



Annual Report and Financial Statements
Year ended 31 July 2019

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Reference and Administrative Details

Board of Governors

A full list of Governors is given from pages 14 to 15 of these financial statements.

Mrs J White acted as Clerk to the Corporation throughout the period (resigned 6th September 2019).

Senior management team (also key management personnel)

Dr J R M Raby	Principal and CEO; Accounting officer
Mr S Slorach	Vice Principal (Resources)
Mr M Wheaton	Vice Principal (Higher Education)
Mr J Waddington	Vice Principal (Student Experience)
Mr P Chapman	Vice Principal (Employability & External Relations)

Principal and Registered Office

The Northern School of Art, Green Lane, Linthorpe, Middlesbrough. TS5 7RJ

Professional advisors

Financial statements auditors and reporting accountants:

RSM UK Audit LLP, 1 St James' Gate, Newcastle upon Tyne, NE1 4AD

Bankers:

Barclays Bank plc, Teesdale Business Park, Sabatier Close, Stockton on Tees, TS17 6YJ

Legal:

Eversheds LLP, Bridgewater Place, Water Lane, Leeds, LS11 5DR

Strategic report

OBJECTIVES AND STRATEGY

The governing body present their annual report together with the financial statements and auditor's report for The Northern School of Art for the year ended 31 July 2019.

Legal status

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

The Northern School of Art, whilst a further education college, is referred to by stakeholders as a School, as reflected throughout this document.

Mission, Vision, Strategy and/or Objectives

In June 2017 the School adopted a strategic plan for the period August 2017 to July 2020.

The institution's essential mission concerns the quality of students' learning experience and outcomes. Its mission statement reflects this:

"Exceptional education for creative careers."

In practice this means that the desire to improve the quality of students' experience and outcomes must be of primary concern.

The School has characterised objectives in a highly abbreviated form as:

"More students on better courses"

Values

Creativity and Excellence

The School aims to place creative practice by students and staff at the centre of what it does, with excellent outcomes as the goal.

Professional Practice, Employability and Enterprise

The institution aims to develop students' skills for employment and enterprise through curricula informed by staff and student engagement with the creative industries. The School values the encouragement of professional practice in students and the continuing professional development of staff, improving their performance and contribution to the education sector and creative industries.

Student Engagement, Collaboration and Community

The school aims to promote student engagement within their learning environment as a partnership with staff, to aid delivery of a high quality student experience and to promote understanding and appreciation of art and design. The institution aims to develop

complementary areas of study that support interdisciplinary collaboration and learning and engagement with external partners.

Our Behaviours

Concern for the quality of student experience

A high quality student experience is the essential prerequisite for the institution's success. This means a high quality experience in terms of teaching, learning and assessment, and that the curriculum must continue to be relevant and delivered by staff whose knowledge is up-to-date.

A positive, collegiate approach

The reputations and fortunes of the institution's FE and HE courses and programmes are, to a large extent, entwined. There are many positive opportunities for expansion of provision and FE and HE colleagues should work together to achieve this.

Professionalism

All staff should seek to achieve high standards and behaviours – in other words being professional. Part of being a professional is that work is subject to review and comment in order to maintain and improve standards. Staff should work together with appropriate planning for improvement, and individuals should seek to provide and receive feedback in a manner which improves outcomes for the institution and its students.

Always seeking improvement; appropriately self-critical

The institution should always seek to improve the quality of provision to students, and all staff should seek to be appropriately self-critical, focusing on future improvement.

Equality and diversity

The School is committed to the principles of equality and diversity and aims to ensure that all employees and service users are treated fairly and equally regardless of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, or sexual orientation.

Financial objectives

To pursue, refine and maintain a financial strategy as the basis of the sustainable financial health of the School in order to ensure:

1. The long term reputation and viability of the institution for the benefit of students, staff and the creative industries by aiming to work back to operating surpluses and positive cash generation;
2. Meeting the obligations of financial covenants set by the institution's loan providers;
3. The availability of sufficient resources to match its stated strategic objectives; and
4. The financing of developments, capital investments and long term maintenance expenditure.

Resources

The School has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include the two main campuses, one in Hartlepool and one in Middlesbrough.

The School employs 253 people (156 FTE), of whom 71 (52 FTE) are teaching staff.

The School enrolled approximately 1,500 students. The School's student population includes 509 FE students, 572 higher education students, 383 Saturday club students and 30 adult learners.

The group has £1.835 million of net assets (including £3.7 million pension liability) and long-term debt of £2.180 million.

The School continues to have a good reputation locally and nationally. Continuing to build and maintain the School quality brand is essential for the success at attracting students and external relationships, to ensure strategic objectives and aims are achieved.

Stakeholders

In line with other colleges and with universities, The Northern School of Art has many stakeholders. These include:

- Students;
- Education sector funding bodies;
- Staff;
- Local, national and international employers;
- Local authorities / combined authority;
- Local Enterprise Partnerships (LEPs);
- The local community;
- Other FE and HE institutions;
- Trade unions;
- Professional bodies.

The School recognises the importance of these relationships and engages in regular communication with them through the School Internet site and by meetings.

DEVELOPMENT AND PERFORMANCE

Financial Results

The group generated a deficit before other gains and losses in the year of £323,000 (2017/18 – deficit of £341,000), with total comprehensive loss of £1,961,000, (2017/18 - £552,000). The reduction in total comprehensive income is primarily due to suffering liability losses in respect of pensions for the period of £1.638 million.

Developments

The school's redevelopment involved tangible fixed asset additions during the year amounting to £364,000. This was split between land and buildings of £72,000 (completion of new build and phase two work on the Hartlepool campus), equipment purchased of £292,000.

Reserves

The Group has accumulated unrestricted reserves of £1,835,000 (2017/18 £3,796,000) and cash and short term investment balances of £965,000 (2017/18 £463,000). The reduction in accumulated unrestricted reserves is due to increased pension provisions totalling £1,891,000. The Group wishes to continue to accumulate reserves and cash balances in order to create a contingency fund.

Sources of income

The Group continues to reduce reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2018/9, ESFA provided 30.33% (2017/18 32.64%) of the Group's total income, whilst HE fees provide the largest income stream at 55.51% (2017/18 50.77%)

Group companies

The School has one subsidiary company, Northern School of Art Devco Limited. The subsidiary was incorporated under the Companies Act 2006 as a private company on the 18th September 2018, the private company is limited by shares.

The principal activity of Northern School of Art Devco Limited is the development of a property project in Middlesbrough. Northern School of Art Devco Limited has received £580,000 grant income to progress the planned new build project in Middlesbrough to developed design RIBA stage 3. The subsidiary has incurred costs of £113,000 in year as the project advances, these costs have been met by the release of £113,000 grant income.

FUTURE PROSPECTS

Developments

The school continues to invest in its facilities and aims to significantly increase contribution by continuing to develop and build on several efficiency schemes across the institution. Further investment is planned in order to support the strategic plan moving forward.

Financial plan

The School governors approved a financial plan in July 2019 which sets objectives for the period to 2021.

Treasury policies and objectives

The School has treasury management arrangements in place to manage cash flows, banking arrangements and the risks associated with those activities. Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Corporation.

Cash flows and liquidity

At £361,000 (2017/8 £453,000), net cash flow from operating activities was reasonably strong.

The size of the School's total borrowing and its approach to interest rates has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow. During the year this margin was exceeded.

Reserves

The Northern School of Art is dependent on two key sources of income, being ESFA funding for the FE operations and student fees for the HE operations. This means that if there were to be a significant fall in these funding sources it is likely the school would have to review its options and how the school is structured. The risk of both ESFA and student fees ceasing to be available is considered unlikely.

The School 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 School's core activities. The school may operate at a deficit, drawing on unrestricted funds, on condition that this is a temporary measure and that a credible plan is in place to recover the financial position of the school. This is subject to banking covenants not being breached where credit facilities are in place.

As at the balance sheet date the Income and Expenditure reserve stands at £317,000 (2017/18: £2,209,000). It is the Corporation's intention to increase reserves over the life of the strategic plan through the generation of annual operating surpluses.

Going concern

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

The School is committed to continuing in pursuing the objectives set out in the strategic plan, and continues to explore opportunities as they arise.

The institution has recently completed a new build project on the Hartlepool campus and is about to embark on a new build project on the Middlesbrough campus. As is common with large capital projects and the introduction of new borrowing this impacted on the ESFA financial health score with the rating moving to satisfactory in 2017/18. As this was a decline over a five year period from 'Outstanding' this resulted in the ESFA placing the institution in 'early intervention' earlier this year. As a result of this the ESFA have been monitoring the performance and plans of the School to ensure that the recovery to 'good' financial health takes place. The School has returned a financial health score of 'Good' for 2018/19 and has budgeted to remain in 'Good' financial health in 2019/20 and beyond, yet to be confirmed by ESFA.

The school is reporting an operating deficit in the year of £323,000 (17/18 £341,000) and balance sheet reserves have dropped to £1,835,000 (17/18 £3,796,000). The deficit includes an FRS102 pensions related charge of £239,000 and the balance sheet reserves include an increase in the defined benefit liability of £1,638,000. The inclusion of a pension liability is to reflect an estimate of the obligations that the school has to its defined contribution local government pension scheme members as at the financial reporting period end. This estimate has been prepared by AON, an independent actuary, using a set of appropriate actuarial assumptions about demographic and financial variables. The valuation of the liabilities are very sensitive to change in corporate bond yields, and also to inflation, both of which are factors over which the school has no control.

In 2018/19 the Group has made a deficit outturn of £323,000 in comparison to a deficit of £341,000 in 2017/18, the reduction in deficit is due to an increase in HE Fee income. The outturn includes a non-cash depreciation charge of £682,000 (2017/18: £643,000), whilst the operating cashflow slightly reduced from £453,000 in 2017/18 to £361,000 in 2018/19. The

net current liabilities have reduced to £276,000 (2017/18: £451,000) due to the group cash holdings increase to £965,000 in 2018/19 (2017/18: £463,000). Despite the net current liability position, the group cash flow projections indicate there are adequate funds to cover liabilities and loan repayments as they fall due. Also, within the current liabilities figure is an amount of £729k in relation to deferred capital funding which will be released to income rather than any repayment being required.

The institution holds just over £8million in deferred capital grants and has £2.18million in long term loans.

The School is committed to continuing to improve the financial position whilst continuing to invest, maintenance of a financial health score of 'Good' or better during any investment period is a minimum aim of any forecasting.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk management

The School has well developed strategies for managing risk and strives to embed risk management in all that it does. Risk management processes are designed to protect its assets, reputation and financial stability. The governing body has overall responsibility for risk management and its approach to managing risks and internal controls is explained in the Statement on Corporate Governance.

A risk register is maintained at the School level which is reviewed at each Audit Committee and more frequently where necessary. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the School and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system. The main risk factors affecting the School are outlined below along with the action taken to minimise them. Not all the factors are within the School's control. Other factors besides those listed below may also adversely affect the Institution.

- HE Fee Income

Fee income from HE students makes up just over 55% of the School's income for 2018/19. There is a growing reliance on HE fee income which is expected to continue. There is a risk that the school fails to recruit HE students to support and sustain long term goals and aspirations of the institution.

The risk is mitigated in a number of ways

- Maintenance of a current, vibrant and exciting programme offering
- Investment in resources to ensure currency of skills offering
- Employability links
- Robust target setting and monitoring

- Government Funding

The School has some reliance on continued government funding through the ESFA and through HEFCE. In 2018/19, 34.01% of the Institution's revenue was ultimately publicly funded (at both FE and HE levels) and this level of requirement is expected to continue. There can be no assurance that

government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

This risk is mitigated in a number of ways:

- More than half of the School income is generated from fees and other streams such as catering and printing.
- By ensuring the School is rigorous in delivering high quality education
- Maintaining high employability results
- Investing in Institution resources to ensure industry level resources
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies and the creative industry
- Ensuring the School is focused on those priority sectors which will continue to benefit from public funding

- Maintain adequate funding of pension liabilities

The costs of running a defined benefit scheme have grown significantly in recent years due to rising life expectancy and falling investment values. Underfunding could take up a significant amount of management time, institutional funds and ultimately the institution.

The financial statements report the share of the Local Government Pension Scheme funding requirements on the School's balance sheet in line with the requirements of FRS 102. Future contributions are included in the forecast projections.

- Failure to maintain the financial viability of the School

The School's current automatically generated financial health grade is classified as "Good", (yet to be confirmed by ESFA). The continuing challenge to the School's financial position remains the constraint on funding from Government whilst maintaining the student experience.

This risk is mitigated in a number of ways:

- By rigorous budget setting procedures
- Regular in year budget monitoring
- Robust financial controls
- Exploring ongoing efficiencies

- Failure to achieve bank financial covenants

A breach in financial covenants may result in, at worst, the outstanding debt becoming immediately repayable, and at best, a renegotiated loan, probably at a higher margin with increased security. In order to mitigate the risk of a breach:

- Covenant calculations are included in monthly management account reports, which are reported periodically to Principalship, Corporation board and the bank.

- Covenant calculations form part of the budgeting procedure to ensure compliance.
- A review of governors assessment of going concern form part of the end of year external audit.
- The Institution has excellent communications with the banking relationship manager, which would enable discussions to take place early in the event of a possible breach.

KEY PERFORMANCE INDICATORS

Key performance Indicator	Measure/Target	Actual for 2018/9
EBITDA	6.00%	5.43%
Staff Costs as % of Income	65.67%	66.60%
Debt Servicing	=>100%	251%
Operational Gearing	=<500%	461%
Financial Health Score	=>Good	Good

Student achievements

Students continue to prosper at the School. FE achievement rates remained high in 2018/9 93% an increase from 2017/18 90.1%. HE success increased to 75% in 2018/19 from 2017/18 73%. The School had a pass rate of 99% of all HE completers and 98.2% for FE.

PUBLIC BENEFIT

Public Benefit

The Northern School of Art is an exempt charity under the 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 14-15. In setting and reviewing the School's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education.

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

- High-quality teaching and learning
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Educational partners including schools, colleges and higher educational institutions
- Links with creative sector employers, industry and commerce; regionally and nationally
- Links with the Combined Authority

Equality

All School users are expected to uphold this statement to ensure a welcoming and supportive environment for all throughout the complete learning or employment experience within the School. Equality and Diversity Training is mandatory for all staff.

The School's Equality and Diversity Policy aims to prevent discriminatory practices and promote an inclusive culture where all staff and students have the opportunity to work and study in an accepting and welcoming environment that fosters their ability to reach their full potential. This policy is monitored on an annual basis and is published on the School's website and VLE.

The School publishes an Annual Equality and Diversity Report which includes analysis of all relevant data to ensure compliance with all relevant equality legislation including the Equality Act 2010.

The School believes that all forms of discriminatory behaviour are deemed unacceptable in any form, including bullying, harassment and victimisation. Any incidences of discriminatory behaviour will not be tolerated and will be appropriately challenged in all cases.

The School has committed to the 'Mindful Employer' initiative to assist the mental health wellbeing of staff and students by appointing and training 12 Mental Health First Aiders across both Campuses. The Institution has also created a well being programme, which is ran by Committee and involves meeting termly in order to offer activities and ideas to assist in the well being of staff.

Disability statement

The Northern School of Art is committed to the principles of equality and diversity and welcomes applications from students and staff with a disability or learning difficulty. The School aims to support all individual needs wherever possible to enable both staff and students to achieve their full potential.

In accordance with the duties laid out in the Equality Act 2010, the School will not discriminate against a disabled person throughout the whole learning or employment experience within the School and in the delivery of services it provides.

The School will endeavour to make all reasonable adjustments for a disabled person to access any service provided by the Institution. By doing so, the School will not treat a disabled person less favourably (for a reason related to his/her disability) than it treats other learners or staff.

The School seeks to achieve the objectives set down in the Equality Act 2010:

- a) As part of its accommodation strategy the School updates its access audit and the results of this forms the basis of funding capital projects aimed at improving access.
- b) There is a list of specialist equipment, which the School can make available for use by students and a range of assistive technology is available from student support.
- c) The admissions policy for all students is described in the School charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- d) The School has made a significant investment in the appointment of specialists to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning.
- e) Counselling and welfare services are described in the School Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Trade union facility time

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

Numbers of employees who were relevant period	FTE employee number
1	1

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

Total cost of facility time	802.50
Total pay bill	25,000
Percentage of total bill spent on facility time	3.21%

Time spent on paid trade union activities as a percentage of total paid facility time	3.21%
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Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, in the absence of agreement to the contrary, requires organisations 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, the School paid 93% of its invoices within 30 days, a further 3% of invoices were delayed due to invoice queries and disputes. The School incurred no interest charges in respect of late payment for this period.

EVENTS AFTER THE REPORTING PERIOD

The Northern School of Art has been successful in an application to Tees Valley Combined Authority for grant funding to build a purpose built further education campus in Middlesbrough. It is anticipated that the project, in the centre of Middlesbrough, will increase further education applications due to both the attraction of a new build and improved transport links to the new location.

DISCLOSURE OF INFORMATION TO AUDITORS

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

Approved by order of the members of the Corporation on 6th December 2019 and signed on its behalf by:



Mr P Smith
Chair

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

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

The School endeavours to conduct its business:

1. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
2. in full accordance with the CUC Higher Education Code of Governance ("the Code")

In the opinion of the Governors, the School complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 2019. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

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.

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance in 2018/19
Dr G D Robson	19.12.08 Reappointed 03.07.15	4 years	15/03/19	Independent	Governance & Search Committee	5/5 100%
Mr I Butchart	19.12.08 Reappointed 31.12.15	4 years		Independent	Audit	7/8 87%
Mr P Smith	19.12.05 Reappointed 08/02/19	2 years		Independent	Remuneration Governance & Search Committee	6/8 75%
Dr J R M Raby	01.05.08	Whilst in Post		Principal	Academic Board Governance & Search Committee Capital Programme Board	8/8 100%
Mrs S Fawcett	12.07.11 Reappointed 31/08/19	4 years		Independent	Capital Programme Board	7/8 87%
Mr I Swain	02.10.09 Reappointed 01.07.16	4 years		Independent	Audit Remuneration	6/8 75%

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	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance in 2018/19
					Capital Programme Board Governance & Search Committee	
Professor R Simmons	04.07.14 Reappointed 31.08.18	4 years		Independent	Remuneration	6/8 75%
Professor J Rapley	13.02.15 Reappointed 13/02/19	4 years		Independent	Academic Board	6/8 75%
Mrs D Ogden	01.05.15 Reappointed 01.05.19	4 years	06/11/19	Independent		0/0 0%
Ms A Goodwill	01.09.12 Reappointed 03.07.15	4 years	06/07/18	Academic Staff		0/0 0%
Mr K Goldsborough	11.11.16	4 years		Independent	Audit Governance & Search Committee	6/8 75%
Mr D Hughes	11.11.16	4 years		Independent	Audit	5/8 62%
Mr T Bailey	09.12.16	4 years		Independent	Capital Programme Group	7/8 87%
Ms J Havakin	28.04.17	3 years		Academic Staff		7/8 87%
Ms E Hardwick	28.04.17	3 years		Academic Staff	Academic Board	7/8 87%
Ms A Norris	06.07.18	3 years		Independent		4/8 50%
Miss I Carroll	06.07.18	1 year	23/03/19	Student Governor		3/4 75%
Ms R Wilkinson	06.07.18	1 year	14/02/19	Student Governor		3/4 75%
Ms R Hare	06.07.18	3 year		Staff		6/8 75%

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

The Corporation is provided with regular and timely information on the overall financial performance of the School together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets eight times 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 Academic, Capital Programme Group, Audit, Remuneration and Governance & Search. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the School's website at northernart.ac.uk or from the Clerk to the Corporation at the school's registered address.

The Clerk to the Corporation resigned on the 6th September 2019 and an interim Clerk has been engaged until a permanent replacement is appointed.

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

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

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

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

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

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a governance & search committee, consisting of five members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding four years.

Corporation performance

The Corporation carried out a self-assessment of its own performance for the year ended 31st July 2019 and graded itself as "Good" on the Ofsted scale.

Academic Board

The Academic Board comprises three members of the Corporation and meets twice per year and operates in accordance with written terms of reference approved by the Corporation.

The Academic Board holds delegated responsibility for the oversight and evaluation of the student learning experience, including the quality management infrastructure and its alignment to the quality assurance framework of the degree-awarding body (Arts University Bournemouth).

Capital Programme Group

The Capital Programme Group comprises four members of the Corporation and meets regularly throughout a project, usually monthly. The Capital Programme Board operates in accordance with written terms of reference approved by the Corporation.

The Capital Programme Group is responsible to the Corporation Board to review performance on large capital projects and other premises improvements. It will make such decisions to achieve this on behalf of the Corporation Board.

Remuneration Committee

Throughout the year ending 31 July 2019 the School's Remuneration Committee comprised three members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other key management personnel.

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 members of the Corporation (excluding the Accounting Officer and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

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

The Audit Committee reviewed the internal audit provision in 2018/2019 due to the School's incumbent supplier withdrawing their services as part of their strategic withdrawal from the education sector. The Audit Committee engaged RSM Risk Assurance Services LLP to review some key areas of control in 2018/2019 but is looking to engage a review on a strategic basis, where more value can be added in the future.

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

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

Internal control

Scope of responsibility

The Corporation is ultimately responsible for the School'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 Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the School's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Funding Agreement between The Northern School of Art and the funding bodies. He is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of School policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in The Northern School of Art for the year ended 31 July 2019 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the School is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the School's significant risks that has been in place for the period ending 31 July 2019 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

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

The School has an internal audit service, which operates in accordance with the requirements of the ESFA's *Post 16 Audit Code of Practice*. The work of the internal audit

service is informed by an analysis of the risks to which the School is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum, annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the School. The report includes the HIA's independent opinion on the adequacy and effectiveness of the School's system of risk management, controls and governance processes.

Review of effectiveness

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

- the work of the internal auditors
- the work of the executive managers within the School who have responsibility for the development and maintenance of the internal control framework
- comments made by the School's financial statements auditors, the reporting accountant for regularity assurance, the appointed funding auditors (for colleges subject to funding audit) in their management letters and other reports.

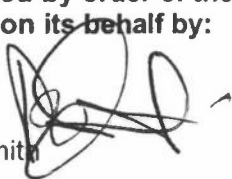
The Accounting Officer has been advised on the implications of the result of his review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor and other sources of assurance and a plan to address weaknesses and ensure continuous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

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

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

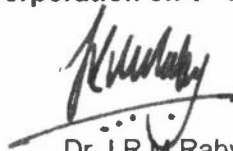
Approved by order of the members of the Corporation on 6th December 2019 and signed on its behalf by:

Mr P Smith
Chair



Dr J R M Raby

Accounting Officer



Statement of Regularity, Propriety and Compliance

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



Dr J R M Raby
Accounting Officer
6th December 2019



Mr P Smith
Chair of Governors
6th December 2019

Statement of Responsibilities of the Members of the Corporation

The members of the corporation, as charity trustees, are required to present audited financial statements for each financial year.

Within the terms and conditions of the School'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 School 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
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the School 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 information about the legal and administrative status of the school.

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

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

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

Approved by order of the members of the corporation on 6th December 2019 and signed on its behalf by:

A handwritten signature in dark ink, appearing to be 'P. Smith', with a small dot at the end.

Mr P Smith
Chair of governors

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF THE NORTHERN SCHOOL OF ART

Opinion

We have audited the financial statements of The Northern School of Art (the "College") and its subsidiaries (the "Group") for the year ended 31 July 2019 which comprise the consolidated and college statement of comprehensive income, the consolidated and college balance sheets, the consolidated statement of changes in reserves, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the College's affairs as at 31 July 2019 and of the Group's and the College's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Report and Financial Statements other than the financial statements and our auditor's report thereon. The governors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post-16 Audit Code of Practice 2018 to 2019 issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

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

1.1 Responsibilities of the Corporation of The Northern School of Art

As explained more fully in the Statement of the Corporation's Responsibilities set out on pages 21 to 22, the Corporation is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

RSM UK Audit LLP

RSM UK AUDIT LLP

Chartered Accountants

1 St James Gate

Newcastle upon Tyne

NE1 4AD

0912119

Consolidated Statements of Comprehensive Income and Expenditure

	Notes	Year ended 31 July 2019		Year ended 31 July 2018	
		Group £'000	College £'000	Group £'000	College £'000
INCOME					
Funding body grants	2	3,342	3,342	3,418	3,418
Tuition fees and education contracts	3	5,093	5,093	4,408	4,408
Other grants and contracts	4	159	46	27	27
Other income	5	514	514	694	694
Investment income	6	4	4	3	3
Total income		9,112	8,999	8,550	8,550
EXPENDITURE					
Staff costs	7	5,904	5,904	5,679	5,679
Other operating expenses	8	2,698	2,585	2,395	2,395
Depreciation	10	682	682	643	643
Interest and other finance costs	9	151	151	174	174
Total expenditure		9,435	9,322	8,891	8,891
Deficit before other gains and losses		(323)	(323)	(341)	(341)
Loss on disposal of assets	10	-	-	-	-
Deficit before tax		(323)	(323)	(341)	(341)
Taxation		-	-	-	-
Deficit for the year		(323)	(323)	(341)	(341)
Unrealised surplus on revaluation of assets		-	-	-	-
Re-measurement of net defined pension liability	18	(1,638)	(1,638)	893	893
Total Comprehensive Income for the year		(1,961)	(1,961)	552	552
Represented by:					
Unrestricted comprehensive income		(1,961)	(1,961)	552	552
		(1,961)	(1,961)	552	552

The statement of comprehensive income is in respect of continuing activities.

Consolidated and College Statement of Changes in Reserve

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Group			
Balance at 1st August 2017	1,528	1,716	3,244
Deficit from the income and expenditure account	(341)	-	(341)
Other comprehensive income	893	-	893
Transfers between revaluation and income and expenditure reserves	129	(129)	-
	681	(129)	552
Balance at 31st July 2018	2,209	1,587	3,796
Deficit from the income and expenditure account	(323)	-	(323)
Other comprehensive income	(1,638)	-	(1,638)
Transfers between revaluation and income and expenditure reserves	69	(69)	-
Total comprehensive income for the year	(1,892)	(69)	(1,961)
Balance at 31 July 2019	317	1,518	1,835
College			
Balance at 1st August 2017	1,528	1,716	3,244
Deficit from the income and expenditure account	(341)	-	(341)
Other comprehensive income	893	-	893
Transfers between revaluation and income and expenditure reserves	129	(129)	-
	681	(129)	552
Balance at 31st July 2018	2,209	1,587	3,796
Deficit from the income and expenditure account	(323)	-	(323)
Other comprehensive income	(1,638)	-	(1,638)
Transfers between revaluation and income and expenditure reserves	69	(69)	-
Total comprehensive income for the year	(1,892)	(69)	(1,961)
Balance at 31 July 2019	317	1,518	1,835

Balance sheets as at 31 July 2019

	Notes	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Non current assets					
Tangible Fixed assets	10	16,108	16,108	16,426	16,426
Investments	11	-	-	-	-
		16,108	16,108	16,426	16,426
Current assets					
Stocks		16	16	19	19
Debtors	12	193	178	197	197
Cash at bank and in hand	16	965	965	463	463
		1,174	1,159	679	679
Creditors – amounts falling due within one year	13	(1,450)	(1,435)	(1,130)	(1,130)
Net current liabilities		(276)	(276)	(451)	(451)
Total assets less current liabilities		15,832	15,832	15,975	15,975
Creditors – amounts falling due after more than one year	14	(10,240)	(10,240)	(10,320)	(10,320)
Provisions					
Defined benefit pension scheme	18	(3,657)	(3,657)	(1,766)	(1,766)
Other provisions	15	(100)	(100)	(93)	(93)
Total net assets		1,835	1,835	3,796	3,796
Unrestricted Reserves					
Income and expenditure reserve		317	317	2,209	2,209
Revaluation reserve		1,518	1,518	1,587	1,587
Total unrestricted reserves		1,835	1,835	3,796	3,796
Total reserves		1,835	1,835	3,796	3,796

The financial statements on pages 26 to 49 were approved and authorised for issue by the Corporation on 6th December 2019 and were signed on its behalf on that date by:



Mr P Smith
Chair



Dr J R M Raby
Accounting Officer

Consolidated Statement of Cash Flows

	Notes	2019 £'000	2018 £'000
Cash flow from operating activities			
Deficit for the year		(323)	(341)
Adjustment for non-cash items			
Depreciation		682	643
Release of government grant		(265)	(261)
(Increase)/decrease in stocks		3	(1)
(Increase)/decrease in debtors		4	(62)
Increase/(decrease) in creditors due within one year		(147)	65
Increase/(decrease) in provisions		7	(4)
Pensions costs less contributions payable		253	300
Adjustment for investing or financing activities			
Investment income		(4)	(3)
Interest payable		151	117
Net cash flow from operating activities		<u>361</u>	<u>453</u>
Cash flows from investing activities			
Investment income		4	3
New deposits		503	901
Payments made to acquire fixed assets		(364)	(1,468)
		<u>143</u>	<u>(564)</u>
Cash flows from financing activities			
Interest paid		(151)	(117)
New unsecured loans		1,200	-
Repayments of amounts borrowed		(1,051)	(1,266)
		<u>(2)</u>	<u>(1,383)</u>
Increase / (decrease) in cash and cash equivalents		<u>502</u>	<u>(1,494)</u>
Cash and cash equivalents at beginning of the year	16	463	1,957
Cash and cash equivalents at end of the year	16	965	463

Notes to the Accounts

1. Statement of accounting policies and estimation techniques

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

The Northern School of Art is a corporation established under the Further and Higher Education Act 1992 as an English general college of further education. The address of the School's principle place of business is given on page 3. The nature of the School's operations is set out in the strategic report.

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" (FRS 102). The School is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

The financial statements are presented in sterling which is also the functional currency of the School. Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

Basis of accounting

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

Basis of consolidation

The consolidated financial statements include the School and its subsidiary, Northern School of Art Devco Limited, controlled by the Group. The subsidiary was incorporated on 18th September 2018, therefore this is the first year of consolidation. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Under the purchase method of accounting, the results of subsidiary and associated undertakings acquired or disposed of during the year are included in the consolidated income and expenditure account from or up to the date on which control of the undertaking passes. Intra-group sales and profits are eliminated fully on consolidation.

Going concern

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

The School currently has £2.1m of loans outstanding with bankers on terms negotiated in 2016. Additionally there is £1m of uncommitted facility available for unconditional drawdown. The terms of the existing agreements are; Barclays 5 year revolving facility and Hartlepool Borough Council 20 year. The School's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

In 2018/19 the Group has made a deficit outturn of £323,000 in comparison to a deficit of £341,000 in 2017/18, the reduction in deficit is due to an increase in HE Fee income. The outturn includes a non-cash depreciation charge of £682,000 (2017/18: £643,000), whilst the operating cashflow slightly reduced from £453,000 in 2017/18 to £361,000 in 2018/19. The net current liabilities have reduced to £276,000 (2017/18: £451,000) due to the group cash holdings increase to £965,000 in 2018/19 (2017/18: £463,000).

Accordingly, the School 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

Revenue grant funding

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under 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 funding is not subject to reconciliation and is therefore not subject to contract adjustments.

The recurrent grant from 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 the School 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.

Capital grant funding

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS 102. Other, non-governmental, capital grants are recognised in income when the School 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.

Fee income

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.

Investment income

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.

Agency arrangements

The School acts as an agent in the collection and payment of certain discretionary support funds. Related payments received from the funding bodies and subsequent disbursements

to students are excluded from the income and expenditure of the School where the School is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Retirement benefits

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

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

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

Short term Employment benefits

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the School. Any unused benefits are accrued and measured as the additional amount the School 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 school annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the School's income in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet.

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at 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.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and buildings

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

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

On adoption of FRS 102, the School followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996 but not to adopt a policy of revaluations of these properties in the future.

Assets under construction

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

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to the School, 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. All other equipment is capitalised at cost.

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

- | | |
|------------------------------------|---------|
| • technical equipment | 5 years |
| • computer equipment | 5 years |
| • furniture, fixtures and fittings | 5 years |

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 and Expenditure.

Borrowing costs

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

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 and Expenditure. Any lease premiums or incentives relating to leases signed after 1st August 2014 are spread over the minimum lease term.

Leasing agreements which transfer to the School 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 an obligation under finance leases. 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

Investments in subsidiaries

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

Other investments

Listed investments held as non-current assets and current asset investments, which may include listed investments, are stated at fair value, with movements recognised in Comprehensive Income. Investments comprising unquoted equity instruments are measured at fair value, estimated using a valuation technique.

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 without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 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 the Group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the School 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.

Taxation

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

The School receives no similar exemption in respect of Value Added Tax, therefore the School can not recover input VAT it suffers on goods and services purchased. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

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

Provisions and contingent liabilities

Provisions are recognised when

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

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

A contingent liability arises from a past event that gives the School a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the School. 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.

Judgements in applying accounting policies and key sources of estimation uncertainty

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 18, will impact the carrying amount of the pension liability. The actuary has used a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 to value the pensions liability at 31 July 2019. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2 Funding body grants	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Recurrent grants				
Education and Skills Funding Agency - adult	51	51	87	87
Education and Skills Funding Agency – 16 -18	2,678	2,678	2,695	2,695
Office for students	332	332	356	356
Specific grants				
Releases of government capital grants	265	265	261	261
HE grant	16	16	19	19
Total	3,342	3,342	3,418	3,418
3 Tuition fees and education contracts	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Childrens Club Fees	6	6	8	8
Fees for FE loan supported courses	92	92	73	73
Fees for HE loan supported courses	4,995	4,995	4,327	4,327
Total tuition fees	5,093	5,093	4,408	4,408
Total	5,093	5,093	4,408	4,408
4 Other grants and contracts	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other grants and contracts	159	46	27	27
Total	159	46	27	27

5 Other income

	Year ended 31 July		Year ended 31 July	
	2019 Group £'000	2019 College £'000	2018 Group £'000	2018 College £'000
Catering and residences	200	200	212	212
Other grant income	-	-	180	180
Miscellaneous income	314	314	302	302
Total	514	514	694	694

6 Investment income

	Year ended 31 July		Year ended 31 July	
	2019 Group £'000	2019 College £'000	2018 Group £'000	2018 College £'000
Other interest receivable	4	4	3	3
Net return on pension scheme (note 18)	-	-	-	-
Total	4	4	3	3

7 Staff costs – Group and College

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

	2019 No.	2018 No.
Teaching staff	52	54
Non-teaching staff	104	101
	156	155

Staff costs for the above persons

	2019 £'000	2018 £'000
Wages and salaries	4,629	4,448
Social security costs	415	404
Other pension costs	848	827
Payroll sub total	5,892	5,679

Payroll sub total	5,892	5,679
Restructuring costs – Contractual	12	-
Total Staff costs	5,904	5,679

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the School and are represented by the Principalship which comprises the Principal, Vice Principal – Resources, Vice Principal – HE, Vice Principal – Student Experience and Vice Principal – Employability and External Relations.

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

	2019	2018
	No.	No.
The number of key management personnel including the Accounting Officer was:	5	5

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

	Key management personnel		Other staff	
	2019	2018	2019	2018
	No.	No.	No.	No.
£60,001 to £65,000 p.a.	3	3	-	-
£75,001 to £80,000 p.a.	1	1	-	-
£120,001 to £125,000 p.a.	1	1	-	-
	5	5	-	-

Key management personnel compensation is made up as follows:

	2019	2018
	£'000	£'000
Basic salary	388	385
Employers National Insurance	48	47
Benefits in kind	-	-
Pension contributions	62	62
Total key management personnel compensation	498	494

The above compensation includes amounts paid to the Principal and Chief Executive who is the accounting officer and who is also the highest paid member of staff. Their pay and remuneration is as follows:

	2019 £'000	2018 £'000
Basic salary	124	124
Performance related pay and bonus		
Other including benefits in kind		
Pension contributions	21	21
	<u>145</u>	<u>145</u>

The governing body has adopted AoC's Senior Staff Remuneration Code in July 2019 and will assess pay in line with its principles in future.

The remuneration package of Key management staff, including the Principal and Chief Executive, is subject to annual review by the Remuneration Committee of the governing body who use benchmarking information to provide objective guidance.

The Principal and Chief Executive reports to the Chair of Governing Body, who undertakes an annual review of his performance against the school's overall objectives using both qualitative and quantitative measures of performance.

Relationship of Principal/Chief Executive pay and remuneration expressed as a multiple

	2019 £'000	2018 £'000
Principal's basic salary as a multiple of the median of all staff	3.28	3.38
Principal and CEO's total remuneration as a multiple of the median of all staff	3.84	4.00

8 Other operating expenses

	2019 Group £'000	2019 College £'000	2018 Group £'000	2018 College £'000
Teaching costs	700	700	688	688
Non-teaching costs	1,131	1,131	1,079	1,079
Premises costs	867	754	628	628
Total	2,698	2,585	2,395	2,395

Other operating expenses include:

	2019 £'000	2018 £'000
Auditors' remuneration:		
Financial statements audit	16	15
- Subsidiary financial statement audit	4	-
Internal audit		

- KPMG 2018	-	14
- RSM Risk Assurance Services LLP 2019	11	-
Other services provided by the financial statements auditor [Teachers Pension Audit]	1	1
Hire of assets under operating leases	44	35

9 Interest and other finance costs – Group and College

	2019 £'000	2018 £'000
On bank loans, overdrafts and other loans:	107	117
	<u>107</u>	<u>117</u>
On finance leases	-	-
Net interest on defined pension liability (note 18)	44	57
	<u>44</u>	<u>57</u>
Total	151	174

10 Tangible fixed assets (Group)

	Land and buildings		Equipment	Assets in the course of construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 August 2018	21,678	-	2,990	-	24,668
Additions	72	-	292	-	364
Disposals	(2,570)	-	(771)	-	(3,341)
At 31 July 2019	19,180	-	2,511	-	21,691
Depreciation					
At 1 August 2018	5,794	-	2,448	-	8,242
Charge for the year	466	-	216	-	682
Elimination in respect of disposals	(2,570)	-	(771)	-	(3,341)
At 31 July 2019	3,690	-	1,893	-	5,583
Net book value at 31 July 2019	15,490	-	618	-	16,108

Net book value at 31 July 2018	15,884	-	542	-	16,426
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Tangible fixed assets (School only)

	Land and buildings		Equipment	Assets in the course of construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000		£'000
Cost or valuation					
At 1 August 2018	21,678	-	2,990	-	24,668
Additions	72	-	292	-	364
Disposals	(2,570)	-	(771)	-	(3,341)
At 31 July 2019	19,180	-	2,511	-	21,691
Depreciation					
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At 31 July 2019	3,690	-	1,893	-	5,583
Net book value at 31 July 2019	15,490	-	618	-	16,108
Net book value at 31 July 2018	15,884	-	542	-	16,426

Land and buildings were valued in 1996 at depreciated replacement cost at the time of incorporation. Inherited land and buildings at incorporation, currently held, total just over £1.4million (NBV), the School has made additions totalling £14 million (NBV) to date.

11 Current investments

The School owns 100 per cent of the issued ordinary £1 shares of Northern School of Art Devco Limited, a company incorporated in England and Wales, representing a £100 investment. The principal business activity of Northern School of Art Devco Limited is progressing a new build project at the Middlesbrough Campus.

12 Debtors

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Amounts falling due within one year:				
Trade receivables	31	31	43	43
Prepayments and accrued income	147	147	154	154
Other receivables	15	-	-	-
Total	193	178	197	197

13 Creditors: amounts falling due within one year

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Bank loans and overdrafts	53	53	53	53
Trade payables	96	96	227	227
Amounts owed to group undertakings:				
Subsidiary undertakings	-	452	-	-
Other taxation and social security	175	175	176	176
Accruals and deferred income	133	133	212	212
Deferred income - government capital grants	729	262	263	263
Amounts owed to the ESFA	228	228	188	188
Amounts owed to Other	36	36	11	11
Total	1,450	1,435	1,130	1,130

14 Creditors: amounts falling due after one year

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Bank loans	2,180	2,180	2,031	2,031
Deferred income - government capital	8,060	8,060	8,289	8,289
Total	10,240	10,240	10,320	10,320

15 Provisions

	Enhanced pensions £'000
At 1 August 2018	93
Expenditure in the period	(7)
Additions in period	14
At 31 July 2019	100

Defined benefit obligations relate to the liabilities under the School's membership of the Local Government Pension Scheme. Further details are given in Note 18.

The enhanced pension provision relates to the cost of staff who have already left the School's employment and commitments for reorganisation costs from which the School cannot reasonably withdraw at the balance sheet date.

The principal assumptions for this calculation are:

	2019	2018
Price inflation	2.20%	1.30%
Discount rate	2.00%	2.30%

16 Cash and cash equivalents

	At 1 August 2018 £'000	Cash flows £'000	Other changes £'000	At 31 July 2019 £'000
Cash and cash equivalents	463	502	-	965
Total	463	502	-	965

17 Lease obligations

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

	Group and College	
	2019 £'000	2018 £'000
Other		
Not later than one year	42	44
Later than one year and not later than five years	107	150
	<u>149</u>	<u>194</u>
Total lease payments due	149	194

18 Defined benefit obligations

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

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

Total pension cost for the year	2019 £000	2018 £000
Teachers' Pension Scheme: contributions paid	316	309
Local Government Pension Scheme:		
Contributions paid	279	269
FRS 102 (28) charge	239	243
Charge to the Statement of Comprehensive Income	518	512
Enhanced pension charge to Statement of Comprehensive Income	14	6
Total Pension Cost for Year within staff costs	848	827

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions, along with those made by employers, are credited to the Exchequer. The TPS is a multi-employer pension plan and there is insufficient information to account for the scheme on as a defined benefit plan so it is accounted for as a defined contribution plan.

Valuation of the Teachers' Pension Scheme

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions. Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors. The latest actuarial valuation was carried out as at 31 March 2016 and in accordance with The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 except it has been prepared following the Government's decision to pause the operation of the cost control mechanisms at the time when legal challenges were still pending.

Valuation of the Teachers' Pension Scheme

The valuation report was published in April 2019. The key results of the valuation and subsequent consultation are:

- Total scheme liabilities for service (pensions currently payable and the estimated cost of future benefits) of £218 billion
- Value of notional assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) of £196 billion
- Notional past service deficit of £22 billion
- Discount rate is 2.4% in excess of CPI

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 teachers' pension employer contribution grant to cover the additional costs during the 2019-20 academic year.

The pension costs paid to TPS in the year amounted to £316,000 (2018: £309,000)

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Teesside Local Authority. The total contributions made for the year ended 31 July 2019 were £395,000, of which employer's contributions totalled £279,000 and employees' contributions totalled £116,000. The agreed contribution rates for future years are 17.3% for the school and range from 5.5% to 12.5% for employees, depending on salary according to a national scale.

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2019 by Aon Hewitt Limited.

	At 31 July 2019	At 31 July 2018
Rate of increase in salaries	3.3%	3.1%
Future pensions increases	2.3%	2.1%
Discount rate for scheme liabilities	2.1%	2.8%
Inflation assumption (CPI)	2.3%	2.1%
Commutation of pensions to lump sums	-	-

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

	At 31 July 2019 Years	At 31 July years
<i>Retiring today</i>		
Males	21.9	22.9
Females	23.8	25.0
<i>Retiring in 20 years</i>		
Males	23.6	25.10
Females	25.7	27.3

The School's share of the assets in the plan at the balance sheet date and the expected rates of return were:

	Fair Value at 31 July 2019 £'000	Fair Value at 31 July 2018 £'000
Equity instruments	10,439	9,557
Debt instruments	-	-
Property	1,189	1,008
Cash	1,839	2,357
Other	359	170
Total fair value of plan assets	<u>13,826</u>	<u>13,092</u>
Weighted average expected long term rate of return	5.8%	5.5%
Actual return on plan assets	<u>697</u>	<u>1,019</u>

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

	2019 £'000	2018 £'000
Fair value of plan assets	13,826	13,092
Present value of plan liabilities	(17,467)	(14,814)
Present value of unfunded liabilities	(16)	(46)
Net pensions liability	<u>(3,657)</u>	<u>(1,768)</u>

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

	2019 £'000	2018 £'000
Amounts included in staff costs		
Current service cost	518	512
Past service cost	-	-
Total	<u>518</u>	<u>512</u>
Amounts included in investment income		
Net interest income	44	57
	<u>44</u>	<u>57</u>

Amount recognised in Other Comprehensive Income

Return on pension plan assets	330	706
Experience losses arising on defined benefit obligations	(1,968)	187
Changes in assumptions underlying the present value of plan liabilities	-	-
Amount recognised in Other Comprehensive Income	(1,638)	893

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

	2019 £'000	2018 £'000
Net defined benefit (liability)/asset in scheme at 1 August	(1,766)	(2,359)
Movement in year:		
Current service cost	(518)	(512)
Employer contributions	279	269
Past service cost	-	-
Liability gains / (losses) arising during period	30	-
Net interest on the defined	(44)	(57)
Actuarial gain or loss	(1,638)	893
Net defined benefit (liability)/asset at 31 July	(3,657)	(1,766)

Asset and Liability Reconciliation

	2019 £'000	2018 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	14,860	14,401
Current service cost	518	512
Interest cost	411	370
Contributions by Scheme participants	116	112
Experience gains and losses on defined benefit obligations	(30)	-
Changes in financial assumptions	1,968	(187)
Estimated benefits paid	(355)	(348)
Past Service cost	-	-
Curtailments and settlements	-	-
Defined benefit obligations at end of period	17,488	14,860

Changes in fair value of plan assets

Fair value of plan assets at start of period	13,092	12,040
Interest on plan assets	367	313
Return on plan assets	330	706
Employer contributions	279	269
Contributions by Scheme participants	116	112
Estimated benefits paid	(355)	(348)
Fair value of plan assets at end of period	13,829	13,092

19 Related party transactions

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

The total expenses paid to or on behalf of the Governors during the year was £2,700; 5 governors (2018: £3,500; 5 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the School or its subsidiaries during the year (2018: None).

20 Amounts disbursed as agent

Learner support funds

	2019 £'000	2018 £'000
16-18 bursary grants	95	98
Other Funding body grants	30	34
	<hr/> 125	<hr/> 132
Disbursed to students	(48)	(64)
Administration costs	-	-
	<hr/> 77	<hr/> 68
Balance unspent as at 31 July, included in creditors		

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

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF THE NORTHERN SCHOOL OF ART AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH EDUCATION AND SKILLS FUNDING AGENCY

Conclusion

We have carried out an engagement, in accordance with the terms of our engagement letter and further to the requirements of the grant funding agreements and contracts with the Education and Skills Funding Agency (the "ESFA"), to obtain limited assurance about whether the expenditure disbursed and income received by The Northern School of Art during the period 1 August 2018 to 31 July 2019 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 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.

Basis for conclusion

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

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

Responsibilities of Corporation of The Northern School of Art for regularity

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

Reporting accountant's responsibilities for reporting on regularity

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

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and the procedures performed vary in nature and timing from, and are less in extent than for a reasonable assurance engagement; consequently a limited assurance engagement does not enable us to obtain assurance that

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

We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 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.

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

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

Use of our report

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

RSM UK Audit LLP

RSM UK AUDIT LLP

Chartered Accountants

1 St James Gate
Newcastle upon Tyne
NE1 4AD

09/12/19

