



**Annual Report and Financial Statements**  
**Year ended 31 July 2022**

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## Reference and Administrative Details

### Board of Governors

A full list of Governors is given from pages 13 to 15 of these financial statements.

### Head of Governance

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 (Strategic Projects)
Mr J Waddington	Vice Principal (Higher Education)
Mr P Chapman	Vice Principal (Employability & External Relations)

### Principal and Registered Office

The Northern School of Art, Newport Road, Middlesbrough. TS1 1LA

### Professional advisors

#### Financial statements auditors and reporting accountants:

Armstrong Watson Audit Limited, Fairview House, Carlisle, Cumbria. CA1 1HP

#### Bankers:

Barclays Bank plc, Leicester, Leicestershire. LE87 2BB

#### 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 2022.

#### 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 School renewed registration with the Office for Students (the OfS) on 1<sup>st</sup> August 2021 for the delivery of higher education.

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

The School proudly serves the local communities in the Tees Valley. Through the School mission to enable individuals to receive exceptional education for creative careers, the School not only supplies the talent needed by the rapidly growing creative economy but supports the wider economic and social development of the region and its people. The Northern School of Art will redefine what it means to be an art school, by reference to student outcomes and the teaching and learning environment. Creativity, and its associated skills knowledge and attitudes, is viewed internationally as essential to the development of a stronger civil society and economies with individuals who are capable of driving change and securing personal well-being and fulfilment.

In the Tees Valley, the School is the only specialist provider of FE and HE education in the creative sector and highly performing on many measures – the School is a key part of the skills development pipeline for the sector which is a strategic priority for the devolved Tees Valley Combined Authority. Within local context, the School is making a significant contribution to social and economic development through its Saturday Clubs, free professional development for teachers, the award winning Festival of Illustration and participation in many other community based projects.

'Place' is important to the School and will:

- continue efforts, and those of the Tees Valley Combined Authority, to grow the regional economy, develop an arts infrastructure and develop community arts engagement;
- promote location as a special place – an extended studio for students, graduates and staff;
- seek to foster a clustering of creatives around the campuses.

By 2024 the School will have built on its track record and successes. In essence the School wants to have more students on continuously improving courses, studying in high quality, supportive, creative environments. The School will continue to develop the curriculum through increasing product differentiation from competitors and foster innovation. The students' experience and the quality of the destinations they move on to, in the North and elsewhere, guides what the School does and aspires to. The Strategic Plan has been adapted by the Schools Corporation Board in 2019 who continue to monitor its direction and delivery.



The School will have:

- Degree Awarding Powers and become an HEI enabling the School 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 the School to secure its place in the region, re-invest in, and develop the curriculum offer and become more resilient.
- Established the School as a leader in thinking and practice in the creative sector in the North and beyond - allowing the School to offer current and relevant teaching and industrial experience.

The School has achieved:

- A new FE Campus in the heart of Middlesbrough, a location that is more accessible to the growing catchment area - adjacent to a creative industry hub.

The School will continue to deliver excellent standards of teaching and learning.

This is the Vision for the School and it informs the set of Key Outcomes wanting to be achieved over the remaining 3 years of the 5 year Strategic Plan. This Plan and the Key Outcomes are supported by a range of more detailed strategies, governance structures and performance indicators which allow the School to monitor and constantly improve performance and anticipate or react to the changing environment in which the School operates.

Values:

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

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 220 people (145 FTE), of whom 58 (44.24 FTE) are teaching staff.

The School enrolled approximately 1,562 students in the 2021/22 academic year. The School's student population includes 491 FE students, 562 higher education students, 509 Saturday club students.

The Group has £5.234 million of net assets (2021: £1.660 million net liabilities) including £0.568 million pension liability (2021: liability of £7.133 million) and long-term debt of £1.162 million (2021: £1.242 million). Long term devolved capital grants amount to £23.241 million. Work has reached completion on a £15 million FE campus in Middlesbrough which has transferred £15.402 million from assets under construction to land, buildings and equipment.

The Group has continued construction and renovation works on part of the Hartlepool campus which will operate as a subsidiary of the School under The Northern Studios (Hartlepool) Limited. The subsidiary has been registered with both Companies house and HMRC. The day to day business of the company, once operational, will be to hire out studio space, props and resources to the television and film production industry. The Tees Valley Combined Authority is funding the renovation and construction costs of £3.8mil, which will reach completion in 2022/2023. £3.617 million costs to date are included in assets under construction.

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;
- Local, national and international employers;
- Local authorities / combined authority;
- Tees Valley Combined Authority (TVCA);
- 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 14-16. 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

The group generated a deficit before other gains and losses of £0.556 million (2021: deficit of £0.245 million), with a total comprehensive income of £6.895 million (2021: £2.551 million).

### Cash flows and liquidity

At £1.992 (2021: £3.264 million), net cash in-flow from operating activities remains strong. The decrease from the prior year was due to the School paying off long term debt. The size of the school's total borrowing and its approach to interest payments has been calculated to ensure a reasonable allowance between the total cost of servicing debt, operating cashflow and financial health. During the year the interest paid was £73,000 plus a net repayment of £718,000.

### 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.

Assets under construction during the year amounted to £3.649 million. This is in relation to renovation works on the Hartlepool Campus (£3.8 million).

### 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 funding 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. 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 stand at £5.234 million (2021: £1.660 million deficit).

### 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 2021/22, ESFA provided 24.93% (2021 26.8%) of the Group's total income, whilst HE fees provide the largest income stream at 54.32% (2021 59.42%)

### Group companies

The School has two subsidiary companies, Northern School of Art Devco Limited and The Northern Studios (Hartlepool) Limited.

#### 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 guarantee. 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 £14.514 million grant income towards the new build project in Middlesbrough. The financial completion is expected at the end of the retention period of twelve month after practical completion. Once reached the asset will transfer to the School and Northern School of Art Devco Limited will cease trading.

#### The Northern Studios (Hartlepool) Limited

The subsidiary was incorporated under the Companies Act 2006 as a private company on the 6<sup>th</sup> November 2020, the private company is limited by guarantee. The principal activity of The Northern Studios (Hartlepool) Limited is to offer space and resources for hire to the motion picture industry. The Northern Studios (Hartlepool) Limited holds assets in the course of construction totalling almost £3.494 million and cash balances of £1k. On practical completion it is envisaged that the Northern Studios (Hartlepool) Limited will be able to commence trading quickly due to enquiries for the facilities already being received.

## **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 refocused curriculum delivery in order to create a more effective and efficient delivery model moving forwards. A blend of online learning has not detracted from the need for face to face teaching and the School has further developed its online resources considerably.

The School has successfully continued with Master Degree provision with an additional offer of two further subjects for 2022-2023.

Following the completion of the Further Education Middlesbrough development with a town centre location, the school is more accessible in terms of transport links and its visibility vastly improving, which has led to an increase in FE student recruitment. Taken together with the School's Ofsted result of 'Outstanding' (April 2022) further FE student recruitment is forecast for 2022/2023.

### **Group plan**

The School governors approved a financial plan in July 2022 which sets objectives for the period to July 2023. The school aims to maintain a health rating of 'Good' or better.

### **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. Not all the factors are within the School's control. Other factors may adversely affect the Institution.



## KEY PERFORMANCE INDICATORS

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

Key performance indicator	Measure/Target	Actual for 2021/2022
Adjusted Current Ratio	1.89	1.04
EBITDA as a % of adjusted income – education specific	4.71%	5.02%
Borrowing as a % of adjusted income	21.15%	17.37%
Financial Health Score	=>GOOD	GOOD

## Student achievements

Students continue to prosper at the School. FE achievement rates remained high in 2021/22, 92.8% a slight increase from 2021 90.1%. HE success slightly decreased to 96.6% in 2021/22 from 2021 96.9%. The School had a pass rate of 99.5% (2021 99.5%) of all HE completers and 99.2% 2021/22 (2021 99.8%) 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 2021 to 31 July 2022, the School paid 95.2% of its invoices within 30 days. 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 be 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 wellbeing programme, which is ran by Committee and involves meeting termly in order to offer activities and ideas to assist in the wellbeing 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 in 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.

For the 2021/22 academic year there was no trade union representation.

### **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 £1.224m of loans outstanding with Hartlepool Borough Council on a 20-year fixed term. The group's forecasts and financial projections indicate that it will be able to operate within this existing facility for the foreseeable future.

In 2021/22 the Group has made a deficit outturn of £0.556 million in comparison to a deficit of £0.244 million in 2020/21.

The operating cashflow decreased from £3.264 million in 2020/21 to £1.992 million in 2021/22. The group has reduced net current assets from £0.646 million to net current liabilities of £0.403 million in 2021/22 due to the increase in amounts falling due within a year.

This position was expected as sale funds for the Green Lane Campus have been received but not invoiced by Tees Valley Combined Authority, in addition to a large VAT invoice being held for payment at the 31<sup>st</sup> July 2022.

The key variable that impacts the School forecasting mechanisms is student numbers and the current future forecasts have assumed 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 ensure the School can plan operational budgets within constraints, enabling a financial health rating of good.

Careful consideration has been made in the forecasts for the planned completion of the large capital programmes and ensuring they do not have any unintended consequences. The ongoing project at Hartlepool is fully grant funded. The impact of cash inflows and outflows of these projects has been incorporated into the group forecasts outlined above.

The School remains a going concern based on its financial forecasts. The School's forecast include The Northern Studios subsidiary company which is expected to see expenditure exceed income whilst it starts to trade. This has been implicit in the Schools budget and as such the School is committed to cover the relatively small deficit that will be incurred by the subsidiary. Northern School of Art Devco limited remains a going concern whilst it completes the payment of creditors in 2021/22 and is expected to be wound up once those creditors are paid in 2022/23.

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.

#### **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 9<sup>th</sup> December 2022 and signed on its behalf by:



Mr T G Bailey  
Chair

## Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the school to obtain a better understanding of its governance and legal structure. This statement covers the period from 1<sup>st</sup> August 2021 to 31<sup>st</sup> July 2022 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 2022. 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.

In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges, which it formally adopted 1<sup>st</sup> May 2015. In the opinion of the Governors, the College complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 2022.

## 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 2021/22
Mr P Smith	19.12.05 Reappointed 08.02.20	2 years	Stepped down 4 February 2022	Independent	Remuneration Committee Governance & Search Committee Finance Committee	4/4 100%
Dr J R M Raby	01.05.08	Whilst in Post		Principal	Academic Board Governance & Search Committee Capital Programme Group Finance Committee Academic Committee	8/8 100%
Mrs S Fawcett	12.07.11 Reappointed 31.08.19	4 years		Independent	Capital Programme Group Finance Committee Safeguarding Committee	7/8 87.5%
Mr I Swain	02.10.09 Reappointed 01.07.16 Reappointed 18.09.20	2 years		Independent	Audit Committee	7/8 87.5%
Professor R Simmons	04.07.14 Reappointed 31.08.18 Reappointed 01.06.22	1 years		Independent	Remuneration Committee Academic Committee	6/8 75%
Professor J Rapley	13.02.15 Reappointed 13.02.19	4 years		Independent	Academic Board Academic Committee	8/8 100%

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance in 2021/22
Mr K Goldsborough	11.11.16 Reappointed 18.09.2020	4 years		Independent	Audit Committee Governance & Search Committee Academic Committee	7/8 87.5%
Mr D Hughes	11.11.16 Reappointed 18.09.2020	4 years		Independent	Audit Committee Finance Committee Health & Safety Committee	6/8 75%
Mr T G Bailey	09.12.16 Reappointed 18.09.2020	4 years		Independent	Capital Programme Group Finance Committee	8/8 100%
Ms J Havakin	28.04.17 Reappointed 18.09.2020	3 years		Academic Staff		6/8 75%
Ms E Hardwick	28.04.17 Reappointed 18.09.2020	3 years		Academic Staff	Academic Committee	8/8 100%
Mr M Blanshard	05.02.21	4 years		Independent	Capital Programme Group Audit Committee	8/8 100%
Ms G Miller	04.12.20	4 years		Independent	Governance & Search Committee Academic Committee	7/8 87.5%
Mr R Kane	Appointed 11.11.19	4 year		Staff		7/8 87.5%
Mrs K Baggaley	12.11.21	4 year		Independent	Finance Committee	7/7 100%
Ms N Brett	11.03.22	4 year		Independent	Academic Committee	3 / 4 75%
Dr E Leonard Cross	11.03.22	4 year		Independent	Governance & Search Committee Remuneration Committee	3 / 4 75%



	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Attendance in 2021/22
Rachel Marsh	11.03.22	18mth		Student (HE)		3 / 4 75%
Sarah Webber	11.03.22	18mth		Student (HE)		2/4 50%
Freya Coulson	11.03.22	18mth		Student (FE)		2/4 50%

### 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 [www.northernart.ac.uk](http://www.northernart.ac.uk) or from the Head of Governance at the School's registered address.

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 Head of Governance 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.

Development of the governors and Head of Governance is undertaken in a variety of means by way of briefings, workshops, conferences, online training, webinars and network meetings/events. The development opportunities occur throughout the year, a number of which are mandatory.



The School have instructed Stone King to undertake an external governance review, which is ongoing over the financial year end. A draft report is expected early 2023, which will be reported to the full Corporation Board in March 2023.

### **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 2022 and graded itself as effective.

### **Academic Board**

The Academic Board includes three members of the Corporation and meets five times 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 and General Purposes Committee**

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

The Finance and General Purposes 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 2022 the school's Remuneration Committee comprised four 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 2022 are set out in note 7 to the financial statements.

### **Capital Programme Group**

The Capital Programme Group includes three independent members of the Corporation, the Principal, Vice Principal for Resources, the Vice Principal for Employability and External Relations and the Head of Further Education. The Group 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 four members of the Corporation (excluding the Accounting Officer and Chair). The Committee operates in accordance with written terms of reference approved by the corporation.

The Audit Committee meets on a termly basis and provides a forum for reporting by the school's external 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.

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.

### **Academic Committee**

The Academic Committee includes four members of the Corporation and meets three times per year and operates in accordance with written terms of reference approved by the Corporation.

The Academic Committee provides governance oversight, in matters relating to academic standards and quality, and student experience, relating to the School's further and higher education provision.

## 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, including OfS registration conditions. 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 2022 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 and arrangements for compliance with legal and regulatory matters including those relating to the regularity and propriety of the use of public funding 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 2022 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. The Audit Committee has continued to review its options for assessing risks and control. 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. Considering the review and challenge that has been conducted during the year by the Audit Committee it is the opinion of the Members of the Audit Committee that the School's assurance arrangements, governance, risk and control mechanisms are adequate and effective for the purpose of conducting the continuing activities of The Northern School of Art.

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

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

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.

There have been no significant control weaknesses or failures identified.

### **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.

### **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, based on assurances provided by, external audit, internal audit and school management.



A requirement of the Post-16 Audit Code of Practice is for college corporations to have a policy in place for regular re-tendering of external auditors, which should happen at least every five years. This does not mean that corporations are unable to re-appoint the same firm of external auditors, but that a retendering exercise be carried out and the market tested.

The Audit Committee therefore recommended the School tendered for both external and internal audit services early in 2021/22 with the view to appoint in early 2022. This led to a change in external audit services from RSM UK Audit LLP to Armstrong Watson Audit Limited for the 2021/22 financial year. Unfortunately the School was unable to secure a single firm to provide internal audit services, therefore professional services of specialist audits will continue to be procured throughout 2022/23.

### 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 has been limited this year, although key processes were reviewed by a firm of internal auditors.
- the work of the executive managers within the School who have responsibility for the development and maintenance of the internal control framework
- comments made by the School's financial statements auditors, the reporting accountant for regularity assurance 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 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 2022 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2022 by considering documentation from the senior management team and internal audit and taking account of events since 31 July 2022.

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 9<sup>th</sup> December 2022  
and signed on its behalf by:



Mr T G Bailey  
Chair



Dr J R M Raby  
Accounting Officer



### Statement on the School's 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



Mr T G Bailey  
Chair of Governors

## Statement of Responsibilities of the Members of the Corporation

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

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

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


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

The Corporation is responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the College, and enable them to ensure that the financial statements are prepared in accordance with the Charities Act 2011 and other relevant accounting standards. It is responsible for taking steps in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

Members of the Corporation are responsible for ensuring that funds from the Education and Skills Funding Agency are used only in accordance with the authorities that govern them as defined by and in accordance with Further & Higher Education Act 1992, subsequent legislation and related regulations and the Funding Agreement with the Education and Skills Funding Agency and any other conditions that may be prescribed from time to time. They are also responsible for ensuring funds from Office for Students or other sources are properly applied for the purposes for which they have been given and in accordance with relevant legislation or terms and conditions attached to them.

Approved by order of the members of the Corporation on 9<sup>th</sup> December 2022 and signed on its behalf by:

  
Mr T G Bailey  
Chair of governors

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

### OPINION

We have audited the financial statements of The Northern School of Art (the "College") and its subsidiaries (the "Group") for the year ended 31 July 2022 which comprise the consolidated and College Statements of comprehensive income, the consolidated and College Balance sheets, the consolidated Statement of changes in reserves, the consolidated Statement of cash flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', the Further Education SORP 2019 and the College Accounts Direction 2021 to 2022 issued by the Education and Skills Funding Agency.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the College's affairs as at 31 July 2022 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; and
- have been prepared in accordance with the requirements of the Further Education SORP 2019 and the College Accounts Direction 2021 to 2022 issued by the Education and Skills Funding Agency.

### BASIS OF 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 college in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Corporation's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Corporation's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.



## **INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF THE NORTHERN SCHOOL OF ART (CONTINUED)**

Our responsibilities and the responsibilities of the Members of the Corporation with respect to going concern are described in the relevant sections of this report.

### **OTHER INFORMATION**

The Members of the Corporation are responsible for the other information. The other information comprises the information included in the Annual report, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

### **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**

In the light of our knowledge and understanding of the Group and the College and its environment obtained in the course of the audit, we have not identified material misstatements in the Corporation's report including the Strategic report.

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

## **INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF THE NORTHERN SCHOOL OF ART (CONTINUED)**

- adequate accounting records have not been kept; or
- the College financial statements are not in agreement with the accounting records and returns; or
- all the information and explanations required for the audit were not received; or
- the going concern basis of accounting and disclosure of material uncertainties is appropriate.

### **WE HAVE NOTHING TO REPORT IN RESPECT OF THE FOLLOWING MATTERS WHERE THE OFFICE FOR STUDENTS' ACCOUNTS DIRECTION REQUIRES US TO REPORT TO YOU IF:**

- the College's grant and fee income, as disclosed in the notes to the accounts, has been materially misstated.
- the College's expenditure on access and participation activities for the financial year has been materially misstated.

### **RESPONSIBILITIES OF MEMBERS OF THE CORPORATION**

As explained more fully in the Statement of responsibilities of the Members of the Corporation, the Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the Corporation members 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.



## INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF THE NORTHERN SCHOOL OF ART (CONTINUED)

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the responsible individual ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the Corporation through discussions with the Corporation and other management;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management;
- identified laws and regulations were communicated within the audit team regularly and the team
- remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the Corporation's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures as a risk assessment tool to identify any unusual or unexpected relationships; and
- tested journal entries to identify unusual transactions; and
- tested the operating effectiveness of key controls over purchase cycles on a sample basis; and
- reviewed the application of accounting policies including the application of capitalisation of tangible assets, and timing of recognition of grant income; and
- Considered during our work on regularity, propriety and compliance.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

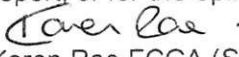
- agreeing financial statement disclosures to underlying supporting documentation; and
- enquiring of management as to actual and potential litigation and claims.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). The description forms part of our Auditor's report.

**INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF THE NORTHERN  
SCHOOL OF ART (CONTINUED)**

**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 dated 9 June 2022. 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.

  
Karen Rae FCCA (Senior Statutory Auditor)  
for and on behalf of  
Armstrong Watson Audit Limited  
Chartered Accountants & Statutory Auditors  
Newcastle

Date: 14 December 2022

**Consolidated Statements of Comprehensive Income**

	Notes	Year ended 31 July 2022		Year ended 31 July 2021	
		Group £'000	College £'000	Group £'000	College £'000
<b>INCOME</b>					
Funding body grants	2	3,581	3,581	3,210	3,210
Tuition fees and education contracts	3	5,013	5,013	5,427	5,427
Other grants and contracts	4	109	109	111	111
Other income	5	354	354	197	197
Investment income	6	2	2	1	1
<b>Total income</b>		<b>9,059</b>	<b>9,059</b>	<b>8,946</b>	<b>8,946</b>
<b>EXPENDITURE</b>					
Staff costs	7	6,150	6,150	5,916	5,916
Restructuring Costs	7	3	3	27	27
Other operating expenses	8	2,358	2,346	2,174	2,174
Depreciation	11	1,148	1,148	857	857
Interest and other finance costs		200	200	217	217
<b>Total expenditure</b>		<b>9,859</b>	<b>9,847</b>	<b>9,191</b>	<b>9,191</b>
<b>Deficit before other gains and losses</b>		<b>(800)</b>	<b>(788)</b>	<b>(245)</b>	<b>(245)</b>
Loss on disposal of assets		246	246	-	-
<b>Deficit before tax</b>		<b>(554)</b>	<b>(542)</b>	<b>(245)</b>	<b>(245)</b>
Taxation		-	-	-	-
<b>Deficit for the year</b>		<b>(554)</b>	<b>(542)</b>	<b>(245)</b>	<b>(245)</b>
Actuarial gain/(loss) in respect of pensions schemes	21	7,449	7,449	2,796	2,796
<b>Total Comprehensive Income for the year</b>		<b>6,895</b>	<b>6,907</b>	<b>2,551</b>	<b>2,551</b>
<b>Represented by:</b>					
<b>Unrestricted comprehensive income for the year</b>		<b>6,895</b>	<b>6,907</b>	<b>2,551</b>	<b>2,551</b>
		<b>6,895</b>	<b>6,907</b>	<b>2,551</b>	<b>2,551</b>

All items of income and expenditure relate to continuing activities.

**Consolidated and College Statement of Changes in Reserves**

	Income and expenditure account £'000	Revaluation reserve £'000	Total £'000
<b>Group</b>			
<b>Balance at 1 August 2020</b>	<b>(5,659)</b>	<b>1,448</b>	<b>(4,211)</b>
Deficit from the income and expenditure account	(245)	-	(245)
Other comprehensive income	2,796	-	2,796
Transfers between revaluation and income and expenditure reserves	70	(70)	-
	<u>2,621</u>	<u>(70)</u>	<u>2,551</u>
<b>Balance at 31 July 2021</b>	<b>(3,038)</b>	<b>1,378</b>	<b>(1,660)</b>
Deficit from the income and expenditure account	(554)	-	(554)
Other comprehensive income	7,449	-	7,449
Transfers between revaluation and income and expenditure reserves	1,016	(1,016)	-
<b>Total comprehensive income</b>	<b>7,911</b>	<b>(1,016)</b>	<b>6,895</b>
<b>Balance at 31 July 2022</b>	<b>4,873</b>	<b>362</b>	<b>5,235</b>
<b>College</b>			
<b>Balance at 1 August 2020</b>	<b>(5,659)</b>	<b>1,448</b>	<b>(4,211)</b>
Deficit from the income and expenditure account	(245)	-	(245)
Other comprehensive income	2,796	-	2,796
Transfers between revaluation and income and expenditure reserves	70	(70)	-
	<u>2,621</u>	<u>(70)</u>	<u>2,551</u>
<b>Balance at 31 July 2021</b>	<b>(3,038)</b>	<b>1,378</b>	<b>(1,660)</b>
Deficit from the income and expenditure account	(542)	-	(542)
Other comprehensive income	7,449	-	7,449
Transfers between revaluation and income and expenditure reserves	1,016	(1,016)	-
<b>Total comprehensive income</b>	<b>7,923</b>	<b>(1,016)</b>	<b>6,907</b>
<b>Balance at 31 July 2022</b>	<b>4,884</b>	<b>362</b>	<b>5,247</b>

Balance sheets as at 31 July 2022

	Notes	Group 2022 £'000	College 2022 £'000	Group 2021 £'000	College 2021 £'000
<b>Fixed assets</b>					
Tangible Fixed assets	11	30,837	27,220	29,305	13,935
		<b>30,837</b>	<b>27,220</b>	<b>29,305</b>	<b>13,935</b>
<b>Current assets</b>					
Stocks		18	18	17	17
Debtors	13	183	1,520	206	12,866
Cash and cash equivalents	18	4,831	4,830	4,524	4,406
		<b>5,032</b>	<b>6,368</b>	<b>4,747</b>	<b>17,289</b>
<b>Creditors – amounts falling due within one year</b>	14	(5,435)	(5,294)	(4,101)	(2,371)
<b>Net current (liabilities)/assets</b>		<b>(403)</b>	<b>1,074</b>	<b>646</b>	<b>14,918</b>
<b>Total assets less current liabilities</b>		<b>30,434</b>	<b>28,294</b>	<b>29,951</b>	<b>28,853</b>
Creditors – amounts falling due after more than one year	15	(24,552)	(22,399)	(24,378)	(23,280)
<b>Provisions for liabilities</b>					
Defined benefit obligations	21	(568)	(568)	(7,133)	(7,133)
Other provisions	17	(80)	(80)	(100)	(100)
<b>Total net assets</b>		<b>5,234</b>	<b>5,247</b>	<b>(1,660)</b>	<b>(1,660)</b>
<b>Unrestricted Reserves</b>					
Income and expenditure account		4,873	4,884	(3,038)	(3,038)
Revaluation reserve		362	362	1,378	1,378
<b>Total unrestricted reserves</b>		<b>5,235</b>	<b>5,247</b>	<b>(1,660)</b>	<b>(1,660)</b>
<b>Total reserves</b>		<b>5,235</b>	<b>5,247</b>	<b>(1,660)</b>	<b>(1,660)</b>

The financial statements on pages 30 to 58 were approved and authorised for issue by the Corporation on 9<sup>th</sup> December 2022 and were signed on its behalf by:



Mr T G Bailey  
Chair



Dr J R M Raby  
Accounting Officer



**Consolidated Statement of Cash Flows**

	Notes	2022 £'000	2021 £'000
<b>Cash flow from operating activities</b>			
Deficit for the year		(556)	(245)
<b>Adjustment for non-cash items</b>			
Depreciation		1,148	857
Release of government grant		(891)	(274)
Increase in stocks		(1)	(1)
(Increase)/Decrease in debtors		23	(44)
Increase/(Decrease) in creditors due within one year		1,334	2,048
(Decrease)/Increase in provisions		(20)	(7)
Pensions costs less contributions payable		757	714
<b>Adjustment for investing or financing activities</b>			
Investment income		(2)	(1)
Interest payable		200	217
<b>Net cash flow from operating activities</b>		<b>1,992</b>	<b>3,264</b>
<b>Cash flows from investing activities</b>			
Investment income		2	1
Capital grants received		750	13,051
Payments made to acquire fixed assets		(1,795)	(14,570)
		<b>(1,043)</b>	<b>(1,518)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(73)	(92)
Finance Lease		149	1,000
Repayments of amounts borrowed		(718)	(1,252)
		<b>(642)</b>	<b>(344)</b>
<b>Increase in cash and cash equivalents in the year</b>		<b>307</b>	<b>1,402</b>
Cash and cash equivalents at beginning of the year	18	4,524	3,122
Cash and cash equivalents at end of the year	18	4,831	4,524

## 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 Group'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 2021 to 2022 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 Group's accounting policies.

The financial statements are presented in sterling which is also the functional currency of the Group. Monetary amounts in these financial statements are rounded to the nearest 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 subsidiaries, Northern School of Art Devco Limited and The Northern Studios (Hartlepool) Limited which are 100% owned and 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. 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 £1.224m of loans outstanding with Hartlepool Borough Council on a 20-year fixed term. The group's forecasts and financial projections indicate that it will be able to operate within this existing facility for the foreseeable future.

In 2021/22 the Group has made a deficit outturn of £0.556 million in comparison to a deficit of £0.244 million in 2020/21.

The operating cashflow decreased from £3.264 million in 2020/21 to £1.992 million in 2021/22. The group has reduced net current assets from £0.646 million to net current liabilities of £0.403 million in 2021/22 due to the increase in amounts falling due within a year.

This position was expected as sale funds for the Green Lane Campus have been received but not invoiced by Tees Valley Combined Authority, in addition to a large VAT invoice being held for payment at the 31<sup>st</sup> July 2022.

The key variable that impacts the School forecasting mechanisms is student numbers and the current future forecasts have assumed 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 ensure the School can plan operational budgets within constraints, enabling a financial health rating of good.

Careful consideration has been made in the forecasts for the planned completion of the large capital programmes and ensuring they do not have any unintended consequences. The ongoing project at Hartlepool is fully grant funded. The impact of cash inflows and outflows of these projects has been incorporated into the group forecasts outlined above.

The School remains a going concern based on its financial forecasts. The School's forecast include The Northern Studios subsidiary company which is expected to see expenditure exceed income whilst it starts to trade. This has been implicit in the Schools budget and as such the School is committed to cover the relatively small deficit that will be incurred by the subsidiary. Northern School of Art Devco limited remains a going concern whilst it completes the payment of creditors in 2021/22 and is expected to be wound up once those creditors are paid in 2022/23.

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.

#### *Work in progress*

Buildings under construction have been treated as work in progress as at the year end date they were not yet operational.

#### **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 companies are 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 in to 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 in to 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 21, 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 July 2022 to value the pensions liability at 31 July 2022. 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		Y/end 31 July	
	2022	2022	2021	2021
	Group	College	Group	College
	£'000	£'000	£'000	£'000
<b>Recurrent grants</b>				
Middlesbrough Council – adult education budget	29	29	11	11
Education and Skills Funding Agency – 16 -18	2,258	2,258	2,398	2,398
Office for students	227	227	326	326
<b>Specific grants</b>				
Teacher Pension Scheme contribution grant	163	163	182	182
Releases of government capital grants	891	891	274	274
HE grant	13	13	19	19
<b>Total</b>	<b>3,581</b>	<b>3,581</b>	<b>3,210</b>	<b>3,210</b>
3 Tuition fees and education contracts	Y/end 31 July		Y/end 31 July	
	2022	2022	2021	2021
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Children's Club fees	25	25	9	9
Fees for FE loan supported courses	67	67	102	102
Fees for HE loan supported courses	4,921	4,921	5,316	5,316
Total tuition fees	5,013	5,013	5,427	5,427
<b>Total</b>	<b>5,013</b>	<b>5,013</b>	<b>5,427</b>	<b>5,427</b>
4 Other grants and contracts	Y/end 31 July		Y/end 31 July	
	2022	2022	2021	2021
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other grant and contract income	109	109	79	79
Coronavirus Job Retention Scheme grant	-	-	32	32
<b>Total</b>	<b>109</b>	<b>109</b>	<b>111</b>	<b>111</b>



5 Other income	Y/end 31 July		Y/end 31 July	
	2022	2022	2021	2021
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	136	136	67	67
Miscellaneous income	218	218	130	130
<b>Total</b>	<b>354</b>	<b>354</b>	<b>197</b>	<b>197</b>

6 Investment income	Y/end 31 July		Y/end 31 July	
	2022	2022	2021	2021
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other interest receivable	2	2	1	1
	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>
Net return on pension scheme (note 21)	-	-	-	-
<b>Total</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>

## 7 Staff costs – Group and College

The headcount of persons (including key management personnel) employed by the School during the year was teaching staff 64 (2021; 55) and non-teaching staff 169 (2021; 161). The average number of persons (including key management personnel) employed by the School during the year, described as full-time equivalents, was:

	2022	2021
	No.	No.
Teaching staff	46	43
Non-teaching staff	99	101
	<b>145</b>	<b>144</b>

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

### Staff costs for the above persons

	2022	2021
	£'000	£'000
Wages and salaries	4,224	4,088
Social security costs	397	373
Other pension costs	1,529	1,455
<b>Payroll sub total</b>	<b>6,150</b>	<b>5,916</b>
	6,150	5,916
Restructuring costs – Contractual	3	27
<b>Total Staff costs</b>	<b>6,153</b>	<b>5,943</b>

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

	2022 No.	2021 No.
The number of key management personnel including the Accounting Officer was:	5	5

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

	Key management personnel		Other staff	
	2022 No.	2021 No.	2022 No.	2021 No.
£60,001 to £65,000 p.a.	-	-	-	-
£65,001 to £70,000 p.a.	-	3	-	-
£70,001 to £75,000 p.a.	3	-	-	-
£75,001 to £80,000 p.a.	-	-	-	-
£80,001 to £85,000 p.a.	1	1	-	-
£135,001 to £140,000 p.a.	1	1	-	-
	<u>5</u>	<u>5</u>	<u>-</u>	<u>-</u>

Key management personnel compensation is made up as follows:

	2022 £'000	2021 £'000
Basic salary	434	420
Employers National Insurance	55	52
Pension contributions	90	88
Total key management personnel compensation	<u>579</u>	<u>560</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:

	2022 £'000	2021 £'000
Basic salary	140	140
Pension contributions	33	33
	<u>173</u>	<u>173</u>

The remuneration of the accounting officer for 2021/22 was determined on 29 November 2019 by the School's Remuneration Committee. The accounting officer was not involved in setting their remuneration. The factors taken in to account by the Committee in determining the accounting officer's remuneration for the year to 31 July 2022 included: pay increases for other staff; performance against personal objectives; performance of the organisation; sector data on pay of accounting officers and benchmarking or other means of comparison to the broader market.

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

	2022 £'000	2021 £'000
Principal's basic salary as a multiple of the median of all staff	6.08	6.27
Principal and CEO's total remuneration as a multiple of the median of all staff	5.78	5.96

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**

	2022 Group £'000	2022 College £'000	2021 Group £'000	2021 College £'000
Teaching costs	605	605	544	544
Non-teaching costs	1,096	1,096	975	975
Premises costs	657	645	655	655
<b>Total</b>	<b>2,358</b>	<b>2,346</b>	<b>2,174</b>	<b>2,174</b>

Other operating expenses include:	2022 £'000	2021 £'000
Auditors' remuneration:		
Financial statements audit	49	22
- Other Services provided by external auditors	11	8
Internal audit fees		4
Hire of assets under operating leases	82	5

**9 Access and participation spending**

The School is registered with OFS and has an approved access and participation plan. APP spend in 2021/22 included;

	2022	2021
Access investment	£158,000	£160,000
Financial support to students	£106,000	£86,000
Disability support	£45,000	£42,100

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

	2022 £'000	2021 £'000
On bank loans, overdrafts and other loans:	73	92
	<u>73</u>	<u>92</u>
Net interest on defined pension liability (note 21)	127	125
<b>Total</b>	<b><u>200</u></b>	<b><u>217</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 2021	19,180	2,542	15,370	37,092
Additions	25	148	3,649	3,822
Transfer	14,180	1,222	(15,402)	-
Disposals	(4,525)	-	-	(4,525)
<b>At 31 July 2022</b>	<b>28,860</b>	<b>3,912</b>	<b>3,617</b>	<b>36,389</b>
<b>Depreciation</b>				
At 1 August 2021	5,715	2,072	-	7,787
Charge for the year	711	437	-	1,148
Elimination in respect of disposal	(3,383)	-	-	(3,383)
Disposals				
<b>At 31 July 2022</b>	<b>3,043</b>	<b>2,509</b>	<b>-</b>	<b>5,552</b>
<b>Net book value at 31 July 2022</b>	<b>25,817</b>	<b>1,403</b>	<b>3,617</b>	<b>30,837</b>
<b>Net book value at 31 July 2021</b>	<b>13,465</b>	<b>470</b>	<b>15,370</b>	<b>29,305</b>

**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 2021	19,180	2,542		21,722
Additions	25	148		173
Transfer	14,180	1,222		15,402
Disposals	(4,525)	-		(4,525)
<b>At 31 July 2022</b>	<b>28,860</b>	<b>3,912</b>		<b>32,772</b>
<b>Depreciation</b>				
At 1 August 2021	5,715	2,072		7,787
Charge for the year	711	437		1,148
Elimination in respect of disposals	(3,383)	-		(3,383)
<b>At 31 July 2022</b>	<b>3,043</b>	<b>2,509</b>		<b>5,552</b>
<b>Net book value at 31 July 2022</b>	<b>25,817</b>	<b>1,403</b>		<b>27,220</b>
Net book value at 31 July 2021	13,465	470		13,935

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

The School has sold its Green Lane campus and released the remaining value of the inherited asset. Sale proceeds of the Green Lane campus are to be paid to Tees Valley Combined Authority and which are offset against an element of the grant received to build Newport Road Campus. The repayment amount is disclosed in creditors: amounts falling due within a year note.

The Newport Road Campus has been occupied since September 2021 and so the asset has transferred from assets under construction within the group to land and buildings (£14mil) and equipment (£1mil) within the School.

## 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.

The School owns 100 per cent of the issued ordinary £1 shares of The Northern Studios (Hartlepool) Limited, a company incorporated in England and Wales, representing £100 investment. The principal business activity of The Northern Studios (Hartlepool) Limited is the rental of resources to the television and motion picture industry.



### 13 Debtors

	Group 2022 £'000	College 2022 £'000	Group 2021 £'000	College 2021 £'000
Amounts falling due within one year:				
Trade receivables	1	1	20	20
Amounts owed by group undertakings:				
Subsidiary undertakings	-	1,363		12,660
Prepayments and accrued income	156	156	186	186
Other receivables	26	-	-	-
<b>Total</b>	<b>183</b>	<b>1,520</b>	<b>206</b>	<b>12,866</b>

### 14 Creditors: amounts falling due within one year

	Group 2022 £'000	College 2022 £'000	Group 2021 £'000	College 2021 £'000
Bank loans and overdrafts	62	62	701	701
Obligations under finance leases	46	46		
Trade payables	2,658	256	336	336
Amounts owed by group undertakings:				
Subsidiary undertakings	-	2,400	-	-
Other taxation and social security	184	184	187	187
Accruals and deferred income	484	400	1,977	275
Deferred income - government capital	590	535	709	681
Amounts owed to the ESFA	201	201	160	160
Other Creditors	1,144	1,144		
Amounts owed to Other	66	66	31	31
<b>Total</b>	<b>5,435</b>	<b>5,294</b>	<b>4,101</b>	<b>2,371</b>

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

	Group 2022 £'000	College 2022 £'000	Group 2021 £'000	College 2021 £'000
Bank loans	1,162	1,162	1,242	1,242
Obligations under finance leases	149	149		
Deferred income - government capital grants	23,241	21,088	23,136	22,038
<b>Total</b>	<b>24,552</b>	<b>22,399</b>	<b>24,378</b>	<b>23,280</b>

Grant received from Tees Valley Combined Authority of £14,500,000 in regard to the new build project in central Middlesbrough is made up of two parts. 50% is repayable and the remaining 50% is non-repayable. Repayments are to commence from the fifth annual anniversary of practical completion until the repayable grant is fully repaid or the agreed completion date of 30<sup>th</sup> June 2048 (whichever is sooner). The School shall retain the first 10% of any surplus (after deducting capital expenditure not exceeding 5% of income) in each year and annual repayments will be 50% of the amount that represents the remaining surplus.

Grant received from Tees Valley Combined Authority of £3,500,000 in regard to building and renovation works on the Hartlepool campus is a non-repayable grant as is all historical capital grants.

## 16 Maturity of debt

### (a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group	College	Group	College
	2022	2022	2021	2021
	£'000	£'000	£'000	£'000
In one year or less	62	62	701	701
Between one and two years	64	64	53	53
Between two and five years	208	208	159	159
In five years or more	890	890	1,030	1,030
<b>Total</b>	<b>1,224</b>	<b>1,224</b>	<b>1,943</b>	<b>1,943</b>

The remaining balance of £1,224k is an unsecured loan at 3.85% repayable by instalments to Hartlepool Borough Council.

## 17 Provisions

	Group and College
	Enhanced pensions
	£'000
At 1 August 2021	100
Expenditure in the period	(6)
Additions in period	(14)
<b>At 31 July 2022</b>	<b>80</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:

	2022	2021
Price inflation	2.90%	2.60%
Discount rate	3.30%	1.60%

#### 18 Cash and cash equivalents

	At 1 August 2021	Cash flows	Other changes	At 31 July 2022
	£'000	£'000	£'000	£'000
Cash and cash equivalents	4,524	307	-	4,831
<b>Total</b>	<b>4,524</b>	<b>307</b>	<b>-</b>	<b>4,831</b>

#### 19 Capital and other commitments

	Group	
	2022	2021
	£'000	£'000
Commitments contracted for at 31 July	19	210

#### 20 Lease obligations

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

	Group and College	
	2022	2021
	£'000	£'000 Restated
<b>Future minimum lease payments due</b>		
<b>Other</b>		
Not later than one year	36	36
Later than one year and not later than five years	36	36
<b>Total lease payments due</b>	<b>72</b>	<b>72</b>

At 31 July the School had minimum lease payments under finance leases as follows:

<b>Future finance lease payments due</b>		
Not later than one year	46	46
Later than one year and not later than five years	111	149
<b>Total finance lease payments due</b>	<b>157</b>	<b>195</b>

## 21 Defined benefit obligations

The pension result for the year does not take into account the current economic conditions of increased rates of inflation at the time of sign off which are estimated to be 10%. The difference between the calculations within the actuarial assumptions and current rates would reflect an understatement of scheme liabilities of 5.5-6% equating to an additional liability of £1.009m. This difference has not been reflected within the financial statements as the Corporation has taken the actual calculations as prepared by the Actuary but note this for the users attention

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 2019.

Total pension cost for the year	2022 £000	2021 £000
Teachers' Pension Scheme: contributions	461	445
Local Government Pension Scheme:		
Contributions paid	311	295
FRS 102 (28) charge	757	714
Charge to the Statement of Comprehensive Income	1,068	1,009
Enhanced pension charge to Statement of Comprehensive Income		1
<b>Total Pension Cost for Year within staff costs</b>	<b>1,529</b>	<b>1,455</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.

### Valuation of the Teachers' Pension Scheme

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

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

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

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2020 onwards (compared to 16.48% during 2019/20). DfE agreed to pay a Teachers Pensions employer contribution grant to cover the additional costs during the 2021/22 academic year, and currently through to March 2023. The next valuation result is due to be implemented from 1 April 2023.

The pension costs paid to TPS in the year amounted to £461k (2021: £445k).

### 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 2022 were £441k, of which employer's contributions totalled £311k and employees' contributions totalled £130k. 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 2022 by Hymans Robertson LLP.

	At 31 July 2022	At 31 July 2021
Rate of increase in salaries	3.75%	3.6%
Future pensions increases	2.75%	2.6%
Discount rate for scheme liabilities	3.5%	1.7%
Inflation assumption (CPI)	2.75%	2.6%



## 21 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 2022	At 31 July 2021
	Years	Years
<i>Retiring today</i>		
Males	21.7	21.9
Females	23.5	23.6
<i>Retiring in 20 years</i>		
Males	22.9	23.3
Females	25.3	25.4

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 2022 £'000	Fair Value at 31 July 2021 £'000
Equity instruments	11,049	11,856
Property	2,925	1,094
Cash	2,275	1,244
Other	-	794
<b>Total fair value of plan assets</b>	<b>16,249</b>	<b>14,988</b>
 <b>Actual return on plan assets</b>	 <b>1,007</b>	 <b>2,641</b>

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

	2022 £'000	2021 £'000
Fair value of plan assets	16,249	14,988
Present value of plan liabilities	(16,810)	(22,107)
Present value of unfunded liabilities	(7)	(14)
<b>Net pensions liability</b>	<b>(568)</b>	<b>(7,133)</b>

**21 Defined benefit obligations (continued)**

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

	2022	2021
	£'000	£'000
<b>Amounts included in staff costs</b>		
Current service cost	1,069	1,008
Past service cost	-	-
<b>Total</b>	<b>1,069</b>	<b>1,008</b>
<b>Amounts included in investment income</b>		
Net interest expense	127	125
	<b>127</b>	<b>125</b>

**Amount recognised in Other Comprehensive Income**

Return on pension plan assets	1,007	2,467
Experience losses arising on defined benefit obligations	(94)	329
Changes in assumptions underlying present value of plan liabilities	6,536	-
<b>Amount recognised in Other Comprehensive Income</b>	<b>7,449</b>	<b>2,796</b>

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

	2022	2021
	£'000	£'000
Net defined benefit liability in scheme at 1 August	(7,133)	(9,090)
Movement in year:		
Current service cost	(1,069)	(1,008)
Employer contributions	311	295
Past service cost	-	-
Net interest on the defined liability	(127)	(125)
Actuarial gain or loss	7,449	2,795
<b>Net defined benefit liability at 31 July</b>	<b>(568)</b>	<b>(7,133)</b>

### Asset and Liability Reconciliation

	2022 £'000	2021 £'000
<b>Changes in the present value of defined benefit obligations</b>		
<b>Defined benefit obligations at start of period</b>	22,127	21,638
Current service cost	1,069	1,008
Interest cost	382	299
Contributions by Scheme participants	129	122
Experience gains and losses on defined benefit obligations	94	(329)
Changes in financial assumptions	(6,536)	-
Estimated benefits paid	(442)	(613)
Past Service cost	-	-
Curtailments and settlements	-	2
<b>Defined benefit obligations at end of period</b>	<b>16,823</b>	<b>22,127</b>
<b>Changes in fair value of plan assets</b>		
<b>Fair value of plan assets at start of period</b>	14,991	12,546
Interest on plan assets	255	174
Return on plan assets	1,007	2,467
Employer contributions	311	295
Contributions by Scheme participants	129	122
Estimated benefits paid	(442)	(613)
<b>Fair value of plan assets at end of period</b>	<b>16,251</b>	<b>14,991</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 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%.

The actuarial valuation determined a net liability of £568k against a liability in 2021 of £7,133k. Potential pension increases from 1 April 2023 of the order of 10% aligned with CPI have not been reflected in the pension valuation presented, given that decision on the pension increase is a future and highly uncertain event. The expected impact is 5.5%-6% adjustment, which would see an additional liability of c.990k, bringing the overall valuation to a defined benefit pension scheme liability of £1,558k from £568k.

## 22 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 £1,110; 6 governors (2021: £778; 2 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 (excluding Principal and Staff Governors) has received any remuneration or waived payments from the School or its subsidiaries during the year (2021: None).

Professor J Rapley, Professor Emerita at University of The Arts London was re-appointed to the board in 2018/2019. University of the Arts London are the School's level 3 awarding body, during the year transactions totalling £50k were conducted at arms length.

## 23 Amounts disbursed as agent - Learner support funds

	2022 £'000	2021 £'000
16-18 bursary grants	133	110
Other Funding body grants	120	35
	<u>253</u>	<u>145</u>
Disbursed to students	(47)	(63)
Administration costs	(5)	-
Balance unspent as at 31 July, included in creditors	<u>201</u>	<u>82</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.

**REPORTING ACCOUNTANTS ASSURANCE REPORT ON REGULARITY TO THE CORPORATION OF INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF THE NORTHERN SCHOOL OF ART AND SECRETARY OF STATE FOR EDUCATION ACTING THROUGH THE EDUCATION AND SKILLS FUNDING AGENCY (the ESFA)**

In accordance with the terms of our engagement letter dated 9 June 2022 and further to the requirements and conditions of funding in the ESFA's grant funding agreements and contracts, or those of any other public funder, we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects, the expenditure disbursed and income received by The Northern School of Art during the period 1 August 2021 to 31 July 2022 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post-16 Audit Code of Practice (the Code) issued by the ESFA and in any relevant conditions of funding concerning adult education notified by a relevant funder. 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) data returns, for which the ESFA has other assurance arrangements in place.

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

**Respective responsibilities of The Northern School of Art and the reporting accountant**

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Code. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure discussed and income received during the period 1 August 2021 to 31 July 2022 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

**Approach**

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

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



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

**REPORTING ACCOUNTANTS ASSURANCE REPORT ON REGULARITY TO THE CORPORATION OF THE NORTHERN SCHOOL OF ART AND SECRETARY OF STATE FOR EDUCATION ACTING THROUGH THE EDUCATION AND SKILLS FUNDING AGENCY (the ESFA)**

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

The work undertaken to draw our conclusion includes:

- A review of the accuracy of the Corporation's self-assessment of compliance with regularity and propriety requirements and review of appropriate evidence and documentation.
- Review of expenditure systems for compliance with corporation policy and scheme of delegation.
- Consideration of staff expense claims in line with policy
- Review of procedures in respect of government procurement cards.
- Review of Corporation minutes.
- Consideration of advisory matters from internal auditors reports.

**Conclusion**

In the course of our work nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2021 to 31 July 2022 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.



Karen Rae, FCCA  
For and on behalf of  
Armstrong Watson Audit Limited  
Chartered Accountants & Statutory Auditors  
Newcastle

Date: 14 December 2022