

Company Number: 01855026 (England and Wales)

Charity Number: 515943

**The Percy Hedley Foundation
(A company limited by guarantee)**

Trustees' Report and Financial Statements

For the year ended 31 August 2020

The Percy Hedley Foundation
(A company limited by guarantee)

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The Percy Hedley Foundation
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Reference and administrative details of the company, its Trustees and Advisers
For the year ended 31 August 2020

| | |
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| Trustees: | Mr J Jowett Ms A Curran Mr D Arthur Ms S Jopling Dr M Gibson Mr D Kent Ms A Russell Ms A Woods Dr N Spencer (resigned 28 February 2020) Ms L Charles-Jones Mr A Chadda (resigned 28 February 2020) Ms S Fitzpatrick Mr T Frazer Ms A Moore Mr P Foreman (appointed 30 December 2019) |
| Company number: | 01855026 |
| Charity number: | 515943 |
| Registered office: | Hampeth Lodge, Station Road, Newcastle upon Tyne, NE12 8YY |
| Company secretary: | Tara Allen |
| Senior management team: | |
| Chief Executive Officer | Carole Harder |
| Headteacher – Percy Hedley School | Katie Murray |
| Headteacher – Northern Counties School | Jo Allen |
| College Principal | Joanne Rees-Proud |
| Director of Resources | Tara Allen |
| Director of Business Development, Quality & Performance | Alison Williams |
| Auditors: | Haines Watts, 17 Queens Lane, Newcastle upon Tyne, NE1 1RN |
| Bankers: | Barclays Bank Plc, 5 St Ann's Street, Newcastle upon Tyne, NE1 3DX |
| Solicitors: | Womble Bond Dickinson (UK) LLP St Ann's Wharf, 112 Quayside, Newcastle upon Tyne, NE1 3DX |

The Percy Hedley Foundation
(A company limited by guarantee)

Report to the Trustees' (including the Strategic Report)
For the year ended 31 August 2020

Welcome to our annual report

Jonathan Jowett, Chair



This has been an extraordinary year for the Foundation which has brought new challenges and opportunities as we have responded to the unprecedented circumstances brought about by the COVID-19 pandemic. As a provider of frontline services to some of the most vulnerable people in our community, most of our services have remained open throughout the pandemic, providing homes and vital support for our service users. It has also been fantastic to see how our local communities supported us throughout the lockdown with donations of Personal Protective Equipment, food, and general kindness.

Our promise is to put people at the heart of what we do, and as chair, I have been extremely proud of the commitment, resilience, and agility that staff across the organisation have shown this year through challenging circumstances. Regrettably, we fell short of the high standard we set ourselves in the circumstances leading to the closure of our Children's Residential Service at Bradbury View. We took immediate steps to address the situation, including liaising with all parties involved. We are deeply sorry for the situation and the impact this has caused our residents and their families and the Trustees commissioned an independent review to address the lessons learnt. The Trustees are committed to ensuring that the actions highlighted in that review are addressed as soon as possible.

I would like to thank the Foundation staff, service users, and our network of friends and followers for their support during what has certainly been an exceptionally difficult time for all concerned.

Carole Harder, Chief Executive



In March this year, like many organisations, we found that our world very suddenly became radically different. COVID-19 challenged us and people everywhere. We had to rapidly adapt, rethink priorities, be flexible and find new ways of working. Many of these changes needed to happen and will endure, having changed our organisation for the better.

This year I have been reminded by how strong we are as one Foundation and my respect for the amazing staff team we have has reached a new level. I have seen collaborative working at every level throughout the pandemic – sharing ideas, pooling resources, and supporting each other so that we could continue to deliver our essential services.

With the closure of Bradbury View children's home, we have been reminded about the reliance our residents and families have on our services and the requirement to operate at the highest standard. We apologise for the events leading up to the closure in September 2020 and for the disruption caused to the children and their parents and carers following the closure, and we are committed to address the actions highlighted in the independent review that followed.

As we now look forward to a new future with COVID-19 as part of our lives for the near future I would like to express my deepest gratitude once again to all of the team who I see making such a difference every day to people's lives and who will give us the strength and resilience to continue to deliver the services we offer.

Objectives and activities

Who we are

We are one of the UK's largest regional disability charities.

We promise to put people at the heart of everything we do to help meet the needs of disabled people and their families.

We provide specialist pre-school, primary, secondary and post 16 education services, as well as a specialist further education college and a wide variety of day services for adults. We also provide residential and short break respite services for children, young people and adults.

Our vision and purpose



Public benefit statement

The trustees have due regard to the guidance published by the Charity Commission on public benefit.

Who we support

We specialise in high quality, personalised care and education support to disabled people with a range of needs.

We provide specialist pre-school, secondary and post 16 education, as well as a specialist further education college and a wide variety of activities for adults. In addition, we provide residential services for all ages, transition, and employability support.

Achievements and developments

In March 2020, the global pandemic COVID-19 hit the UK and as a provider of essential services for some of the most vulnerable in society we had to respond quickly to an extremely fast-moving environment. COVID-19 created a challenging working environment for our staff and services and had a significant impact on the lives of our staff and service users.

In late March, a national lockdown meant that whilst our residential services remained open, we had to find new and innovative ways to deliver education services through internet and home schooling and ways to support our day services users and those students who continued to attend our schools and college.

Early challenges were delayed guidance, accessing PPE (Protective Personal Equipment), getting to grips with remote working and modern technology, as well as finding new ways to support students and service users who were at home and supporting them through confusing and unsettling times.

All our staff are hugely committed to our promise to put people at the heart of everything we do and we are so proud of the ways they have really showed this dedication. During the national Thursday "Clap for Carers," our staff were no doubt all supporting one another and colleagues in other key worker roles who were risking their lives to keep the country healthy, safe and fed.

The lockdown meant that those who could work from home did and we took the opportunity to fast-track some of the IT and systems developments that were planned in the Technology Strategy in the coming years, advancing in weeks what was planned to take months. Staff adapted very well to the changing methods of communicating and sharing information that permeated all services and agile working became the norm for some. The ability to stay connected with each other while working remotely has been vital to enable us to respond quickly to any issues.

Our teams have worked hard to interpret and implement the huge swathes of guidance that the government has published to prevent the spread of COVID-19 and during the financial year to August 2020 we had not had a COVID-19 outbreak within our service user group and had no internal transmission of the virus within our environments or from staff.

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To make sure that we have been delivering our services in a 'covid secure' way, complying with government guidance, we adapted environments, trained staff on the processes around infection control specifically for coronavirus, and adjusted our procedures for visitors and support for service users. This has meant that we have had to change the ways we deliver some of our activities to reduce the risk of transmission, but we have tried to balance the need to prioritise infection prevention with maintaining quality outcomes for our students and service users using person-centred approach.

We have incurred additional costs for PPE, cleaning and other expenditure as would be expected to keep our service users and staff safe, and some of this was covered by additional contribution from local authorities for our residential packages and the ongoing financial support for education and adult day services. This allowed us to deliver continuously throughout 2019-20.

The Foundation was able to furlough a small percentage of our staff using the Government's Job Retention Scheme covering the period April through August. This was for our short break services which closed in the period, where contracts are subject to direct payments, and where costs are not covered by the core costs of the packages contracted with local authorities.

In all services we have fully utilised the staff group to work flexibly across our services where needed to respond to local requirements.

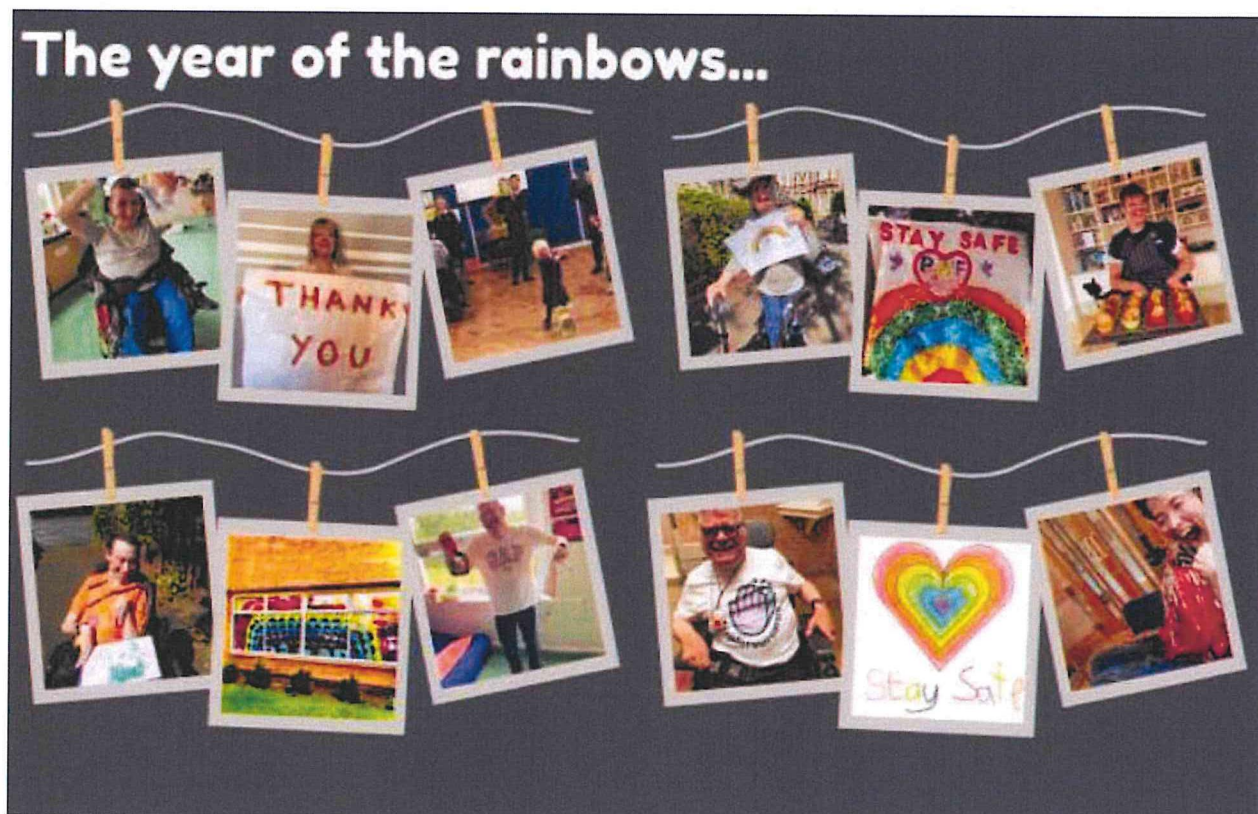
COVID-19 has had an impact on many of our plans and priorities for the year. Due to the enormous effort our teams have put into responding to the impact of the pandemic and keeping our students and service users safe, some of our plans for the year were delayed. The pandemic has also given us an unexpected opportunity to accelerate some of our plans to implement new technology.

Looking forwards, some of that uncertainty continues after national lockdown was lifted but local restrictions were put in place. At time of writing, we continue to flex the workforce as we face the challenge of increased positive cases of the virus and the impact of self-isolation and precautionary changes to services. Whilst 2019-20 has resulted in a good result in the circumstances we expect that there will be some ongoing impact within the 2020-21 financial year and budgets have been set to reflect those challenges.

Aside from COVID-19 impact and returning to events prior, during that period and facing the future, the demand for our services continues to grow. The need for our services continues to grow. In 2019 it was estimated that 8% of children in the UK are living with disabilities (up from 6% in 2012) and 354,000 children and young people have education, health and care plans or statements – legal documents that detail the additional support to which a child is entitled (an increase of 11% on 2018).

In 2019, the proportion of working age adults living with a disability was 18% (an increase from 14% in 2008), and the North East (alongside Wales) has the largest proportion of the population declaring that they have a disability (Family Resources Survey).

At the same time, the Foundation continues to operate in a challenging financial context, as commissioning authorities continually review their contracting arrangements in the face of significant funding shortfalls and increasing demand for social care and SEND resources. Unfortunately, there will be many organisations in this position in the coming years given the pressures on local authority budgets and difficulties faced by charities in securing donations and grants.



Delivering Special Education



Demand for our education services continues to grow. Our unique approach which brings together the skills of teachers, speech and language therapists, physiotherapists and occupational therapists continues to help our children and young people realise their potential is key to this.

In our Education Services, all our students have special educational needs and are offered a highly differentiated curriculum, delivered by a multi-disciplinary team. Individual potential is enhanced and realised using a person-centred approach. As our student population has grown, we are working hard to make sure that we continuously develop and strengthen our learning environment.

We continue to review and develop our estate and grounds to support the numbers of students within our schools, including outside playground areas and classroom refurbishment. We have also significantly invested in infrastructure at the Jesmond site this year.

In March, when the lockdown was announced by the Prime Minister, our teams across our education services reacted fast – identifying alternative ways of working that would enable students to learn from home and be supported with therapy needs remotely. We set up remote wellbeing checks and therapy sessions, delivered homework packs to students so they could continue learning from home. We also set up groups on social media so that we could share information with students and their families and to enable them to stay connected while our schools and college were closed.

From June, our learners gradually started to return onsite and our teams in education have been focusing on supporting students' wellbeing and on delivering a recovery curriculum while they settle back into school and college. The challenges presented by COVID-19 have not overshadowed some of the fantastic achievements this year. Here are a couple of examples:

Hedleys College retained its 'good' rating from Ofsted following an onsite inspection in January 2020. The report from the inspection states:

"Learners enjoy their learning and are proud to study at the college."

"Learners enthusiastically describe jumping out of bed each morning to come to college."

One of our teachers at Northern Counties School won a silver award at the Pearson Teaching Awards for outstanding new teacher. This fantastic achievement reflects how Ashleigh regularly goes the extra mile for our wonderful students.

Children's residential homes

Our children's residential service provides children and young people's residential and short break facilities across two locations: Bradbury View in Killingworth (in the grounds of Percy Hedley School) and Tees House in Jesmond (in the grounds of Northern Counties School). These aim to provide a happy, healthy nurturing home from home environment which is attractive, comfortable, safe, and secure and enables children/young people to thrive and reach their maximum potential in life.

In March, when the national lockdown started, both our short break services were temporarily suspended, given the nature of the services would create difficulties in maintaining safe, COVID-19-free bubbles. They remain closed until it is possible to safely open to young people.

We have had to make improvements to our Tees House service which has been operating under a Requires Improvement status with Ofsted, however all compliance notices have been lifted at time of writing and we thank everyone for their support during this challenging period and supporting this achievement.

Towards the end of the financial year we identified shortfalls in the quality of our children's homes and Ofsted inspections in the services raised compliance notices and an immediate suspension of Bradbury View Residential in September 2020. We then took the decision to permanently close Bradbury View Residential due to the challenges of increasing COVID-19 risk and our ability to achieve the improvements required within the specified timescales.

This was a difficult decision, and we are sorry for the impact this has had on young people who lived at the home and their families. As a Board and Executive Team we are determined to learn the lessons from this situation and the events leading up to the closure of the home.

We will continue to work with the local authorities and Ofsted to develop children's residential services in future that are fit for purpose and operating at the high standard that should be expected of our services. In October 2020, we welcomed a new Director of Residential Care and Safeguarding who will lead on improving and developing our children's residential services.

Activity programmes for adults

During the year, we have reviewed our adult activity offer and launched a new and improved offer. We have combined what previously operated as two separate programmes – one for young adults which was offered from our college (Firtrees Programme) and our Able 2 offer. We have developed a new and improved activity offer called Hedleys Horizons which operates from our two sites in Forest Hall. The offer is activity based, designed around the people, their needs and what they want to do. Therapy is integrated into the offer for those who need it.

The launch of the new programme sadly meant saying goodbye to some of the sites we had operated from and to a small number of service users, but we are confident that our service users are going to love the new programme.

COVID-19 has had a significant impact on our activity programme – being defined as a non-essential activity for most service users during the restrictions and with many of our service users staying at home while they shielded from COVID-19. During this time, we refurbished our buildings to get ready to launch Hedley's Horizons and our staff team helped us to keep our other services running.

Adult Residential services



Our Adult residential service offers accommodation and care, complimented by a range of meaningful community activity for our residents, who have a range of disabilities, including Physical Disabilities, Learning Disabilities, Profound Multiple Learning Disabilities (PLMD) and Autism, including those behaviours which challenge services. Each of our services support all these conditions differently, depending on the service offered, from meeting accommodation needs, daily activities, to extra support in homes, to sports and recreational activities.

We operate registered adult residential services at;

- Chipchase House/Ferndene in Forest Hall
- Leybourne in Killingworth
- Tyne House/ Moor View in Jesmond
- Wansbeck House in Jesmond
-

During the year Wansbeck House retained a good rating from the Care Quality Commission (CQC) and in its inspection in August, Chipchase House improved from 'requires improvement' to good, meaning that all our residential homes are now rated as good.

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Our teams across our residential services have risen to the challenges presented by COVID-19 this year. Our residential homes were busier than ever, with our residents who usually only stay with us 38 weeks of the year, staying full time and all our residents having to stay at home much more than usual. They have taken on extra shifts to help when colleagues have been absent and worked in services they do not usually work in where needed. They have also done an amazing job of supporting residents and kept them smiling during some uncertain and frightening times, putting their own personal anxieties and concerns to one side, and focusing on our residents.

Staff have been very diligent and worked hard to make sure that we are preventing the spread of COVID-19 within our homes. From March 2020 until the end of this financial year, there were no confirmed cases of COVID-19 across our residential services. Chipchase House was inspected by the CQC under its COVID-19 Emergency Support Framework and on infection prevention and control and the findings were incredibly positive with the report stating that "systems were in place to help prevent people, staff and visitors from catching and spreading infections."

One of the hardest things about the COVID-19 restrictions for our residents has been the restrictions on visits with their families. Visits to care homes have not been allowed for most of the period since March so our teams have found new ways of enabling families to stay connected - using tablets to enable video call, using social media to set up groups so they could find out what their relatives were getting up to and find ways to enable safe visits to happen using gardens and outside spaces.

Our teams have also kept residents busy with lots of exciting activities when they have not been able to go out and about.

When the COVID-19 restrictions end it is our intention to thank the staff teams properly with a celebration of everything they have been doing. Here are some examples of feedback we received from families about their fantastic efforts:

"I do admire the way you and your team have handled this extraordinary crisis. It must have meant massive hard work and sacrifice for many of you. I have always had every faith that daughter was in safe hands and am happy to go along with any procedure you put in place."

"I am most grateful to you and your team for your care of my son, during these unusual and difficult times. Although we have greatly missed enjoying his company during lockdown, we have been able to maintain contact with him via the telephone or Zoom. We fully support the very sensible restrictions you have put in place to protect my son and his fellow residents, and the dedicated staff who care for them. "

"We are missing L very much but have taught ourselves the technology needed to keep in touch every day by FaceTime. We know some families will not have this facility but hope they will understand this is not just about residents keeping safe but ensuring staff are kept well to continue their sterling job of caring for loved ones. Please let all staff know how grateful we are to know what a wonderful job they are doing in such strange times and please pass on our thanks to each and every one of them."

#TeamPercyHedley

Our staff are our biggest asset. We now employ more than 1,100 staff working from multiple locations across the region.

Our values



We want to be an employer of choice, and to have an engaged workforce that are happy at work. Happy staff will mean that we are delivering the best possible outcomes for the people we support. To help us achieve this we developed a new People Strategy, which focuses on three main objectives:

- Attract and recruit
- Train and develop
- Retain and promote

We started with a staff survey to help us understand how our staff feel about working at the Foundation and what they would like us to improve. A strong theme emerging from the feedback was a desire for improved communication. The COVID-19 pandemic has given us an unexpected opportunity to respond to this feedback. We recognised the need for regular communication with colleagues due to the constantly changing situation. We set up a COVID-19 staff intranet and regular staff briefings to make sure that colleagues were kept informed about government changes, what was happening across the Foundation, things they needed to do to stay as safe as possible at work and support they could access.

An enormous amount of work has taken place daily to maintain a safe environment for our students and service users and to ensure that during the lockdown period to ensure that our students could continue to learn while at home.

Our teams across the Foundation have dealt with this huge volume of work while also dealing with disruptions to their teams when colleagues were absent and while providing reassurance to students, service users and families who have had heightened anxiety during this period. In addition, the usual challenges of working in our services have not gone away.

We have seen incredible resilience, a strong commitment to work strategically, to help one another, to share disasters and successes, and to laugh together. We are incredibly proud of our staff teams.

Progress against objectives

We measure progress against our objectives in several ways, including growth in service delivery, our reputation for quality service provision, staff engagement, and improvements to our estate.

Demand for our services has continued to grow which is an amazing testament to our team of skilled staff who work hard to help each person we support to thrive. As demand for our services continues to grow, it is essential that we retain focus on sustaining the quality services that we are proud of. This year, Northern Counties School maintained advanced accreditation by the National Autism Society, which was significant for us as it is a nationally recognised standard by which autistic provision is assessed and we're the only school in the North East to achieve this level. Hedleys College retained its 'good' rating from Ofsted and all our adult residential homes are rated as good by the Care Quality Commission.

COVID-19 has had an impact on our progress against our plans during the year – due to the enormous amount of work our teams have put into some of our objectives had to be reprioritised and we will progress these during next financial year. COVID-19 also presented some opportunities that enabled us to accelerate some of our priorities such as our technology strategy.

Use of technology is an area where the whole charitable sector lags behind others. As we are increasingly challenged to work as efficiently as possible and to provide more information to commissioners and regulators about the services we deliver, we know this is an area that we need to develop. During the year, we worked together with some industry Information Technology (IT) experts to complete a gap analysis and identify our key priority areas going forward. We have created and recruited to a new leadership role to take forward this work.

With our technology strategy, we had planned significant change in the coming three years and because of responding to the COVID-19 situation, we implemented and rolled-out Office365 environment across the Foundation. This enabled us to hold virtual meetings regularly and more flexibly than ever before, improving the communication and ability to respond to the changing situation. We have enabled families to get together where lockdown was preventing physical meeting and these developments will continue as we continuously look to shape a more technology focused approach for our services. We strengthened the internal team to implement transformational projects to respond to more efficient and effective ways of working across our teams and services.

We have continued our work throughout the year to improve the buildings that our services are delivered from, however there were some delays due to access to external contractors. We have developed the Hedleys Horizons offer, updated some of the estate and invested in the infrastructure, which has included creating capacity in our adult day services and improved the environments.

Plans for the future

Our priorities for 2020/21 are focussed around three main objectives:

- Protecting our core business by ensuring we retain our reputation for quality and provide value for money
- Developing new services or expanding our current service provision either as a stand-alone organisation or in partnership with others to increase income
- Transformation programme investing in core systems (including safeguarding), improving accommodation, delivery of the People Strategy, and continuous improvement so we are fit for purpose and fit for future

During 2020/21 we will conclude the review our Corporate Strategy which will bring further clarity to our decision making and will identify the principles, ways of working and competences that we need to retain at the heart of each of our services.

We need to develop our people and teams, because more of our users are vulnerable and require the absolute highest standards of care and support. Our reputation for excellence has been hard-won and is one of the things that has helped us maintain such a broad service offer in a challenging financial environment. Our dedicated recruitment team have established and managed a flexible staffing bank, which has been invaluable during the last 6 months and reduced our use of agency workers. We were also able to make it easier for our staff to balance their working and personal commitments when personal circumstances were affected by COVID-19.

Drawing on the trans-disciplinary traditions of the Foundation is delivering better outcomes for many of our service users, particularly the children and young people who have health, speech, and language, and behavioural conditions that are complex and require a level of specialism that mainstream educational and vocational providers are often unable to provide. We need to retain and build on these traditions as they continue to differentiate us from other providers.

Even though we have made progress with our estate over the last couple of years, many of our buildings still need refurbishment, or replacement, to cope with the demands posed by supporting service users with complex needs. Our buildings bring a great deal of history with them, but they need to be arranged for, and furnished with, the equipment that maximises the experience of our current and emerging service user populations. We will continue to review the layout and furnishing of our residential homes, changing capacity and space standards where change can have a real impact on the lives of our service users.

We plan to reopen our short break respite service in 2021 and we will continue to modernise and develop our residential services to improve the environments, leadership and management, and skills of the staff to support our service users.

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Report to the Trustees' (including the Strategic Report) (Continued)
For the year ended 31 August 2020

Fundraising update

The money we raise through voluntary contributions from the public, local businesses and grant making organisations supports a wide range of activities and developments across the Foundation.

Our fundraising in 2019/20 began very successfully with over 90 people running the Great North Run for us in September, followed by our most successful charity ball in November which raised over £87,000. We also built strong relationships with local and national companies such as Tolent and Tui. The COVID-19 pandemic had an immediate and devastating impact on our fundraising with all planned events and activities cancelled or postponed. In response we set up a COVID-19 Appeal and were overwhelmed by the donations and kindness we have received throughout the pandemic.

Our approach to fundraising is very much centred around the people who raise money for us. Our in-house fundraising team listen, encourage, and offer the ongoing support, tools, and information they need to maximise their fundraising. As well as supporting individuals and companies to do their own fundraising, we also recruit supporters to take on events organised by third parties such as the Great North Run and Great North Swim. In addition, we organise and deliver our own fundraising events such as the annual Percy Hedley Ball and seek grants from local and national trusts and foundations. In 2019/20 we did not engage any professional fundraisers or commercial participators, for example face to face or door to door fundraisers.

It is incredibly important to us that our fundraising activities comply with all appropriate regulations and guidelines as laid out by the Charity Commission and the Fundraising Regulator, who we are registered with. Our Fundraising Policy is regularly updated and is available to view at our website. We adhere to the Fundraising Regulator's Code of Fundraising Practice in all aspects of our fundraising and regularly refer to this to ensure our existing and new fundraising activities are compliant, for example updating our Fundraising Policy to include the recent updates around fundraising during the COVID-19 pandemic. We have a Customer Relationship Management (CRM) database in place to support our fundraising oversight, ongoing adherence to General Data Protection Regulation (GDPR), financial record keeping, monitoring and evaluation. In 2019/20 there were no compliance issues raised about our fundraising by the Charity Commission, Fundraising Regulator, or Information Commissioner's Office.

We are lucky to have committed volunteers who regularly raise money on behalf of the charity, for example our Board of Trustees and Percy Hedley Ball Committee. These volunteers represent and raise funds for Percy Hedley on a regular basis and as such we give them the appropriate training and support to ensure they maintain our fundraising standards. This includes sharing guidelines from the Code of Fundraising Practice, regular meetings, and oversight from the fundraising team. In 2019/20 we did not engage/pay any external fundraisers.

We remain committed to ensuring our donors and supporters receive the highest level of customer service when they choose to raise money for Percy Hedley, and we pride ourselves on building long last relationships with the many people who support us. Our Fundraising Policy clearly lays out how people can raise a concern or complaint about our fundraising and as in previous years, in 2019/20 we received no complaints with regards to our fundraising.

2019/20 has been an incredibly challenging year for Percy Hedley in terms of fundraising, and we are so grateful to everyone who has supported us by donating, taking part in an event, or pledging their support in the future. We are so grateful for their kind support of our work.

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Report to the Trustees' (including the Strategic Report) (Continued)
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Financial Review

In the year to 31 August 2020 the Foundation made a surplus of £1,622,000 (2019: £1,287,000) before actuarial gains and losses. This increased surplus on the previous year is important to the Foundation as it allows us to invest this in improving our services and facilities next year. A significant proportion of this increase is as a result of settling a number of outstanding debtors in the period with the release of bad debt provision and prior year uplift agreements which has taken a significant resource to resolve. The old balances were provided for at 2018/19 year-end and have since been collected within the year and into 2020/21. We continue to hold a prudent bad debt provision in our accounts related to current debtors' ledger. The underlying operational performance has been excellent in the current climate with strong management of a flexible workforce and avoiding any COVID-19 outbreak being the key factor. Despite the challenges, we have continued to maintain levels of sickness that would be considered normal. There was some benefit from the Government Job Retention Scheme with a small proportion of staff furloughed. This related to those not directly linked to services provided under contract, for short breaks services that were closed during the pandemic, or where direct payments were received. The total benefit of the scheme was £309,000. We expect during next financial year that we will focus on the delivery of our People Strategy.

Income from charitable activities has again increased by 6% to £31,260,000. The vast majority of our fundings received from 22 local authorities responsible for the education and care of the children, young people and adults that use the services we provide. These fees fund the day to day running costs of the services. The Foundation has a fundraising team, which is responsible for augmenting this income to help improve the estate, enrich provision and support major capital developments. (See further details on page 14.)

Local authority budget pressures continue to impact on our services as they look to manage tighter budgets and increase value for money. The Percy Hedley Pension Scheme provides benefits on a final salary or defined benefit basis, it is closed to new members but open to future accrual of benefits for its active members. The actuarial deficit has been revalued, in accordance with FRS 102, using up to date assumptions over discount rate, future salary increases, the rate of inflation and mortality assumptions. This revaluation has resulted in a decrease in the actuarial deficit of £515,000 from the previous year to £11,593,000. The trustees of both the Foundation and the Percy Hedley Pension Scheme are acutely aware of the need to balance the interests of the members of the pension scheme with those of the current and future beneficiaries that the charity supports. A deficit recovery plan over the coming 15 years has been agreed with the Pension Scheme Trustees that will allow the Foundation to continue to prosper and grow and a pension subcommittee established to monitor the actions arising from the plan.

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As in previous years the Trustees continue to make specific provision, Note 15 and 16, for the Foundation's obligations to make additional payments to the Tyne and Wear Local Government Superannuation (LGSS). The LGSS is a multi-employer pension scheme and the charity is part of a group of bodies admitted to the pension scheme whose assets and liabilities are pooled, consequently the charity is unable to identify its share of the underlying assets and liabilities.

The Foundation also contributes to a third defined benefit pension scheme, in relation to teaching staff, which is the Teachers' Pension Scheme (TPS). Contributions to the scheme are determined by actuarial review by the Government Actuary, the latest valuation for which is 2012. The latest valuation of the TPS was as at March 2019 and the employer contribution rate is expected to be reassessed and payable from 1 April 2020.

The Foundation has total funds of £10,542,000 (2019: £8,405,000). The balance sheet highlights a slight decrease in net book value of tangible fixed assets of £333,000 to £16,653,000, as depreciation is now less than new additions in the year.

Restricted funds total £274,000 (2019: £202,000). The Foundation holds £1,374,000 (2019: £690,000) of service designated funds. These are small donations and fundraising carried out within a particular service and are used throughout the year to provide 'added extras' to enrich service provision. There are other amounts which have been set aside by the trustees which will be spent during 2020/21, further details can be found in note 18.

As a result of our fundraising programme, which has primarily been used to invest in the Foundation's estate, general unrestricted reserves have increased to £20,489,000 (2019: £19,621,000). Unrestricted reserves are defined as those not allocated for specific purposes and excluding tangible fixed assets - primarily buildings which are held for charitable purposes.

Reserves Policy

The Trustees consider that unrestricted and undesignated reserves should be kept between £3.8m and £4.6m. This allows for the Foundation to react to unforeseen circumstances, whilst providing sufficient flexibility to operate on a day to day basis and take any appropriate decisions to further the Foundation's strategic development.

The lower end of this range is equivalent to 4 months or 1 term of staff costs at the Foundation's 2 largest services (Percy Hedley and Northern Counties Schools) and the higher end reflects the Foundation's aim to build a fund that will enable the continued refurbishment of some of our old buildings into an estate which is 'fit for purpose, fit for future' for the children, young people and adults for whom they are designed.

In recent years the Foundation has been through a period of significant investment in this estate including the development of our Killingworth Campus (Hydrotherapy Pool, Bradbury View Children's Residential Home and Percy Hedley School Annex), the renovation of Leybourne to a home for eight young disabled adults, as well as smaller refurbishments in a number of services. As a consequence of this investment, as expected, the free reserves fell below the minimum target range. During the last three years we have rebuilt reserves in a planned manner, balancing the need to continue refurbish and renovate our accommodation but at a much slower pace.

The Percy Hedley Foundation
(A company limited by guarantee)

Report to the Trustees' (including the Strategic Report) (Continued)
For the year ended 31 August 2020

As a result the Foundation's reserves were £3.8m at 31 August 2020. During 2018/19 the Trustees have designated £300k of funds to be set aside for a two-year programme of additional maintenance and minor improvement works to the charity's buildings. Due to availability of contractors this was not used in the 2019/20 financial year and carries over to 2020/21 to a programme of works to be completed. There were also additional designated funds of £200k set aside in the year as it has been recognised that the estate developments need to be fast-tracked in order to respond to the service user needs and development of services. The additional reserve of £300k, has also been carried forward to accelerate work that has commenced in a number of areas that the Trustees believe will support the longer-term growth of the charity and the people whom it supports. This work includes the development of new services and also an investment in technologies to support beneficiaries and those staff who support them. A further £200k has been allocated to this financial year, giving a total of £500k for this purpose.

Investment Policy

The Foundation has a longer-term strategy for investments with increasing investments from £1.5m (book value) to £2.45m and a further £1.6m (2019: £1.3m) was held in short term deposits.

This strategy allows for mid-term reserves to be held on cash deposits until they are needed for specific projects and for an element of reserves to be held for the long term in the event of future unknown uncertainties. It is the intention that the charity will add to longer term deposits at a similar rate to which the Foundation itself grows. The Trustees appoint investment managers to whom they delegate responsibility for managing the investment assets in accordance with an agreed policy statement. This statement sets out the Trustees aim, to produce the best financial return within an acceptable level of risk and includes the manner in which these assets may be ethically invested to ensure that they do not conflict with the aims of the charity.

Going concern

After making appropriate enquiries, including evaluating any impact with the continued effects of COVID-19, possible second wave, and local lockdown measures, the Trustees have a reasonable expectation that the charitable company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in the Accounting Policies on page 28.

Risk management

The Trustees have given consideration to the major risks to which the Foundation is exposed to and satisfied themselves that systems or procedures are established in order to manage those risks.

The Board is satisfied that systems and procedures are in place to mitigate our exposure to major risks. The Foundation has implemented a Risk Management Policy & Procedure to support the overall Risk Register which scope covers Operational, Strategic and Governance level risk and is maintained by the Foundation's Head of Quality and Compliance.

The Percy Hedley Foundation
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Report to the Trustees' (including the Strategic Report) (Continued)
For the year ended 31 August 2020

The charity's exposure to risk is overseen by the Audit Committee who provide assurance to the Trustees in this regard and to the charity's commitment to continuous improvement. All risks are monitored on an ongoing basis and a treatment plan is developed for risks that are considered to be significant or emerging. This is reviewed regularly through Exec to ensure mitigating actions are sufficient and effective. These risks include, but are not limited to:

Operational

Key staff cover plans and emergency contingency procedures are in place. Recruitment and retention policies and procedures are reviewed to ensure the charity is able to continue to deliver high quality services at all times.

Reputation

Maintaining high quality in all areas of service provision to ensure that our service users are able to achieve their potential.

Compliance

A focus on the increasing standards and procedures from Ofsted, CQC, the Fundraising Regulator and local authority commissioning and which the charity is committed to meeting and exceeding. There is also a focus on ensuring that the Foundation is compliant with changing legislation, such as our continued focus on General Data Protection Regulations and potential Brexit implications.

Financial

Funding cuts continue in all areas of commissioning, however budgetary controls are in place to manage costs, in particular the rising cost of employment and pensions. The charity places an increasing reliance on fundraising to ensure it is able to continue to invest in its aging estate for the benefit of those that use our services.

Projects

The Foundation are involved in various ongoing projects in line with our strategic roadmap, these varying projects will support compliance, IT infrastructure as well as improvements of services and growth for the Charity. All projects are managed effectively and a regularly reviewed to mitigate emerging and changing risks.

The Charity's activities are complex by nature and fall under several legal and regulatory frameworks and standards (ie Ofsted; Care Quality Commission and Health and Safety Executive and Local Authorities).

The major risks typically faced are related to Safeguarding of the people under the care of the Foundation and maintaining services to Regulatory requirements and standards. Recent events relating to the pandemic have shown how devastating unprecedented events can be as rules and unknown factors were rapidly changing driven by external factors beyond the control of the Foundation. The risk-based approach adopted by the Foundation driven at an operational and strategic level allowed for regular monitoring of arrangements to ensure actions were focused to mitigate the risks from happening and effective and appropriate controls remain in place or are changed to remain effective.

The Percy Hedley Foundation
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Report to the Trustees' (including the Strategic Report) (Continued)
 For the year ended 31 August 2020

Structure, governance and management

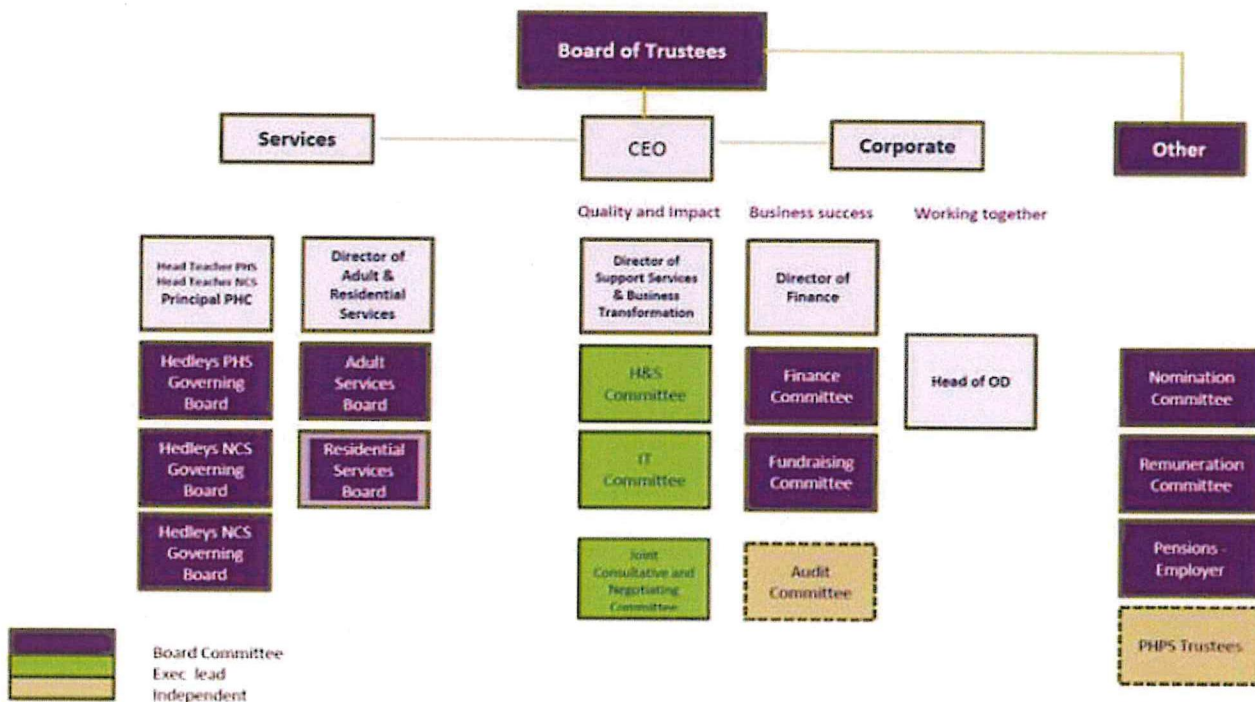
The Percy Hedley Foundation is registered as a charitable company limited by guarantee and was set up by Articles of Association on 12 October 1984.

It was founded in 1953 and is registered under the Charities Act 1960. Its governing documents are its Articles of Association incorporated on 12 October 1984 adopted on 1 November 2005 and amended by special resolutions dated 8 December 2008 and 8 November 2014. Northern Counties School, now an integrated part of the Foundation as a result of the merger in October 2005, was founded in 1838.

The Board of Trustees has responsibility for all aspects of the running of the Foundation. Members of the Board of Trustees are appointed for a three-year term, and appointments are made in accordance with the Articles of Association. Each member of the Board of Trustees agrees to contribute £1 in the event of the charity winding up.

Our Trustees have experience from all walks of life and are encouraged to keep these skills and knowledge up to date. Trustees' meetings are held periodically and issues are identified where new skills may be required and matched against specific Trustees.

The Percy Hedley Foundation Governance Structures



The Percy Hedley Foundation
(A company limited by guarantee)

Report to the Trustees' (including the Strategic Report) (Continued)
For the year ended 31 August 2020

Organisational structure and decision making

The Board has responsibility for the overall leadership and direction of the Foundation. It approves the Foundation's long-term objectives and strategy, policies and annual budgets. The Board meets quarterly and there are sub committees covering adult services, residential services, finance, remuneration, nominations, audit and pensions. This is in addition to the Governing Boards for Percy Hedley School, Northern Counties School and Hedleys College. At the start of the 2019/20 financial year the remit and membership of the audit committee was updated to reinforce the focus on charity and effective governance.

The Trustees delegate the day to day operation of the Foundation and its services to the Executive Management Team, led by the Chief Executive, Carole Harder. The Executive have delegated authority, within the terms of delegation approved by the Trustees for operational matters including finance, employment and the sound running of the Foundation's services.

Trustee selection, induction and appraisal

Recruitment of new Trustees is carried out through a process of open advertisement followed by interview and selection by the Nominations Committee, a sub group of the Board, whose proposals are reviewed and approved by the full Board of Trustees. New Trustees receive induction and training as necessary, including visits to services to ensure they have a thorough understanding of the working of the Foundation. Appraisals are carried out to review and support individual Trustee's needs.

Pay policy for senior staff

The Trustees consider that the Board of Directors, who are the Foundation's Trustees and the Executive team comprises of the key management personnel of the charity. All Trustees give their time voluntarily to the charity and do not receive any financial benefits or emoluments from the charity. Any expenses claimed are set out in note 11 to the accounts.

The pay of the Executive is reviewed annually. The Trustees believe that the levels of remuneration should be sufficient to attract, retain and motivate an Executive team of the quality required to run a large charity. The Foundation ensures that remuneration levels are linked to a regular objective setting system of performance appraisal and benchmarked against comparable roles. The Executive team is paid on the basis of a fixed salary and is commensurate with experience, responsibilities and performance.

Trustees' indemnities

Included within insurance charges is an annual charge of £2,675 (2019: £2,675) for Trustee Indemnity Insurance.

The Percy Hedley Foundation
(A company limited by guarantee)

Report to the Trustees' (including the Strategic Report) (Continued)
For the year ended 31 August 2020

Statement of trustees' responsibilities and corporate governance

The Trustees (who are also Directors of The Percy Hedley Foundation for the purposes of company law) are responsible for preparing the Trustees' report (including the Strategic Report) and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the Trustees to prepare financial statements for each financial year. Under company law the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and of the incoming resources and application of resources, including the income and expenditure, of the charitable company for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP (FRS 102);
- make judgements and accounting 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 the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in operation.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the trustees are aware:

- there is no relevant audit information of which the charitable company's auditor is unaware; and
- the trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website (www.percyhedley.org.uk). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This report was approved by the Trustees on ..17 March 2021..... and signed on their behalf by:



.....
Mr J Jowett
Chair



.....
Mr D Arthur
Vice Chair

The Percy Hedley Foundation
(A company limited by guarantee)

Independent Auditors' Report to the members of The Percy Hedley Foundation
For the year ended 31 August 2020

Opinion

We have audited the financial statements of The Percy Hedley Foundation (the 'charitable company') for the year ended 31 August 2020 which comprise the Statement of Financial Activities, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31 August 2020, and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

However, not all future events or conditions can be predicted. The COVID-19 viral pandemic is one of the most significant economic events for the UK with unprecedented levels of uncertainty of outcomes. It is therefore difficult to evaluate all of the potential implications on the charitable company's activities, customers, suppliers and wider economy. The trustees' view on the impact of COVID-19 is disclosed on page 9 and within the accounting policies note.

Other information

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

The Percy Hedley Foundation

Independent Auditors' Report to the members of The Percy Hedley Foundation *(Continued)* For the year ended 31 August 2020

Other information

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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Trustees' report including the Strategic report for which the financial statements are prepared is consistent with the financial statements; and
- the Trustees' report and the Strategic report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Trustees' report including the Strategic report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of trustees

As explained more fully in the Trustees' responsibilities statement set out on page 21, the Trustees (who are also the directors of the charitable company for the purposes of company law) are 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 Trustees 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 Trustees are responsible for assessing the charitable company'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 Trustees either intend to liquidate the charitable company or to cease operations, or have no realistic alternative but to do so.

The Percy Hedley Foundation

**Independent Auditors' Report to the members of The Percy Hedley Foundation (Continued)
For the year ended 31 August 2020**

Auditor's responsibilities for the audit of the financial statements

We have been appointed auditor under the Companies Act 2006 and section 151 of the Charities Act 2011 and report in accordance with those acts.

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

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

Use of our report

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Donna Bulmer BA (Hons) ACA (Senior Statutory Auditor)
For and on behalf of Haines Watts**

29/04/2021

Statutory Auditors

17 Queens Lane
Newcastle upon Tyne
NE1 6SU

The Percy Hedley Foundation
(A company limited by guarantee)

Statement of Financial Activities Incorporating Income and expenditure account
For the year ended 31 August 2020

| | Notes | Unrestricted General Fund £000 | Unrestricted Designated Fund £000 | Restricted Funds £000 | Total 2020 £000 | Total 2019 £000 |
|--|-------|---|--|-----------------------------|-----------------------|-----------------------|
| Income from: | | | | | | |
| Donations and legacies | 2 | 455 | 71 | 69 | 595 | 255 |
| Charitable activities | 5 | 31,093 | - | 167 | 31,260 | 29,507 |
| Fundraising activities | 3 | 83 | - | - | 83 | 178 |
| Investments | 4 | 36 | - | - | 36 | 65 |
| Total income | | <u>31,667</u> | <u>71</u> | <u>236</u> | <u>31,974</u> | <u>30,005</u> |
| Expenditure on: | | | | | | |
| Raising funds | | | | | | |
| Investment management costs | | 19 | - | - | 19 | 11 |
| Costs of generating fundraising | | 213 | - | - | 213 | 184 |
| Charitable activities | 6 | 30,034 | 33 | 123 | 30,190 | 28,576 |
| Total expenditure | | <u>30,266</u> | <u>33</u> | <u>123</u> | <u>30,422</u> | <u>28,771</u> |
| Net gain on investment | | 70 | - | - | 70 | 53 |
| Net income before transfers | | <u>1,471</u> | <u>38</u> | <u>113</u> | <u>1,622</u> | <u>1,287</u> |
| Transfers between funds | 18 | (605) | 646 | (41) | - | - |
| Net income before other recognised gains and losses | | <u>866</u> | <u>684</u> | <u>72</u> | <u>1,622</u> | <u>1,287</u> |
| Actuarial gains/(losses) on defined benefit pension schemes | 22 | 515 | - | - | 515 | (3,915) |
| Net movement in funds | | <u>1,381</u> | <u>684</u> | <u>72</u> | <u>2,137</u> | <u>(2,628)</u> |
| Reconciliation of funds: | | | | | | |
| Total funds brought forward | | 7,513 | 690 | 202 | 8,405 | 11,033 |
| Total funds carried forward | | <u>8,894</u> | <u>1,374</u> | <u>274</u> | <u>10,542</u> | <u>8,405</u> |

There were no unrecognised gains or losses other than the surplus for the year.

The Percy Hedley Foundation
(A company limited by guarantee)

Balance Sheet
As at 31 August 2020

| | Notes | 2020 £000 | 2019 £000 |
|--|-------|---------------|---------------|
| Fixed assets | | | |
| Tangible assets | 12 | 16,653 | 16,320 |
| Investments | 13 | 2,455 | 1,568 |
| | | <u>19,108</u> | <u>17,888</u> |
| Current assets | | | |
| Debtors | 14 | 1,387 | 3,583 |
| Cash at bank and in hand | | 8,278 | 4,886 |
| | | <u>9,665</u> | <u>8,469</u> |
| Creditors: amounts falling due within one year | 15 | (3,754) | (2,691) |
| Net current assets | | <u>5,911</u> | <u>5,778</u> |
| Total assets less current liabilities | | <u>25,019</u> | <u>23,666</u> |
| Creditors: amounts falling due after more than one year | 16 | (2,884) | (3,153) |
| Net assets excluding pension scheme liabilities | | <u>22,135</u> | <u>20,513</u> |
| Defined benefit pension scheme liability | 22 | (11,593) | (12,108) |
| | | <u>10,542</u> | <u>8,405</u> |
| Charity Funds | | | |
| Restricted funds | 18 | 274 | 202 |
| Unrestricted funds | 18 | 20,487 | 19,621 |
| Pension reserve | | (11,593) | (12,108) |
| Designated funds | | 1,374 | 690 |
| Total unrestricted funds | | <u>10,268</u> | <u>8,203</u> |
| Total funds | | <u>10,542</u> | <u>8,405</u> |

The financial statements were approved and authorised for issue by the Trustees on17 March 2021..... and signed on their behalf by:



.....
Mr J Jowett
Chairman



.....
Mr D Arthur
Vice Chair

Company Number: 01855026

The notes on pages 28 to 51 form part of these financial statements.

The Percy Hedley Foundation
(A company limited by guarantee)

Statement of Cash Flows
As at 31 August 2020

| | Notes | 2020 £000 | 2019 £000 |
|--|-------|------------------|------------------|
| Cash flows from operating activities: | | | |
| Net cash provided by operating activities | 20 | 5,688 | 3,330 |
| Cash flows from investing activities: | | | |
| Dividends and interest | | 36 | 51 |
| Purchase of tangible fixed assets | | (1,391) | (944) |
| Purchase of fixed asset investments | | (1,096) | (1,165) |
| Proceeds from sale of fixed asset investments | | 365 | 223 |
| Net cash used in investing activities | | <u>(2,086)</u> | <u>(1,835)</u> |
| Cash flows from financing activities: | | | |
| Repayments of borrowings | | (77) | (141) |
| Loan interest | | (54) | (55) |
| Net cash provided by financing activities | | <u>(131)</u> | <u>(196)</u> |
| Change in cash and cash equivalents in the year | | 3,471 | 1,299 |
| Cash and cash equivalents brought forward | | 4,981 | 3,682 |
| Cash and cash equivalents carried forward | | <u>8,452</u> | <u>4,981</u> |
| Cash and cash equivalents consist of: | | | |
| Cash at bank and in hand | | | |
| - Current account | | - | (12) |
| - Deposit account | | 8,269 | 4,887 |
| - Funds held with investment managers | | 174 | 95 |
| - Petty cash | | 9 | 11 |
| | | <u>8,452</u> | <u>4,981</u> |

1. Accounting Policies

1.1 Basis of preparation

The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued in October 2019, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102), the Charities Act 2011, the Companies Act 2006 and UK Generally Accepted Accounting Practice.

The Percy Hedley Foundation meets the definition of a public benefit under FRS 102. The financial statements are prepared under the historical cost convention or transaction value unless otherwise stated in the relevant accounting policy note(s). The financial statements are prepared in Sterling which is the functional currency of the charity and rounded to the nearest £000.

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

1.2 Company status

The company is a company limited by guarantee and incorporated in England and Wales. The members of the company are the Trustees named on page 1. In the event of the company being wound up, the liability in respect of the guarantee is limited to £1 per member of the company. The charitable company's registered office is at Hampeth Lodge, Station Road, Newcastle upon Tyne, NE12 8YY.

1.3 Going concern

The financial statements have been prepared on a going concern basis as the Trustees believe that no material uncertainties exist, even when considering the ongoing impact of Covid-19 on the services and Foundation as a whole. The Trustees have considered the level of funds held and the expected level of income and expenditure for 12 months from authorising these financial statements. The budgeted income and expenditure is sufficient with the level of reserves for the charity to be able to continue as a going concern.

1.4 Fund accounting

General funds are unrestricted funds which are available for use at the discretion of the Trustees in furtherance of the general objectives of the company and which have not been designated for other purposes.

Designated funds comprise unrestricted funds that have been set aside by the Trustees for particular purposes. The aim and use of each designated fund is set out in the notes to the financial statements.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the company for particular purposes. The cost of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the notes to the financial statements.

The Percy Hedley Foundation
(A company limited by guarantee)

Notes to the financial statements (Continued)
for the year ended 31 August 2020

1.5 Income

All income is recognised once the company has entitlement to the income, it is probable that the income will be received and the amount of income receivable can be measured reliably.

For legacies, entitlement is the earlier of the charity being notified of an impending distribution or the legacy being received. At this point income is recognised. On occasion legacies will be notified to the charity however it is not possible to measure the amount expected to be distributed. On these occasions, the legacy is treated as a contingent asset and disclosed.

Gifts in kind donated for distribution are included at valuation and recognised as income when they are distributed to the projects. Gifts donated for resale are included as income when they are sold. Donated facilities are included at the value to the company where this can be quantified and a third party is bearing the cost. No amounts are included in the financial statements for services donated by volunteers.

Income tax recoverable in relation to donations received under Gift Aid or deeds of covenant is recognised at the time of the donation.

The charitable company received government grants in respect of the Job Retention Scheme. Income from government and other grants are recognised at fair value when the charity has entitlement after any performance conditions have been met, it is probable that the income will be received and the amount can be measured reliably. If entitlement is not met then these amounts are deferred.

Interest on funds held on deposit is included when receivable and the amount can be measured reliably by the company; this is normally upon notification of the interest paid or payable by the bank.

Other income is recognised in the period in which it is receivable and to the extent the goods have been provided or on completion of the service.

1.6 Expenditure

Expenditure is recognised once there is a legal or constructive obligation to transfer economic benefit to a third party, it is probable that a transfer of economic benefits will be required in settlement and the amount of the obligation can be measured reliably. Expenditure is classified by activity. The costs of each activity are made up of the total of direct costs and shared costs, including support costs involved in undertaking each activity. Direct costs attributable to a single activity are allocated directly to that activity. Shared costs which contribute to more than one activity and support costs which are not attributable to a single activity are apportioned between those activities on a basis consistent with the use of resources. Central staff costs are allocated on the basis of time spent, and depreciation charges allocated on the portion of the asset's use.

Expenditure is categorised under the following headings;

- Expenditure on raising funds includes costs incurred to seek voluntary contributions in the form of donations, grants and fundraising events; and
- Charitable activities are costs incurred on the charitable company's charitable operations, including support costs and costs relating to the governance of the company apportioned to charitable activities.

Support costs are those costs incurred directly in support of expenditure on the objects of the company.

The Percy Hedley Foundation
(A company limited by guarantee)

Notes to the financial statements (Continued)
for the year ended 31 August 2020

1.7 Tangible fixed assets and depreciation

All fixed assets are initially recorded at cost.

Tangible fixed assets are carried at cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost of fixed assets, over their expected useful lives on the following basis:

| | |
|--|--------------------------------------|
| Freehold property | 40-100 years |
| Leasehold property | 100 years or length of lease if less |
| Motor vehicles | 3 years |
| Fixtures and fittings | 3 years |
| Therapy, office and computer equipment | 3 years |
| Refurbishments | 10-15 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 Financial Activities incorporating income and expenditure account.

1.8 Investments

Investments are initially recognised at their transaction value excluding transaction cost. Subsequently they are measured at fair value through the statement of financial activities if the shares are publicly traded or their fair value can be measured reliably.

1.9 Debtors

Trade and other debtors are recognised at the settlement amount. Prepayments are valued at the amount prepaid.

1.10 Current asset investments

Current asset investments are non-current account bank and building society deposits.

1.11 Cash at bank and in hand

Cash at bank and in hand includes cash and short term highly liquid investments with a short maturity of three months or less from the date of acquisition or opening of the deposit or similar account.

1.12 Liabilities and provisions

Liabilities are recognised when there is an obligation at the balance sheet date as a result of a past event, it is probable that a transfer of economic benefit will be required in settlement, and the amount of the settlement can be estimated reliably. Liabilities are recognised at the amount that the company anticipates it will pay to settle the debt or the amount it has received as advanced payments for the goods or services it must provide. Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the effect of the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognised within interest payable and similar charges.

1.13 Financial instruments

The company only has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value with the exception of bank loans which are subsequently measured at amortised cost using the effective interest method.

1.14 Taxation

The company is considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the company is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 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.

1.15 Operating leases

Rentals under operating leases are charged to the Statement of Financial Activities incorporating income and expenditure account on a straight line basis over the lease term.

1.16 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

Other retirement benefits to employees of the Charity are provided by the Teacher's Pension Scheme (TPS), the Tyne and Wear Local Government Superannuation Scheme (LGSS) and the Percy Hedley Pension Scheme (PHPS). These are defined benefit schemes, which are funded, with the assets being held separately from the charity. The PHP Scheme is closed to new members, being replaced with a defined contribution scheme.

Contributions to the TPS are charged to the income and expenditure account as the amount paid or payable in the year.

The contributions to all three schemes are determined by qualified actuaries on the basis of triennial valuations using the projected unit method for the LGSS and PHPS and quinquennial valuations using a prospective benefit method for the TPS.

The assets of the PHPS are measured using fair value. PHPS liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the operating surplus.

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

1.16 Pensions (Continued)

The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised within the Statement of Financial Activities.

The LGSS is a multi-employer pension scheme. The charity is part of a group of bodies admitted to the pension scheme whose assets and liabilities are pooled, consequently the charity is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the charity has taken advantage of the exemption for multi-employer schemes and has accounted for its contributions to the scheme as if it were a defined contribution scheme except to the extent that future funding of pensions deficits has been agreed, such deficits being recognised from the date of agreement as a liability.

1.17 Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions:

The charitable company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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 24, will impact the carrying amount of the pension liability.

Critical areas of judgement:

The amount by which fixed assets are depreciated annually is material to the financial statements and consequently, the estimate of the useful lives of fixed assets and their residual value is considered to be a critical area of judgement. There has been no change in these estimates this year.

2. Donations and legacies

| | Unrestricted funds | Restricted funds | Total 2020 | Total 2019 |
|----------------------|-------------------------------|-----------------------------|-----------------------|-----------------------|
| | £000 | £000 | £000 | £000 |
| Grants and donations | 217 | 69 | 286 | 236 |
| Legacies | - | - | - | 19 |
| Government grants | 309 | - | 309 | - |
| | <u>526</u> | <u>69</u> | <u>595</u> | <u>255</u> |
| | <u><u>526</u></u> | <u><u>69</u></u> | <u><u>595</u></u> | <u><u>255</u></u> |

The government grant relates to the claims made to the Job Retention Scheme.

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

3. Fundraising activities

| | Unrestricted funds £000 | Restricted funds £000 | Total 2020 £000 | Total 2019 £000 |
|--------------------|-------------------------------|-----------------------------|-----------------------|-----------------------|
| Fundraising events | 83 | - | 83 | 178 |

4. Investment income

| | Unrestricted funds £000 | Restricted funds £000 | Total 2020 £000 | Total 2019 £000 |
|------------------------------------|-------------------------------|-----------------------------|-----------------------|-----------------------|
| Interest from cash held on deposit | - | - | - | 25 |
| Dividends | 36 | - | 36 | 26 |
| Other interest | - | - | - | 14 |
| | 36 | - | 36 | 65 |

5. Income from charitable activities

| | Unrestricted funds £000 | Restricted funds £000 | Total 2020 £000 | Total 2019 £000 |
|------------------------|-------------------------------|-----------------------------|-----------------------|-----------------------|
| Education | 17,546 | 167 | 17,713 | 15,291 |
| Adult day services | 4,021 | - | 4,021 | 4,465 |
| Adult residential | 5,354 | - | 5,354 | 5,468 |
| Children's residential | 4,172 | - | 4,172 | 4,283 |
| | 31,093 | 167 | 31,260 | 29,507 |

6. Analysis of expenditure by activities

| | Activities undertaken directly £000 | Support costs £000 | Total 2020 £000 | Total 2019 £000 |
|------------------------|--|--------------------------|-----------------------|-----------------------|
| Education | 14,678 | 1,172 | 15,850 | 14,818 |
| Adult day services | 4,082 | 320 | 4,402 | 4,437 |
| Adult residential | 5,048 | 413 | 5,461 | 5,225 |
| Children's residential | 4,157 | 320 | 4,477 | 4,096 |
| | 27,965 | 2,225 | 30,190 | 28,576 |

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

7. Support costs

| | Education | Adult Day Services | Adult Residential | Children's Residential | Total 2020 | Total 2019 |
|--------------------|--------------|-----------------------|----------------------|---------------------------|---------------|---------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Staff costs | 1,001 | 273 | 354 | 273 | 1,901 | 1,765 |
| Professional costs | - | - | - | - | - | 63 |
| Other direct costs | 44 | 12 | 15 | 12 | 83 | 36 |
| Facilities cost | 12 | 3 | 4 | 3 | 22 | 25 |
| IT costs | 60 | 16 | 21 | 16 | 113 | 86 |
| Maintenance costs | 4 | 1 | 1 | 2 | 8 | - |
| Depreciation | 52 | 14 | 18 | 14 | 98 | 169 |
| Interest | - | - | - | - | - | 25 |
| | <u>1,173</u> | <u>319</u> | <u>413</u> | <u>320</u> | <u>2,225</u> | <u>2,169</u> |

8. Governance costs

Included within support costs above are governance costs as follows:

| | 2020 | 2019 |
|------------|-----------|-----------|
| | £000 | £000 |
| Audit fees | 14 | 14 |
| Legal fees | 23 | 27 |
| | <u>37</u> | <u>41</u> |

9. Net income before transfers

This is stated after charging:

| | 2020 | 2019 |
|--|--------------|--------------|
| | £000 | £000 |
| Depreciation of tangible fixed assets: | | |
| - owned by the charity | 1,059 | 1,273 |
| Interest payable | 54 | 55 |
| | <u>1,113</u> | <u>1,328</u> |

10. Auditors remuneration

| | 2020 | 2019 |
|---|-----------|-----------|
| | £000 | £000 |
| Fees payable to the company's auditor and its associates for the audit of the company's annual accounts | | |
| Audit of the charitable company | 12 | 12 |
| Audit of the pension scheme | 3 | 3 |
| Other | 1 | 1 |
| | <u>16</u> | <u>16</u> |

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

11. Analysis of staff costs, trustee remuneration and expenses, and the cost of key management personnel

| | 2020 | 2019 |
|-----------------------|---------------|---------------|
| | £000 | £000 |
| Wages and salaries | 21,363 | 20,352 |
| Social security costs | 1,454 | 1,393 |
| Other pension costs | 2,232 | 1,606 |
| | <u>25,049</u> | <u>23,351</u> |

Total redundancy and termination payments made to staff in the year amounted to £79,000 (2019 - £23,000).

The average number of persons employed by the company during the year was as follows:

| | 2020 | 2019 |
|-------------------|--------------|--------------|
| | No. | No. |
| Operational staff | 1,023 | 1,032 |
| Admin and support | 112 | 76 |
| Management | 3 | 4 |
| | <u>1,138</u> | <u>1,112</u> |

Average headcount expressed as a full time equivalent:

| | 2020 | 2019 |
|--------------------------------------|-------------|-------------|
| | No. | No. |
| Full time equivalent – all employees | 989 | 1,029 |

The number of higher paid employees were:

| | 2020 | 2019 |
|---------------------------------|-------------|-------------|
| | No. | No. |
| In the band £60,001 - £70,000 | 2 | 1 |
| In the band £70,001 - £80,000 | 1 | 4 |
| In the band £80,001 - £90,000 | 1 | - |
| In the band £90,001 - £100,000 | 1 | - |
| In the band £100,001 - £110,000 | - | - |
| In the bank £110,001 - £120,000 | - | 1 |
| In the band £120,001 - £130,000 | 1 | - |

Total remuneration received by 8 key management personnel in the year (2019 – 7 members), including employers national insurance contributions amounted to £729,337 (2019 - £714,341).

The charity trustees were not paid and did not receive any other benefits from employment in the year (2019 – none) neither were they reimbursed expenses during the period (2019 – none). No charity trustee received payment for professional or other services supplied to the charity (2019 – none).

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

12. Tangible fixed assets

| | Freehold property £000 | Long term leasehold property £000 | Motor vehicles £000 | Fixtures & fittings £000 | Equipment £000 | Total £000 |
|-----------------------|------------------------------|--|---------------------------|--------------------------------|-------------------|---------------|
| Cost | | | | | | |
| At 1 September 2019 | 8,452 | 12,706 | 280 | 1,022 | 1,806 | 24,266 |
| Additions | 1,040 | - | 26 | 151 | 175 | 1,392 |
| At 31 August 2020 | 9,492 | 12,706 | 306 | 1,173 | 1,981 | 25,658 |
| Depreciation | | | | | | |
| At 1 September 2019 | 3,540 | 1,974 | 241 | 711 | 1,480 | 7,946 |
| Charge for year | 499 | 155 | 31 | 165 | 209 | 1,059 |
| At 31 August 2020 | 4,039 | 2,129 | 272 | 876 | 1,689 | 9,006 |
| Net book value | | | | | | |
| At 31 August 2020 | 5,453 | 10,577 | 34 | 297 | 292 | 16,653 |
| At 31 August 2019 | 4,911 | 10,732 | 39 | 310 | 327 | 16,320 |

13. Fixed assets investments

| | 2020 £ | 2019 £ |
|--|-----------|-----------|
| Listed investments | 2,281 | 1,473 |
| Cash held with investment managers | 174 | 95 |
| | 2,455 | 1,568 |
| | | £ |
| Market value at 1 September 2019 | | 1,473 |
| Additions to investments at cost | | 1,095 |
| Disposals at carrying value | | (365) |
| Revaluation of investments to market value | | 78 |
| Market value at 31 August 2020 | | 2,281 |
| Historical cost | | 2,203 |

Equity investments that are traded on a quoted market are held at fair value determined by reference to the quoted price for identical assets in an active market at the balance sheet date.

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

14. Debtors

| | 2020 | 2019 |
|--------------------------------|---------------------|---------------------|
| | £000 | £000 |
| Trade debtors | 2,908 | 5,138 |
| Bad debt provision | (2,087) | (1,952) |
| Other debtors | 15 | 5 |
| Prepayments and accrued income | 551 | 392 |
| | <u>1,387</u> | <u>3,583</u> |
| | <u><u>1,387</u></u> | <u><u>3,583</u></u> |

15. Creditors: amounts falling due within one year

| | 2020 | 2019 |
|------------------------------------|---------------------|---------------------|
| | £000 | £000 |
| Bank loans | 203 | 162 |
| Trade creditors | 670 | 479 |
| Other taxation and social security | 352 | 367 |
| LGSS pension scheme deficit | 44 | 50 |
| Other creditors | 224 | 210 |
| Accruals and deferred income | 2,261 | 1,423 |
| | <u>3,754</u> | <u>2,691</u> |
| | <u><u>3,754</u></u> | <u><u>2,691</u></u> |

Deferred income

Deferred income comprises fee income relating to future periods:

| | |
|--|-------------------|
| | £000 |
| Balance at 1 September 2019 | 575 |
| Amounts released to income earned from charitable activities | (575) |
| Amounts deferred in the year | 585 |
| | <u>585</u> |
| Balance at 31 August 2020 | <u><u>585</u></u> |

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

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

| | 2020 | 2019 |
|-----------------------------|--------------|--------------|
| | £000 | £000 |
| Bank loans | 2,102 | 2,220 |
| LGSS pension scheme deficit | 782 | 933 |
| | <u>2,884</u> | <u>3,153</u> |

Creditors include amounts not wholly repayable within 5 years as follows:

| | 2020 | 2019 |
|-----------------------------|------------|------------|
| | £000 | £000 |
| LGSS pension scheme deficit | 782 | 933 |
| | <u>782</u> | <u>933</u> |

The pension scheme deficit is the agreed deficit contribution to be made by the charitable company to the Tyne & Wear Local Government Pension Scheme following the last valuation of that Scheme.

Bank loans due after one year are repayable as follows:

| | 2020 | 2019 |
|----------------------------|--------------|--------------|
| | £000 | £000 |
| Between one and two years | 203 | 162 |
| Between two and five years | 2,102 | 2,058 |
| | <u>2,305</u> | <u>2,220</u> |

The Foundation has a single mortgage with Barclays Bank plc which is secured on the charity's freehold and leasehold assets. The term remaining on the loan is 1 year and 11 months with interest charged at 1.5% over base rates. The ratio of the loan to the value of assets secured is 15%.

17. Financial instruments

| | 2020 | 2019 |
|--|------------------|------------------|
| | £000 | £000 |
| Measured at fair value through net income | 2,455 | 1,568 |
| | <u>2,455</u> | <u>1,568</u> |
| Financial assets measured at amortised cost | 9,114 | 8,077 |
| | <u>9,114</u> | <u>8,077</u> |
| Financial liabilities measured at amortised cost | (5,122) | (3,919) |
| | <u>(5,122)</u> | <u>(3,919)</u> |

Financial assets measured at amortised cost comprise cash at bank and cash deposits, trade debtors and other debtors.

Financial liabilities measured at amortised cost comprise bank loans, trade creditors and accruals.

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

18. Statement of Funds

For the year ended 31 August 2020

| | Balance At 1 September 2019 £000 | Income £000 | Expenditure £000 | Transfers in/out £000 | Gains/ (losses) £000 | Balance At 31 August 2020 £000 |
|---------------------------------|---|----------------|---------------------|-----------------------------|----------------------------|---|
| Unrestricted funds | | | | | | |
| General funds | 19,621 | 31,667 | (30,266) | (605) | 70 | 20,487 |
| Pension reserve | (12,108) | - | - | - | 515 | (11,593) |
| | <u>7,513</u> | <u>31,667</u> | <u>(30,266)</u> | <u>(605)</u> | <u>585</u> | <u>8,894</u> |
| Designated funds | | | | | | |
| Education | 61 | 31 | (10) | (4) | - | 78 |
| Adult Day Services | 16 | 17 | (15) | - | - | 18 |
| Adult Residential | 9 | 2 | (2) | - | - | 9 |
| Children's Residential | 4 | 10 | (6) | - | - | 8 |
| Central Services | - | 11 | - | - | - | 11 |
| Maintenance fund | 300 | - | - | 200 | - | 500 |
| Strategic Development fund | 300 | - | - | 200 | - | 500 |
| Recovery Plan PHS fund | - | - | - | 250 | - | 250 |
| | <u>690</u> | <u>71</u> | <u>(33)</u> | <u>646</u> | <u>-</u> | <u>1,374</u> |
| Total unrestricted funds | <u>8,203</u> | <u>31,738</u> | <u>(30,299)</u> | <u>41</u> | <u>585</u> | <u>10,268</u> |
| Restricted funds | | | | | | |
| Education | 191 | 207 | (123) | (9) | - | 266 |
| Adult Day Services | 11 | 29 | - | (32) | - | 8 |
| | <u>202</u> | <u>236</u> | <u>(123)</u> | <u>(41)</u> | <u>-</u> | <u>274</u> |
| Total of funds | <u>8,405</u> | <u>31,974</u> | <u>(30,422)</u> | <u>-</u> | <u>585</u> | <u>10,542</u> |

The Percy Hedley Foundation
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Notes to the financial statements (Continued)
for the year ended 31 August 2020

18. Statement of Funds (Continued)

For the year ended 31 August 2019

| | Balance At 1 September 2018 £000 | Income £000 | Expenditure £000 | Transfers in/out £000 | Gains/ (losses) £000 | Balance At 31 August 2019 £000 |
|---------------------------------|---|----------------|---------------------|-----------------------------|----------------------------|---|
| Unrestricted funds | | | | | | |
| General funds | 18,927 | 29,595 | (28,421) | (533) | 53 | 19,621 |
| Pension reserve | (8,193) | - | - | - | (3,915) | (12,108) |
| | <u>10,734</u> | <u>29,595</u> | <u>(28,421)</u> | <u>(533)</u> | <u>(3,862)</u> | <u>7,513</u> |
| Designated funds | | | | | | |
| Education | 40 | 55 | (34) | - | - | 61 |
| Adult Day Services | 8 | 11 | (3) | - | - | 16 |
| Adult Residential | 5 | 8 | (2) | (2) | - | 9 |
| Children's Residential | 2 | 5 | (3) | - | - | 4 |
| Maintenance fund | - | - | - | 300 | - | 300 |
| Strategic development fund | - | - | - | 300 | - | 300 |
| | <u>55</u> | <u>79</u> | <u>(42)</u> | <u>598</u> | <u>-</u> | <u>690</u> |
| Total unrestricted funds | <u>10,789</u> | <u>29,674</u> | <u>(28,463)</u> | <u>65</u> | <u>(3,862)</u> | <u>8,203</u> |
| Restricted funds | | | | | | |
| Education | 201 | 269 | (214) | (65) | - | 191 |
| Adult Day Services | 17 | 23 | (29) | - | - | 11 |
| Children's Residential | 26 | - | (26) | - | - | - |
| | <u>244</u> | <u>292</u> | <u>(269)</u> | <u>(65)</u> | <u>-</u> | <u>202</u> |
| Total of funds | <u>11,033</u> | <u>29,966</u> | <u>(28,732)</u> | <u>-</u> | <u>(3,862)</u> | <u>8,405</u> |

18. Statement of Funds (*Continued*)

Designated funds

Designated funds are small donations and income from some fundraising events, which are led by users, families, friends and staff of that particular service. These are set aside as a designated fund for use within that service. These funds are used each year to provide 'added extras' to enrich provision and might include small pieces of equipment and day or residential trips for those that use the service.

The maintenance fund carried forwards from 2018/19 relates to amounts set aside to cover a two-year programme of maintenance and minor improvements to the charity's buildings. Due to restrictions during COVID-19 lockdown the programme was delayed. A further £200k has been added to the maintenance fund in 2020/21.

The strategic development fund relates to amounts set aside to develop new services and to invest in technologies to support the beneficiaries and those staff who support them. This is a total of £500k which includes £300k carried forward from 2018/19.

The recovery plan PHS fund relates to amounts set aside for additional contributions toward the liability of pension scheme.

Restricted funds

Education

Percy Hedley School, Northern Counties School and Percy Hedley College receive income from the Education Funding Authority towards the education of our children and young people, including grants that are set aside specifically for new sports equipment, building maintenance improvements and for general use within the schools and college.

Capital grant funding was also received to purchase specialist equipment or to refurbish and adapt areas of the schools and college.

Adult Day Services

During the year we received funding from The Karten Foundation to purchase new multimedia and printing equipment for our Able 2 adult services project.

During the year we received Heritage Lottery funding of £16,680 (2019: £20,850), this is a two year project that has brought our residents, students and supporters together to organise and share the formidable archive of pictures, books and artefacts we've built up over the years. Due to COVID-19 restrictions, the exhibition originally planned will be replaced with other activities appropriate to new guidelines.

Children's Residential

During 2017/18 we were lucky enough to receive a grant from Children in Need to support residential trips for children who live in our Children's Home's, these trips took place during the 2018/19 academic year. Funds in 2019/20 have been raised to purchase a new roundabout for the short breaks service.

The Transfers represent funds received for capital projects which have been transferred to unrestricted funds once the projects have purchased the assets the fund was intended for.

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

19. Analysis of net assets between funds

For the year ended 31 August 2020

| | Unrestricted funds £000 | Restricted funds £000 | Total funds £000 |
|--|-------------------------------|-----------------------------|------------------------|
| Tangible fixed assets | 16,653 | - | 16,653 |
| Fixed asset investments | 2,455 | - | 2,455 |
| Current assets | 9,391 | 274 | 9,665 |
| Creditors due within one year | (3,754) | - | (3,754) |
| Creditors due in more than one year | (2,884) | - | (2,884) |
| Provisions for liabilities and charges | (11,593) | - | (11,593) |
| | <u>10,268</u> | <u>274</u> | <u>10,542</u> |

For the year ended 31 August 2019

| | Unrestricted funds £000 | Restricted funds £000 | Total funds £000 |
|--|-------------------------------|-----------------------------|------------------------|
| Tangible fixed assets | 16,320 | - | 16,320 |
| Fixed asset investments | 1,568 | - | 1,568 |
| Current assets | 8,267 | 202 | 8,469 |
| Creditors due within one year | (2,691) | - | (2,691) |
| Creditors due in more than one year | (3,153) | - | (3,153) |
| Provisions for liabilities and charges | (12,108) | - | (12,108) |
| | <u>8,203</u> | <u>202</u> | <u>8,405</u> |

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

20. Reconciliation of net movement in funds to net cash flow from operating activities

| | 2020 | 2019 |
|--|--------------|--------------|
| | £000 | £000 |
| Net income/(deficit) for the year (as per Statement of Financial Activities) | 2,137 | (2,628) |
| Adjustment for: | | |
| Depreciation charges | 1,059 | 1,273 |
| Interest payable | 54 | 55 |
| Interest from investments | (36) | (51) |
| Pension provision adjustment | (515) | 3,915 |
| Unrealised gain | (75) | (53) |
| Decrease in debtors | 2,196 | 1,107 |
| Increase/(decrease) in creditors | 868 | (288) |
| Net cash provided by operating activities | <u>5,688</u> | <u>3,330</u> |

21. Analysis of changes in net debt

| | At 1 Sep | Cash | At 31 Aug |
|---------------------------|------------------|--------------|------------------|
| | 2019 | flows | 2020 |
| | £000 | £000 | £000 |
| Long term borrowings | (2,220) | 118 | (2,102) |
| Short term borrowings | (162) | (41) | (203) |
| Total liabilities | <u>(2,382)</u> | <u>77</u> | <u>(2,305)</u> |
| Cash and cash equivalents | 4,981 | 3,471 | 8,452 |
| | <u>2,599</u> | <u>3,548</u> | <u>6,147</u> |

22. Pension commitments

The charity's employees belong to three defined benefit pension schemes and two defined contribution scheme; AEGON and Peoples Pension.

The three defined benefit pension schemes are: The Teachers' Pension Scheme England and Wales ("TPS"); the Tyne & Wear Local Government Superannuation Scheme ("LGSS"); and the Percy Hedley Pension Scheme ("PHPS"). The PHPS was closed to new members in 2012.

Defined contribution scheme

With respect to the defined contributions pension scheme, the assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £373,000 (2019 - £312,000). Contributions totalling £68,000 (2019 - £72,000) were payable to the fund at the balance sheet date and are included in creditors.

Teachers' Pension Scheme

Introduction

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pensions Regulations (2010) and, by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including academies, in England and Wales that are maintained by local authorities. In addition, teachers in many independent and voluntary-aided schools and teachers and lecturers in some establishments of further and higher education may be eligible for membership. Membership is automatic for full-time teachers and lecturers and, from 1 January 2007, automatic too for teachers and lecturers in part-time employment following appointment or a change of contract. Teachers and lecturers are able to opt out of the TPS.

The Teachers' Pension Budgeting and Valuation Account

Although members may be employed by various bodies, their retirement and other pension benefits are set out in regulations made under the Superannuation Act (1972) and Public Service Pensions Act (2013) and are paid by public funds provided by Parliament. The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – contributions from members, along with those made by employers, are credited to the Exchequer under arrangements governed by the above Acts.

The Teachers' Pensions Regulations 2010 require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pension increases). From 1 April 2001, the Account has been credited with a real rate of return, which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

22. Pension commitments (Continued)

Valuation of the Teachers' Pension Scheme

As a result of the latest scheme valuation employer contributions were increased in September 2019 from a rate of 16.4% to 23.6%. Employers also pay a charge equivalent to 0.08% of pensionable salary costs to cover administration expenses.

The next valuation is expected to take effect in 2023.

A copy of the latest valuation report can be found by following this link to the Teachers' Pension Scheme website.

Scheme Changes

In December 2018, the Court of Appeal held that transitional protection provisions contained in the reformed judicial and firefighter pension schemes, introduced as part of public service pension reforms in 2015, gave rise to direct age discrimination and were therefore unlawful. The Supreme Court, in a decision made in June 2019, rejected the Government's application for permission to appeal the Court of Appeal's ruling and subsequently referred the case to an Employment Tribunal to determine a remedy which will need to be offered to those members of the two schemes who were subject of the age discrimination.

Since then, claims have also been lodged against the main public service schemes including the TPS. The Department has conceded those in line with the rest of the government. In July 2020 HM Treasury launched a 12-week public consultation which will provide evidence to support the delivery of an appropriate remedy for the affected schemes, including TPS.

A final remedy will be determined once the results of the consultation are established.

In December 2019, a further legal challenge was made against the TPS relating to an identified equalities issue whereby male survivors of opposite-sex marriages and civil partnerships are treated less favourably than survivors in same-sex marriages and civil partnerships. The Secretary of State for Education agreed not to defend the case. In June 2020, the Employment Tribunal recorded its findings in respect of the claimant. DfE is currently working to establish what changes are necessary to address this discrimination.

Any impact of these events will be taken into account when the next scheme valuation is implemented. This is scheduled to be implemented in April 2023, based on April 2020 data.

The employer's pension costs paid to TPS in the period amounted to £469,000 (2019 - £299,000).

22. Pension commitments (Continued)

Local Government Superannuation Scheme

The LGSS is a funded defined benefit pension scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 August 2020 was £193,000 (2019 - £189,000), of which employer's contributions totalled £123,000 (2019 - £117,000) and employees' contributions totalled £24,000 (2019 - £24,000). The agreed contribution rates for future years are 33.6% for employers and between 5.5% and 6.8% for employees.

The total contribution included an additional payment of £46,000 (2019 - £48,000) in respect of past service deficit.

The pensions cost is assessed every three years in accordance with the advice of a qualified independent actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

- Latest actuarial valuation: 31 March 2019
- Investment returns per annum: 4.3% per annum
- Pension increases per annum: 2.1% per annum
- Salary scale increases per annum: 3.6% per annum
- Fair value of assets at date of last valuation: £5.731 million
- Present value of liabilities at date of the valuation: £6.417 million
- Deficit funding period for Percy Hedley: 17 years
- Future contribution rate 1 April 2018 to 31 March 2020 for Percy Hedley: 34.8%
- Life expectancy at age 65: men – 21.8 years, women – 24.9 years
- Life expectancy at age 65 for members currently aged 45: men – 23.4 years, women – 26.7 years

Under the definitions set out in Financial Reporting Standard 17 (Retirement Benefits), the LGSS is a multi-employer pension scheme. The charity is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the charity has taken advantage of the exemption in FRS 102 and has accounted for its contributions to the scheme as if it were a defined contribution scheme except to the extent that the charity has agreed to provide future deficit funding, which is recorded as a liability. The charity has set out above the information available on the deficit in the scheme and the implications for the charity in terms of anticipated contribution rates.

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

22. Pension commitments (Continued)

Percy Hedley Pension Scheme

The group operates a defined benefit scheme in the UK. A full actuarial valuation of the Percy Hedley Pension Scheme was carried out as at 31 March 2019 and the results of this valuation have been updated to 31 August 2020 by a qualified independent actuary. As required by FRS 102 the defined benefit liabilities have been measured using the projected unit method. The scheme is closed to new entrants and further benefit accrual.

The disclosures below are provided in respect of Percy Hedley Pension Scheme ("the Scheme").

The total cost recognised in the period was as follows:

| | 2020 | 2019 |
|-----------------------|----------------|--------------|
| | £'000 | £'000 |
| Current service cost | (345) | (493) |
| Past service cost | - | 2,447 |
| Net interest | (235) | (193) |
| Total cost recognised | <u>(580)</u> | <u>1,761</u> |

The amounts recognised in the balance sheet are as follows:

| | 2020 | 2019 |
|----------------------------------|-------------------|-------------------|
| | £'000 | £'000 |
| Fair value of scheme liabilities | (34,849) | (33,569) |
| Fair value of scheme assets | 23,256 | 21,461 |
| Deficit in the scheme | <u>(11,593)</u> | <u>(12,108)</u> |

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

22. Pension commitments (Continued)

Change in the present value of the defined benefit obligation

| | 2020 | 2019 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Opening defined benefit obligation | 33,569 | 29,292 |
| Current service cost | 345 | 493 |
| Past service cost | - | (2,447) |
| Interest cost | 669 | 779 |
| Contributions to scheme participants | 117 | 118 |
| Actuarial (gain)/loss arising on the scheme liabilities | 870 | 6,456 |
| Benefits paid | (721) | (1,112) |
| | <u>34,849</u> | <u>33,569</u> |

Change in the fair value of scheme assets

| | 2020 | 2019 |
|--------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Opening fair value of scheme assets | 21,461 | 21,089 |
| Interest income | 434 | 586 |
| Actual return assets | 859 | 115 |
| Contributions by employer | 1,106 | 665 |
| Contributions to scheme participants | 117 | 118 |
| Benefits paid | (721) | (1,112) |
| | <u>23,256</u> | <u>21,461</u> |

Major categories of scheme assets as a percentage of total assets

| | 2020 | 2019 |
|--|-------------|-------------|
| | % | % |
| Equities | 96.9 | 98.5 |
| Other (incl cash and net current assets) | 3.1 | 1.5 |

None of the scheme's assets are invested in property or other assets used by the employer.

The return on plan assets was as follows:

| | 2020 | 2019 |
|----------------------|--------------|--------------|
| | £'000 | £'000 |
| Interest income | 434 | 586 |
| Actual return assets | 859 | 115 |
| | <u>1,293</u> | <u>701</u> |

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

22. Pension commitments (Continued)

Principal actuarial assumptions at the balance sheet date

| | As at 31 August 2020 % | As at 31 August 2019 % |
|----------------------------|---------------------------------|---------------------------------|
| Discount rate | 1.80 | 2.00 |
| Salary increases | 0.00 | 0.00 |
| Inflation assumption (RPI) | 3.35 | 3.50 |
| Inflation assumption (CPI) | 2.35 | 2.50 |

The mortality assumptions used for longevity (in years) on retirement at age 65 are:

| | As at 31 August 2020 years | As at 31 August 2019 years |
|------------------------------------|-------------------------------------|-------------------------------------|
| Retiring at the balance sheet date | | |
| – males | 21.5 | 21.4 |
| – females | 23.5 | 23.3 |
| Retiring in 20 years | | |
| – males | 22.8 | 22.7 |
| – females | 24.9 | 24.8 |

23. Operating lease commitments

At 31 August 2019 the total of the Charity's future minimum lease payments under non-cancellable operating leases was:

| | 2020 £000 | 2019 £000 |
|-------------------------|--------------|--------------|
| Amounts payable: | | |
| Within 1 year | 37 | 124 |
| Between 1 and 5 years | 92 | 92 |
| After more than 5 years | 409 | 424 |
| Total | 539 | 640 |

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Notes to the financial statements (Continued)
for the year ended 31 August 2020

24. Related party transactions

During the year the Foundation received services from the following companies for whom one of our Trustees is also a director;

- £2,997 (2019 - £6,444) of services from ITPS Communications Ltd. There were no amounts outstanding at the year end.
- £nil of services from Acrol (2019 - £69,804). An amounts of £nil (2019 - £8,340) was due to the company at the year end.

25. Principal subsidiaries

The charitable company controls and owns one dormant subsidiary, NCS Developments Limited. The subsidiary is 100% owned by The Percy Hedley Foundation and is dormant with no assets or liabilities and nil net funds.

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Statement of Financial Activities Incorporating Income and expenditure account
For the year ended 31 August 2019

26. Comparative Statement of Financial Activities

| | Notes | Unrestricted Fund £000 | Restricted Funds £000 | Total 2019 £000 | Total 2018 £000 |
|--|-------|------------------------------|-----------------------------|-----------------------|-----------------------|
| Income from: | | | | | |
| Donations and legacies | 2 | 146 | 109 | 255 | 508 |
| Charitable activities | 5 | 29,324 | 183 | 29,507 | 28,170 |
| Fundraising activities | 3 | 178 | - | 178 | 219 |
| Investments | 4 | 65 | - | 65 | 14 |
| Total income | | <u>29,713</u> | <u>292</u> | <u>30,005</u> | <u>28,911</u> |
| Expenditure on: | | | | | |
| Raising funds | | | | | |
| Investment management costs | | 11 | - | 11 | - |
| Costs of generating fundraising | | 184 | - | 184 | 218 |
| Charitable activities | 6 | 28,307 | 269 | 28,576 | 28,066 |
| Total expenditure | | <u>28,502</u> | <u>269</u> | <u>28,771</u> | <u>28,284</u> |
| Net gain on investment | | 53 | - | 53 | - |
| Net income before transfers | | <u>1,264</u> | <u>23</u> | <u>1,287</u> | <u>627</u> |
| Transfers between funds | 18 | 65 | (65) | - | - |
| Net income/(expenditure) before other recognised gains and losses | | <u>1,329</u> | <u>(42)</u> | <u>1,287</u> | <u>627</u> |
| Actuarial gains/losses on defined benefit pension schemes | 22 | (3,915) | - | (3,915) | 83 |
| Net movement in funds | | <u>(2,586)</u> | <u>(42)</u> | <u>(2,628)</u> | <u>710</u> |
| Reconciliation of funds: | | | | | |
| Total funds brought forward | | 10,789 | 244 | 11,033 | 10,323 |
| Total funds carried forward | | <u>8,203</u> | <u>202</u> | <u>8,405</u> | <u>11,033</u> |