NCG

Report and financial statements

31 July 2019

NCG

Reference and Administrative Details

Address

Newcastle College
Rye Hill Campus
Scotswood Road
Newcastle upon Tyne
NE4 7SA

Professional advisers

Independent auditor

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Bankers

HSBC Bank plc
City Branch
110 Grey Street
Newcastle upon Tyne
NE1 6JG

Solicitors

Muckle
32 Gallowgate
Newcastle Upon Tyne
NE1 4BF

Other professional advisers

Internal auditors:	PricewaterhouseCoopers LLP
Insurance:	Arthur J. Gallagher
Pensions:	Willis Towers Watson

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report

The members present their annual report together with the financial statements and auditor's report for NCG (Group) for the year ended 31 July 2019.

Key performance indicators

The key performance indicators of NCG (Group) based on the Education and Skills Funding Agency (ESFA) financial health calculations are as follows:

	NCG (Group) 2019	NCG (Group) 2018
Current Ratio	0.92	1.31
EBITDA as a percentage of Turnover	1.24%	2.70%
Borrowing as a percentage of Turnover	14.39%	17.75%
Financial Health	Requires improvement	Satisfactory

Financial health for 2019 remains at "Requires Improvement", (formally labelled "Satisfactory"). However, there has been a deterioration in the key performance indicators between the years above due to a combination of EBITDA decline (as a result of Training provider wind down) and a deterioration in the current ratio.

The current ratio decline is due to the accounting treatment of assets and liabilities of the training providers where all values are now restated as current together with £5,000,000 repayment of loan facilities. The large dilapidations provision has also had a significant impact where £2,250,000 of provision is now classed as a current liability.

Borrowing has reduced as a result of the loan repayment.

Strategy and Objectives

NCG has refreshed its strategy. NCG's mission is "enabling social mobility and economic prosperity through exceptional education". NCG's vision is "to be the UK's leading educational group recognised for local impact, national influence and reach".

NCG's strategic goals are:

- Exceptional teaching, learner experience and outcomes
- Innovative, relevant courses and qualifications
- Ambitious and responsible educators and leaders
- Outstanding digital and physical learning environments
- Financial sustainability powering reinvestment
- Impactful external engagement and civic commitment

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

People

NCG's values are:

- Valuing our people
- Being open and honest
- Ownership

Values underpin the culture and beliefs of the organisation and foster a sense of pride in working for NCG. The values set the standard of how colleagues should behave towards each other and help NCG make the right decisions based on those shared values.

The Group employed 2,299 people (expressed as full time equivalents) in 2019 (2018: 2,399) of whom 1,853 are teaching staff (2018: 1,958). The number of teaching staff includes those delivering training and employability.

Capital expenditure

NCG invested £2,810,000 in capital expenditure in 2019. The principal schemes were:

	NCG (Group) 2019 £000
IT infrastructure and systems	1,377
Curriculum delivery	769
Upgrades to property, plant and equipment	664
	2,810

Despite the continued pressure on funding which has been experienced in recent years, NCG continues to invest in capital projects to support the learner journey.

Learner numbers

The table below summarises learner numbers by contract across the Group.

NCG (Group)	2019	2018
16-19 classroom learners	11,847	12,458
Classroom based adult learners	15,756	16,106
Apprentices (all ages)	8,804	15,537
HE students	2,463	2,455
Learners in Scotland	866	958
Learners in Wales	1,754	1,431

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

Stakeholders

NCG has many stakeholders including:

- current, future and past students;
- colleagues and their trade unions (namely UCU and Unison);
- the employers it works with;
- the professional organisations in the sectors where it works;
- partner schools and universities;
- the wider communities that the colleges work with;
- local borough councils, combined authorities and Local Enterprise Partnerships that the colleges work with;
- Ofsted, the Education and Skills Funding Agency, the Office for Students and the Department for Education; and
- Lloyds Bank.

Legal status

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

NCG (Group) operates through the following colleges and subsidiaries:

- NCG Corporation
    - Carlisle College
    - Kidderminster College
    - Lewisham College
    - Newcastle College
    - Newcastle Sixth Form College
    - Southwark College
    - West Lancashire College
- Rathbone Training
- The Intraining Group Limited

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

NCG (Colleges) are made up of:

Carlisle College joined NCG on 5 April 2017. Carlisle College is a Further Education college based in Cumbria. It provides education and training, including vocational based, and delivers higher education programmes.

Kidderminster College is a Further Education college based in North Worcestershire. The College provides vocational education and training in Wyre Forest and more widely across the Midlands.

Lewisham College joined NCG on 1 August 2017 as part of Lewisham Southwark College. Lewisham Southwark College was separated into Lewisham and Southwark Colleges during 2018/19. Lewisham College is a Further Education college based in South East London, providing a wide range of vocational courses.

Newcastle College is a Further Education college based in Newcastle upon Tyne. It comprises several academic schools and substantial provision in Higher Education (HE).

Newcastle Sixth Form College which has been established under its own brand to deliver A Level and GCSE courses.

Southwark College was created following the separation of Lewisham Southwark College during 2018/19. Southwark College is a Further Education college based in London with modern facilities.

West Lancashire College is a Further Education college based in Skelmersdale, West Lancashire.

The training subsidiaries (or Training Providers):

Rathbone Training (Rathbone) is a registered charity and a company limited by guarantee. It is a UK-wide youth sector organisation providing opportunities for young people to transform their life circumstances by re-engaging with learning, discovering their ability to succeed and achieving progression to further education, training and employment. Due to falling learner numbers, the activities of the charity are no longer financially viable and the decision was made to close down the activities of the charity during the year. At the year end all centres had closed or been transferred to other organisations with the exception of Scotland where the centres will close in 2019/20.

The Intraining Group Limited (Intraining) is a wholly owned subsidiary of the Corporation. It operated a wide range of skills and employability programmes across England, Scotland and Wales. Due to falling learner numbers the activities of Intraining are no longer financially viable and the decision to close the activities was taken in the year. All centres have closed and most apprentices have been transferred to other organisations. There is a small number of apprentices remaining in learning who will complete their programmes in 2019/20.

For the purposes of this Report and Financial Statements:

NCG (Group) or NCG – is the consolidation of the colleges and the two subsidiary training companies.

NCG (Colleges) or colleges – is the stand-alone NCG Corporation entity, which incorporates the colleges only, excluding the two subsidiary training companies.

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

Development and performance

Developments

2018/19 has been a transformational year for NCG. Lewisham Southwark College has been separated into Lewisham College and Southwark College. This enables both colleges to work more effectively with their local communities and expand their offer. Due to financial unviability, the Corporation decided to wind down the activities of the training provider businesses, Rathbone and Intraining. The wind down is now substantially complete with 88 learners still on programmes to complete in 2019/20. The training provider close down, while resulting in upfront costs, will be transformational in terms of the financial performance of the Group as the annual losses being incurred by these businesses will stop.

During the year, both NCG and Intraining received a monitoring visit from Ofsted. NCG were found to be making "reasonable progress" in all areas raised in the 2018 Ofsted report. Disappointingly, Intraining was found to have made "insufficient progress" on 3 out of 4 areas and "reasonable progress" against the other area.

- A full analysis of the Group's FE and Skills provision is available in the 2018/19 Annual Quality and Performance Review document; specific detail on college quality is contained in the individual college self-assessment report.
- Learner retention has remained a strength in the Group resulting in a consistent retention factor multiplier and associated funding; attendance has also increased and is now around the sector average.
- The combination of the above, alongside a rigorous focus on improving teaching, learning and assessment has now improved overall achievement rates for young people and adults to above national averages.
- Review of progress monitoring and destination data also suggests that learners are achieving their targets and securing progression to higher levels of study or employment.
- Associated suppliers and platforms of progress/destination data were harmonised in 2018/19 bringing savings due to economies of scale/Group procurement.
- NCG (Group) secured funding from the Strategic College Improvement Fund (SCIF) which has been instrumental in allowing us to work with outstanding colleges to drive improvements across the Group. The greatest in-year impact is observed at Newcastle Sixth Form College resulting in significant improvements with student progress, now rated as excellent and in the top quartile nationally.
- All colleges are felt to be broadly secure against the outgoing Ofsted Common Inspection Framework, however the impact of a more learner-experience-focused Ofsted regime is unclear in the sector at this time. *Great Place to Teach*, our internal teaching and learning campaign, has already aligned NCG with the same research underpinning the new Ofsted Education Inspection Framework. Standards of teaching and learning have improved across the Colleges. This has consolidated the high standards of provision for adults and high needs learners, as well as providing greater consistency on courses for young people.
- The implementation of higher standards on apprenticeship provision, through the apprenticeship hubs, has started to have impact on performance, though some legacy activity is still being completed.

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

Developments (continued)

- The quality of the Higher Education provision has remained consistent with last year, the National Student Survey showed overall satisfaction and quality of teaching at 81% and 84% respectively, both consistent with the national average. More detail is available in the HE Annual Review.

NCG is committed to observing the importance of sector measures and indicators, and uses the FE Choices data available on the GOV.UK website, which looks at measures such as success rates.

Overall, financial performance has been extremely challenging. In recent years, the main impact on income from the Group's core activities has been as a result of the freeze on funding rates within the sector despite inflationary cost pressures. This has been exacerbated by falling numbers of apprenticeships starts across the sector following the introduction of the apprenticeship levy.

On 30 July 2019, the Group completed the Amendment and Restatement of the loan facilities with Lloyds Bank. This entailed the Group repaying £5,000,000 of loans in return for a £5,000,000 revolving credit facility (RCF). Property security was also extended to Lloyds over the Rye Hill Campus, Newcastle together with a restatement of the loan covenants. Subject to the business performing to plan, this facility reduces the cost of outstanding debt and provides facility headroom to the Group for the next 3 years.

The learner numbers for NCG (Colleges) are as follows:

16-19 learner numbers were 11,132 (2018: 10,723) and achievement rates were 85.2% (2018 83.5%). Adult learner numbers were 15,756 (2018: 14,263) and achievement rates were 89.5% (2018 89.6%). Apprentices were 3,347 (2018: 3,913) and achievement rates were 63.5% (2018 65.9%). HE learner numbers were 2,463 (2018: 2,455).

Financial results

- NCG reported turnover in the year of £148,522,000 (2018: £158,234,000), the Group has significant reliance on the ESFA for its principal funding source, largely from recurrent grants. The ESFA provided 67% of total income (2018: 67%). The reduction in turnover is largely due to the initiation of the training provider wind down. College turnover increased to £131,840,000 (2018: £127,718,000).

- Earnings before Interest Tax, Depreciation and Amortisation (EBITDA) fell from £3,447,000 to £768,000 largely due to costs related to the wind down of the training providers. EBITDA in the Colleges decreased from £4,376,000 to £2,626,000, this deterioration is in part due to the provision made against the intercompany loan with the Training Providers excluding the intercompany write off, the colleges delivered EBITDA of £9,966,000 (2018: £7,926,000)

- NCG incurs large deficits before tax, in part due to large depreciation charges (2019: £14,187,000) as a result of assets acquired on merger being restated at fair value. The deficit before tax increased from £7,179,000 to £10,961,000.

- NCG ended the year in a stable cash position with cash and cash equivalent balances of £12,413,000 (2018: £25,797,000) with a £5,000,000 revolving credit facility also available. The Group has cash forecasts that demonstrate cash reserves and facilities are in place and are sufficient to meet the immediate cash requirements of the business.

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

Financial results (continued)

- NCG has a strong asset backed balance sheet. After deducting the defined benefit pension deficit NCG has accumulated reserves of £114,667,000 (2018: £151,591,000). Prior to the pension liability, NCG reserves stand at £175,241,000 (2018: £185,043,000). These accumulated reserves are held to reinvest for the benefit of future learners.

- Confirmation has been received from the ESFA that they are in agreement with NCG's assessment of Financial Health equal to "Requires Improvement" for the expected outturn of 2018/19. They are also agreeing that the budget for 2019/20 is graded "Good". This is based on balance sheet strength, maintenance of low gearing and improved operational performance following the close down of the loss making training provider businesses.

Future prospects

The key focus of NCG for 2020 and beyond includes:

- Improving quality and outcomes for learners including improving future Ofsted inspection results from "Requires Improvement" to "Good" and then "Outstanding". There is significant progress already underway in this area including:
    - Expansion of the oversight of NCG's quality teams.
    - Continuation of the "Great Place to Teach" an NCG Programme based of the 12 principles of teaching, learning and assessment.
    - Launch of Apprenticeship Council during the year and an apprenticeship conference.
    - The Strategic Colleges Improvement Fund utilised during the year along with NCG match funding for:
        - Consulting on quality improvement.
        - Delivery of Management Information (MI) I to drive quality improvement.
        - Working with "outstanding" strategic partner education providers to improve teaching, learning and assessment.
        - Provision of excellent continual professional development for our teaching staff.
- Completing the wind down of the training provider businesses.
- Driving recruitment and retention of learners.
- Improving colleague engagement.
- Improving the Group's financial position from "requires improvement" to "good".
- Bidding for funding opportunities in the Colleges.
- Utilising costed curriculum plans and services reviews to concentrate available resources to maximise learner experiences.
- Review of the property portfolio to improve utilisation of assets and develop new learning resources.

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

Future prospects (continued)

- Development and expansion of curriculum including preparing for T levels and developing higher education programmes and digital teaching resources.
- Developing growth business plans for the newly separated Lewisham and Southwark Colleges that meet the needs of their Boroughs and the wider London market.

Each college has agreed its business plan for the year ahead through NCG's business planning and budget setting processes. The risks associated with this process are managed through Risk Plans, and financial targets are set out in the Budget agreed by the Corporation.

Key factors affecting funding and expenditure going forward include:

- 16-19 funding per learner remains static for 2019/20. A welcome 4.7% increase in 16-19 base rate funding for 2020/21 has been announced by the government. However, this may change due to the volatility of the UK political landscape.
- From September 2019 the employer contributions for the Teachers' Pension Scheme are due to increase by 7.2%. The government have agreed to fund this increased cost in 2019/20. Ongoing funding for this annual £2,100,000 cost increase is uncertain.
- The 2019/20 academic year is the first year where a proportion of adult education funding will be funded by devolved combined authorities rather than the ESFA for learners living within the boundaries of the combined authorities. All learners living outside of devolved combined authorities will continue to be funded by the ESFA. While this presents opportunities at Lewisham and Southwark colleges that sit within the Greater London Authority, this is a significant risk to Kidderminster college and West Lancashire College as they both sit just outside the combined authorities but have previously accommodated large numbers of learners from within the combined authorities. In 2020/21 Newcastle College will fall within the boundaries of the North of Tyne Combined Authority.
- Uptake of apprentices by both levy and non-levy paying employers remains slow and way below the pre-apprentice levy levels. To exacerbate this, the funding of non-levy apprentices by the government is restricted and so there is limited headroom for growth in NCG's non-levy apprenticeship contracts.
- The Tyne and Wear Pension Fund (TWPF) valuation has resulted in no change to the employer's contribution rate as is currently being paid. This contribution rate will be in place for the next three years. The valuation in relation to the London Pension Fund Authority (LPFA) is not yet available.

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

Treasury policies and objectives

Treasury management is the management of NCG 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.

NCG has a treasury management policy in place. Short-term borrowing for temporary revenue purposes is authorised by the Chief Executive. All other borrowing requires the authorisation of the Corporation and complies with the requirements of the Financial Memorandum of the ESFA.

Cash flows and Liquidity

Cash flow from operating activities amounted to a net outflow of £2,916,000 (2018: net inflow of £4,306,000). The outflow in 2018/19 was linked to the closure of the training provider businesses.

The size of NCG total borrowing and its approach to interest rates has been calculated to ensure an appropriate cushion between the total cost of servicing debt and the minimum cash balance.

The £5,000,000 reduction of debt in return for a £5,000,000 revolving credit facility provides a reduced level of outstanding debt while maintaining appropriate working capital headroom.

Reserves Policy

NCG (Group) College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the core activities of NCG (Group). There are no restricted reserves held.

Report of the members of the corporation
for the year ended 31 July 2019

Strategic report (continued)

Principal risks and uncertainties

NCG monitors and manages its risks carefully.

NCG is committed to an inclusive approach to the identification and management of risk throughout NCG and that the key risks should be closely monitored and wherever possible mitigating actions taken. The Group has undertaken further work during the year to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect NCG's assets and reputation.

Market and political risks

Risk description and impact	Mitigation of risk
Learner Recruitment Risk of the Group failing to achieve its learner recruitment targets.	Significant work is undertaken within each of the Colleges to achieve the recruitment targets. Enrolments are regularly reported to senior teams and to local College Boards. In addition, a regular review is undertaken to challenge the appropriateness of the current curriculum offering, refreshing it as needed.
Brexit There is a risk that the Group is adversely affected by the UK's negotiations around leaving the European Union. While the Group is UK based, it receives significant European Social Fund income and any UK economic downturn may affect the Government's ability to fund education. There are additional sensitivities around any impact of changes to immigration policy, particularly for the Group's London operations.	The UK Government has not yet determined how (or if) current European funding will be replicated post leaving the EU. The Group carefully monitors availability of funding streams and takes action accordingly.
Political change Risk that the Group fails to influence and / or respond to political change.	Senior staff from across the Group interact regularly with politicians and other individuals within the political sphere, with the purpose of benefitting our learners. Government policy is monitored and reported across the business with an executive focus being applied for more strategic changes.

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

Principal risks and uncertainties (continued)

Operational risks

Risk description and impact	Mitigation of risk
Major incident There is the risk that the Group is involved in a major incident such as a health and safety incident, an act of terrorism, a major safeguarding issue, the loss of one or more locations, significant data breach or loss of IT.	The Group is currently reviewing its approach to Business Continuity Planning, which will lead to a refresh of its existing recovery plans. This, along with continued investment into IT and operational infrastructure, will allow continued confidence in our recovery arrangements.
Customer Expectations Risk that the Group fails to deliver a product that meets or exceeds the expectations of its customers.	Regular customer satisfaction surveys are undertaken and reported across management and to the Governors. Where areas of weakness are identified formal work plans are established to address them. Students and staff representatives are appointed to Corporation and to College Boards to provide an opportunity for the voice of our students and staff to be heard.
Quality and performance of our education and training Risk that the Group fails to establish and maintain an appropriate level of education and training which is delivered at expected quality and performance levels.	Significant work is undertaken by a dedicated Quality team overseen by the Executive Director – Quality. Regular reporting of performance data is undertaken for audiences ranging from academic colleges to members of Corporation Board. The 'Great Place to Teach' initiative introduced in 2018 is achieving good traction.
Property Infrastructure Risk that the Group fails to maintain and develop its infrastructure in line with regulatory requirements and customer expectations. Risk of damage or loss of property.	Detailed property infrastructure plans are currently being developed to provide a future focus around the Group's property infrastructure. This work will ensure infrastructure is fit for purpose, maximises returns and relates to future academic and operational need. The Group maintains adequate insurance for all property within the estate.
Staffing Risk that the Group fails to attract and retain appropriate staff.	Management and Governors monitor staffing trends taking steps to address any identified weakness. An annual survey is undertaken to collect the views of staff with the results being used as the basis for establishing future engagement priorities. Formal policies regarding the wellbeing of staff are established and embedded across the business.
Stakeholders / Partners Risk the Group fails to maximise the benefit of stakeholders / partners.	Senior staff from across the Group are involved with regional and national bodies. These include funders and politicians through to strategic partners. This allows access to opportunities to be identified and maximised, supporting the success of NCG.
Culture Risk the Group fails to establish / maintain an appropriate culture.	The Group has clearly established and publicised values that form the basis of NCG operating culture. Whilst the look and feel of the Colleges may vary all are based on these core Group values.

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

Principal risks and uncertainties (continued)

Financial risks

Risk description and impact	Mitigation of risk
Liquidity Risk that the Group cannot fulfil its obligations as they fall due.	A large proportion of the Group's cash flows are very predictable due to the fixed nature of costs and income. Management maintain regular cash flow forecasts and bank covenant forecasts to assess the level of liquidity risk. The Group has significant levels of cash and excess property assets that could be realised should a liquidity risk be identified.
Credit Risk that debtors are not recoverable.	A significant proportion of the Group's income is recovered from the ESFA, the Office for Students and the Student Loan Company who are not considered a credit risk. Amounts due from individual learners and companies are regularly monitored with a standard credit process followed. Learners are not permitted to continue with their learning after a period of time where their fees have not been paid.
Interest Rate Risk that interest rate increases create additional funding costs to the Group.	44% of the Group's long-term borrowing is on fixed rate terms – leaving a manageable 56% on floating rates. Management model the effect of increasing interest rates as part of cash flow forecasting when assessing liquidity risks.
Training provider wind down Risk that unforeseen material liabilities arise as part of the training provider close down.	The wind down plan included a quantification of known liabilities. Cash flow modelling includes contingencies to cover unforeseen liabilities.

Compliance risks

Risk description and impact	Mitigation of risk
External Compliance and Validation Risk that the Group fails to reach the standards required for external compliance and suffers reputational and / or financial damage as a result.	Responsibilities for external compliance are clearly assigned across the Group. Requirements are subject to regular in-house checking and our approach to each is supported by written guidance. Sector experts are used to advise on policy and approach.
Learner Records Risk that learner records are not maintained to the quality required by funding bodies resulting in funding clawback and/or intervention	Procedures are in place and training is in place for all colleagues involved with learner records. Weekly and monthly compliance reporting is in place to highlight any anomalies in learner records. Regular business assurance review are carried out to assess compliance with funding rules.

Based on our strategy, a comprehensive review of the risks to which NCG is exposed has been undertaken. This identifies systems and procedures, including specific preventable actions, which should mitigate any potential impact on NCG. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions.

Report of the members of the corporation

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Strategic report (continued)

Principal risks and uncertainties (continued)

Consideration is also given to any risks that may arise as a result of a new area of work being undertaken by NCG. A risk register is maintained at Group level which is reviewed annually by the Audit Committee. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on NCG and the actions being taken to mitigate these risks. The Corporation reviews the risk management policy each year and reviews strategic risks on a rolling basis within each year. This risk register is currently being revised and reformatted.

Public Benefit

NCG Corporation is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 19.

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

In delivering its purpose, NCG provides identifiable public benefits which is covered throughout the members' report.

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require NCG to publish information on facility time arrangements for trade union officials at NCG. The following relates to NCG (Group) from 1 April 2018 to 31 March 2019 which is the reporting period required.

Relevant Union Officials during the period

Number of employees	23.0
Full time equivalent number of employees	21.3

Percentage of time spent on facility time

23 employees who were relevant Union Officials spent between 1 and 50% of their working hours on facility time.

Percentage of pay bill spent on facility time

Total cost of facility time (£000's)	83
Total pay bill (£000's)	68,100
Percentage of total bill spent on facility time	0.12%

Time spent on paid Trade Union activities as a percentage of total paid facility hours

Total paid facility hours	5,190.2
Total Union activity hours	-
Percentage of facility hours spent on Union activites	0.00%

Report of the members of the corporation

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Strategic report (continued)

Supplier payment policy and practice

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. During the accounting period 1 August 2018 to 31 July 2019, NCG paid 90.65% (2018: 85.27%) of its invoices within 30 days. NCG incurred £63 of interest charges in respect of late payment for this period (2018: £886).

Corporate Social Responsibility

Community

NCG's impact on society and the community arises naturally from operating as a high quality provider of education and training. In addition, NCG also makes a significant contribution to many local and national initiatives as follows:

- Engaging learners and colleagues with volunteering and participation in projects for national and local charities and public benefit organisations.
- All colleges participate in key local strategic groups and partnerships.
- Promoting healthy living to learners, colleagues and the local community.
- Sponsoring local and national projects and events.
- Promoting diversity, tolerance, and acceptance of different beliefs.
- Utilising creative and performance learners to benefit the local community.
- Collaborating with other educational organisations to promote learning and improve skills in the local community.
- Running fundraising events for the benefit of charities and good causes.
- Use of college facilities by local groups and societies.

Addressing environmental impact

NCG continues to make environmental performance and sustainable best practice a priority. NCG's Sustainability Policy was reviewed and renewed in February 2018.

Newcastle College, Newcastle Sixth Form College, West Lancashire College and Kidderminster College have secured Eco Campus Silver Awards. Carlisle College has achieved Eco Campus Bronze level status and, along with Lewisham Southwark College, is due to be audited in October 2018.

NCG is committed to the prevention of pollution and to continuous environmental improvement. Sustainable practices are applied to every aspect of NCG's business.

NCG is subject to the UK Government's Carbon Reduction Commitment Scheme and makes returns to the Department of Environment on its annual energy consumption.

Report of the members of the corporation

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Strategic report (continued)

Efficiency savings made in group

- Smart meter/AMR installation to allow for better monitoring and reporting.
- Building optimisation (powering down on evenings and weekends etc).
- LED (Light emitting diode) roll out across colleges through revenue budgets being installed gradually.
- EV (electric vehicle) charging points to encourage converting our fleet vehicles to electric. This has been done at Carlisle College and West Lancashire College.
- Energy management software implemented to allow for better monitoring and reporting.
- Working through the EcoCampus/ISO14001 scheme for which we are currently halfway through.

Promoting equality and valuing diversity

NCG is committed to ensuring equality of opportunity for all students, clients and employees; we respect and value diversity. As such, NCG is committed to meet the requirements of the Equality Act 2010 in relation to the protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

The NCG Equality Strategy 2019-23 sets out our equality aims, specific equality objectives and roles and responsibilities. The progress against the previous (2014-18) Strategy was reported to Corporation in November 2018, showing improvements across a range of areas. This insight was used to shape updated Policy and processes and local and NCG plans for 18/19.

The Equality Policy and approach to how we create impactful plans to create greater equality, diversity and inclusion was presented to Board in May 2019 and includes our expectation that our colleagues will challenge extremist ideas. NCG is committed to eliminating bias and discrimination from the way it operates. Each College (and Professional Services) has a nominated senior manager who leads on equality and diversity issues and oversees College developments in this area, acting as a key contact for local Boards. NCG has also used the "Great Place to Work" survey to gather and share employee perceptions about the workplace including equality and diversity measures, where NCG perform among the top UK companies. The findings are used locally to inspire improvement.

Employment of disabled persons

NCG considers all applications for employment from disabled persons. Where an existing employee becomes disabled, reasonable effort is made to ensure that employment with NCG continues. NCG's policy is to promote equality in recruitment, training, career development and opportunities for promotion. We endeavour to make arrangements to support students and clients with learning difficulties and disabilities to ensure that they are able to access the full range of services and provision.

Staff, student and customer involvement

We have a Group Communications Team that oversees strategic and incident related communications across NCG. We have established Public Relations or Marketing Officers across the Colleges to underpin and promote Colleges communication strategies across NCG. NCG Colleges engage with staff through recognised Trade Unions, Staff Forums and a range of informal mechanisms for consulting with and listening to staff.

Report of the members of the corporation

for the year ended 31 July 2019

Strategic report (continued)

Staff, student and customer involvement (continued)

Students' and customers' views continue to be sought regularly via a variety of evaluation surveys. The Corporation receives an Annual Report summarising feedback and this is supplemented by quarterly updates. Additionally, there are regular and timely Learner Forums across NCG to enhance communications between learners and NCG Colleges. Students are encouraged to participate in local community and national activities through the National Union of Students, which NCG promotes by supporting, administering and subsidising the Students' Union in Newcastle.

Disclosure of information to the 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 NCG'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 NCG auditor is aware of that information.

Approved by order of the members of the Corporation on 3 December 2019 and signed on its behalf by:

Peter R. Lauener

Peter Lauener
(Chair of the Corporation)

3 December 2019

Statement of corporate governance and internal control

The following statement is provided to enable readers of NCG's annual report and accounts to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2018 to 31 July 2019 and up to the date of approval of the annual report and financial statements.

NCG endeavours to conduct its business:

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

ii. having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector.

NCG is committed to exhibiting best practice in all aspects of corporate governance.

In particular, the Board has sought to follow the UK Corporate Governance Code insofar as it is applicable to the further education sector. NCG has had due regard to the principles of the UK Corporate Governance Code relating to Leadership, Effectiveness, Accountability and Remuneration. The principles relating to shareholders are not applicable because NCG is a statutory corporation and does not have shareholders. In particular, provisions B.6.2, B.7.1, B.7.2, C.1.1, D.2.4 and all provisions in Section E of the Code are not relevant.

In general, the approach has been to follow the relevant provisions of the Code insofar as it is applicable to the further education sector and practical in the NCG context. For example, alternative approaches to a provision within the UK Corporate Governance Code was the appointment of a Vice-Chair to support the Board and to act in the absence of the Chair. The Chief Executive, as Accounting Officer, has formal accountability in relation to Government funding.

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

Statement of corporate governance and internal control

The Corporation

The members who served on the Corporation during the year and up to the date of signature of this report were as listed in the table below.

Name	Appointment	End of Appointment	Category of Appointment	Reappointment Details	Committees Served
Mr Peter Lauener	Mar -18	Mar-22	Chair of Governors	N/A	• Appraisal and Remuneration Committee • Search Committee • Subsidiary Board (Chair)
Mr Chris Roberts	Sep -14	Sep-22	Independent Governor	Sept 14 - Sept 15 (1 year) Sept 15 - Sept 19 (4 years) Sept 19 - Sept 22 (3 years)	• Appraisal and Remuneration Committee • Search Committee (Chair)
Mr John Cuthbert	Nov -16	Nov-20	Independent Governor	Nov 16 - Nov 19 (3 years) Nov 19 - Nov 20 (1 year)	• Audit Committee (Chair)
Prof Caroline MacDonald	Jun-14	Jun-22	Independent Governor	June 14 - June 15 (1 year) June 15 - June 19 (4 years) June 19 - June 22 (3 years)	• Appraisal and Remuneration Committee • HE Governance Committee (Chair) • Search Committee
Mr Mark Squires	Nov -16	Nov-24	Independent Governor	Nov 16 - Nov 19 (3 years) Nov 19 - Nov 24 (5 years)	• Appraisal and Remuneration Committee (Chair) • Audit Committee • Search Committee
Mrs Alex Turner	Nov -97	Dec-18	Independent Governor	Nov 97 - Nov 01 (4 years) Nov 01 - Nov 05 (4 years) Nov 05 - Nov 09 (4 years) Nov 09 - Dec 13 (4 years) Dec 13 - July 18 (4.5 years) July 18 - Dec 18 (0.5 year)	• Appraisal and Remuneration Committee • Audit Committee • HE Governance Committee
Mr Peter Michell	Jan-04	Dec-18	Independent Governor	Jan 04 - Jan 05 (1 year) Jan 05 - Jan 09 (4 years) Jan 09 - Jul 13 (4.5 years) July 13 - July 18 (5 years) July 18 - Dec 18 (0.5 year)	• Audit Committee
Mr Jim Woodlingfield	Jun-16	Jun-19	Staff Governor	Jun 16 - Jun 19 (3 years)	N/A
Mr Liam Reilly	Jul-18	Dec-18	Student Governor	N/A	N/A
Mr Cameron Hartley	Jul-19	Jul-20	Student Governor	N/A	N/A
Mr Joe Docherty	Aug -13	Oct-18	CEO (Ex-Officio)	N/A	HE Governance Committee / Search Committee
Mr Chris Payne	Oct-18	Aug-19	Interim CEO (Ex-Officio)	N/A	HE Governance Committee / Search Committee

Statement of corporate governance and internal control

The Corporation (continued)

The Corporation formally met 11 times during the year:

Governor	Meetings attended	Out of a possible
Peter Lauener, Chair	11	11
Chris Roberts, Vice Chair	10	11
John Cuthbert, Independent Governor	10	11
Mark Squires, Independent Governor	8	11
Caroline MacDonald, Independent Governor	8	11
Peter Michell, Independent Governor (Term of office ended December 2018)	4	5
Alex Turner, Independent Governor (Term of office ended December 2018)	5	5
Jim Woodlingfield, Staff Governor (Term of office ended June 2019)	8	9
Liam Reilly, Student Governor (Resigned with effect from December 2018)	2	5
Cameron Hartley, Student Governor (Appointed with effect from July 2019)	1	2
Joe Docherty, CEO (Resigned with effect from October 2018)	1	1
Chris Payne, Interim CEO (Appointed with effect from October 2018)	9	9

Further information about members of the Corporation is available in the Guide to Information on NCG website at http://www.ncgrp.co.uk/guide-to-information.

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. The Chief Executive makes proposals on strategy and is responsible for the organisation, direction and management of the institution and leadership of the staff.

The Corporation is provided with regular and timely information on the overall financial performance of NCG, together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. There is a Corporation meeting most months throughout the academic year.

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 Appraisal and Remuneration, Search, Audit and HE Governance. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the clerk to the Corporation at:

NCG
Rye Hill Campus
Scotswood Road
Newcastle upon Tyne
NE4 7SA

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 NCG's expense and have access to the Clerk to the Corporation, who is responsible for advising the Corporation with regard to the operation of its powers, procedural matters, the conduct of its business and matters of governance practice. 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 meetings. Briefings are also provided on an ad hoc basis.

Statement of corporate governance and internal control

The Corporation (continued)

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 member 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 Chief Executive are separate.

Self-assessment considers the performance of the organisation as well as that of the board. The board undertakes an annual self-assessment of its performance. The Audit Committee has also carried out self -assessment focusing on its activities during the year. The Search Committee considers the contribution of individual members prior to making any recommendation to reappoint.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for consideration by the Corporation as a whole.

The Corporation has a Search Committee, consisting of five members of the Corporation, which is responsible for advising on the appointment of all members except staff and student members who are nominated by election.

The Search Committee met on two occasions during the year. The members of the Search Committee were as listed in the following table.

Governor	Meetings attended	Out of a possible
Chris Roberts (Chair of Committee)	2	2
Mark Squires	1	2
Caroline MacDonald	1	2
Chris Payne, Interim CEO (Appointed with effect from October 2018)	2	2
Peter Lauener	2	2
Joe Docherty (Resigned with effect from October 2018)	0	0

The Corporation seeks candidates for membership who have the necessary skills to ensure that the Corporation carries out its functions and welcomes opportunities to enhance the diversity of its membership, including in relation to gender.

The Corporation uses the SGOSS (School Governors' One Stop Shop) service to assist with the recruitment of members.

The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation have been appointed for a term of office totalling a maximum of 8 years, the standard Term of Office for Independent Governors is 4 years. The Chief Executive is an ex-officio member, and will remain so for the duration of their service within this role.

Appraisal & Remuneration Committee

The Appraisal & Remuneration Committee comprises four members of the Corporation (there is currently one vacancy). The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of Senior Post Holders (SPHs), including the Chief Executive and Clerk to the Corporation.

Statement of corporate governance and internal control

Appraisal & Remuneration Committee (continued)

The Appraisal & Remuneration Committee met on four occasions during the year. The members of the Appraisal & Remuneration Committee were as listed in the table below.

Governor	Meetings attended	Out of a possible
Mark Squires (Chair of Committee)	3	4
Caroline MacDonald	4	4
Alex Turner (Term of Office ended December 2018)	1	1
Peter Lauener (Joined committee April 2019)	3	3

A Senior Leadership Incentive Scheme is available to all Senior Post Holders and identified senior leaders within the business and has been designed to be both transparent and objective. To achieve the maximum available award, a College, or where relevant, NCG, has to be Quality assessed as Ofsted Outstanding and the Financial Surplus must be exceeded by an agreed amount.

The Rewards under the scheme are as follows: Quality assessed as Ofsted Good releases 25% of a maximum individual award, Quality assessed as Ofsted Outstanding releases 50% of a maximum individual award, Financial Surplus achieved releases 25% of a maximum individual award and Financial Surplus exceeded releases 50% of a maximum individual award.

Details of remuneration for the year ended 31 July 2019 are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee comprises four independent members of the Corporation. The Committee meets at least three times a year and provides a forum for reporting by NCG's internal and financial statement auditors, who can have access to the Committee for independent discussion. The Committee operates in accordance with written terms of reference, approved by the Corporation, which encompass reports from the main funding bodies as they affect NCG's business.

The Committee met five times during the year. There have been two vacancies during the year. The members of the Audit Committee who served during the year were as listed in the table below.

Governor	Meetings attended	Out of a possible
John Cuthbert (Chair of Committee)	5	5
Peter Michell (Term of office ended December 2018)	2	2
Alex Turner (Term of Office ended December 2018)	2	2
Mark Squires (Joined Committee March 2019)	3	3

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

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

The Audit Committee has considered the financial statements auditor's findings in relation to the financial statements.

The Audit Committee assesses the performance of the internal and financial statements auditors annually in relation to quality and value.

Statement of corporate governance and internal control

Audit Committee (continued)

The Audit Committee is responsible for advising the Corporation on the appointment or reappointment of auditors.

The Audit Committee also advises the Corporation on the remuneration of internal and financial statements auditors.

HE Governance Committee

The HE Governance Committee (as per the Terms of Reference) comprises of the Chief Executive Officer (who also Chairs the Academic Board), two independent members of the Corporation, a HE Sabbatical Student and up to one co-opted member with Higher Education expertise. The Committee meets four times a year. However, this year, due to issues with quorum, it was agreed to meet three times. The Committee provides a forum to consider and challenge assurance that the academic governance of Higher Education provision is effective, receive and comment on assurance and audit reports relating to Higher Education processes and functions and closely monitor the strategic development of Higher Education provision across the Group. The members that served on the committee during the year are listed in the table below.

Governor	Meetings attended	Out of a possible
Caroline MacDonald (Chair of Committee)	3	3
Alex Turner (Term of Office ended December 2018)	1	1
Chris Payne, Interim CEO (Appointed with effect from October 2018)	3	3
Chris Roberts (Joined February 2019)	2	2
Joe Docherty (Resigned with effect from October 2018)	0	0
Alan Houston (co-opted member)	2	3
HE Sabbatical Student Member	0	3

Internal control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Chief Executive, as Accounting Officer, for maintaining a sound system of internal control. This supports the achievement of NCG policies, aims and objectives, while safeguarding the public funds and assets for which the Chief Executive is personally responsible, in accordance with the responsibilities assigned to them in the Financial Memorandum between the Corporation and the Education and Skills Funding Agency. The Chief Executive 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 NCG policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NCG for the year ended 31 July 2019 and up to the date of approval of the annual report and financial statements.

Statement of corporate governance and internal control

Internal control (continued)

Capacity to handle risk

The Corporation has reviewed the key risks to which NCG 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 an adequate formal ongoing process for identifying, evaluating and managing NCG's significant risks that has been in place for the year ended 31 July 2019 and up to the date of approval of the annual report and financial statements. 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:

- regular review of all business risks by the Corporation
- quarterly review of non-financial key performance indicators of the business to the Corporation
- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Corporation
- regular reviews by the Corporation 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 procedures
- the adoption of formal project management disciplines, where appropriate

NCG 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 NCG is exposed and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are approved by the Corporation on the recommendation of the Audit Committee. At least annually the Corporation is provided with a report on audit activity in NCG, including an opinion on the adequacy and effectiveness of NCG's system of risk management, controls, and governance processes.

Review of effectiveness

As Accounting Officer, the Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. The Chief Executive's review of effectiveness of the system of internal control is informed by:

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

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

Statement of corporate governance and internal control

Review of effectiveness (continued)

The Executive Board receives reports setting out key performance and risk indicators, and considers possible control issues brought to their attention by early warning mechanisms that are embedded within the departments and reinforced by risk awareness training. The Executive Board and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and it receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance, not merely reporting by exception. At its December 2019 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2019 by considering documentation from the Audit Committee, financial statements and internal audit, and taking account of events since 31 July 2019.

Going concern

After making appropriate enquiries, the Corporation considers that NCG has adequate resources to continue in operational existence for the foreseeable future. The Corporation maintains a strong balance sheet with low gearing and substantial cash reserves and a £5m revolving credit facility. 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 3 December 2019 and signed on its behalf by:

Peter R. Lauener

Peter Lauener
(Chair of the Corporation)

Liz Bromley
(Chief Executive)

Statement on regularity, propriety and compliance with Funding body terms and conditions of funding

The Corporation has considered its responsibility to notify ESFA of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the colleges' grant funding agreements and contracts with ESFA. As part of our consideration we have had due regard to the requirements of grant funding agreements and contracts with 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 Colleges, or material non-compliance with the terms and conditions of funding, under the Colleges' grant funding agreements and contracts with 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 ESFA.

Approved by order of the members of the Corporation on 3 December 2019 and signed on its behalf by:

Peter R. Lauener	
Peter Lauener	Liz Bromley
(Chair of the Corporation)	(Chief Executive)

Statement of responsibilities of the members of the Corporation

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

Within the terms and conditions of NCG's grant funding agreements and contracts with ESFA, the Corporation – through its accounting officer – is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education, ESFA's college accounts direction and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the college and its 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that NCG will continue in operation.

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

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

The maintenance and integrity of the Group's websites are the responsibility of the Corporation; 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 websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Approved by order of the members of the Corporation on 3 December 2019 and signed on its behalf by:

Peter R. Lauener

Peter Lauener

(Chair of the Corporation)

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NCG CORPORATION

Opinion

We have audited the financial statements of NCG for the year ended 31 July 2019 which comprise the Group and College Statements of Comprehensive Income, Group and College Statements of Changes in Reserves, Group and College Balance Sheets, Group Statement of Cash Flows and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting standard applicable in the UK".

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 2019 and of the Group's and the College's income and expenditure, gains and losses, changes in reserves and the Group's cash flows for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting standard applicable in the UK"; and

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of NCG Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- NCG Corporation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- NCG Corporation have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about NCG'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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NCG CORPORATION

Other information

The other information comprises the information included in the annual report set out on pages 2 to 27 other than the financial statements and our auditor's report thereon. NCG Corporation is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Post 16 Audit Code of Practice 2018-19

We have nothing to report in respect of the following matters in relation to which the Post-16 Audit Code of Practice 2018-2019 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; and
- we have not received all the information and explanations we require for our audit.

Responsibilities of NCG Corporation

As explained more fully in the fully in the Statement of Responsibilities of the Members of the Corporation set out on page 27, NCG Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the NCG 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, NCG Corporation is responsible for assessing NCG'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 NCG Corporation either intend to liquidate NCG or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NCG CORPORATION

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 https://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 of NCG, as a body, in accordance with statutory requirements. Our audit work has been undertaken so that we might state to the Governor's those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than NCG and NCG Corporation as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Statutory Auditor

Newcastle upon Tyne

13 December 2019

Ernst & Young LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

The maintenance and integrity of NCG's website is the responsibility of NCG Corporation; 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.

Statement of comprehensive income

NCG (Group)	Notes	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
INCOME			
Funding body grants	2	105,910	114,162
Tuition fees and education contracts	3	27,460	26,898
Other grants and contracts	4	11,328	13,315
Other income	5	3,652	3,745
Investment income	6	172	114
Total income		**148,522**	**158,234**
EXPENDITURE			
Staff costs	7	90,382	90,217
Restructuring costs	7	1,339	1,656
Other operating expenses	8	51,785	58,122
Depreciation	12	14,187	14,987
Interest payable and other finance costs	9	1,765	2,281
Total expenditure		**159,458**	**167,263**
Deficit before other gains and losses		**(10,936)**	**(9,029)**
(Loss)/ Profit on disposal of assets	12	(25)	1,850
Deficit before tax		**(10,961)**	**(7,179)**
Taxation	10	-	-
Deficit before gift from merged colleges		**(10,961)**	**(7,179)**
Net assets of merged colleges at point of merger with NCG		-	76,069
(Deficit)/surplus		**(10,961)**	**68,890**
Actuarial (loss)/gain in respect of pension schemes	22	(25,963)	15,247
Total comprehensive (loss)/income for the year		**(36,924)**	**84,137**

For the purposes of this Statement:

NCG (Group) – is the consolidation of the colleges and the two subsidiary training companies.
NCG (Colleges) or colleges – is the stand-alone NCG Corporation entity, which incorporates the colleges only, excluding the two subsidiary training companies.

Non-GAAP disclosure - Earnings before interest, tax, depreciation & amortisation (EBITDA) NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Deficit before other gains and losses	(10,936)	(9,029)
Less Capital grant release income	(4,076)	(4,678)
Investment income	(172)	(114)
Add Depreciation	14,187	14,987
Interest payable and other finance costs	1,765	2,281
EBITDA	**768**	**3,447**

Statement of comprehensive income

NCG (Colleges)	Notes	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
INCOME			
Funding body grants	2	97,457	93,371
Tuition fees and education contracts	3	27,167	26,485
Other grants and contracts	4	3,470	4,613
Other income	5	3,574	3,135
Investment income	6	172	114
Total income		131,840	127,718
EXPENDITURE			
Staff costs		77,258	75,143
Restructuring costs		448	777
Other operating expenses	8	47,260	42,630
Depreciation	12	14,035	14,675
Interest payable and other finance costs	9	1,541	2,017
Total expenditure		140,542	135,242
Deficit before other gains and losses		(8,702)	(7,524)
Profit on disposal of assets	12	-	1,850
Deficit before tax		(8,702)	(5,674)
Taxation	10	-	-
Deficit before gift from merged colleges		(8,702)	(5,674)
Net assets of merged colleges at point of merger with NCG		-	76,069
(Deficit)/surplus		(8,702)	70,395
Actuarial (loss)/gain in respect of pension schemes	22	(24,700)	13,236
Total comprehensive (loss)/income for the year		(33,402)	83,631

Non-GAAP disclosure - Earnings before interest, tax, depreciation & amortisation (EBITDA) NCG (Colleges)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Deficit before other gains and losses	(8,702)	(7,524)
Less Capital grant release income	(4,076)	(4,678)
Investment income	(172)	(114)
Add Depreciation	14,035	14,675
Interest payable and other finance costs	1,541	2,017
EBITDA	2,626	4,376

Statement of changes in reserves

	Income and expenditure account £000	Revaluation reserve £000	Total £000
NCG (Group)			
Balance at 1 August 2017	61,088	6,366	67,454
Deficit from the income and expenditure account	(7,179)	-	(7,179)
Other comprehensive income	91,316	-	91,316
Transfers between revaluation and income and expenditure reserves	322	(322)	-
	84,459	(322)	84,137
Balance at 31 July 2018	145,547	6,044	151,591
Deficit from the income and expenditure account	(10,961)	-	(10,961)
Other comprehensive loss	(25,963)	-	(25,963)
Transfers between revaluation and income and expenditure reserves	201	(201)	-
Total comprehensive loss for the year	(36,723)	(201)	(36,924)
Balance at 31 July 2019	108,824	5,843	114,667
NCG (Colleges)			
Balance at 1 August 2017	72,569	6,366	78,935
Deficit from the income and expenditure account	(5,674)	-	(5,674)
Other comprehensive income	89,305	-	89,305
Transfers between revaluation and income and expenditure reserves	322	(322)	-
	83,953	(322)	83,631
Balance at 31 July 2018	156,522	6,044	162,566
Deficit from the income and expenditure account	(8,702)	-	(8,702)
Other comprehensive loss	(24,700)	-	(24,700)
Transfers between revaluation and income and expenditure reserves	201	(201)	-
Total comprehensive loss for the year	(33,201)	(201)	(33,402)
Balance at 31 July 2019	123,321	5,843	129,164

For the purposes of this Statement:

NCG (Group) – is the consolidation of the colleges and the two subsidiary training companies.
NCG (Colleges) or colleges – is the stand-alone NCG Corporation entity, which incorporates the colleges only, excluding the two subsidiary training companies.

NCG

Balance sheets as at 31 July

	Notes	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Fixed assets					
Tangible assets	12	269,513	269,506	281,640	281,159
		269,513	**269,506**	**281,640**	**281,159**
Current assets					
Tangible assets		82	-	-	-
Stocks	13	781	555	136	136
Debtors	14	4,811	3,616	9,833	6,308
Cash and cash equivalents	19	12,413	12,401	25,797	25,380
		18,087	**16,572**	**35,766**	**31,824**
Less: Creditors - amounts falling due within one year	15	26,516	20,585	33,732	28,757
Net current (liabilities)/assets		**(8,429)**	**(4,013)**	**2,034**	**3,067**
Total assets less current liabilities		**261,084**	**265,493**	**283,674**	**284,226**
Creditors - amounts falling due after more than one year	16	79,022	79,022	90,272	90,272
Provisions					
Defined benefit obligations	22	60,574	50,486	33,452	24,874
Other provisions	18	6,821	6,821	8,359	6,514
Total net assets		**114,667**	**129,164**	**151,591**	**162,566**
Unrestricted reserves					
Revaluation reserve		5,843	5,843	6,044	6,044
Income and expenditure account		108,824	123,321	145,547	156,522
Total unrestricted reserves		**114,667**	**129,164**	**151,591**	**162,566**

For the purposes of this Statement:

NCG (Group) – is the consolidation of the colleges and the two subsidiary training companies.
NCG (Colleges) – is the stand alone NCG Corporation entity which incorporates the colleges only, excluding the two subsidiary training companies

The financial statements were approved by the members of the Corporation and were signed on their behalf by:

Peter R. Lauener

Peter Lauener
(Chair of the Corporation)
3 December 2019

Liz Bromley
(Chief Executive)
3 December 2019

Consolidated statement of cash flows

	Notes	2019 £000	2018 £000
Cash flow from operating activities			
Deficit for the year		(10,961)	(7,179)
Depreciation		14,187	14,987
Deferred capital grants released to income		(4,076)	(4,678)
Decrease/(increase) in stocks		13	(16)
Decrease in debtors		5,057	275
(Decrease)/increase in creditors due in less than 1 year		(9,688)	1,223
Decrease in creditors due in more than 1 year		-	(583)
Increase/ (decrease) in provisions		711	(728)
Pensions costs less contributions payable		1,144	1,908
Adjustment for investing or financing activities			
Investment income		(172)	(114)
Interest payable		843	1,061
Profit on sale of fixed assets		26	(1,850)
Net cash (outflow)/inflow from operating activities		(2,916)	4,306
Cash flows from investing activities			
Proceeds from sale of fixed assets		-	2,564
Investment income		171	115
Capital grants received		249	413
Payments made to acquire fixed assets		(2,949)	(5,605)
		(2,529)	(2,513)
Acquisitions and disposals			
Net cash acquired with subsidiary undertaking		-	2,453
		-	2,453
Cash flows from financing activities			
Interest paid		(847)	(1,095)
Repayments of amounts borrowed		(7,092)	(1,852)
Capital element of finance lease repayments		-	(41)
		(7,939)	(2,988)
(Decrease)/increase in cash and cash equivalents in the year	19	(13,384)	1,258
Cash and cash equivalents at beginning of the year		25,797	24,539
Cash and cash equivalents at end of the year		12,413	25,797

Notes to the financial statements

at 31 July 2019

1. Accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2018 to 2019* and in accordance with Financial Reporting Standard 102 – *"The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland"* (FRS102). NCG (Group) is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS102.

The preparation of financial statements in compliance with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying NCG (Group) accounting policies.

Basis of consolidation

The consolidated financial statements include the Group and its subsidiaries, The Intraining Group Limited and Rathbone Training, controlled by the Group (together referred to as "NCG (Group)"). Control is achieved where the NCG (Group) has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated Statement of Comprehensive Income from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS102, the activities of the Student Union and Discovery Learning Limited have not been consolidated because NCG (Group) does not control those activities. All financial statements are made up to 31 July 2019. The NCG (Colleges) financial statements present information about NCG (Colleges) as a separate entity that includes the seven colleges - Carlisle College, Kidderminster College, Lewisham College, Southwark College, Newcastle College, Newcastle Sixth Form College and West Lancashire College (together referred to as "NCG (Colleges)") and excludes the two subsidiary training companies. The training subsidiaries are not considered to be a going concern and therefore are being accounted for on a break up basis where all assets and liabilities are being classified as current. They have been consolidated into the NCG (Group) accounts on this basis.

Therefore, for the purposes of the notes to the accounts the following terminology applies:

NCG (Group) – is the consolidation of the colleges and the two subsidiary training companies.

NCG (Colleges) – is the stand-alone NCG Corporation entity, which incorporates the colleges only, excluding the two subsidiary training companies.

Basis of accounting

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

Going concern

The activities of NCG (Group), together with the factors likely to affect its future development and performance are set out in the Members Report. The financial position of NCG (Group), its cash flow, liquidity and borrowings are presented in the financial statements and accompanying Notes.

After making appropriate enquiries, the Corporation considers that NCG has adequate resources to continue in operational existence for the foreseeable future. The Corporation maintains a strong balance sheet with low gearing and substantial cash reserves. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Notes to the financial statements

at 31 July 2019

1. Accounting policies (continued)

Going concern (continued)

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

Recognition of income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under achievement for the Adult Education Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year-end reconciliation process with the funding body following the year-end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

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

Where part of a government grant is deferred, the deferred element is recognised as deferred income within creditors and allocated between creditors due within one year and creditors due after more than one year as appropriate.

Grants (including research grants) from non-government sources are recognised in income when NCG (Group) is entitled to the income and performance related conditions have been met.

Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS102. Other capital grants are recognised in income when the Group is entitled to the funds subject to any performance related conditions being met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the Balance Sheet and released to income as conditions are met.

Income from tuition fees is stated gross of any expenditure which is not a discount and is recognised in the period for which it is received.

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

NCG (Group) acts as an agent in the collection and payment of learner support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of NCG (Group) where NCG (Group) is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Where NCG (Group) subcontracts part of their income contracts to other organisations, the income is recognised in full against the appropriate categorisation as part of income, the amounts that are earned by the subcontractor is classified as expenditure and is included within Other Operating Expenses in the Statement of Other Comprehensive Income.

Notes to the financial statements

at 31 July 2019

1. Accounting policies (continued)

Accounting for post-employment benefits

Post-employment benefits to employees of NCG (Group) are principally provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit plans, which are externally funded and contracted out of the State Second Pension.

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with NCG (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 qualified actuaries on the basis of valuations using a prospective benefit method.

The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus/ deficit are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Where NCG (Group) is a member of more than one fund in the LGPS then each fund will be treated separately for valuation and disclosure purposes.

Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

Actuarial gains and losses are recognised immediately in actuarial gains and losses 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 NCG (Group). Any unused benefits are accrued and measured as the additional amount NCG (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 a college annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to NCG (Group) income in the year that the member of staff retires. In subsequent years, a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Notes to the financial statements

at 31 July 2019

1. Accounting policies (continued)

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Group to terminate an employee's employment before their normal retirement date or an employee's decision to accept voluntary redundancy. These benefits are charged on an accruals basis to the Statement of Comprehensive Income at the earlier of when the Group can no longer withdraw the offer of those benefits or when the Group recognises costs for a restructuring.

Other pension schemes

Staff employed by Intraining are eligible to be members of the Intraining Group Personal Pension Scheme. It is a defined contribution scheme and is independently administered by Heath Lambert.

Rathbone Training also operates two funded defined benefit pension schemes for eligible employees. The first is the London Pension Fund Authority Scheme (LPFA), which up to 1 April 1999 had been the principal scheme. The assets of the scheme are invested and managed independently.

The second is a multi-employer scheme, The Pensions Trust Growth Plan, which closed to new entrants from 31 October 2012. It is a multi-employer defined benefit pension scheme with a deficit funding arrangement in place to identify a liability for this obligation in its accounts. The liability is equal to the net present value of the deficit contributions payable.

The current principal scheme for Rathbone Training is a defined contribution pension scheme which is independently administered by Heath Lambert.

Non-current assets - tangible fixed assets

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

Land and buildings

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

- Building Exterior – 30 Years
- Fabric of the Building – 30 Years
- Building Interior – 20 Years
- Mechanical and Engineering parts e.g. Lifts, Heating – 18 Years
- Structural parts e.g. Building frame, stairs, roof – 60 Years

Freehold land is not depreciated as it is considered to have an infinite useful life.

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

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 systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

On adoption of FRS102, NCG (Group) followed the transitional provision to retain the book value of buildings, which were revalued in 1993, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

Notes to the financial statements

at 31 July 2019

1. Accounting policies (continued)

Non-current assets - tangible fixed assets (continued)

Leasehold Improvements

Leasehold improvements are capitalised and depreciated over the lower of the remaining term of the lease or the expected useful life as per freehold buildings. All are short leasehold.

Assets under construction

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

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to NCG (Group), in which case it is capitalised and depreciated on the relevant basis.

Equipment

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition, except IT equipment, which is capitalised regardless of value. Where capitalised, equipment is recorded as a tangible fixed asset at cost.

Capitalised equipment is depreciated on a straight-line basis over its remaining useful economic life as follows:

- technical equipment — 5 years
- motor vehicles — 5 years
- computer equipment — 4 years
- furniture, fixtures and fittings — 5 years

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated as above. The related grants are credited to a deferred income account within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Comprehensive Income.

For the Training providers the net book value of Tangible Fixed Assets has been transferred into current assets which is consistent with accounting under a break up basis.

Borrowing costs

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

Notes to the financial statements

at 31 July 2019

1. Accounting policies (continued)

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income. Any lease premiums or incentives relating to leases signed after 1 August 2014 are spread over the minimum lease term. The Group has taken advantage of the transitional exemptions in FRS102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1 August 2014.

Leasing agreements, which transfer to NCG (Group) substantially all the benefits and risks of ownership of an asset 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 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.

Investments in subsidiaries

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

Inventories

Inventories are stated at the lower of their cost and net realisable value, being selling price less costs to complete and sell. Where necessary, provision is made for obsolete, slow-moving and defective items.

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 3 months or less from the date of acquisition.

Financial liabilities and equity

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

All loans, investments and short-term deposits held by NCG (Group) are classified as basic financial instruments in accordance with FRS102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS102 requires that basic financial instruments are subsequently measured at amortised cost, however, NCG (Group) has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Notes to the financial statements

at 31 July 2019

1. Accounting policies (continued)

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to income in the period in which they arise.

Taxation

NCG (Colleges) 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, NCG (Colleges) 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.

NCG Group is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

NCG (Group) subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation, with the exception of Rathbone which is a registered charity and therefore is not liable to corporation tax.

Provisions and contingent liabilities

Provisions are recognised when

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

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the Statement of Comprehensive Income in the period it arises.

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

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

Identified areas of provision are as follows:

Dilapidations

Dilapidations are provided for based on a recognised valuation formula over the lifetime of a property's lease and are reviewed regularly. Within the Training Providers a third party Sanderson Weatherall (members of the Royal Institution of Chartered Surveyors).has valued the dilapidations and consistent with a break up basis of accounting the provision for dilapidations has been included within current assets as at 31 July 2019..

Notes to the financial statements

at 31 July 2019

1. Accounting policies (continued)

Provisions and contingent liabilities (continued)

Restructuring Provision

A restructuring provision is recognised when there is a legal or constructive obligation at the reporting date. The provision made is based on contractual and/ or legal requirements.

Onerous Contracts

An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The provision for onerous contracts is calculated as the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

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 NCG (Group) either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease-by-lease basis.

- Determine whether there are indicators of impairment of NCG (Group) tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- Tangible fixed assets

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

- Defined benefit pension schemes

  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 22, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2019. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

- Dilapidations

  The estimated dilapidation costs are based on a recognised valuation formula over the lifetime of a property's lease and are reviewed regularly.

Notes to the financial statements

at 31 July 2019

2. Funding body grants

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Recurrent grants		
Education & Skills Funding Agency - adult	28,676	25,947
Education & Skills Funding Agency - 16-18	60,761	61,524
Education & Skills Funding Agency - apprenticeships	10,588	19,672
Office for Students	1,809	2,341
Specific grants		
Releases of government capital grants	4,076	4,678
	105,910	114,162

NCG (Colleges)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Recurrent grants		
Education & Skills Funding Agency - adult	27,347	22,855
Education & Skills Funding Agency - 16-18	57,912	56,626
Education & Skills Funding Agency - apprenticeships	6,313	6,871
Office for Students	1,809	2,341
Specific grants		
Releases of government capital grants	4,076	4,678
	97,457	93,371

3. Tuition fees and education contracts

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Adult education fees	707	1,018
Apprenticeship fees and contracts	354	395
Fees for FE loan supported courses	3,143	3,204
Fees for HE loan supported courses	16,840	15,482
International students fees	836	1,149
Total tuition fees	21,880	21,248
Education contracts	5,580	5,650
	27,460	26,898

NCG (Colleges)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Adult education fees	707	1,018
Apprenticeship fees and contracts	247	332
Fees for FE loan supported courses	3,143	3,204
Fees for HE loan supported courses	16,840	15,482
International students fees	836	1,149
Total tuition fees	21,773	21,185
Education contracts	5,394	5,300
	27,167	26,485

Notes to the financial statements

at 31 July 2019

3. Tuition fees and education contracts (continued)

NCG (Group) is committed to enabling potential learners to access education regardless of their personal finances. This has resulted in tuition fees foregone under NCG (Group) own fee waiver policy in the year totalling £2,839,000 (2018: £2,442,000). All courses are given an assumed fee based on guided learner hours, whether or not a fee had been charged to the students, which seeks to reflect the actual fees foregone.

4. Other grants and contracts

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Erasmus	112	-
European Commission	3,769	4,519
Other grants and contracts	7,447	8,796
	11,328	**13,315**

Other grants and contracts made up of:

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Department for Work and Pensions	971	2,045
Welsh Government	2,538	1,800
Skills Development Scotland	2,678	2,900
Big Lottery	-	111
Subcontracted income	1,130	1,696
Other	130	244
	7,447	**8,796**

NCG (Colleges)	Year ended 31 July 2019 2019 £000	Year ended 31 July 2018 2018 £000
Erasmus	112	-
European Commission	3,207	4,103
Other grants and contracts	151	510
	3,470	**4,613**

Other grants and contracts made up of:

NCG (Colleges)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Other	151	510
	151	**510**

Notes to the financial statements

at 31 July 2019

5. Other income

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Catering	957	933
Other income generating activities	-	469
Miscellaneous income	2,695	2,343
	3,652	3,745

NCG (Colleges)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Catering	957	933
Other income generating activities	-	238
Intercompany income	-	14
Miscellaneous income	2,617	1,950
	3,574	3,135

6. Investment income

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Other interest receivable	172	114
	172	114

NCG (Colleges)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Other interest receivable	172	114
	172	114

Notes to the financial statements

at 31 July 2019

7. Staff costs

The average number of persons (including key management personnel) employed by the Group during the year, expressed as full time equivalents, is shown below:

NCG (Group)	**2019**	**2018**
	No.	**No.**
Teaching staff	1,853	1,958
Non teaching staff	446	441
	2,299	2,399

Staff costs for the above persons:

	Year ended 31 July 2019	**Year ended 31 July 2018**
	£000	**£000**
Wages and salaries	72,060	73,043
Social security costs	6,457	6,292
TPS pension costs	4,311	4,148
LGPS pension costs (TWPF)	5,534	5,047
LGPS pension costs (LPFA)	1,095	1,116
Other pension costs	925	571
Payroll sub-total	**90,382**	**90,217**
Exceptional restructuring costs	1,339	1,656
Total staff costs	91,721	91,873

Notes to the financial statements

at 31 July 2019

7. Staff costs (continued)

Key Management Personnel and Higher Paid Staff

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

NCG (Group)	Key management personnel		Other higher paid staff	
		Restated		Restated
	2019	2018	2019	2018
	No.	No.	No.	No.
£60,000 and under	-	2	-	-
£60,001 to £65,000	-	-	20	17
£65,001 to £70,000	-	-	8	7
£70,001 to £75,000	-	-	5	5
£75,001 to £80,000	-	-	3	2
£80,001 to £85,000	-	-	2	7
£85,001 to £90,000	2	-	2	1
£90,001 to £95,000	-	2	2	3
£95,001 to £100,000	-	1	3	3
£100,001 to £105,000	2	2	1	1
£105,001 to £110,000	2	2	-	-
£110,001 to £115,000	-	-	1	-
£115,001 to £120,000	-	1	-	
£120,001 to £125,000	1	1	-	-
£125,001 to £130,000	1	-	-	-
£130,001 to £135,000	1	-	-	-
£140,001 to £145,000	-	1	-	-
£145,001 to £150,000	1	-	-	-
£150,001 to £155,000	1	-	-	-
£155,001 to £160,000	2	1	-	-
£160,001 to £165,000	-	1	-	-
£190,001 to £195,000	1	-	-	-
£195,001 to £200,000	-	1	-	-
£235,001 to £240,000	1	1	-	-
	15	16	47	46

These numbers are stated as full year salary equivalents even if service is not for a full year. The bandings for the prior year have been restated to provide the information in £5,000 bands rather than £10,000 as was the previous requirement per the ESFA Accounts Direction.

Notes to the financial statements

at 31 July 2019

7. Staff costs (continued)

Key Management Personnel were those persons having authority and responsibility for planning, directing and controlling the activities of NCG and are represented by the Executive Team, which comprises of the Chief Executive Officer, the Executive Director, Partnerships and Assurance, the Chief Financial Officer, the Chief Operating Officer, the Executive Director of Governance, Assurance and Risk, the Executive Director of Quality, and the Principals of Carlisle College, Kidderminster College, Newcastle College, West Lancashire College, Lewisham College, Southwark College and Newcastle Sixth Form College, and the Managing and Finance Director of The Intraining Group Limited and Rathbone Training.

NCG (Group)	2019 No.	2018 No.
The number of Key Management Personnel including those who held office for only part of the year, was:	15	16

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Key Management Personnel emoluments are made up as follows:		
Emoluments	1,736	1,653
Pension contributions	277	225
Total emoluments	2,013	1,878

The Key Management Personnel emoluments include amounts payable to the highest paid officer, the Chief Financial Officer, of:

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Salary	173	-
Benefits in Kind	1	-
Pension contributions	33	-
Total emoluments	207	-

The Key Management Personnel emoluments include amounts payable to outgoing Chief Executive and Former Accounting Officer, of:

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Salary	109	227
Benefits in Kind	1	10
Pension contributions	8	41
Total emoluments	118	278

The outgoing Chief Executive and Former Accounting Officer was in post from 1 August 2019 to 10 October 2019. Included within salaries above is an amount for payment in lieu of notice of £57,000. In addition to the amounts disclosed as remuneration, £1,800 was paid towards legal fees.

Notes to the financial statements

at 31 July 2019

7. Staff costs (continued)

Key Management Personnel (continued)

The Key Management Personnel emoluments include amounts payable to Interim Chief Executive and Accounting Officer at the balance sheet date, of:

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Salary	129	-
Benefits in Kind	2	-
Pension contributions	25	-
Total emoluments	156	-

The Accounting Officer and Interim Chief Executive Officer was in post from 11 October 2018. Prior to October 2018 his role was the Executive Director of Partnerships and Assurance.

There were no amounts due to Key Management Personnel that were waived in the year. Emoluments do not include Employers National Insurance or compensation for loss of office.

The governing body has adopted Association of College's (AoC) Senior Staff Remuneration Code and will assess pay in line with its principles in future

Salaries and benefits paid to Key Management Personnel are presented annually to the Remuneration committee. Decisions on salary and specific salary changes are linked to performance, role changes and sector benchmarking information. Governors assess the proposal made by the Chief Executive, and formally agree or amend the proposed numbers.

Relationship of outgoing Chief Executive pay and remuneration expressed as a multiple (on a full time equivalent basis):

	2019	2018
Outgoing CEO's basic salary as a multiple of the median of all staff	9.09	9.34
Outgoing CEO's total remuneration as a mulitple of the median of all staff	9.79	9.98

Relationship of interim Chief Executive pay and remuneration expressed as a multiple (on a full time equivalent basis):

	2019	2018
Interim CEO's basic salary as a multiple of the median of all staff	6.40	-
Interim CEO's total remuneration as a mulitple of the median of all staff	6.65	-

Notes to the financial statements

at 31 July 2019

7. Staff costs (continued)

Compensation for loss of office paid to former Key Management Personnel and higher paid staff

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Compensation paid to Key Management Personnel		
Contractual compensation	2	8
Non-contractual compensation	-	33
Estimated value of other benefits, including provision for pension benefits	-	62
	2	103

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Compensation paid to staff earning in excess of £60,000 per annum		
Contractual compensation	40	51
Non-contractual compensation	100	68
	140	119

The number of people to whom compensation has been paid in 2019 was 13 (2018: 10).

The pension contributions in respect of the Chief Executive and Key Management Personnel relate to employer's contributions to the Teachers' Pension Scheme or the Local Government Pension Scheme and are paid at the same rate as for other employees.

The Chief Executive, an elected staff member, and an elected student member in sabbatical office as President of Newcastle College Students Union also received payments; however, this was not to remunerate them for acting as a governor. The remaining governors who served during the year did not receive any form of payment from NCG (Group) other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

8. Other operating expenses

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 Restated £000
Teaching costs	2,375	1,979
Teaching and other support costs	19,096	27,511
Administration costs	9,198	9,234
Operational costs	8,616	8,580
Maintenance costs	2,867	2,661
Examination costs	3,794	3,168
Rent and lease costs	3,609	2,769
Catering, residences and conferences costs	1,140	1,179
Bad debt provision	460	81
Other costs	630	960
	51,785	58,122

Notes to the financial statements

at 31 July 2019

8. Other operating expenses (continued)

Other operating expenses include:

NCG (Group)	Year ended 31 July 2019	Year ended 31 July 2018 Restated
	£000	£000
Auditor's remuneration:		
- External audit (including Regularity Audit)*	67	67
- Other services provided by the external auditor	11	22
Subcontractor costs	10,824	19,649
Hire of assets under operating leases:		
- Land and buildings	2,350	2,210
- Other	520	640

NCG (Colleges)	Year ended 31 July 2019	Year ended 31 July 2018 Restated
	£000	£000
Teaching costs	2,312	1,887
Teaching and other support costs	13,586	13,624
Administration costs	7,196	7,117
Operational costs	7,716	7,878
Maintenance costs	2,592	2,451
Examination costs	3,576	2,928
Rent and lease costs	921	940
Catering, residences and conferences costs	1,121	1,163
Bad debt provision	7,716	300
Other costs	524	792
Contribution to Intraining and Rathbone	-	3,550
	47,260	**42,630**

Other operating expenses include:

NCG (Colleges)	Year ended 31 July 2019	Year ended 31 July 2018
	£000	£000
Auditor's remuneration:		
- External audit (including Regularity Audit)*	38	38
- Other services provided by the external auditor	-	4
Subcontractor costs	6,610	7,403
Hire of assets under operating leases:		
- Land and buildings	667	761
- Other	507	583

The other operating expenses note above have been restated for the year ended 31 July 2018 due to recategorisation and an amendment to the Subcontractor costs value.

Notes to the financial statements

at 31 July 2019

9. Interest payable and other finance costs

NCG (Group)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
On bank loans	843	1,061
Other interest - pensions	922	1,137
Other interest and charges	-	83
	1,765	2,281

NCG (Colleges)	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
On bank loans	843	1,061
Other interest - pensions	698	882
Other interest and charges	-	74
	1,541	2,017

10. Taxation

One of NCG (Group) subsidiary companies is liable for Corporation Tax on its taxable profits. No taxable profits were made during the year and accordingly there is no tax charge.

The subsidiary company has an unrecognised deferred tax asset at 17% of £6,732,000 (2018: £5,890,000), comprising tax losses of £6,536,000 (2018: £5,667,000) and other timing differences of £196,000 (2018: £223,000). The asset has not been recognised, as the criteria under FRS102 have not been met.

NCG (Group) was not liable for any corporation tax arising from its activities during the year.

Notes to the financial statements

at 31 July 2019

11. Intangible fixed assets and investments

NCG – investments

	2019	2018
	£	£
Investments in subsidiary companies	8	8
	8	8

NCG Corporation owns 100% of the issued ordinary £1 shares of Newcastle College Construction Limited and TWL Training Limited. It is also the ultimate parent company of The Intraining Group Ltd (issued ordinary £1 shares are owned by Intraining Holdings Ltd). Rathbone Training is a company limited by guarantee and its sole member is NCG Corporation. The principal business activity of the subsidiaries is the provision of vocational training, education and employability skills.

The Corporation has the following dormant companies:

Intraining (ESD) Ltd
Intraining (NTP) Ltd
Intraining (Quantica) Ltd
Intraining Holdings Ltd
NCG Select Ltd
Newcastle College Construction Ltd
TWL Training Ltd

Investment in joint venture

The investment in the joint venture relates to an entity, Cumbria Colleges Limited, in which Carlisle College has an interest on a long-term basis. The entity is jointly controlled with three other venturers under a contractual agreement to promote and develop further education within Cumbria.

The investment, which has been accounted for under the gross equity method shows the College's share of the gross assets (£9,099) less gross liabilities (£9,099) of £nil. The Company is now dormant, and therefore the College's share of the loss for the year of £nil has been consolidated within the Group Income and Expenditure Account for the year as shown below.

	2019	2018
	£000	£000
Income	-	-
Expenses	-	-
At 31 July	-	-

Notes to the financial statements

at 31 July 2019

11. Intangible fixed assets and investments (continued)

Contributions to The Intraining Group Limited and Rathbone Training

	2019 £000	2018 £000
Income contribution to Intraining and Rathbone	-	3,550
Contribution to Intraining and Rathbone expenditure	-	(3,550)
	-	-

During 2018, NCG (Group) gave an income contribution to The Intraining Group Limited of £1,000,000 and Rathbone Training of £2,550,000. This was to cover working capital requirements for the year and resulted in strengthening their financial position. This has not taken place in 2019.

12. Tangible fixed assets

NCG (Group)	Land and buildings £000	Plant and equipment £000	Total £000
Cost or valuation:			
At 1 August 2018	370,301	18,755	389,056
Additions	146	2,679	2,825
Disposals	(76)	(8)	(84)
Amounts transferred to Current assets	-	(4,384)	(4,384)
Transfer to assets held for sale	(885)	-	(885)
At 31 July 2019	**369,486**	**17,042**	**386,528**
Depreciation:			
At 1 August 2018	92,065	15,351	107,416
Charge for year	12,375	1,812	14,187
Disposals	(51)	(8)	(59)
Amounts transferred to Current assets	-	(4,302)	(4,302)
Transfer to assets held for sale	(227)	-	(227)
At 31 July 2019	**104,162**	**12,853**	**117,015**
Net book value at 31 July 2019	**265,324**	**4,189**	**269,513**
Net book value at 1 August 2018	278,236	3,404	281,640

Land and buildings with a net book value of £144,072,000 have been partially financed by grants from the ESFA. Should these assets be sold, NCG (Group) would either have to surrender the sale proceeds to the ESFA or use the proceeds in accordance with the Financial Memorandum with the ESFA.

The net book value of equipment includes an amount of £nil (2018: £41,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £41,000 (2018: £41,000).

The fixed assets of The Intraining Group Limited and Rathbone Training have been moved to current assets as the two subsidiaries are being accounted for on a break up basis. At the balance sheet date a net book value of £82,000 has been transferred to current assets.

Notes to the financial statements

at 31 July 2019

12. Tangible fixed assets (continued)

NCG (Colleges)	Land and buildings £000	Plant and equipment £000	Total £000
Cost or valuation:			
At 1 August 2018	368,251	15,961	384,212
Additions	151	2,662	2,813
Transfer (to)/from assets held for sale	(569)	-	(569)
At 31 July 2019	**367,833**	**18,623**	**386,456**
Depreciation:			
At 1 August 2018	90,399	12,654	103,053
Charge for year	12,278	1,757	14,035
Transfer (to)/from assets held for sale	(138)	-	(138)
At 31 July 2019	**102,539**	**14,411**	**116,950**
Net book value at 31 July 2019	**265,294**	**4,212**	**269,506**
Net book value at 1 August 2018	277,852	3,307	281,159

Inherited land and buildings were valued at £25,934,000 on 27 August 1993. Of this, £25,859,000 relates to buildings stated at depreciated replacement cost, and £75,000 relates to a building valued at open market value by Storey Sons & Parker, a firm of chartered surveyors.

Other tangible fixed assets inherited from the local education authority at incorporation were capitalised at depreciated cost at incorporation. Should these assets be sold, NCG (Group) would have to use the sale proceeds in accordance with the financial memorandum with the ESFA. If inherited land and buildings had not been revalued they would have been included with a net book value of £nil.

Land and buildings with a net book value of £144,072,000 have been partially financed by grants from the ESFA. Should these assets be sold, NCG (Group) would either have to surrender the sale proceeds to the ESFA or use the proceeds in accordance with the Financial Memorandum with the ESFA.

The net book value of equipment includes an amount of £nil (2018: £41,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £41,000 (2018: £41,000).

NCG (Group) and NCG (Colleges)

Included in land and buildings are assets at a cost of £283,000 which have not been depreciated as the assets have not yet been brought into use. Freehold land held at a value of £65,541,000 has not been depreciated.

The amounts that have been transferred on acquisition relate to Lewisham Southwark College land, buildings and equipment, which have been included at fair value into the accounts of NCG (Group).

Revaluation reserve

Inherited land and buildings were valued at £25,934,000 on 27 August 1993.

Notes to the financial statements

at 31 July 2019

13. Stocks

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Asset held for sale	657	431	-	-
Stocks	124	124	136	136
	781	555	136	136

14. Debtors

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Amounts falling due within one year:				
Trade debtors	1,272	1,146	2,799	2,559
Other debtors	306	214	408	214
Amounts owed by subsidiary undertakings	-	39	-	22
Prepayments and accrued income	2,239	1,718	2,024	1,057
Amounts owed by the ESFA	994	499	4,602	2,456
	4,811	3,616	9,833	6,308

15. Creditors: amounts falling due within one year

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Deferred income	4,631	4,529	7,898	7,798
Trade creditors	491	431	855	748
Payroll creditors	37	10	1,085	975
Other taxation and social security	415	284	2,073	1,499
Accruals	8,483	5,854	12,451	8,729
Provision for dilapidations	2,250	-	-	-
Bank loans	1,841	1,841	2,179	2,179
Finance lease creditor	41	41	41	41
Other creditors	2,013	1,061	1,506	902
Deferred capital grants	6,314	6,314	5,644	5,644
Amounts due to subsidiary undertakings	-	220	-	242
	26,516	20,585	33,732	28,757

The provision for dilapidation at 31 July 2019 for the Training Providers has been moved into Creditors: amounts failing due within one year due to the consolidating them under a break up basis.

Notes to the financial statements

at 31 July 2019

16. Creditors: amounts falling due after more than one year

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Bank loans	18,907	18,907	25,660	25,660
Deferred capital grants	60,115	60,115	64,612	64,612
	79,022	**79,022**	**90,272**	**90,272**

17. Maturity of debt – NCG (Group) and NCG (Colleges)

	2019 £000	2018 £000
In one year or less	1,841	2,179
Between one and two years	1,731	3,201
Between two and five years	10,776	14,837
In five years or more	6,400	7,622
	20,748	**27,839**

(b) Finance leases

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

	2019 £000	2018 £000
In one year or less	41	41
	41	**41**

Bank loans and overdrafts carry interest at rates between 2.74% and 6.83% for fixed rate loans and between LIBOR +1.1% and LIBOR +1.3% for variable. Loans are repayable by instalments and due to mature between 2018 and 2035.

Finance lease obligations are secured on the assets to which they relate. The final finance lease payment was settled in August 2019.

Notes to the financial statements

at 31 July 2019

18. Provisions

NCG (Group)

	Note	Dilapidations £000	Enhanced pensions £000	Total £000
At 1 August 2018		3,769	4,590	8,359
Actuarial losses		-	700	700
Benefits paid		-	(350)	(350)
Interest charged to other operating expenses		-	92	92
Charged in the year		704	-	704
Utilised in the year		(340)	-	(340)
Released in the year		(94)	-	(94)
Transferred to Current liabilities	15	(2,250)	-	(2,250)
At 31 July 2019		1,789	5,032	6,821

NCG (Colleges)

	Dilapidations £000	Enhanced pensions £000	Total £000
At 1 August 2018	1,924	4,590	6,514
Actuarial losses	-	700	700
Benefits paid	-	(350)	(350)
Interest charged to other operating expenses	-	92	92
Charged in the year	29	-	29
Utilised in the year	(114)	-	(114)
Released in the year	(50)	-	(50)
At 31 July 2019	1,789	5,032	6,821

Dilapidations are provided for on rented properties and the expected settlement for the majority is within the next 4 years.

The enhanced pension provision relates to costs of staff that have already left NCG (Group) employment and commitments for reorganisation costs from which NCG (Group) cannot reasonably withdraw at the balance sheet date. This provision has not been recalculated in accordance with Association of Colleges guidance, the reason for which is that the factors affecting the provision including discount rates have not changed significantly enough to justify an annual revaluation.

19. Cash and cash equivalents

NCG (Group)

	At 1 August 2018 £000	Other Cash flows £000	At 31 July 2019 £000
Short term liquid investments	11,830	(1,382)	10,448
Cash at bank and in hand	13,967	(12,002)	1,965
	25,797	(13,384)	12,413

Notes to the financial statements

at 31 July 2019

20. Capital commitments – Group and NCG

NCG (Group) and NCG (Colleges)	2019 £000	2018 £000
Commitments contracted for at 31 July	181	-

21. Lease obligations

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Future minimum lease payments due:				
Land and buildings				
Not later than one year	860	593	1,104	493
Later than one year but not later than five years	1,343	1,337	1,414	1,251
Later than five years	450	450	365	365
	2,653	2,380	2,883	2,109
Other				
Not later than one year	398	398	402	402
Later than one year but not later than five years	704	704	1,052	1,052
	1,102	1,102	1,454	1,454

Notes to the financial statements

at 31 July 2019

22. Pension schemes

The Group's employees belong to three principal defined benefit pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the following Local Government Pension Schemes (LGPS) for College non-teaching staff, the Tyne and Wear Pension Fund (TWPF), London Pension Fund Authority Scheme (LPFA) for Rathbone Training, Lewisham College and Southwark College employees. The Pensions Trust Growth Plan in Rathbone, which is closed to new members, is now disclosed as if it were a defined benefit pension scheme, which is a requirement of FRS102.

Staff employed by subsidiaries are eligible to be members of the Intraining and Rathbone Group Personal Pension Scheme. These are defined contribution schemes and are independently administered by insurance companies.

As the NCG specific assumptions show salary increases that are less than CPI there are no past service costs in respect of the McCloud / Sergeant judgment. This judgment ruled that the transitional protection for some members of public service schemes implemented when they were reformed constituted age discrimination.

There are past service costs in relation to the GMP equalisation where pension schemes are required to provide equal benefits to men and women after May 1990, which the date of the Barber judgment. The value is equal to £394,000.

Total staff pension cost for the year

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Teachers' Pension Scheme	4,311	4,311	4,148	4,148
Tyne & Wear LGPS	5,534	5,140	5,047	5,040
London Pension Fund Authority Scheme	1,095	32	1,116	1,085
Other pension schemes	925	448	571	-
Total pension cost for the year	11,865	9,931	10,882	10,273

Amounts recognised in the Statement of Comprehensive Income

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Tyne & Wear LGPS	(16,436)	(16,436)	9,459	9,459
Tyne & Wear LGPS - Intraining	-	-	364	-
The Pensions Trust Growth Plan	(1)	-	-	-
London Pension Fund Authority Scheme	(8,826)	(7,564)	5,424	3,777
Enhanced Pension Charge (note 18)	(700)	(700)	-	-
Actuarial (loss)/ gain recognised	(25,963)	(24,700)	15,247	13,236

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

Pension liability recognised in the balance sheet

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Tyne & Wear LGPS	25,763	25,763	8,102	8,102
Tyne & Wear LGPS - Intraining	-	-	(467)	-
The Pensions Trust Growth Plan	547	-	125	-
London Pension Fund Authority Scheme	34,264	24,723	25,692	16,772
	60,574	50,486	33,452	24,874

Outstanding contributions at 31 July 2019, included within creditors, were £33,000 (2018: £1,319,000).

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was as at 31 March 2016 and as at 31 March 2016 for the LGPS.

Enhanced Pension Provision

The pension charge for the year included an amount in respect of enhanced pension entitlements of staff taking early retirement in earlier years under the reorganisation programme. The calculation of the cost of early retirement provisions charged to the income and expenditure account in the year of retirement is based on the total capital cost of providing enhanced pensions with allowance for future investment returns. Each year, the year-end provision is recalculated using updated actual investment returns and the resulting change in provision is charged or credited to the income and expenditure account.

Details of the movement in the provision are shown in note 18.

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

The Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools, colleges and other educational establishments. Membership is automatic for teachers and lecturers at eligible institutions. Teachers and lecturers are able to opt out of the TPS.

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

Under the definitions set out in FRS 102 (28.11), the TPS is a multi-employer pension plan. The College is unable to identify its share of the underlying assets and liabilities of the plan.

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

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

The latest actuarial review of the TPS was carried out as at 31 March 2016. The valuation report was published by the Department for Education (the Department) in April 2019. The valuation reported total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £218 billion, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £198 billion giving a notional past service deficit of £22 billion.

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

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

The pension costs paid to TPS in the year amounted to £4,311,000 (2018: £4,148,000).

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

Tyne & Wear Local Government Pension Scheme (LGPS)

The following disclosures relate to the funded liabilities of the Tyne and Wear Pension Fund (TWPF), an administering authority in the Local Government Pension Scheme (LGPS).

The LGPS is a defined benefit pension scheme. Benefits accrued from 1 April 2014 are based on career average revalued earnings (CARE); benefits accrued prior to 2014 are based on final salary.

Regular employer contributions to the Fund for the year ending 31 July 2019 are estimated to be £4,190,000. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

Contribution rates from 1 April 2019 are:

Full-time Equivalent Salary	Contribution rate per year
Up to £14,400	5.50%
£14,401 to £22,500	5.80%
£22,501 to £36,500	6.50%
£36,501 to £46,200	6.80%
£46,201 to £64,600	8.50%
£64,601 to £91,500	9.90%
£91,501 to £107,700	10.50%
£107,701 to £161,500	11.40%
£161,501 or more	12.50%

Principal Actuarial Assumptions

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

	At 31 July 2019	At 31 July 2018	At 31 July 2017
RPI Inflation	3.10%	3.05%	3.05%
CPI Inflation	2.00%	1.85%	1.85%
Rate of general long-term increase in salaries	1.20%	1.20%	1.20%
Rate of increase for pensions in payment	2.00%	1.85%	1.85%
Rate of revaluation of pension accounts	2.00%	1.85%	1.85%
Discount rate	2.10%	2.75%	2.70%

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

	2019 Years	2018 Years
Retiring at 31 July		
Males	21.3	21.8
Females	24.4	24.9
Retiring in 20 years		
Males	22.3	22.8
Females	25.6	26.1

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

The asset split in the scheme were:

	Asset split at 31 July 2019 %	Asset split at 31 July 2018 %
Equities	64.9	67.3
Property	8.9	8.6
Government Bonds	4.3	4.0
Corporate Bonds	11.6	11.4
Cash	1.8	2.1
Other	8.5	6.6
Total market value	100.0	100.0

Reconciliation of funded status to Balance Sheet

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Fair value of assets	143,695	143,695	131,474	130,080
Present value of funded defined benefit obligation	(169,359)	(169,359)	(139,017)	(138,090)
Net pension liability	(25,664)	(25,664)	(7,543)	(8,010)

Analysis of the amount charged to the Statement of Comprehensive Income

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Current service cost	5,140	5,140	5,048	5,040
Past service cost	394	394	90	90
Interest cost	161	161	356	370
	5,695	5,695	5,494	5,500

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

Changes to the present value of liabilities during the year

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Opening defined benefit obligation	139,017	138,090	134,635	134,635
Transfer in from Intraining/Carlisle LGPS	-	927	-	(1,650)
Current service cost	5,140	5,140	5,048	5,040
Interest cost	3,797	3,797	3,622	3,556
Contributions by participants	1,320	1,320	1,261	1,260
Actuarial losses/(gains) on liabilities*	23,461	23,461	(1,831)	(1,087)
Net benefits paid out**	(3,770)	(3,770)	(3,718)	(3,664)
Past service cost	394	394	-	-
Closing defined benefit obligation	169,359	169,359	139,017	138,090

* Includes changes to the actuarial assumptions

** Consists of net cash flow out of the Fund in respect of the Employer, excluding contributions and any death in service lump sums paid.

Changes to the fair value of assets during the year

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Opening fair value of assets	131,474	130,080	119,044	119,044
Transfer in from Intraining/Carlisle LGPS	-	1,394	-	(1,741)
Interest income on assets	3,636	3,636	3,266	3,186
Actuarial gains on assets	7,025	7,025	7,992	8,372
Contributions by the employer	4,010	4,010	3,629	3,623
Contributions by participants	1,320	1,320	1,261	1,260
Net benefits paid out	(3,770)	(3,770)	(3,718)	(3,664)
Closing fair value of assets	143,695	143,695	131,474	130,080

Actual return on assets

	NCG (Group) 2019 £000	NCG (Colleges) 2019 £000	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000
Interest income on assets	3,636	3,636	3,266	3,186
Actuarial gains on assets	7,025	7,025	7,992	8,372
Actual return on assets	10,661	10,661	11,258	11,558

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

History of asset values, present value of liabilities and deficit

NCG (Group)	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
Fair value of assets	143,695	131,474	119,044	88,260	70,199
Present value of liabilities	(169,359)	(139,017)	(134,635)	(103,507)	(95,462)
Deficit	(25,664)	(7,543)	(15,591)	(15,247)	(25,263)

NCG (Colleges)	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
Fair value of assets	143,695	130,080	119,044	86,519	68,660
Present value of liabilities	(169,359)	(138,090)	(134,635)	(101,857)	(93,650)
Deficit	(25,664)	(8,010)	(15,591)	(15,338)	(24,990)

Defined Contribution Pension Scheme - Intraining

The Intraining Group Limited operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. There were £26,000 unpaid contributions outstanding at the year-end (2018: £44,000).

Defined Contribution Pension Scheme - Rathbone

Rathbone Training operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the charity in an independently administered fund. There were £10,000 unpaid contributions outstanding at the year-end (2018: £31,000). The charge for the year was £183,000 (2018: £212,000).

Defined Benefit Pension Scheme LPFA

NCG (Group) participates in the London Pension Fund Authority Local Government Pension Scheme (LGPS) under two different employers, Rathbone Training and NCG (formerly Lewisham Southwark College). The assets of the scheme are invested and managed independently of the finances of NCG (Group). The pension costs relating to the schemes are calculated separately on the projected unit method and are assessed with the advice of a qualified actuary. The latest actuarial assessment of this scheme was on 31 July 2019 and was carried out by Barnett Waddingham LLP, an independent actuary and the net liability at that point is estimated at £9,541,000 for Rathbone Training and £24,723,000 for NCG.

Further information in respect of this defined benefit scheme is detailed on the following pages.

The following disclosures relate to the funded liabilities of the London Pension Fund Authority (LPFA), an administering authority in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit pension scheme. Benefits accrued from the 1 April 2014 are based on career average revalued earnings (CARE); benefits accrued prior to 2014 are based on final salary.

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – NCG (formerly Lewisham Southwark College)

Employer contribution rates were fixed at 13.40% from April 2017 onwards.

The financial assumptions used to calculate the results are as follows:

	At 31 July 2019	*At 31 July 2018*
Discount rate	2.05%	2.75%
Salary increases	1.20%	1.20%
Pension increases	2.00%	1.85%

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

	At 31 July 2019	*At 31 July 2018*
Retiring at 31 July		
Males	19.9	20.3
Females	22.9	23.4
Retiring in 20 years		
Males	20.9	21.5
Females	24.2	24.7

Principal Actuarial Assumptions

The estimated asset allocation for NCG as at 31 July 2019 is as follows:

	At 31 July 2019 %	*At 31 July 2018 %*
Equities	54.5	60.6
Target Return Portfolio	25.4	22.1
Infrastructure	5.7	5.0
Property	9.1	7.7
Cash	5.3	4.6
	100.0	100.0

Net pension liability as at 31 July:

	2019 £000	*2018 £000*
Present value of the defined benefit obligation	(89,222)	(76,611)
Fair value of Fund assets (bid value)	64,639	59,966
Deficit	(24,583)	(16,645)
Present value of unfunded obligation	(140)	(127)
Net defined benefit liability	(24,723)	(16,772)

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – NCG (continued)

The amounts recognised in the Statement of Comprehensive Income are:

	2019	*2018*
	£000	*£000*
Service cost	987	1,214
Net interest on the defined liability	445	512
Administration expenses	78	74
	1,510	1,800

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2019	*2018*
	£000	*£000*
Opening defined benefit obligation	76,738	77,147
Current service cost	987	1,085
Interest cost	2,079	2,021
Change in demographic assumptions	(1,439)	(377)
Change in financial assumptions	13,220	(1,462)
Experience loss on defined benefit obligation	21	-
Estimated benefits paid net of transfers in	(2,482)	(2,058)
Past service costs, including curtailments	-	129
Contributions by Fund participants and other employers	250	265
Unfunded pension payments	(12)	(12)
Closing defined benefit obligation	89,362	76,738

Reconciliation of opening and closing balances of the fair value of Fund assets

	2019	*2018*
	£000	*£000*
Opening fair value of Fund assets	59,966	57,268
Interest on assets	1,634	1,509
Return on assets less interest	4,238	1,938
Administration expenses	(78)	(74)
Contributions by employer including unfunded	1,123	1,130
Contributions by Fund participants and other employers	250	265
Estimate benefits paid plus unfunded net of transfers in	(2,494)	(2,070)
Closing fair value of Fund assets	64,639	59,966

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – NCG (continued)

Sensitivity analysis

	£000	£000	£000
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	87,733	89,362	91,024
Projected service cost	1,212	1,242	1,273
Adjustment to long term salary increase	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	89,435	89,362	89,290
Projected service cost	1,242	1,242	1,242
Adjustment to pension increase and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	90,950	89,362	87,803
Projected service cost	1,273	1,242	1,212
Adjustment to life expectancy assumptions	+ 1 year	None	- 1 year
Present value of total obligation	92,710	89,362	86,139
Projected service cost	1,282	1,242	1,204

Remeasurement of the defined benefit pension liability

	2019 £000	2018 £000
Return on Fund assets in excess of interest	4,238	1,938
Change in financial assumptions	(13,220)	1,462
Change in demographic assumptions	1,439	377
Experience loss on defined benefit obligation	(21)	-
Remeasurement of the defined benefit pension liability	(7,564)	3,777

Projections for the year to 31 July 2020

	£000
Service cost	1,242
Net interest on the defined liability	496
Administration expenses	84
	1,822
Employer contributions	1,067

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone

Employer contribution rates were fixed at 21.8% from April 2017 onwards.

The financial assumptions used to calculate the results are as follows:

	At 31 July 2019	*At 31 July 2018*
Discount rate	1.90%	2.65%
Salary increases	1.20%	1.20%
Pension increases	2.10%	1.85%

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

	2019 years	*2018 years*
Retiring at 31 July		
Males	19.2	19.7
Females	22.5	23.0
Retiring in 20 years		
Males	20.3	20.9
Females	23.8	24.3

Principal Actuarial Assumptions

The estimated asset allocation for Rathbone Training as at 31 July 2019 is as follows:

	At 31 July 2019 %	*At 31 July 2018 %*
Equities	54.5	60.6
Target Return Portfolio	25.4	22.1
Infrastructure	5.7	5.0
Property	9.1	7.7
Cash	5.3	4.6
	100.0	100.0

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

Net pension liability as at 31 July:

	2019 £000	2018 £000	2017 £000
Present value of the defined benefit obligation	(35,312)	(33,863)	(36,164)
Fair value of Fund assets (bid value)	27,307	26,636	26,880
Deficit	(8,005)	(7,227)	(9,284)
Present value of unfunded obligation	(1,536)	(1,693)	(1,878)
Net defined benefit liability	(9,541)	(8,920)	(11,162)

The amounts recognised in the Statement of Comprehensive Income are:

	2019 £000	2018 £000
Service cost	30	31
Net interest on the defined liability	223	267
Administration expenses	35	35
	288	333

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2019 £000	2018 £000
Opening defined benefit obligation	35,556	38,042
Current service cost	30	31
Interest cost	905	917
Change in demographic assumptions	(626)	(137)
Change in financial assumptions	3,743	(583)
Experience loss on defined benefit obligation	7	-
Estimated benefits paid net of transfers in	(2,587)	(2,515)
Contributions by Fund participants and other employers	6	6
Unfunded pension payments	(186)	(205)
Closing defined benefit obligation	36,848	35,556

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

Reconciliation of opening and closing balances of the fair value of Fund assets

	2019	*2018*
	£000	*£000*
Opening fair value of Fund assets	26,636	26,880
Interest on assets	682	650
Return on assets less interest	1,862	925
Administration expenses	(35)	(35)
Contributions by employer including unfunded	929	930
Contributions by Fund participants and other employers	6	6
Estimate benefits paid plus unfunded net of transfers in	(2,773)	(2,720)
Closing fair value of Fund assets	27,307	26,636

Sensitivity analysis

	£000	£000	£000
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	36,436	36,848	37,265
Projected service cost	37	38	39
Adjustment to long term salary increase	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	36,849	36,848	36,848
Projected service cost	38	38	38
Adjustment to pension increase and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	37,264	36,848	36,437
Projected service cost	39	38	37
Adjustment to life expectancy assumptions	+ 1 year	None	- 1 year
Present value of total obligation	38,453	36,848	35,312
Projected service cost	39	38	37

Remeasurement of the defined benefit pension liability

	2019	*2018*
	£000	*£000*
Return on Fund assets in excess of interest	1,862	925
Change in financial assumptions	(3,743)	583
Change in demographic assumptions	626	137
Experience gain on defined benefit obligation	(7)	-
Remeasurement of the defined benefit pension liability	(1,262)	1,645

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

Projections for the year to 31 July 2020

	£000
Service cost	38
Net interest on the defined liability	172
Administration expenses	35
	245
Employer contributions	757

The Pensions Trust Growth Plan

The charity participates in the scheme, a multi-employer scheme which provides benefits to some 1,300 non-associated participating employers. The scheme is a defined benefit scheme in the UK. It is not possible for the charity to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore, it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore, the charity is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out at 30 September 2017. This valuation showed assets of £794.9m, liabilities of £926.4m and a deficit of £131.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme.

Unless a concession has been agreed with the Trustee the term to 31 January 2025 applies.

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the Series 1 and Series 2 scheme liabilities.

Where the scheme is in deficit and where the charity has agreed to a deficit funding arrangement the charity recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Notes to the financial statements

at 31 July 2019

22. Pension schemes (continued)

The Pensions Trust Growth Plan (continued)

Present value of provision	*2019*	*2018*
	£000	*£000*
Present value of provision	549	125

Reconciliation of opening and closing provisions

	2019	*2018*
	£000	*£000*
Provision at start of year	125	141
Unwinding of discount factor	2	2
Deficit contributions paid	(17)	(16)
Remeasurements - impact of any change in assumptions	2	(2)
Remeasurements - amendments to the contribution schedule	(3)	
Cessation Debt Provision	440	-
Provision at end of year	549	125

Income and Expenditure Impact

	2019	*2018*
	£000	*£000*
Interest expense	2	2
Remeasurements - impact of any change in assumptions	2	(2)
Remeasurements - amendments to the contribution schedule	(3)	-
Cessation Debt Provision	440	-

Assumptions

	2019	*2018*
	%	*%*
Discount rate	1.00	1.72

23. Related party transactions

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

Notes to the financial statements

at 31 July 2019

23. Related party transactions (continued)

Travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity:

	2019	2018 Restated
Payments paid to or on behalf of Governors	£000	£000
- Corporation	6	11
- Local college boards	2	-
	8	11
Number of governors	No.	No.
- Corporation	6	6
- Local college boards	9	-
	15	6

The Corporation is a Member of Discovery Learning Limited which was set up to provide a free school for pupils aged 14 to 19 specialising in STEM (Science, Technology, Engineering and Mathematics) subjects and was based in Newcastle Upon Tyne. The school closed on 31 August 2018.

During the year, the school occupied a building that was built on land which is owned by the Corporation. The building was procured by Discovery Learning Limited and upon completion in August 2014 title of this was transferred from the construction company to the Corporation. There was no charge to Discovery Learning Limited for the use of these assets.

NCG granted a licence for the period 10 September 2018 to 31 October 2018 to the ESFA to allow the Tyne Coast Academy Trust to occupy the building which formally housed the Discovery School. In consideration of this the ESFA agreed to pay for associated estates costs (excluding utilities and business rates). In addition to the estates costs catering services was also provided run by Newcastle College. The total amount owing and the value of transactions in the year was £25,000.

The Finance Director of Carlisle College, S Salkeld, is also a director in Cumbria Colleges Limited in which Carlisle College has an interest. Carlisle College has given a guarantee of £25,000 in the event of Cumbria Colleges Limited entering into insolvent liquidation. During the period no transactions were undertaken between NCG (Group) and Cumbria Colleges Limited. There are no amounts outstanding to NCG (Group) from Cumbria Colleges Limited as at 31 July 2019.

On 1 May 2018, Peter Lauener became the chair of the Construction Industry Training Board (CITB); NCG delivers training to CITB's learners. At 31 July 2019, £1,000 (2018: £146,000) was due to NCG from CITB, with transactions during the year totaling £239,000 (2018: £736,000).

He also held the position of interim CEO of the Student Loans Company (SLC) until a permanent replacement was found. He stepped down on the 17 September 2018. SLC provides loans to eligible learners to fund their studies with NCG and the money to settle the fees is received directly from the SLC. At 31 July 2019, £212,000 was due to NCG from SLC, with transactions during the year totalling £17,898,000.

From September 2018, the Principal of Kidderminster College became a governor of ContinU Plus Academy. At 31 July 2019, the balance due from NCG to this organisation was £nil (2018: £nil), with transactions during the year totalling £7,000 (2018: £7,000).

Notes to the financial statements

at 31 July 2019

23. Related party transactions (continued)

The Principal of Newcastle College is a board member of Newcastle Gateshead Initiative. At 31 July 2019, the balance due from NCG to this organisation was £nil (2018: £nil), with transactions during the year totaling £21,000 (2018: £28,000).

One of the college board members is the Managing Partner of Muckle LLP. At 31 July 2019, the balance due from NCG to this organisation was £3,000 (2018: £4,000), with transactions during the year totaling £49,000 (2018: £41,000).

24. Amounts disbursed as agent

	NCG (Group) 2019 £000	NCG (Group) 2018 £000
ESFA 16-19 bursary	2,105	2,487
ESFA 16-19 Vulnerable bursary	421	390
ESFA Advanced Learner Loans bursary	1,009	1,445
Other funding body grants	215	498
	3,750	4,820
Disbursed to students	(3,553)	(3,317)
Administration costs	(125)	(114)
Balance unspent at 31 July included in creditors	72	1,389

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

25. Events after the reporting period

There have been no events after the reporting period that require disclosure in these Financial Statements.

Glossary

Acronym	Meaning
ESFA	Education and Skills Funding Agency
HE	Higher Education
ESF	European Social Fund
WBL	Work Based Learning
AEB	Adult Education Budget
EBITDA	Earnings before Interest, Taxation, Depreciation and Amortisation
MI	Management Information
Ofsted	Office for Standards in Education, Children's Services and Skills
SGOSS	School Governors' One Stop Shop
HEFCE	Higher Education Funding Council for England
LGPS	Local Government Pension Scheme
LPFA	London Pension Fund Authority
TWPF	Tyne and Wear Pension Fund
CARE	Career Average Related Earnings
TPS	Teachers' Pension Scheme
LIBOR	London Inter Bank Offered Rate
VAT	Value Added Tax
SORP	Statement of Recommended Practice
AOC	Association of Colleges
OfS	Office for Students
SCIF	Strategic College Improvement Fund

Independent auditor's report on regularity

to the Corporation of NCG and the Secretary of State for Education, acting through the Department for Education ("the Department")

In accordance with the terms of our engagement letter dated 5 December 2017 and further to the requirements and conditions of funding in the ESFA's grant funding agreements and contracts, or those of any other public funder, we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest, in all material respects, the expenditure disbursed and income received by NCG during the period 1 August 2018 to 31 July 2019 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post-16 Audit Code of Practice ('the Code') issued by the 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 data returns, for which the ESFA has other assurance arrangements in place.

This report is made solely to the corporation of NCG and 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 NCG and 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 NCG and the ESFA for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of NCG and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Code. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received, during the period 1 August 2018 to 31 July 2019 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

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

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

The work undertaken to draw to our conclusion includes:

a. Read NCG's 'Statement on regularity, propriety and compliance with funding body terms and conditions of funding' and compare to our knowledge gained from our audit procedures;

b. Read NCG's self-assessment questionnaire and compared to our knowledge gained from our procedures under our separate appointment as external auditor to the College;

c. Test a sample of the responses within the self-assessment questionnaire by inspecting relevant documents;

d. Performed one walk through on each of the processes over income, expenditure, payroll and the financial statements close process to determine if these are operating as documented by management; and

e. Read the reports of NCG's internal audit provider to identify any matters that would indicate that the expenditure and income for the year ended 31 July 2019 had not been applied to purposes intended by Parliament and the financial transactions did not conform to the authorities which govern them.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2018 to 31 July 2019 has not been applied to purposes intended by Parliament, and the financial transactions do not conform to the authorities which govern them.

Ernst & Young LLP

Ernst & Young LLP
Newcastle upon Tyne
13 December 2019