to obtain limited assurance about whether the expenditure disbursed and income received by Hartlepool College of Further Education during the period 1 August 2017 to 31 July 2018 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Basis for conclusion

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

We are independent of the Hartlepool College of Further Education in accordance with the ethical requirements that are applicable to this engagement and we have fulfilled our ethical requirements in accordance with these requirements. We believe the assurance evidence we have obtained is sufficient to provide a basis for our conclusion

Responsibilities of Corporation Hartlepool College of Further Education for regularity

The Corporation of Hartlepool College of Further Education is responsible, under the grant funding agreements and contracts with the ESFA and the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. The corporation of Hartlepool College of Further Education is also responsible for preparing the Governing Body's Statement of Regularity, Propriety and Compliance.

Reporting accountant's responsibilities for reporting on regularity

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the ACoP.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and the procedures performed vary in nature and timing from, and are less in extent than for a reasonable assurance engagement; consequently a limited assurance engagement does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

HARTLEPOOL COLLEGE OF FURTHER EDUCATION

Independent reporting Accountants report on regularity to the Corporation of Hartlepool College of Further Education and the Secretary of State for Education acting through the Education and Skills Funding Agency

Our work included identification and assessment of the design and operational effectiveness of the controls, policies and procedures that have been implemented to ensure compliance with the framework of authorities including the specific requirements of the grant funding agreements and contracts with the ESFA and high level financial control areas where we identified a material irregularity is likely to arise. We undertook detailed testing, on a sample basis, on the identified areas where a material irregularity is likely to arise where such areas are in respect of controls, policies and procedures that apply to classes of transactions.

This work was integrated with our audit of the financial statements and evidence was also derived from the conduct of that audit to the extent it supports the regularity conclusion.

Use of our report

This report is made solely to the Corporation of Hartlepool College of Further Education and the Secretary of State for Education acting through the ESFA in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Corporation of Hartlepool College of Further Education and the Secretary of State for Education acting through the ESFA those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation of Hartlepool College of Further Education and the Secretary of State for Education acting through the ESFA for our work, for this report, or for the conclusion we have formed.

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