



**Annual Report and Financial Statements**  
**Year ended 31 July 2020**

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## Reference and Administrative Details

### Board of Governors

A full list of Governors is given from pages 16 to 18 of these financial statements.

### Clerk/Company Secretary

Mrs L McLaren

### Principalship Team (also key management personnel)

Dr J R M Raby	Principal and CEO; Accounting officer
Mr S D 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

Jacksons Law Firm, 17 Falcon Ct. Preston Farm Industrial Estate, Stockton-on-Tees TS18 3TU

## 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 2020.

#### 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.

#### Strategic Plan 2019-24

By 2024 the School will have built on our track record and successes. In essence we want to have more students on continuously improving courses, studying in high quality, supportive, creative environments. We will develop our curriculum through increasing product differentiation from our competitors and foster innovation. Our students' experience with us and the quality of the destinations they move on to, in the North and elsewhere, guides what we do and aspire to. This Plan has been adapted by our Corporation Board which will monitor its direction and delivery

We will have:

- Degree Awarding Powers and become an HEI enabling us to become ever more responsive to the needs of students and industry, making the School more visible in direct comparison to competitor universities and opening up new funding opportunities only available to HEIs.
- Grown, out-pacing demographic growth in both FE and HE student numbers as demographic growth kicks in, enabling us to secure our place in the region, re-invest in, and develop our curriculum offer and become more resilient.
- A new FE Campus in the heart of Middlesbrough, a location that is more accessible to our growing catchment area - adjacent to a creative industry hub.
- Established the School as a leader in thinking and practice in the creative sector in the North and beyond - allowing us to offer current and relevant teaching and industrial experience.

We will continue to deliver excellent standards of teaching and learning, sustaining our:

- Teaching Excellence Framework Gold for Higher Education
- Ofsted Outstanding rating for Further Education At the same time we will ensure our future by maintaining a good financial health rating.

This is our Vision for the School and it informs the set of Key Outcomes we want to achieve over the next 5 years. This Plan and the Key Outcomes are supported by a range of more detailed strategies, governance structures and performance indicators which allow us to

monitor and constantly improve our performance and anticipate or react to the changing environment in which we operate.

#### Our Values:

- creativity and excellence
- professional practice, employability and enterprise
- student engagement, support, collaboration and community

#### Our Behaviours

- concern for the quality of a holistic student experience
- a positive, collegiate approach
- professionalism
- always seeking improvement; appropriately self-critical
- equality and diversity

#### 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 employs 239 people (154 FTE), of whom 65 (49 FTE) are teaching staff.

The school enrolled approximately 1,535 students. The School's student population includes 474 FE students, 612 higher education students, 440 Saturday club students and 9 adult learners. Adult learner numbers were reduced this year due to COVID19 pandemic closure of the School. The Institution was unable to deliver evening classes within imposed regulatory COVID19 guidance during the national lockdown period.

The School has £4.211 million (2019: £1.835 million net assets) of net liability including £9.1 million pension liability (2019: liability of £3.7 million) and long-term debt of £2.142 million (2019: £2.180 million). Long term devolved capital grants amount to £10.8 million.

Work has commenced on a £14.5 million FE campus in Middlesbrough of which just under £1million is included in assets under construction. This is to replace the current campus at Green Lane which has reached the end of its useful life. Funding from the Tees Valley Combined Authority has made this project possible and the project is fully funded. 50% of the grant is repayable over a period of time which is dependent on the levels of surpluses

generated by the School. The School has received almost £3mil in grant income from TVCA, included in deferred capital grant.

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 universities, The Northern School of Art has many stakeholders. These include:

- Current, future and past students;
- Education sector funding bodies;
- Staff;
- Barclays Bank
- 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 a variety of means, including the School Internet site, meetings, training initiatives and social media etc.

## **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 16. 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 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

## DEVELOPMENT AND PERFORMANCE

### Financial Results

		£'000
As per Statements	Group deficit before other gains and losses	(1,263)
Add back	FRS 102 (28) Charge (Staff Costs)	576
Add back	Net Interest on defined pension liability	74
Add back	Accelerated Depreciation	922
Underlying Financial Position	Group Surplus	309

The group generated a deficit before other gains and losses of £1,263k (2019: deficit of £323k), with a total comprehensive loss of £6 million (2019: £1.96 million).

A new building located in central Middlesbrough is currently under construction. The new site will provide state of the art learning suites, which will help the institution better meet its aim of providing first class resources to students of the school. A more central and visible location with improved transport links is expected to see increased recruitment in the future.

The School had a forced COVID19 closure in the 2019/20 academic year. Fortunately, the financial impact was relatively small and led to savings in costs such as utilities and transport. The School managed to successfully deliver at both HE and FE students remotely. Some smaller income streams were affected, such as catering and printing income, however this was balanced out by a reduction in expenditure.

### Cash flows and liquidity

At £835,000 (2019: £361,000), net cash in-flow from operating activities was reasonably strong. The increase from the prior year was due to a reduction in non-pay expenditure, which was an impact of COVID19 School closure.

The size of the school's total borrowing and its approach to interest payments has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow. During the year this cushion was sizeable; the interest paid of £99,000 was clearly exceeded comfortably by the operating cashflow of £835,000.

### Developments

The School continues to invest in its facilities and aims to improve its financial performance by continuing to monitor and improve the efficiency of all of its operations. Further investment is planned in order to support the strategic plan moving forwards.

The institution's redevelopment involves tangible fixed assets under construction during the year amounted to £898,000. This is in relation to the new building in central Middlesbrough. The ongoing building project is budgeted to cost £14.5 million and replace the aging campus at Green Lane.

## 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 either ESFA and student fees ceasing to be available is considered unlikely.

The School has a formal Reserves Policy and recognises the importance of reserves in the financial stability of any organisation. This 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. The School reserves policy sets a minimum level of cash balances of £500k below which needs to be reviewed with the Corporation Board and a plan to be in place for the reestablishment of cash balances.

As at the balance sheet date the total reserves stands at a deficit of £4,211,000 (2018/19: £1,835,000). The deficit reserves are impacted by the deficit reserves relating to the defined benefit pension scheme of £9,090k as detailed in note 22. Excluding this, total reserves would be reported as £4,879k much of the assets are held within fixed assets used in delivery. The reported outturn for the year has been impacted as detailed on page 7, with the underlying outturn showing a group surplus of £309k. It is the Corporations intention to increase reserves over the life of the strategic plan through generation of annual operating surpluses.

## 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 2019/20, ESFA provided 30.06% (2018/19 30.33%) of the Group's total income, whilst HE fees provide the largest income stream at 60.81% (2018/19 55.51%)

## 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 18<sup>th</sup> September 2018, the private company is limited by shares.

The principal activity of Northern School of Art Devco Limited is the delivery of a property project in Middlesbrough. Northern School of Art Devco Limited has received £2,985,000 grant income towards the new build project in Middlesbrough to date. The subsidiary holds assets in the course of construction totalling £898,000 and cash balances of £2.076 million, which are currently held by the School.

## FUTURE PROSPECTS

### Future developments

The School has continued to invest in its facilities and equipment.

Higher Education within the School continues to do well. Curriculum Management have developed and re-structured curriculum delivery in order to create a more effective and



efficient delivery model moving forwards. Although this did involve some necessary redundancies, this sets a HE structure from which the School can continue to grow whilst maintaining effectiveness, efficiencies and quality of provision.

The School has progressed and supported the development of MA delivery throughout 2019/20, which has successfully recruited the first Northern School of Art MA students in 2020/21.

Following the completion of the FE Middlesbrough development, due to the town centre location, the school will be more accessible in terms of both transport links and profile visibility. It is anticipated this will increase FE student recruitment aided by the broad range of courses on offer and the high standard of delivery and success.

In 2019/20 FE development included a new course offering Extended Diploma in Film & TV Production. The course has proved popular, enrolling 16 learners in the first year despite very limited marketing surrounding the launch of the new course. The development of the FE TV course is linked to the School's strategy of ensuring lineage from the FE offering to the HE offering. All FE courses have a HE pathway at The Northern School of Art should students want to remain at the School to further their studies.

The institution is constantly monitoring the needs of both FE and HE curriculum to ensure the needs of all students are met, and exceeded, where possible.

The School, along with all other institutions, has had to deal with a pandemic in this academic year. Although the School was closed, both staff and students were quick to adapt to remote learning.

Online learning was already on the School agenda moving forward, but the forced change in delivery methods has advanced this and shown that the School can adequately provide quality online teaching and learning. Although this is not something the School would necessarily be looking to convert to full time, given the practical nature and resource needs of programmes of study, the school is currently delivering a hybrid of face to face and online delivery and teaching. Moving forward to the future, the School has proved its ability to be flexible in delivery methods, being able to move quickly and efficiently.

The School is currently in the process of setting up an additional trading subsidiary to build and operate a commercial TV and Film sound studio at Hartlepool. This project is scheduled to commence in November / December 2020 and be operating by the summer of 2021.

### **Group plan**

The school governors approved a financial plan in February 2020 which sets objectives for the period to July 2022. The school aims to maintain a health rating of 'Good' or better, meet banking covenants and return a small operating surplus at the year end 31 July 2021 and 31 July 2022.

### 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.

### PRINCIPAL RISKS AND UNCERTAINTIES

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 review of risk is a standing item on all Corporation Board agendas.

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.

Identified Risk	Possible Impact of Risk	Mitigating Factors
COVID19 lockdown	<ul style="list-style-type: none"> <li>• Unable to deliver to students</li> <li>• Financial strains</li> <li>• Disruption to ongoing Capital projects</li> </ul>	<ul style="list-style-type: none"> <li>• Regular COVID19 Response meetings to keep updated on local and national regulatory advice</li> <li>• Review of curriculum delivery has resulted in a blended learning model from 20/21. Which can be quickly adapted to continue to deliver in the wake of another lockdown.</li> <li>• Investment in IT in order to ensure all students have access to online learning.</li> <li>• Continual financial review</li> <li>• Regular Capital project team meetings to ensure project targets are met.</li> </ul>
Government Policy	<ul style="list-style-type: none"> <li>• Loss or reduction in income</li> <li>• Restructuring</li> <li>• Merger or closure</li> </ul>	<ul style="list-style-type: none"> <li>• Scenario and sensitivity analysis on financial forecasts</li> <li>• Keeping updated on policies so planning can be performed in an efficient and timely manner</li> </ul>

Breaching of Baking Covenants	<ul style="list-style-type: none"> <li>Resulting in renegotiations of loans with adverse terms</li> <li>Resulting in immediate full repayment</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring of covenant results on a monthly basis</li> <li>Financial planning and budgeting process</li> <li>Regular communications with bank Relationship Manager</li> </ul>
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## KEY PERFORMANCE INDICATORS

The Schools key performance indicators, targets and results are set out below.

Key performance indicator	Measure/Target	Actual for 2019/20
<b>EBITDA</b>	5.48%	9.31%
<b>Staff Costs as % of Income</b>	65.23%	69.89%
<b>Debt Servicing</b>	=>100%	1677%
<b>Operational Gearing</b>	=<500%	265%
<b>Financial Health Score</b>	=>GOOD	OUTSTANDING

## Student achievements

Students continue to prosper at the School. FE achievement rates remained high in 2019/20 94.4% an increase from 2018/19 93%. HE success increased to 85.2% in 2019/2020 from 2018/19 75%. The School had a pass rate of 100% of all HE completers and 98.9% for FE.

## 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 2019 to 31 July 2020, the School paid 94% of its invoices within 30 days, a further 2% of invoices were delayed due to invoice queries, disputes and COVID19 disruption. The School incurred no interest charges in respect of late payment for this period.

## EQUALITY AND DIVERSITY

## **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 and students.

## **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 for students are detailed on the School's website and VLE and further information can be obtained from the Student Services department. All students are made aware of the services available and all the relevant policies and procedures 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	£268
Total pay bill	£8,368
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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### GOING CONCERN

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

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

In 2019/2020 the Group has made a deficit outturn of £1,263,000 in comparison to a deficit of £323,000 in 2018/19. The outturn includes a non-cash depreciation charge of £1,607,000 (2018/19: £682,000). The depreciation charge includes an accelerated amount for the impairment in value of the current Middlesbrough Campus of £922k. This charge spreads the difference between carrying value and net recoverable value across the remaining expected life of the building.

The operating cashflow increased from £361,000 in 2018/19 to £835,000 in 2019/20. The group has reduced net current liabilities from £276,000 in 2018/19 to net current assets of £2,338,000 due to the cash holdings increasing to £3,122,000 in 2019/20 (2018/19: £965,000) and a reduction in creditor due within a year to £962,000 (2018/19 £1,435,000). This position is partially aided by the proportion of advance grant funding in relation to the new Middlesbrough campus being held in bank balances at the 31<sup>st</sup> July 2020. Covenants in relation to bank borrowings have been confirmed as met at 31 July 2020 based on these financial statements.

The impact of COVID19, to date, has been manageable for the group, students continue to receive quality and effective delivery and continue to prosper at the school at all levels. During the first lockdown period the plans put in place proved successful and are being built on and adapted to ensure that further lockdowns do not cause much disruption to the studies of our students. Safe operating solutions have been refined and new disinfectant products researched and introduced which have helped keep the School operating as safely as it can.

The group has recently revisited its budget for the 2020/21 financial year and incorporated many changes that occurred since its initial approval. This recent forecast was approved by the Corporation Board in October 2020 and demonstrates compliance with the Barclays bank covenants as at 31 July 2021 and also indicates an ESFA financial health rating of good. There is a moderate level of contingency or headroom built into the forecast for 2020/21 in case of a fall in student retention and additional unforeseen costs. The group has also prepared longer term forecasts for the period to July 2022, which indicate a financial health rating of good for 2021/22 based on forecast student numbers and funding available.

The key variable that impacts the forecast is student numbers and the forecasts show either a modest growth or assume numbers remain flat depending on the individual course or programme. These forecasts are generally a pessimistic view of future events to lower the levels of risk and generate cash balances upwards of £1.5 million in each of the following 2 years, enabling a financial health rating of good and meeting banking covenants. Careful consideration has been made in the forecasts for the planned completion of 2 large capital programmes between June and September 2021 and ensuring that does not cause any difficulties.

Both the ongoing Middlesbrough campus project and the newly agreed project at the Hartlepool site are fully grant funded. The impact of cash inflows and outflows of these projects has been incorporated into the group forecasts outlined above.

Accordingly, the corporation considers that the group and School 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.

## **EVENTS AFTER THE REPORTING PERIOD**

The Northern School of Art has received confirmation that work to convert existing buildings on Campus at the Hartlepool site commenced in late November 2020. The Edgar Phillips Building will be converted into teaching space and the former bus sheds into commercial TV/Film studios.

The capital project is estimated to be a £3.8 million investment, funded through TVCA Grant. The commercial studios will be run through a new subsidiary The Northern Studios (Hartlepool) Limited incorporated on 6<sup>th</sup> November 2020, which is wholly owned by The Northern School of Art.

#### **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 4<sup>th</sup> December 2020 and signed on its behalf by:



**Mr P Smith**

**Chair**

## Governance Statement

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 1<sup>st</sup> August 2019 to 31<sup>st</sup> July 2020 and up to the date of approval of the annual report and financial statements.

### GOVERNANCE CODE

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 guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("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 2020. 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

#### Members of 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 2019/20
Mr P Smith	19.12.05 Reappointed 08.02.19	2 years		Independent	Remuneration Governance & Search Committee Finance Committee	7/8  87.5%
Mr I Butchart	19.12.08 Reappointed 31.12.15	4 years	Steps down December 2020	Independent	Audit	8/8  100%
Dr J R M Raby	01.05.08	Whilst in Post		Principal	Academic Board Governance & Search Committee	8/8  100%



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	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance in 2019/20
					Capital Programme Board Finance Committee	
Mrs S Fawcett	12.07.11 Reappointed 31.08.19	4 years		Independent	Capital Programme Board Finance Committee	8/8 100%
Mr I Swain	02.10.09 Reappointed 01.07.16 Reappointed 18.09.20	4 years		Independent	Audit Remuneration Capital Programme Board Governance & Search Committee	6/8 75%
Professor R Simmons	04.07.14 Reappointed 31.08.18	4 years		Independent	Remuneration	8/8 100%
Professor J Rapley	13.02.15 Reappointed 13.02.19	4 years		Independent	Academic Board	7/8 87.5%
Mr K Goldsborough	11.11.16 Reappointed 18.09.2020	4 years		Independent	Audit Governance & Search Committee	7/8 87.5%
Mr D Hughes	11.11.16 Reappointed 18.09.2020	4 years		Independent	Audit Finance Committee	7/8 87.5%
Mr T Bailey	09.12.16 Reappointed 18.09.2020	4 years		Independent	Capital Programme Group Finance Committee	8/8 100%
Mrs A Snow (nee Norris)	06.07.18	3 years		Independent		6/8 75%

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance in 2019/20
Ms J Havakin	28.04.17 Reappointed 18.09.2020	3 years		Academic Staff		7/8 87.5%
Ms E Hardwick	28.04.17 Reappointed 18.09.2020	3 years		Academic Staff	Academic Board	8/8 100%
Ms R Hare	06.07.18	3 year	Resigned 31.07.20	Staff		6/8 75%
Mr S Ahmed	Appointed September 2019	1 year	Term ended July 2020	Student		5/8 62.5%
Mr R Kane	Appointed 11.11.19	4 year		Staff		7/8 87.5%

### The governance framework

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 half-termly.

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, Finance, Audit, Remuneration, Governance and Search and Capital Programme Group. Full minutes of all meetings, except those deemed to be confidential by the corporation, are available on the School's website [northernart.ac.uk](http://northernart.ac.uk) or from the Head of Governance at the School's registered address.

The Clerk to the Corporation left on the 6<sup>th</sup> September 2019 and an interim Clerk had been engaged until 1<sup>st</sup> April 2020, a permanent replacement, Head of Governance, was appointed 18<sup>th</sup> March 2020.

The Head of Governance 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 Head of Governance, 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.

The corporation continued to meet over the COVID19 closure via on line means.

### **Appointments to the Corporation**

Any new member appointments to the corporation are a matter for the consideration of the corporation as a whole. The corporation has a governance and 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 31 July 2020 and graded itself as "Good" on the Ofsted scale.

### **Academic Board**

The Academic Board includes 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).

### **Finance Committee**

The Finance Committee comprises of four independent members of the Corporation, the Principal and Vice Principal - Resources and meets six times per year. The Finance Committee has written terms of reference approved by the Corporation.

The Finance Committee main duties are to monitor, consider and recommend on finances, financial reports and measurements to the Corporation Board. This Committee was reinstated in 2019/20 in response to guidance issued from the Department for Education.

### **Remuneration Committee**

Throughout the year ending 31 July 2020 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.

The Remuneration Committee adopted the AoC's Senior Staff Remuneration Code in November 2019 and applies the Code in addition to CUC HE Remuneration Code.

Details of remuneration for the year ended 31 July 2020 are set out in note 8 to the financial statements.

### **Capital Programme Group**

The Capital Programme Group includes four members of the Corporation and meets regularly throughout a project, usually monthly. An Officer each from the Tees Valley Combined Authority and Middlesbrough Council are also Members of the Group for overview and input into projects of relevance to them. 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.

### **Audit Committee**

The Audit Committee comprises five 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 funding bodies as they affect the school's business.

The School has been frustrated during the year in its attempt to engage external consultants to conduct internal audit reviews. This was due to the distraction of management to other priorities relating to COVID 19 and the School closing its doors and moving online. This has meant that the reviews expected for the 2019/20 financial year were delayed until 2020/21. The areas of focus were to be financial controls and cyber security. Fortunately, no issues have been highlighted that would suggest any material issues relating to the financial elements of the work envisaged and there have been no IT issues with the firewalls to date. Clearly this is not an ideal position and is currently being addressed with reviews being presented in these areas to the March meeting of the Audit Committee

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

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

## **INTERNAL CONTROL**

### **Scope of responsibility**

The corporation is ultimately responsible for the 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 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 2020 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.

Further education colleges are not statutorily obliged to have an internal audit service in place but there is a requirement for the Audit Committee and the Corporation Board to be assured that there is a functioning system of controls in place. Since the resignation of KPMG as the provider of the internal audit service as a result of the firm pulling out of the further education marketplace the Audit Committee has been reviewing its options for the future. A blend of traditional internal audits and specialist audits has been envisaged going forwards to provide both assurance and intelligence in this area.

The Audit Committee is required to report to the Corporation Board on an annual basis giving its view on controls and the assurance system that supports the governors and management in decision making.

The Institution has continued to apply internal control measures whilst the buildings were closed due to COVID19. Staff working from home have access to online platforms in which to continue day to day business and ensure control measures continued to be in place and adhered to.

Planned internal audit reviews did not take place during the year as lockdown and management prioritisation led to this work being delayed until 2020/21.

It is envisaged that an internal audit firm will be appointed in 2020/21 to cover off the key financial and procedural controls and other specialists engage to provided assurance in other priority areas.

### **Risks faced by the Corporation**

The Corporation identifies, evaluates and manages risk through the Risk Management Policy and accompanying risk register.

Identification of risk is carried out at each Corporation and sub-committee meeting, members will consider the risk associated with any items of business during the meeting and this may lead to an amendment of the School's risk register or require a risk assessment to be carried out. This is also carried out at Principalship, Committee and Team meetings.

The evaluation of risks is carried out by the Principalship team assessing the significance of each risk and prioritises them by examining their probability and impact. The combined score of both places each risk in one of three risk categories, Red, Amber or Green.

In order to manage and monitor identified risks these are entered on to the risk register which is reviewed regularly.

The key risks identified within the risk register have been tabled above, in the Strategic Report under Principal risks and uncertainties.

### **Responsibilities under funding agreements**

The School has met all responsibilities and criteria set out in funding agreements. Teaching and learning continued to be delivered throughout the academic year. In late March the institution had to close the campuses due to COVID19 and government guidance, however, the School quickly put measures, specifically online delivery, in place to ensure continuity for students learning at both FE and HE.

### **Statement from the audit committee**

The audit committee has advised the board of governors that the corporation has an effective framework for governance and risk management in place. The audit committee believes the corporation has effective internal controls in place.

The COVID19 closure has inevitably postponed planned internal audit work for 2019/20, however it is proposed that this work will be carried out early 2020/21.

### **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 during a normal year but this has not taken place this year as discussed earlier
- 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 in their management letters and other reports.

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

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit 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 November 2020 meeting, the corporation carried out the annual assessment for the year ended 31 July 2020 by considering documentation from the senior management team and internal audit and taking account of events since 31 July 2020.

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 04<sup>th</sup> December 2020 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 corporation's grant funding agreement and contracts with the ESFA. As part of our consideration we have had due regard to the requirements of the grant funding agreements and contracts with the ESFA.

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

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



Dr J R M Raby  
Accounting Officer

16<sup>th</sup> December 2020



Mr P Smith  
Chair of Governors

16<sup>th</sup> December 2020

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## **Statement of Responsibilities of the Members of the Corporation**

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

Within the terms and conditions of the corporation's grant funding agreements and contracts with 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 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 corporation 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess whether the corporation is a going concern, noting the key supporting assumptions qualifications or mitigating actions as appropriate
- 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 corporation.

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 the ESFA and any other public funds are used only in accordance with the ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time

to time by the ESFA or any other public funder. Members of the corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the corporation are responsible for securing economical, efficient and effective management of the corporation's resources and expenditure so that the benefits that should be derived from the application of public funds from the ESFA and other public bodies are not put at risk.

Approved by order of the members of the corporation on 4<sup>th</sup> December 2020 and signed on its behalf by:



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 subsidiary (the "Group") for the year ended 31 July 2020 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 2020 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.

#### **Opinion on other matters prescribed by the Office for Students' Accounts Direction**

In our opinion, in all material respects:

- funds from whatever source administered by the college for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- funds provided by the Office for Students, UK Research and Innovation (including Research England), the Education and Skills Funding Agency and Department for Education have been applied in accordance with the relevant terms and conditions; and
- the requirements of the Office for Students' accounts direction for the relevant year's financial statements have been met.

#### **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 2019 to 2020 issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

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

#### **Responsibilities of the Corporation of The Northern School of Art**

As explained more fully in the Statement of the Corporation's Responsibilities set out on pages 26 to 27, 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**

Chartered Accountants

1 St James Gate

Newcastle upon Tyne

NE1 4AD

## Consolidated Statements of Comprehensive Income and Expenditure

	Notes	Year ended 31 July 2020		Year ended 31 July 2019	
		Group £'000	College £'000	Group £'000	College £'000
<b>INCOME</b>					
Funding body grants	2	3,165	3,165	3,342	3,342
Tuition fees and education contracts	3	5,592	5,592	5,093	5,093
Other grants and contracts	4	29	29	159	46
Other income	5	316	316	514	514
Investment income	6	4	4	4	4
<b>Total income</b>		<b>9,106</b>	<b>9,106</b>	<b>9,112</b>	<b>8,999</b>
<b>EXPENDITURE</b>					
Staff costs	7	6,155	6,155	5,892	5,892
Restructuring Costs	7	161	161	12	12
Other operating expenses	8	2,273	2,273	2,698	2,585
Depreciation	11	1,607	1,607	682	682
Interest and other finance costs	10	173	173	151	151
<b>Total expenditure</b>		<b>10,369</b>	<b>10,369</b>	<b>9,435</b>	<b>9,322</b>
<b>Deficit before other gains and losses</b>		<b>(1,263)</b>	<b>(1,263)</b>	<b>(323)</b>	<b>(323)</b>
<b>Deficit before tax</b>		<b>(1,263)</b>	<b>(1,263)</b>	<b>(323)</b>	<b>(323)</b>
Taxation		-	-	-	-
<b>Deficit for the year</b>		<b>(1,263)</b>	<b>(1,263)</b>	<b>(323)</b>	<b>(323)</b>
Unrealised surplus on revaluation of assets		-	-	-	-
Actuarial loss in respect of pensions	22	(4,783)	(4,783)	(1,638)	(1,638)
<b>Total Comprehensive Income for the year</b>		<b>(6,046)</b>	<b>(6,046)</b>	<b>(1,961)</b>	<b>(1,961)</b>
<b>Represented by:</b>					
<b>Unrestricted comprehensive income</b>		<b>(6,046)</b>	<b>(6,046)</b>	<b>(1,961)</b>	<b>(1,961)</b>
		<b>(6,046)</b>	<b>(6,046)</b>	<b>(1,961)</b>	<b>(1,961)</b>

All items of income and expenditure relate to continuing activities.

## Consolidated and College Statement of Changes in Reserves

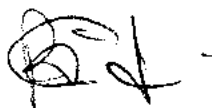
	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
<b>Group</b>			
<b>Balance at 1 August 2018</b>	2,209	1,587	3,796
Deficit from the income and expenditure account	(323)	-	(323)
Other comprehensive income	(1,638)	-	(1,638)
Transfers between revaluation and income and expenditure reserves	69	(69)	-
	<u>(1,892)</u>	<u>(69)</u>	<u>(1,961)</u>
<b>Balance at 31 July 2019</b>	317	1,518	1,835
Deficit from the income and expenditure account	(1,263)	-	(1,263)
Other comprehensive income	(4,783)	-	(4,783)
Transfers between revaluation and income and expenditure reserves	70	(70)	-
<b>Total comprehensive income</b>	<u>(5,976)</u>	<u>(70)</u>	<u>(6,046)</u>
<b>Balance at 31 July 2020</b>	<u>(5,659)</u>	<u>1,448</u>	<u>(4,211)</u>
<b>College</b>			
<b>Balance at 1 August 2018</b>	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)	-
	<u>(1,892)</u>	<u>(69)</u>	<u>(1,961)</u>
<b>Balance at 31 July 2019</b>	317	1,518	1,835
Deficit from the income and expenditure account	(1,263)	-	(1,263)
Other comprehensive income	(4,783)	-	(4,783)
Transfers between revaluation and income and expenditure reserves	70	(70)	-
<b>Total comprehensive income</b>	<u>(5,976)</u>	<u>(70)</u>	<u>(6,046)</u>
<b>Balance at 31 July 2020</b>	<u>(5,659)</u>	<u>1,448</u>	<u>(4,211)</u>



**Balance sheets as at 31 July 2020**

	Notes	Group 2020 £'000	College 2020 £'000	Group 2019 £'000	College 2019 £'000
<b>Non current assets</b>					
Tangible Fixed assets	11	15,592	14,694	16,108	16,108
		<b>15,592</b>	<b>14,694</b>	<b>16,108</b>	<b>16,108</b>
<b>Current assets</b>					
Stocks		16	16	16	16
Debtors	13	162	162	193	178
Cash and cash equivalents	18	3,122	3,122	965	965
		<b>3,300</b>	<b>3,300</b>	<b>1,174</b>	<b>1,159</b>
<b>Creditors – amounts falling due within one year</b>	14	(962)	(3,049)	(1,450)	(1,435)
<b>Net current assets</b>		<b>2,338</b>	<b>251</b>	<b>(276)</b>	<b>(276)</b>
<b>Total assets less current liabilities</b>		<b>17,930</b>	<b>14,945</b>	<b>15,832</b>	<b>15,832</b>
Creditors – amounts falling due after more than one year	15	(12,944)	(9,959)	(10,240)	(10,240)
<b>Provisions</b>					
Defined benefit obligations	22	(9,090)	(9,090)	(3,657)	(3,657)
Other provisions	17	(107)	(107)	(100)	(100)
<b>Total net assets</b>		<b>(4,211)</b>	<b>(4,211)</b>	<b>1,835</b>	<b>1,835</b>
<b>Unrestricted Reserves</b>					
Income and expenditure account		(5,659)	(5,659)	317	317
Revaluation reserve		1,448	1,448	1,518	1,518
<b>Total unrestricted reserves</b>		<b>(4,211)</b>	<b>(4,211)</b>	<b>1,835</b>	<b>1,835</b>
<b>Total reserves</b>		<b>(4,211)</b>	<b>(4,211)</b>	<b>1,835</b>	<b>1,835</b>

The financial statements on pages 30 to 58 were approved and authorised for issue by the corporation on 4<sup>th</sup> December 2020 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	2020 £'000	2019 £'000
<b>Cash flow from operating activities</b>			
Surplus/(Deficit) for the year		(1,263)	(323)
<b>Adjustment for non-cash items</b>			
Depreciation		1,607	682
Release of government grant		(266)	(265)
Decrease in stocks		-	3
Decrease in debtors		31	4
Decrease in creditors due within one year		(26)	(147)
Increase in provisions		7	7
Pensions costs less contributions payable		576	253
<b>Adjustment for investing or financing activities</b>			
Investment income		(4)	(4)
Interest payable		173	151
<b>Net cash flow from operating activities</b>		<b>835</b>	<b>361</b>
<b>Cash flows from investing activities</b>			
Investment income		4	4
Capital grants received		2,546	503
Payments made to acquire fixed assets		(1,091)	(364)
		<b>1,459</b>	<b>143</b>
<b>Cash flows from financing activities</b>			
Interest paid		(99)	(151)
New unsecured loans		1,000	1,200
Repayments of amounts borrowed		(1,038)	(1,051)
		<b>(137)</b>	<b>(2)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>2,157</b>	<b>502</b>
Cash and cash equivalents at beginning of the year	18	965	463
Cash and cash equivalents at end of the year	18	3,122	965

## 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 principal 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 2019 (the 2019 FE HE SORP), the College Accounts Direction for 2019 to 2020 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.

#### Basis of consolidation

The consolidated financial statements include the School and its subsidiary, Northern School of Art Devco Limited, controlled by the group. 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 group, together with the factors likely to affect its future development and performance are set out in the Members Report. The financial position of the group, its cashflow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The group currently has £2.1m of loans outstanding with bankers on terms negotiated in 2016. Additionally, there is £1m of uncommitted facility available for drawdown. The terms of the existing agreements are; Barclays Bank 5-year term revolving facility and Hartlepool Borough Council 20-year fixed term. The group's forecasts and financial projections indicate

that it will be able to operate within this existing facility and covenants for the foreseeable future.

In 2019/2020 the Group has made a deficit outturn of £1,263,000 in comparison to a deficit of £323,000 in 2018/19. The outturn includes a non-cash depreciation charge of £1,607,000 (2018/19: £682,000). The depreciation charge includes an accelerated amount for the impairment in value of the current Middlesbrough Campus of £922k. This charge spreads the difference between carrying value and net recoverable value across the remaining expected life of the building.

The operating cashflow increased from £361,000 in 2018/19 to £835,000 in 2019/20. The group has reduced net current liabilities from £276,000 in 2018/19 to net current assets of £2,338,000 due to the cash holdings increasing to £3,122,000 in 2019/20 (2018/19: £965,000) and a reduction in creditor due within a year to £962,000 (2018/19 £1,435,000). This position is partially aided by the proportion of advance grant funding in relation to the new Middlesbrough campus being held in bank balances at the 31<sup>st</sup> July 2020. Covenants in relation to bank borrowings have been confirmed as met at 31 July 2020 based on these financial statements.

The impact of COVID19, to date, has been manageable for the group, students continue to receive quality and effective delivery and continue to prosper at the school at all levels. During the first lockdown period the plans put in place proved successful and are being built on and adapted to ensure that further lockdowns do not cause much disruption to the studies of our students. Safe operating solutions have been refined and new disinfectant products researched and introduced which have helped keep the School operating as safely as it can.

The group has recently revisited its budget for the 2020/21 financial year and incorporated many changes that occurred since its initial approval. This recent forecast was approved by the Corporation Board in October 2020 and demonstrates compliance with the Barclays bank covenants as at 31 July 2021 and also indicates an ESFA financial health rating of good. There is a moderate level of contingency or headroom built into the forecast for 2020/21 in case of a fall in student retention and additional unforeseen costs. The group has also prepared longer term forecasts for the period to July 2022, which indicate a financial health rating of good for 2021/22 based on forecast student numbers and funding available.

The key variable that impacts the forecast is student numbers and the forecasts show either a modest growth or assume numbers remain flat depending on the individual course or programme. These forecasts are generally a pessimistic view of future events to lower the levels of risk and generate cash balances upwards of £1.5 million in each of the following 2 years, enabling a financial health rating of good and meeting banking covenants. Careful consideration has been made in the forecasts for the planned completion of 2 large capital programmes between June and September 2021 and ensuring that does not cause any difficulties.

Both the ongoing Middlesbrough campus project and the newly agreed project at the Hartlepool site are fully grant funded. The impact of cash inflows and outflows of these projects has been incorporated into the group forecasts outlined above.

Accordingly, the corporation considers that the group and School 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. 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 and any other arrangements. 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.

## **Accounting for post-employment benefits**

Post-employment benefits to employees of the School are principally provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS).

These are defined benefit plans, which are externally funded and contracted out of the State Second Pension.

#### *Teachers' Pension Scheme (TPS)*

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 School in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method.

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

#### *Teesside Pension Scheme (LGPS)*

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred.

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

Actuarial gains and losses are recognised immediately in actuarial gains and losses.

#### **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.

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

Freehold buildings are depreciated over their expected useful economic life to the 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, as deemed cost 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 1<sup>st</sup> 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 (using the first in first out method) 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**

### *Judgements in applying accounting policies*

In preparing these financial statements, management have made the following judgements:

- Determine whether leases entered into by the School either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a

component of a larger cash-generating unit, the viability and expected future performance of that unit.

*Other key sources of estimation uncertainty*

- Tangible fixed assets, 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.
- The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 22, will impact the carrying amount of the pension liability. 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 2020. 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	Y/end 31 July 2020		Y/end 31 July 2019	
	Group £'000	College £'000	Group £'000	College £'000
<b>Recurrent grants</b>				
Education and Skills Funding Agency – adult education budget	12	12	51	51
Middlesbrough Council – adult education budget	7	7	-	-
Education and Skills Funding Agency – 16 -18	2361	2361	2,678	2,678
Office for students	350	350	332	332
<b>Specific grants</b>				
Teacher Pension Scheme contribution grant	156	156	-	-
Releases of government capital grants	266	266	265	265
HE grant	13	13	16	16
<b>Total</b>	<b>3,165</b>	<b>3,165</b>	<b>3,342</b>	<b>3,342</b>

3 Tuition fees and education contracts	Y/end 31 July 2020		Y/end 31 July 2019	
	Group £'000	College £'000	Group £'000	College £'000
Childrens Club fees	14	14	6	6
Fees for FE loan supported courses	58	58	92	92
Fees for HE loan supported courses	5,520	5,520	4,995	4,995
Total tuition fees	5,592	5,592	5,093	5,093
<b>Total</b>	<b>5,592</b>	<b>5,592</b>	<b>5,093</b>	<b>5,093</b>

4 Other grants and contracts	Y/end 31 July 2020		Y/end 31 July 2019	
	Group £'000	College £'000	Group £'000	College £'000
Other grant and contract income	-	-	159	46
Coronavirus Job Retention Scheme grant	29	29	-	-
<b>Total</b>	<b>29</b>	<b>29</b>	<b>159</b>	<b>46</b>

The corporation furloughed the catering staff and those staff who were employed on income generating delivery, such as children's classes, under the government's Coronavirus Job Retention Scheme. The funding received of £29,290 relates to staff costs which are included within the staff costs note below as appropriate.

5 Other income	Y/end 31 July		Y/end 31 July	
	2020	2020	2019	2019
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	117	117	200	200
Miscellaneous income	199	199	314	314
<b>Total</b>	<b>316</b>	<b>316</b>	<b>514</b>	<b>514</b>

6 Investment income	Y/end 31 July		Y/end 31 July	
	2020	2020	2019	2019
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other interest receivable	4	4	4	4
	4	4	4	4
Net return on pension scheme (note 22)	-	-	-	-
<b>Total</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>

#### 7 Staff costs – Group and College

The average headcount of persons (including key management personnel) employed by the School during the year was teaching staff 59 (2019; 60) and non-teaching staff 150 (2019; 155).

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

	2020	2019
	No.	No.
Teaching staff	49	52
Non-teaching staff	105	104
	<b>154</b>	<b>156</b>

**7 Staff costs – Group and College (continued)**

**Staff costs for the above persons**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	4,404	4,629
Social security costs	412	415
Other pension costs	1,339	848
	<hr/>	<hr/>
<b>Payroll sub total</b>	<b>6,155</b>	<b>5,892</b>
	<hr/>	<hr/>
	6,155	5,892
Restructuring costs – Contractual	161	12
	<hr/>	<hr/>
<b>Total Staff costs</b>	<b>6,316</b>	<b>5,904</b>
	<hr/>	<hr/>

The corporation does not have any salary sacrifice arrangements in place.

**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 School leadership team which comprises of 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**

	<b>2020</b>	<b>2019</b>
	<b>No.</b>	<b>No.</b>
The number of key management personnel including the Accounting Officer was:	5	5
	<hr/>	<hr/>

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	
	2020 No.	2019 No.	2020 No.	2019 No.
£60,001 to £65,000 p.a.	2	3	-	-
£65,001 to £70,000 p.a.	1	-	-	-
£75,001 to £80,000 p.a.	1	1	-	-
£120,001 to £125,000 p.a.	-	1	-	-
£135,001 to £140,000 p.a.	1	-	-	-
	<u>5</u>	<u>5</u>	<u>-</u>	<u>-</u>

Key management personnel compensation is made up as follows:

	2020 £'000	2019 £'000
Basic salary	414	388
Employers National Insurance	51	48
Pension contributions	84	62
Total key management personnel compensation	<u>549</u>	<u>498</u>

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:

	2020 £'000	2019 £'000
Basic salary	140	124
Pension contributions	<u>32</u>	<u>21</u>
	<u>172</u>	<u>145</u>

The governing body adopted AoC's Senior Staff Remuneration Code in November 2019 and assesses pay in line with its principals.

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 justify the remuneration on the following grounds;

- Measurement of KPI's
- Benchmarking information
- Delivery of key projects

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

	2020 £'000	2019 £'000
Principal's basic salary as a multiple of the median of all staff	3.57	3.28
Principal and CEO's total remuneration as a multiple of the median of all staff	4.38	3.84

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

**8 Other operating expenses**

	2020 Group £'000	2020 College £'000	2019 Group £'000	2019 College £'000
Teaching costs	615	615	700	700
Non-teaching costs	970	970	1,131	1,131
Premises costs	688	688	867	754
<b>Total</b>	<b>2,273</b>	<b>2,273</b>	<b>2,698</b>	<b>2,585</b>

**Other operating expenses include:**

	2020 £'000	2019 £'000
<b>Auditors' remuneration:</b>		
Financial statements audit	16	16
- Subsidiary financial statements	4	4
- Teachers Pensions Audit	1	1
<b>Internal audit fees</b>		
RSM Risk Assurance Services LLP 2019	-	11
Hire of assets under operating leases	42	44

### 9. Access and participation spending

The School is registered with OFS and has an approved access and participation plan. APP spend in 2019/2020 included;

Access investment	£158,000
Financial support to students	£106,000
Disability support	£45,000

### 10. Interest and other finance costs – Group and College

	2020 £'000	2019 £'000
On bank loans, overdrafts and other loans:	99	107
	<u>99</u>	<u>107</u>
Net interest on defined pension liability (note 22)	74	44
<b>Total</b>	<b><u>173</u></b>	<b><u>151</u></b>

### 11 Tangible fixed assets (Group)

	Land and buildings	Equipment	Assets in the course of construction	Total
	Freehold			
	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>				
At 1 August 2019	19,180	2,511	-	21,691
Additions	-	193	898	1,091
Disposals	-	(260)	-	(260)
<b>At 31 July 2020</b>	<b><u>19,180</u></b>	<b><u>2,444</u></b>	<b><u>898</u></b>	<b><u>22,522</u></b>
<b>Depreciation</b>				
At 1 August 2019	3,690	1,893	-	5,583
Charge for the year	465	220	-	685
Accelerated Depreciation	922	-	-	922



Financial Statements for the year ended 31 July 2020

Disposals	-	(260)	-	(260)
<b>At 31 July 2020</b>	<b>5,077</b>	<b>1,853</b>	<b>-</b>	<b>6,930</b>
<b>Net book value at 31 July 2020</b>	<b>14,103</b>	<b>591</b>	<b>898</b>	<b>15,592</b>
Net book value at 31 July 2019	15,490	618	-	16,108

**Tangible fixed assets (College only)**

	Land and buildings	Equipment	Assets in the course of construction	Total
	Freehold			
	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>				
At 1 August 2019	19,180	2,511	-	21,691
Additions	-	193	-	193
Disposals	-	(260)	-	(260)
<b>At 31 July 2020</b>	<b>19,180</b>	<b>2,444</b>	<b>-</b>	<b>21,624</b>
<b>Depreciation</b>				
At 1 August 2019	3,690	1,893	-	5,583
Charge for the year	465	220	-	685
Accelerated Depreciation	922	-	-	922
Elimination in respect of disposals	-	(260)	-	(260)
<b>At 31 July 2020</b>	<b>5,077</b>	<b>1,853</b>	<b>-</b>	<b>6,930</b>
<b>Net book value at 31 July 2020</b>	<b>14,103</b>	<b>591</b>	<b>-</b>	<b>14,694</b>
Net book value at 31 July 2019	15,490	618	-	16,108

Land and buildings were valued in 1996 at depreciated replacement cost at the time of

incorporation. Accelerated depreciation of £922,000 is in relation to the inherited Middlesbrough Campus, which will become surplus to requirements on completion of the new build. The £922k charge spreads the difference between carrying value and net recoverable value across the remaining expected life of the building.

## 12 Non-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.

## 13 Debtors

	Group 2020 £'000	College 2020 £'000	Group 2019 £'000	College 2019 £'000
Amounts falling due within one year:				
Trade receivables	-	-	31	31
Prepayments and accrued income	149	149	147	147
Other receivables	13	13	15	-
<b>Total</b>	<b>162</b>	<b>162</b>	<b>193</b>	<b>178</b>

## 14 Creditors: amounts falling due within one year

	Group 2020 £'000	College 2020 £'000	Group 2019 £'000	College 2019 £'000
Bank loans and overdrafts	53	53	53	53
Trade payables	70	70	96	96
Amounts owed to group undertakings:				
Subsidiary undertakings	-	2,087	-	452
Other taxation and social security	205	205	175	175
Accruals and deferred income	186	186	133	133
Deferred income - government capital grants	267	267	729	262
Amounts owed to the ESFA	147	147	228	228
Amounts owed to Other	34	34	36	36
<b>Total</b>	<b>962</b>	<b>3,049</b>	<b>1,450</b>	<b>1,435</b>

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

	<b>Group</b>	<b>College</b>	<b>Group</b>	<b>College</b>
	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bank loans	2,142	2,142	2,180	2,180
Deferred income - government capital grants	7,817	7,817	8,060	8,060
Deferred income – TVCA grant	2,985	-	-	-
<b>Total</b>	<b><u>12,944</u></b>	<b><u>9,959</u></b>	<b><u>10,240</u></b>	<b><u>10,240</u></b>

**16 Maturity of debt**

**(a) Bank loans and overdrafts**

Bank loans and overdrafts are repayable as follows:

	<b>Group</b>	<b>College</b>	<b>Group</b>	<b>College</b>
	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
In one year or less	57	57	55	55
Between one and two years	117	117	117	117
Between two and five years	131	131	126	126
In five years or more	1,890	1,890	1,935	1,935
<b>Total</b>	<b><u>2,195</u></b>	<b><u>2,195</u></b>	<b><u>2,233</u></b>	<b><u>2,233</u></b>

Unsecured 5 year revolving loan facility of £1,848,000 at 1.95 per cent plus base rate with a drawdown date of April 2016, plus unsecured loan at 3.85% repayable by instalments falling due between August 2015 and July 2035 totalling £1,500,000.

**17 Provisions**

	<b>Group and College</b>
	<b>Enhanced pensions</b>
	<b>£'000</b>
At 1 August 2019	100
Expenditure in the period	(6)
Additions in period	13
<b>At 31 July 2020</b>	<b><u>107</u></b>

Defined benefit obligations relate to the liabilities under the School's membership of the Local Government Pension Scheme. Further details are given in note 22.

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

The principal assumptions for this calculation are:

	2020	2019
Price inflation	2.20%	2.20%
Discount rate	1.30%	2.00%

#### 18 Cash and cash equivalents

	At 1 August 2019	Cash flows	Other changes	At 31 July 2020
	£'000	£'000	£'000	£'000
Cash and cash equivalents	965	2,157	-	3,122
<b>Total</b>	<b>965</b>	<b>2,157</b>	<b>-</b>	<b>3,122</b>

#### 19 Capital and other commitments

	Group and College	
	2020	2019
	£'000	£'000
Commitments contracted for at 31 July	17,362	-

#### 20 Lease obligations

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

	Group and College	
	2020	2019
	£'000	£'000
<b>Future minimum lease payments due</b>		
<b>Other</b>		
Not later than one year	37	42
Later than one year and not later than five years	71	107
	<u>108</u>	<u>149</u>
<b>Total lease payments due</b>	<b>108</b>	<b>149</b>

## 21 Events after the reporting period

There are no events after the reporting period.

## 22 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.

<b>Total pension cost for the year</b>	<b>2020</b>	<b>2019</b>
	<b>£000</b>	<b>£000</b>
Teachers' Pension Scheme: contributions	465	316
Local Government Pension Scheme:		
Contributions paid	287	279
FRS 102 (28) charge	576	239
Charge to the Statement of Comprehensive Income	863	518
Enhanced pension charge to Statement of Comprehensive Income	11	14
<b>Total Pension Cost for Year within staff costs</b>	<b>1,339</b>	<b>848</b>

### Teachers' Pension Scheme

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

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

## 22 Defined benefit obligations (continued)

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

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

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

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

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2019 onwards (compared to 16.48% during 2018/9. DfE has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2019-20 academic year.

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

The pension costs paid to TPS in the year amounted to £465,000 (2019: £316,000)

### 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 £406,000, of which employer's contributions totalled £287,000 and employees' contributions totalled £119,000. 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 2020 by Aon Hewitt Limited.

	At 31 July 2020	At 31 July 2019
Rate of increase in salaries	3.3%	3.3%
Future pensions increases	2.3%	2.3%
Discount rate for scheme liabilities	1.4%	2.1%
Inflation assumption (CPI)	2.3%	2.3%

**22 Defined benefit obligations (continued)**

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 2020	At 31 July 2019
	Years	Years
<i>Retiring today</i>		
Males	21.8	21.9
Females	23.5	23.8
<i>Retiring in 20 years</i>		
Males	23.2	23.6
Females	25.3	25.7

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 2020	Fair Value at 31 July 2019
	£'000	£'000
Equity instruments	9,533	10,439
Property	1,003	1,189
Cash	1,455	1,839
Other	552	359
<b>Total fair value of plan assets</b>	<b><u>12,543</u></b>	<b><u>13,826</u></b>
<b>Weighted average expected long term rate of return</b>	<b>5.8%</b>	<b>5.8%</b>
<b>Actual return on plan assets</b>	<b><u>(1,355)</u></b>	<b><u>697</u></b>

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

	2020	2019
	£'000	£'000
Fair value of plan assets	12,543	13,826
Present value of plan liabilities	(21,618)	(17,467)
Present value of unfunded liabilities	(15)	(16)
<b>Net pensions (liability)/asset</b>	<b><u>(9,090)</u></b>	<b><u>(3,657)</u></b>

**22 Defined benefit obligations (continued)**

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

	2020 £'000	2019 £'000
<b>Amounts included in staff costs</b>		
Current service cost	790	518
Past service cost	73	-
<b>Total</b>	<u>863</u>	<u>518</u>
<b>Amounts included in investment income</b>		
Net interest expense	74	44
	<u>74</u>	<u>44</u>
<b>Amount recognised in Other Comprehensive Income</b>		
Return on pension plan assets	(1,646)	330
Experience losses arising on defined benefit obligations	(3,137)	(1,968)
<b>Amount recognised in Other Comprehensive Income</b>	<u>(4,783)</u>	<u>(1,638)</u>

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

	2020 £'000	2019 £'000
Net defined benefit (liability)/asset in scheme at 1 August	(3,657)	(1,766)
Movement in year:		
Current service cost	(790)	(518)
Employer contributions	287	279
Past service cost	(73)	-
Liability gains / (losses) arising during period	-	30
Net interest on the defined (liability)/asset	(74)	(44)
Actuarial gain or loss	(4,783)	(1,638)
<b>Net defined benefit (liability)/asset at 31 July</b>	<u>(9,090)</u>	<u>(3,657)</u>



**22 Defined benefit obligations (continued)**

**Asset and Liability Reconciliation**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Changes in the present value of defined benefit obligations</b>		
<b>Defined benefit obligations at start of period</b>	17,488	14,860
Current service cost	790	518
Interest cost	365	411
Contributions by Scheme participants	119	116
Experience gains and losses on defined benefit obligations	-	(30)
Changes in financial assumptions	3,137	1,968
Estimated benefits paid	(334)	(355)
Past Service cost	73	-
Curtailments and settlements	-	-
<b>Defined benefit obligations at end of period</b>	<b><u>21,638</u></b>	<b><u>17,488</u></b>
<b>Changes in fair value of plan assets</b>		
<b>Fair value of plan assets at start of period</b>	13,829	13,092
Interest on plan assets	291	367
Return on plan assets	(1,646)	330
Employer contributions	286	279
Contributions by Scheme participants	119	116
Estimated benefits paid	(333)	(355)
<b>Fair value of plan assets at end of period</b>	<b><u>12,546</u></b>	<b><u>13,829</u></b>

These accounts show a past service cost of £230 million in respect of the McCloud / Sergeant judgment which ruled that the transitional protection for some members of public service schemes implemented when they were reformed constituted age discrimination. This provision is just under 2% of the total scheme liability as at 31 July 2020. The calculation of adjustment to past service costs, £7 billion, arising from the outcome of the Court of Appeal judgment is based on a number of key assumptions including:

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

The other financial and demographic assumptions adopted to calculate the past service cost are the same as those used to calculate the overall scheme liability. Adopting different assumptions, or making other adjustments to reflect behavioural changes stemming from the

## 22 Defined benefit obligations (continued)

judgment, would be expected to change the disclosed past service cost. Similarly, allowing for variations in individual members' future service or salary progression is expected to produce higher costs. The past service cost is particularly sensitive to the difference between assumed long term general pay growth and the CPI. If the long term salary growth assumptions were 0.5% pa lower, then the past service cost disclosed here would be expected to reduce by 50% and conversely a 0.5% pa increase would increase the estimated cost by 65%.

## 23 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 £1,300; 4 governors (2019: £2,700; 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 (2019: None).

## 24 Amounts disbursed as agent - Learner support funds

	2020	2019
	£'000	£'000
16-18 bursary grants	94	95
Other Funding body grants	34	30
	<u>128</u>	<u>125</u>
Disbursed to students	(43)	(48)
Administration costs	-	-
Balance unspent as at 31 July, included in creditors	<u>85</u>	<u>77</u>

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.

## **25 Post balance sheet events**

The Northern School of Art has received confirmation that work to convert existing buildings on Campus at the Hartlepool site commenced in late November 2020. The Edgar Phillips Building will be converted into teaching space and the former bus sheds into commercial TV/Film studios.

The capital project is estimated to be a £3.8 million investment, funded through TVCA Grant. The commercial studios will be run through a new subsidiary The Northern Studios (Hartlepool) Limited incorporated on 6<sup>th</sup> November 2020, which is wholly owned by The Northern School of Art.

**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 2019 to 31 July 2020 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 2010 to 31 July 2020 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 2019 to 31 July 2020 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**

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