

**Pearson College Limited**

Registered Number :

07967446

Annual Report and Financial Statements  
For the Year Ended :

31 December 2019

Registered address :

80 Strand, London WC2R 0RL

## Pearson College Limited

### STRATEGIC REPORT

The directors present their Strategic Report of Pearson College Limited (the 'company') for the year ended 31 December 2019.

#### Business review

The results for the company show a pre-tax loss of £5,612,000 (2018: £6,069,000) for the year. Revenue has increased by 31.04% from the prior year as a result of increased activity driven primarily by increased student numbers.

#### Key performance indicators

The directors continually review the most appropriate and effective measures of the company's progress towards achieving its strategies and objectives. The following measures are continually monitored:

	2019	2018	Comments
Turnover	£9,839,000	£7,508,000	Increase in turnover by 31.04% driven primarily by increase student numbers.
Gross profit margin	92%	91%	
Student numbers	867	829	Based on FTE

#### Future developments

The company's strategic aim continues to be to achieve degree-awarding powers, university title and ultimately become one of the UK's leading universities for in-depth industry engagement in learning and teaching.

Pearson College board and Pearson plc have approved the resources required in order to achieve financial sustainability within the College's face-to-face learning capacity (including experiential and blended provision) and to enable it to continue to enhance that provision. Further information is set out in the Statement of Corporate Governance and Internal Control.

## **Pearson College Limited**

### **STRATEGIC REPORT (continued)**

#### **Principal risks and uncertainties**

The board is accountable for the system of risk management of the company. The directors undertake regular assessments of the current principal and emerging risks facing the company and the controls in place to mitigate these risks.

It continues to be a testing time for English higher education institutions. Their financing is under scrutiny, with the Review of Post-18 Education and Funding, launched by the government in February 2018, seeking answers to questions around choice, access, value for money and skills provision. Additionally the sector is adjusting to an increasingly competitive market in the midst of challenging economic conditions, while Brexit continues to be a source of uncertainty. The impact of COVID-19 is detailed below.

The company adopts mitigation activities in the form of internal controls and regular internal meetings. These include reporting to the board and monitoring compliance with statutory and regulatory requirements and the College's policies and procedures.

#### **COVID-19**

In December 2019, a novel strain of COVID-19 was reported in China. Since then, COVID-19 has spread globally, to include the United Kingdom. The spread of COVID-19 from China to other countries has resulted in the World Health Organization (WHO) declaring the outbreak of COVID-19 as a "pandemic," or a worldwide spread of a new disease, on March 11, 2020.

The UK has imposed a number of specific measures to combat the spread of COVID-19.

The UK has advised against all non-essential travel worldwide. This applies for an indefinite period. For those returning to the UK from another country then they will need to follow Government advice.

All retail outlets apart from those deemed as providing essentials services have been closed as well as outlets such as cafes, pubs and restaurants.

Specific advice to the general public:

- Only to go outside for food, health reasons, daily exercise or work (but only if you cannot work from home)
- If people leave the house they are to, always stay 2 metres away from each other
- Wash hands as soon as they get home
- No meetings with others, including friends or family.

**Pearson College Limited**

**STRATEGIC REPORT (continued)**

**COVID-19 (continued)**

We are closely monitoring developments on a day-by-day basis. Our primary focus is on ensuring the safety and well-being of our learners, employees and businesses we support. We have invoked our business continuity plans to help support our learners and teaching remains in place in a virtual capacity.

As restrictions continue to be put in place, our ability to continue to operate the College's face-to-face activity may be disrupted for an indefinite period of time.

The global outbreak of COVID-19 continues to rapidly evolve. The extent to which COVID-19 may impact our learning and teaching operations will depend on future developments, including the duration of the outbreak, travel restrictions and social distancing, the effectiveness of actions taken by the UK government to contain and treat the disease. The ultimate long-term impact of COVID-19 is highly uncertain and cannot be predicted with confidence.

Further information is detailed in the directors' report.

By order of the board

A handwritten signature in black ink, appearing to read 'R T Stockwell', with a stylized flourish at the end.

R T Stockwell  
Director

28 May 2020

## **DIRECTORS' REPORT**

The directors present their report and the audited financial statements of Pearson College Limited (the 'company') for the year ended 31 December 2019.

During the year the company transitioned from Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101) to International Financial Reporting Standards (IFRS). Additional disclosures have also been presented in accordance with Regulatory Advice 9: Accounts direction, as issued by the Office for Students (OfS 2019.41). The transition did not impact on the recognition or measurement of any assets or liabilities.

Pearson College Limited registered with the Office for Students on 15 October 2018 and this is the first set of accounts prepared under the Regulatory advice 9: Accounts direction as issued by the Office for Students (OfS 2019.41).

In accordance with the company's Memorandum and Articles, any retained surpluses wheresoever derived should be applied solely towards the promotion of the objects of the company and no portion paid, transferred or distributed directly or indirectly as a dividend, bonus or otherwise to the company's shareholders.

As all surpluses are reinvested by the company, an Income and Expenditure Account has been prepared, showing the deficit, in compliance with Paragraph 4 of Schedule 1 of the Statutory Instrument 2008/409. The balance at the end of each year is added to the company's general reserve.

### **Going concern**

COVID-19 will undoubtedly provide a degree of uncertainty within the Higher Education Sector within the UK and add pressure to all institutions' financial sustainability throughout his uncertain period. Despite what will be added financial pressure in the short to medium term, Pearson College is well placed to mitigate those risks.

All face-to-face courses have been designed to be delivered fully online. This means that Pearson College can continue to operate and teach online and minimise disruption to learning. As the courses have been developed to be delivered online, minimal additional expenses have been incurred. As a result, both the Business School and Creative School have moved to deliver fully online.

Depending on the length of the Covid-19 crisis, Pearson College intends to hold to the existing academic calendar in 2020, meaning existing students will complete Semester 2 as normal and returning and new students will re-commence lectures for Semester 1 in September, with the possibility that those lectures will be delivered online.

Several actions have been put in place to mitigate the financial risks as a result of Covid-19 which we expect to limit the impacts of a reduction in fee income:

- Headcount freeze has been put in place. It is unclear when this will be lifted. (Please note that despite a recruitment freeze Pearson College will maintain its SSR of 30:1 to ensure there is no degradation in the quality of learning, teaching and student support. In some areas, faculty may need to be supported by freelance staff where appropriate.)
- Events, Industry days etc. have been cancelled and replaced with online events.
- All non-essential travel has ceased

How long these actions will remain in place are to be determined. Any essential headcount (i.e. tutors) that may be required will be approved on a case by case basis.

The College has considered the impact of the COVID-19 pandemic on its business and on trading in future periods. We recognize that there will be short term impacts on student numbers and therefore fee income recognized in 2020 to 2023 for those students. However the directors are of the opinion that through a combination of the mitigating actions that the company has put in place and the continued financial support provided by the ultimate parent company, Pearson plc, preparing the financial statements on the going concern basis is appropriate. The directors have received confirmation that Pearson plc intends to support the company for at least 12 months after these financial statements are signed.

**DIRECTORS' REPORT (continued)**

**Dividends**

In accordance with the company's articles of association, no dividends will be paid.

**Directors**

The directors who held office during the year and up to the date of signing the financial statements are given below :

S Macdonald (Executive Director)

P A McGowan (Non-executive Director) (Resigned 12 November 2019)

P B Feldman (Non-executive Director) (Appointed 24 March 2020)

A C Morrison (Non-executive Director)

Dr G Gates (Non-executive Director) (Appointed 24 March 2020)

R S Farwell (Non-executive Director)

N J Hill (Non-executive Director)

S Jackson (Non-executive Director)

I J Palmer (Executive Director)

R T Stockwell (Executive Director)

**Qualifying third party indemnity provisions and liability insurance**

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. Pearson Management Services Limited, a related party, also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of the company and its directors and officers.

**Financial risk management**

Information in relation to financial instruments and financial risk management, as required by the Companies Act 2006 (the Act) and by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), are set out in note 18.

**Post balance sheet events**

Following the global outbreak of COVID-19 and actions taken by UK Government in March 2020 and subsequently to contain and treat the disease, the Company has considered the impact of the COVID-19 pandemic on its businesses and on trading in 2020. We recognize that there will be short term impacts on student numbers and therefore fee income recognized in 2020 to 2023 for those students, the College does not believe that any of the impacts constitute an adjusting post balance sheet event for the purposes of the 2019 financial statements.

The potential impacts of the COVID-19 pandemic on the College remains uncertain and cannot be predicted with a high degree of certainty. The College has assessed the areas within the College that may be required to be reassessed in 2020. This included areas that require a higher degree of judgement or complexity or areas where assumptions and estimates could be significant to the financial statements. These areas include the valuation of pre-publication assets / tax balances / provisions for returns / accounts receivable / pension assets and liabilities. The assumptions and estimates relating to these areas could change as the impact of COVID-19 becomes clearer although currently they are not expected to have a material impact on the income statement.

**DIRECTORS' REPORT (continued)**

**Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors 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 company and of the surplus or deficit of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with Companies Act 2006.

**Disclosure of information to auditors**

In the case of each director in office at the date the Directors Report is approved, the following applies :

- so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



R T Stockwell  
Director  
28 May 2020

Company registered number :  
07967446

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

Established in 2012 as a private limited company, Pearson College Limited, trading as Pearson College London, is an institution offering a range of undergraduate and postgraduate degrees, degree apprenticeships and short courses. Pearson College Limited is a wholly owned subsidiary of Pearson plc, a FTSE 100 company. Pearson College Limited is on the Office for Students register under the approved (fee cap) category.

Industry engagement is at the core of its mission to become one of the UK's leading universities for in-depth industry engagement which helps its students develop the knowledge, intellectual capacity and professional experience they need for their long-term careers. Courses are designed to be academically demanding, industry informed, and to inspire students with a real interest in how their chosen discipline plays a role in the modern professional world.

### Governance

Pearson College Limited has the following governing documents:

- Articles of Association
- Terms of Reference of its Committees which form its governance structure including:
  - o Governing Body
  - o Audit Committee
  - o Remuneration Committee
  - o Executive Team
  - o Academic Board and its sub-committees
- Scheme of Delegation

These governing documents were in place throughout the financial year ending 31 December 2019 and up to the date of approval of the College's audited financial statements.

The **Articles of Association** confirm that the Governing Body has ultimate accountability for the College's activities and it is formed of the Directors of Pearson College Limited. The Articles of Association also confirm the College's status as a not-for-profit organisation and are publicly available on the Companies House website (<https://beta.companieshouse.gov.uk/company/07967446>).

The **Governing Body** is ultimately accountable for all the College's activities. It oversees the work of the College and ensures that the academic governance procedures are effectively managed. Its terms of reference are modelled on the precepts of the Committee of University Chairs' Higher Education Code of Governance ("CUC Code"). Its responsibilities have been mapped against this Code and include working with the Executive Team to set the College's mission and strategy, approving the strategic plan and ensuring that this supports the College's mission and reflects the needs and interests of stakeholders while also ensuring that there is an aligned financial plan. The Governing Body is also the principal financial and business authority of the College, with responsibility to ensure proper auditing, and to approve the annual budget and financial statements. The Governing Body met on 5 occasions during the financial year ending 31 December 2019.

The **Audit Committee** is chaired by an external member on Governing Body and examines risk management control and governance under delegation from the Governing Body. It helps the Governing Body discharge its responsibility for adequate and effective risk management, control and governance (including ensuring the probity of the financial statements) and for the economy, efficiency and effectiveness of the College's activities. The Audit Committee met on 3 occasions during the financial year ending 31 December 2019.

The **Remuneration Committee** is chaired by the Deputy Chair of Governing Body and is responsible for determining the remuneration (base pay and performance related payments) of the Principal and designated post-holders, approving severance payments for the Principal and post-holders that report to the Principal along with any other senior staff (as defined in the OfS Accounts Direction), and for any staff for whom a severance package might exceed an individual amount to be agreed annually by the Remuneration Committee. The Remuneration Committee also maintains oversight of the College's pay policies and practices to ensure that these are fair, lawful and congruent with the College's objectives.



## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

The purpose of the **Executive Team** is to develop, lead on and implement the mission and strategic plan for the College. Its responsibilities include leadership, operational planning and management, risk management, financial planning, resource planning and management, managing stakeholder relationships (including industry partners) and legal obligations.

The Executive Team works with the Governing Body to set the College's mission and strategic plan. It is responsible for implementing that plan and for providing leadership and day-to-day management, guidance, direction, organisational planning, and supervision to the College community. The membership comprises the Principal, Vice-Principals, and Deans of School – in this way all the teams across the College are represented.

The **Academic Board** is the academic authority of the College for all academic matters. This includes oversight of academic management, maintenance and enhancement of academic quality and standards, provision of appropriate learning opportunities for students and the encouragement of a thriving community of scholarship, professionalism and research appropriate to the College's mission, and it has the responsibility of taking suitable measures and action to secure and promote these.

The Academic Board and Executive Team are supported by subcommittees which each have staff and student representation:

- The *Review and Enhancement Committee* (REC) monitors, reviews and makes recommendations for enhancement and improvement in relation to academic quality, provision of appropriate learning opportunities for students and the encouragement of a thriving community of scholarship, professionalism and research appropriate to the College's mission.
- The *Admissions, Progression, Retention and Achievement Committee* (APRAC) monitors academic standards and monitors and reviews the admission of students and their progression and attainment at the College, making recommendations for enhancement and improvement to College strategies, policies, processes and procedures as appropriate.
- *School Boards* discuss, monitor and review the strategic direction, management and operations of the School and provide a forum for recommendations for the College.
- The *Staff Student Liaison Committees* (SSLCs) are a forum in which learners and staff can communicate and exchange feedback about all aspects of Pearson College including the programme, facilities and student welfare. There are several SSLCs, organised according to discipline and level of study. Each is made up of Staff members and Student Experience Associates and deals with concerns at a local level. The SSLSc also feed into other committees as appropriate.

Pearson College London is committed to operating in a transparent manner. Its accounts are publicly available from Companies House and are due to be published on its website from June 2020. Details of the Governing Body, Academic Board and Executive Team membership are published on the Governance page of the College's website and updates are planned to provide greater clarity on the functions of these groups.

**STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)**

**Appointment of Directors**

The Governing Body has 9 members. A majority are independent external members (or “non-executive directors”), in accordance with the principles of the CUC Code. These external members comprise:

- The Chair
- A member who has significant experience of Higher Education leadership
- Two members with significant and senior experience in industry
- A member who has senior quality assurance experience

External members are appointed by the Governing Body, following consideration of CV and letter of application, due diligence enquiries and interview. They are appointed for a term of three years, which can be renewed once for a further three years, subject to approval. These members are appointed as Directors of Pearson College Limited and must therefore meet the general duties of a company director as defined in the Companies Act 2006.

The Governing Body membership also includes certain members of the Executive Team as *ex officio* members, including the Principal, to ensure appropriate communication and understanding between the Executive, who are responsible for the day-to-day management and leadership of the College, and the Governing Body, who have ultimate accountability, by providing a forum for the Governing Body to question, debate and challenge the Executive.

Finally, the Governing Body membership includes one member from the wider Pearson plc (the Senior Vice-President Higher Education Pearson) to ensure transparency and clear communication between Pearson plc and the College while still preserving the autonomy of the College.

**Principal and Accountable Officer**

Dr Roxanne Stockwell holds the office of Principal of Pearson College Limited and is also a director. She is the head of the institution and responsible to the Governing Body for the overall management, direction and organisation of the College. The Principal also leads the academic community and has responsibility for assuring standards and the quality of the students’ academic experience. The Principal is the College’s designated Accountable Officer, as defined by the Office for Students.

She is supported by the Executive Team, which meets bi-weekly, and comprises Vice-Principals in Academic Quality and Enhancement, External Relations and Industry Engagement, as well as the Deans of School, Finance Director and the Director for Work-Integrated Learning.

**Relationship with the Wider Pearson**

To ensure both the College’s autonomy and sustainability, involving continuing financial support from Pearson plc, an agreement has been entered into by both parties which makes clear the relationship between Pearson plc and Pearson College Limited and enshrines the principles of the College’s autonomy and academic freedom. It also makes it clear that Governing Body must sign off the budget for the College and that once this has been set, it cannot be changed by Pearson plc, for example, due to the financial performance of other parts of Pearson. In addition, the inclusion of the Senior Vice-President, Higher Education Pearson on Governing Body ensures that Pearson plc has a voice on the Governing Body, but that it is only one out of nine members, the majority of whom are external both to the College and to the wider Pearson.

**STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)**

**Statement of Governing Body responsibilities**

In addition to the responsibilities held in their capacity as Directors, by virtue of the Articles of Association, the responsibilities of the Governing Body are set out in the Governing Body Terms of Reference and include:

- To work with the Executive Team to set the mission and strategy of the College. [CUC 3 and App1.1]
- To approve the strategic plan of the College to ensure that this supports the College's mission and reflects the needs and interests of stakeholders and to ensure that there is an aligned financial plan which enables the College to build towards independent financial sustainability. [CUC 3.2 and App 1.11]
- To ensure that processes are in place to monitor and evaluate the performance and effectiveness of the College against the plans. [CUC 3.3 and App 1.2]
- To set, monitor and regularly review institutional Key Performance Indicators and to benchmark these against comparable institutions where appropriate. [CUC 3.3 and App 1.2]
- To approve fundamental plans and proposals, policies and procedures submitted by the Executive Team. [CUC 2 and App 1.3]
- To approve a human resources strategy and be the employing authority for all staff in the College. [CUC App1.10]
- To be the principal financial and business authority of the College, ensuring proper auditing, to approve the annual budget and financial statements. [CUC App 1.11]
- To appoint (and if necessary dismiss) the head of the College (the Principal), with due consideration given to Pearson plc's views, and to monitor his/her performance. To delegate authority of the management functions of the College (academic, corporate, financial, estate and human resource) to the Principal and Executive Team and keep these functions under regular review. [CUC App 1.3]
- To satisfy itself that academic governance is operating effectively, recognising and respecting the role of the Academic Board in relation to academic matters as set out in the terms of reference of that board. [CUC 4]
- To receive assurance that adequate provision has been made for the general welfare of students [CUC App 1.13]
- To safeguard the reputation and values of the College [CUC App 1.7]
- To ensure that the College meets all its legal and regulatory requirements. [CUC App 1.12]
- To ensure the establishment and monitoring of systems of control and accountability including financial and operational control and risk assessment. [CUC 3 and App 1.4]
- To ensure that Pearson College Students' Association is operated in a fair and democratic manner and is accountable for its budget and financial operations. [CUC 2.5]
- To ensure that the College fulfils its commitment to equality and diversity. [CUC 6]
- To act as the College's Board of Directors and ensure that the College's constitution in the form of its Articles of Association is followed. [CUC App 1.15]
- To establish and implement processes to monitor and evaluate the performance and effectiveness of the Governing Body and its committees. [CUC App 1.5]
- To appoint (and if necessary dismiss) individuals as members of the Governing Body.
- To conduct and review its business in accordance, where appropriate, with best practice in HE corporate governance and the principles of public life. [CUC App 1.6]
- To delegate matters to the Executive Team, Academic Board and other committees as appropriate.

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

### Review of Effectiveness

In 2018 the Governing Body commissioned an independent consultant to provide a report on the effectiveness of governance structures and processes of Pearson College London. As a result of this review, the College undertook the following steps in 2018, which continued during the financial year ending 31 December 2019:

- Amending the terms of reference of the Academic Board to include the Principal as an ex officio member;
- Amending the terms of reference of Governing Body to make explicit its duty to monitor and evaluate the performance and effectiveness of the governing body and its committees;
- Introduction of a single scheme of delegation document.

The Governing Body undertakes an annual self-assessment effectiveness review, which is coordinated by the Clerk to the Governing Body and the responses are collated, analysed and reported to members. The last such review took place in November 2019.

### Statement of Internal Control

The Governing Body is responsible for the College's internal controls, supported by the Audit Committee and other sub-committees, as outlined above, and for reviewing the effectiveness of these controls.

The College's system of internal control is an ongoing process designed to manage rather than eliminate the risk of failure to achieve its strategic aims and objectives. It seeks to identify the main risks to the achievement of the College's mission, strategic aims and objectives, and to evaluate and manage those risks effectively. This system was in place for the financial year ending 31 December 2019 and up to the date of approval of the financial statements. There are no significant internal control weaknesses or failures to report.

The following provides a summary of arrangements in place:

- The Governing Body meets at least four times per annum to consider the mission and strategic plan of the College and to monitor performance against those plans;
- The membership of the Governing Body has representation from the Executive Team. The Executive Team meets bi-weekly and has responsibility for operational planning and management, risk management, financial planning, resource planning and management, managing stakeholder relationships (including industry partners) and legal obligations;
- The College has a risk register which is reviewed at each Governing Body meeting, through which the Governing Body is able to evaluate the likelihood and impact of risks becoming a reality. The risk register covers business, operational and compliance risk as well as financial risk;
- The risk register has associated KPIs, which are reviewed regularly at all levels of the committee structure and include benchmarking against the sector;
- The risk register is monitored on an ongoing basis by the Executive Team and the Audit Committee and forms the basis of the Annual Audit Plan;
- The Governing Body has responsibility for approving the College's budget and ensures regularity and propriety in the use of its public funding through the Audit Committee and Remuneration Committee and by receiving a finance report and recruitment update at every meeting from the Finance Director and Vice-Principal (External Relations) respectively, with the opportunity to question and interrogate their reports, to ensure that spending is prudent and as forecast.
- The Audit Committee meets at least twice a year and receives updates on progress against the Annual Audit Plan. The Audit Committee makes an annual report to the Governing Body, detailing the results of external audits, an evaluation of internal controls and proposals for the Annual Audit Plan. The Audit Committee meets with the external auditors to review and scrutinise the draft financial statements before making recommendations for sign-off to the Governing Body.
- The Governing Body receives regular reports from managers on performance and areas of risk within their areas of responsibility, including progress reports on key projects and action plans.

The Governing Body is satisfied that there is an effective and ongoing process for identifying, evaluating and managing the College's risks and that this was in place during the financial year ending 31 December 2019 and up to the approval of these financial statements.

Signed on behalf of the Governing Body on 28 May 2020



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PEARSON COLLEGE LIMITED**

**Report on the audit of the financial statements**

**Our opinion**

In our opinion, Pearson College Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its income and expenditure, gains and losses, changes in reserves and cashflows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Office for Students' Accounts Direction (OfS 2019.41); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the income and expenditure account, the statement of comprehensive income, the cashflow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### **Responsibilities for the financial statements and the audit**

#### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 directors are responsible for assessing the 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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### **Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other required reporting**

**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

**Opinions on other matters prescribed in the Office for Students' Accounts Direction (OfS 2019.41)**

In our opinion, in all material respects:

- funds from whatever source administered by the company for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation;
- funds provided by the Office for Students and the Education and Skills Funding Agency have been applied in accordance with the relevant terms and conditions.

Under the Office for Students' Accounts Direction, we are required to report to you, if we have anything to report in respect of the following matters:

- The provider's grant and fee income, as disclosed in the note to the financial statements, has been materially misstated; or
- The provider's expenditure on access and participation activities for the financial year has been materially misstated.

We have no matters to report arising from this responsibility.



Brenda Heenan

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Belfast

29 May 2020

Pearson College Limited

**INCOME AND EXPENDITURE ACCOUNT**

For the year ended :

**31 December 2019**

		<b>2019</b>	2018
Continuing operations	<b>Note</b>	<b>£'000</b>	£'000
Income	3	<b>9,839</b>	7,508
Cost of sales		<b>(747)</b>	(693)
<b>Gross surplus</b>		<b>9,092</b>	6,815
Administrative expenses		<b>(13,752)</b>	(12,884)
<b>Operating deficit</b>	4	<b>(4,660)</b>	(6,069)
Finance costs	7	<b>(952)</b>	-
<b>Deficit before taxation</b>		<b>(5,612)</b>	(6,069)
Tax on deficit	8	<b>995</b>	1,104
<b>Deficit for the financial year attributable to shareholders</b>		<b>(4,617)</b>	(4,965)



Pearson College Limited

STATEMENT OF COMPREHENSIVE INCOME

For the year ended :

31 December 2019

	2019	2018
	£'000	£'000
Deficit for the financial year	(4,617)	(4,965)
Total comprehensive expense for the year attributable to shareholders	(4,617)	(4,965)

Pearson College Limited

**BALANCE SHEET**

As at:

**31 December 2019**

		<b>2019</b>	<i>Restated</i> <b>2018</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Non-current assets</b>			
Intangible assets	9	<b>2,532</b>	2,682
Property, plant and equipment	10	<b>3,897</b>	4,423
Investments	11	-	-
		<b>6,429</b>	7,105
<b>Current assets</b>			
Trade and other receivables	12	<b>7,465</b>	6,252
Current tax asset	12	<b>1,019</b>	1,210
Cash and cash equivalents		<b>387</b>	-
		<b>8,871</b>	7,462
<b>Current liabilities</b>	13	<b>(6,251)</b>	(24,494)
<b>Net current assets/(liabilities)</b>		<b>2,620</b>	(17,032)
<b>Non-current liabilities</b>	13	<b>(38,348)</b>	(19,017)
<b>Deferred taxation</b>	14	<b>(55)</b>	(68)
<b>Net liabilities</b>		<b>(29,354)</b>	(29,012)
<b>Equity</b>			
Called up share capital	15	<b>1</b>	1
Other reserves		<b>8,637</b>	4,428
Accumulated deficit		<b>(37,992)</b>	(33,441)
<b>Total shareholders' deficit</b>		<b>(29,354)</b>	(29,012)

The financial statements on pages 16 to 47 were approved by the board of directors and authorised for issue on 28 May 2020. They were signed on its behalf by :



R T Stockwell  
Director

**STATEMENT OF CHANGES IN EQUITY**

**For the year ended :**

**31 December 2019**

	Called up share capital	Other reserves	Accumulated deficit	Total shareholders' deficit
	£'000	£'000	£'000	£'000
<b>At 1 January 2018</b>	1	-	(28,476)	(28,475)
Deficit for the financial year	-	-	(4,965)	(4,965)
<b>Total comprehensive expense for the year</b>	-	-	<b>(4,965)</b>	<b>(4,965)</b>
<b>At 31 December 2018 and 1 January 2019</b>	1	-	(33,441)	(33,440)
Effect of restatement on fair value of loan	-	4,428	-	4,428
<b>At 1 January 2019 (restated)</b>	<b>1</b>	<b>4,428</b>	<b>(33,441)</b>	<b>(29,012)</b>
Deficit for the financial year	-	-	(4,617)	(4,617)
<b>Total comprehensive expense for the year</b>	-	-	<b>(4,617)</b>	<b>(4,617)</b>
Share-based payment transactions	-	129	-	129
Transfers	-	(66)	66	-
Fair value of related party loan entered into in year	-	4,146	-	4,146
<b>At 31 December 2019</b>	<b>1</b>	<b>8,637</b>	<b>(37,992)</b>	<b>(29,354)</b>

Share capital represents nominal value of shares allotted and called up.

Other reserves represents capital contributions from pearson plc in relation to share based payment charges and fair value movements on long term related party borrowings

Accumulated deficit account reserve represents accumulated losses.

**Pearson College Limited**

**CASH FLOW STATEMENT**

For the year ended :

**31 December 2019**

	<b>2019</b>	<i>Restated</i> <b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cash flows from operating activities</b>		
Net cash generated from operations		
Deficit before tax for the financial year	<b>(5,612)</b>	(6,069)
Tax received	-	791
Depreciation	<b>815</b>	566
Amortisation of intangible assets	<b>783</b>	751
Interest on related party loan	<b>763</b>	-
Loss on change in cashflows on related party loan	<b>189</b>	-
Share based payment expense	<b>129</b>	-
Increase in receivables	<b>(40)</b>	(1,515)
Increase/(decrease) in liabilities	<b>2,341</b>	(12,381)
<b>Net cash generated from/(used in) operating activities</b>	<b>(632)</b>	(17,856)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	<b>(19)</b>	(1,995)
Disposal of property, plant and equipment	-	78
Transfer of product development to related party	-	405
Purchase of intangible assets	<b>(903)</b>	(1,054)
<b>Net cash used in investing activities</b>	<b>(922)</b>	(2,567)
<b>Cash flows from financing activities</b>		
Increase in related party funding received	<b>22,525</b>	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>20,971</b>	(20,423)
Cash and cash equivalents at beginning of year	<b>(20,583)</b>	(160)
<b>Cash and cash equivalents at end of year</b>	<b>388</b>	(20,583)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended :

31 December 2019

1

### Statement of principal accounting policies

Pearson College Limited (the 'company') is a private company, limited by shares, incorporated and domiciled in the United Kingdom. The address of its registered office is 80 Strand, London WC2R 0RL. The nature of the company's principal activities are the education and training for the benefit of the public in the United Kingdom.

The principal accounting policies applied in the preparation of these financial statements are set out below.

### Basis of preparation

During the year the company transitioned from Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101) to International Financial Reporting Standards (IFRS). As a registered provider of English higher education, additional disclosures have also been presented in accordance with Regulatory Advice 9: Accounts direction, as issued by the Office for Students. The company has adopted the requirements of the 2019 Accounts direction for the year ended 31 December 2019. The transition did not impact on the recognition or measurement of any assets or liabilities.

The financial statements have been prepared on the going concern basis and in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These policies and measurement bases have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost convention.

In the financial statements for the year 31 December 2018, the amount due to group undertakings was carried at the face value of the loan. The discounting effect of the loans carried at cost was not taken into account in the prior period. The prior period comparatives have been restated to reflect this correction. The prior year adjustment resulted in the following:

- Amounts due to group undertakings has been reduced by £4,428,639
- A capital contribution of £4,428,639.

The prior year adjustment has no material impact on the profit before taxation for the financial year ended 31 December 2018.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. For areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, see note 2.

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand pounds unless otherwise stated.

### *Interpretations and amendments to published standards effective 2019*

The following standards were adopted in 2019:

- IFRS 16 Leases

Adoption of this standard has not had a material impact on the financial statements.

A number of other new pronouncements are also effective from 1 January 2019 but they do not have a material impact on the financial statements. Additional disclosure has been given where relevant.

### *Standards, interpretations and amendments to published standards that are not yet effective*

A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. None of these is expected to have a material impact on the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended :**

**31 December 2019**

**1**

**Statement of principal accounting policies (continued)**

**Consolidation**

The company is a wholly owned subsidiary of Longman Group (Overseas Holdings) Limited and is included in the consolidated financial statements of Pearson plc which are publicly available. Consequently the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are separate financial statements.

**Going concern**

The College has considered the impact of the COVID-19 pandemic on its business and on trading in future periods. We recognize that there will be short term impacts on student numbers and therefore fee income recognized in 2020 to 2023 for those students. However the directors are of the opinion that through a combination of the mitigating actions that the company has put in place and the continued financial support provided by the ultimate parent company, Pearson plc, preparing the financial statements on the going concern basis is appropriate. The directors have received confirmation that Pearson plc intends to support the company for at least 12 months after these financial statements are signed.

**Foreign currency translation**

The financial statements are presented in pounds sterling (£'000) which is also the company's functional currency.

Transactions in currencies other than the functional currency are recorded using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income and expenditure account.

**Income recognition**

Income represents the invoiced value of services supplied, net of discounts, from the development and administration of qualifications in business and enterprise. Income is recognised on contracts with customers when or as performance obligations are satisfied which is the period or the point in time where control of goods or services transfers to the customer. Judgement is applied to determine first whether control passes over time and if not, then the point in time at which control passes. Where revenue is recognised over time (i.e. over the period the qualification is delivered) judgement is used to determine the method which best depicts the transfer of control. Income that is recognised ahead of billings is shown as accrued income in the balance sheet. Income that is recognised as relating to future accounting periods is shown as deferred Income in the balance sheet.

Grant funding, including recurring funding and research grants from Government sources and grants (including research grants) from non-Government sources are recognised as income when the company is entitled to the income and performance-related conditions have been met. Income received in advance of performance-related conditions being met is recognised as deferred income within creditors on the Balance Sheet and released to income as the conditions are met.

**Current and deferred income tax**

Current tax is recognised at the amounts expected to be paid or recovered based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of tax assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

31 December 2019

**1**

**Statement of principal accounting policies (continued)**

**Intangible assets**

Software - Internal and external costs incurred during the preliminary stage of developing computer software for internal use are expensed as incurred. Internal and external costs incurred to develop computer software for internal use during the application development stage are capitalised if the company expects economic benefits from the development. Capitalisation in the application development stage begins once the company can reliably measure the expenditure attributable to the software development and has demonstrated its intention to complete and use the software. Internally developed software is amortised on a straight-line basis over its estimated useful life of 5 years.

Product development costs can either be direct costs incurred in the development of educational programmes or in the preliminary stages of developing computer software for internal use. Product development costs are regarded as an internally generated intangible asset and as such are capitalised and recognised as an asset when it is probable that future economic benefits that are attributable to the asset will flow to the operating company, the company has demonstrated its intention to complete and use the software, and the cost of the asset can be measured reliably. Product development costs, once in use, are amortised on a straight line basis over their useful life of 5 years.

**Property, plant and equipment**

Property, plant and equipment are stated at historical cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use. Depreciation on assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

Leasehold improvements - 10 years

Fixtures and fittings - 3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The carrying value of an asset is written down to its recoverable amount if the carrying value of the asset is greater than its estimated recoverable amount.

**Impairment of non-financial assets**

An impairment loss is recognised to the extent that the carrying value of assets exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

**Investment in subsidiaries**

Investments in subsidiaries are held at cost less accumulated impairment losses.

**Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provisions for bad and doubtful debts and anticipated future sales returns.

Trade receivables and contract assets are subject to impairment using the expected credit loss model. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. See note 12 for further details about trade receivables and contract assets including movements in provisions for bad and doubtful debts.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

31 December 2019

**1**

**Statement of principal accounting policies (continued)**

**Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held on call with banks and other short-term investments with maturities of three months or less. Overdrafts are included in borrowings in current liabilities in the balance sheet.

**Liabilities**

Liabilities are recognised initially at fair value and subsequently measured at amortised cost.

**Pensions**

The company participates in The Pearson Pension Plan. This is a hybrid with both defined benefit and defined contribution sections but, predominantly, consisting of defined benefit liabilities.

The company is unable to identify its share of the underlying assets and liabilities of The Pearson Pension Plan owing to information regarding non-active members and changes to the group structure including acquisitions and disposals. There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19 (Revised 2011), the company recognises a cost equal to its contribution payable for the period, which in the year ended 31 December 2019 was £374,000 (2018: £396,000). The sponsoring entity to this plan is Pearson Services Limited and further details are disclosed in the financial statements of that company which are available from the Company Secretary, 80 Strand, London WC2R 0RL.

**Share capital**

Ordinary shares are classified as equity.

**Financial instruments**

*Financial assets*

The company measures its trade and other receivables and cash and cash equivalents at amortised cost. Subsequent to initial recognition these assets are carried at amortised cost using the effective interest method and are subject to impairment. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

The financial assets are presented as current assets, except for those with maturities greater than 12 months after the reporting date. These are classified as non-current assets.

*Financial liabilities*

The company's financial liabilities comprise trade and other payables, other financial liabilities and related party borrowings.

The company initially recognises its financial liabilities at fair value net of transaction costs where applicable and are subsequently measured at amortised cost using the effective interest method.

**Share based payments**

Options and shares are awarded to the company's employees under Pearson share and option plans. The fair value of options or shares granted is recognised as an employee expense after taking into account the company's best estimate of the number of awards expected to vest. Fair value is measured at the date of grant and is spread over the vesting period of the option or share. The fair value of the options granted is measured using an option model that is appropriate to the award. The fair value of the shares awarded is measured using the share price at the date of grant unless another method is more appropriate.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended :**

**31 December 2019**

**2**

**Critical accounting judgements and key sources of estimation uncertainty**

In the application of the company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements in applying the company's accounting policies**

The critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies that have a significant effect on the amounts recognised in the financial statements are:

*Impairment of intangible assets*

The company makes a judgement on the recoverable value of its intangible assets. When assessing impairment of the assets, management considers factors including the historic performance, approved budgets and future cash flow projections as well as any operational aspects affecting the recoverable value. Management have also taken into consideration any impact of COVID-19.

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are :

*Useful economic life*

The annual amortisation charge for intangible assets is sensitive to changes in the estimated useful economic lives based on the future economic benefit of the asset. The useful economic lives are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and other sales factors. See intangible assets note for the carrying amount and for the useful economic lives for each class of assets.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

**31 December 2019**

**3**

**Income**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Continuing operations		
Fee income for taught awards (exclusive of VAT)	<b>8,190</b>	6,421
Fee income from non-qualifying courses (exclusive of VAT)	<b>883</b>	1,087
Grant income from the Office for Students	<b>766</b>	-
Fee income for research awards (exclusive of VAT)	-	-
Grant income from other bodies	-	-
<b>Total grant and fee income</b>	<b>9,839</b>	<b>7,508</b>

All income is recognised over time in line with the related qualification.

<i>Income by class of business is as follows:</i>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Educational services	<b>9,839</b>	<b>7,508</b>

The principal activity of the company continues to be that of integrated educational services. The directors view this as one class of business.

<i>Income by geographical market is as follows:</i>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom	<b>9,839</b>	<b>7,508</b>

<i>Assets and liabilities relating to contracts with customers:</i>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Contract assets - Accrued income	<b>3,069</b>	1,880
Contract liabilities - Deferred income	<b>(3,532)</b>	<b>(2,227)</b>

<i>Revenue recognised that was included in contract liabilities in the prior year</i>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Fee income for taught awards (exclusive of VAT)	<b>2,227</b>	2,359

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended :**

**31 December 2019**

**4**

**Operating deficit**

Operating deficit is stated after charging/(crediting):

		<b>2019</b>	<b>2018</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
Staff costs	5	<b>5,283</b>	5,016
Depreciation of property, plant and equipment:			
- owned	10	<b>815</b>	566
Property rental costs		<b>1,988</b>	2,101
Amortisation of intangible assets included in other operating expenses:			
- internally generated	9	<b>674</b>	659
- purchased	9	<b>109</b>	92

Fees paid to the company's auditors, PricewaterhouseCoopers LLP, and its associates for services other than the statutory audit of the company are not disclosed in the company's financial statements since the consolidated financial statements of the company's ultimate parent company, Pearson plc, are required to disclose non-audit fees on a consolidated basis.

Auditors' remuneration of £58,750 (2018: £51,000) has been borne by a fellow group undertaking in the current and preceding period.

***Access and participation expenditure***

	<b>2019</b>
	<b>£'000</b>
Access investment	<b>18</b>
Financial support provided to students	<b>83</b>
Support for disabled students	-
Research and evaluation related to access and participation activities	-
	<b>101</b>

As set out in Regulatory Advice 9: Accounts direction, as issued by the Office for Students, comparatives are not required as Access and participation plans were not in place prior to 1 August 2019 and therefore no comparatives figures exist.

Included above are amounts totalling £21,685 relating to staff costs which are intrinsic to the delivery of the access and participation activities. These costs are already included in the overall staff costs figures included in note 5.

The company's published access and participation plan can be found at <https://www.pearsoncollegelondon.ac.uk/content/dam/region-core/uk/pearson-college/Admissions/Access-and-Participation-2019-to-2020-Plan.pdf>. Note that the plan covers the academic year 2019/20 and therefore no direct comparison to the expenditure above can be drawn.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

**31 December 2019**

**5**

**Staff costs**

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Wages and salaries	<b>4,237</b>	4,117
Social security costs	<b>543</b>	503
Other pension costs	<b>374</b>	396
Share-based payment costs	<b>129</b>	-
	<b>5,283</b>	5,016

The company paid no compensation for loss of office to any employee in either year.

	<b>2019</b>	2018
<b>Average monthly number of persons employed by the company during the year</b>	<b>Number</b>	Number
Production	<b>29</b>	18
Selling and distribution	<b>38</b>	36
Administration	<b>48</b>	38
	<b>115</b>	92

The number of staff with a basic salary of over £100,000 per annum (calculated on FTE basis) has been included below:

	<b>2019</b>	2018
<i>Basic salary per annum</i>	<b>Number</b>	Number
£100,000 - £104,999	<b>2</b>	2
£115,000 - £119,999	<b>1</b>	1
£120,000 - £124,999	-	1
£135,000 - £139,999	-	1
£195,000 - £199,999	-	1
£200,000 - £204,999	<b>1</b>	-
	<b>4</b>	6

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

**31 December 2019**

**6**

**Directors' remuneration**

***Key management personnel***

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company. Staff costs include compensation paid to key management personnel.

The company's 'key management personnel' consist of the following people:

R T Stockwell (Executive Director and Principal)

S Macdonald (Executive Director and Vice Principal)

I J Palmer (Executive Director and Dean)

R S Farwell (Non-executive Director)

N J Hill (Non-executive Director)

S Jackson (Non-executive Director)

A C Morrison (Non-executive Director)

P A McGowan (Non-executive Director)

P B Feldman (Non-executive Director)

Dr G Gates (Non-executive Director)

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Aggregate emoluments	<b>552</b>	557
Company contributions to defined contribution pension schemes	<b>64</b>	72
	<b>616</b>	629

Share based remuneration to the directors in 2019 was £128,901

<b>Total remuneration of Principal</b>	<b>£'000</b>	£'000
Basic salary	<b>202</b>	199
Performance related pay and other bonuses	<b>44</b>	53
Share based payment expense	<b>42</b>	-
Defined contribution pension scheme - company contributions during the year	<b>27</b>	31
	<b>315</b>	282

Further information on the share based payment expense is detailed in note 16.

- i. The head of the provider's basic salary is 8.51 times the median pay of staff (2018: 9.09 times), where the median pay is calculated on a full-time equivalent basis for the salaries paid by the provider to its staff.
- ii. The head of the provider's total remuneration is 12.17 times the median total remuneration of staff (2018: 11.54 times), where the median total remuneration is calculated on a full-time equivalent basis for the total remuneration by the provider of its staff.

The Principal was appointed in 2011 prior to the College being formed. The role was to establish a higher education awards division, and after strategic analysis she proposed the establishment of a college specialising in employer engagement and successfully gained the necessary approval and funding. Her skills and expertise include those necessary for complex strategic analysis, the development and implementation of a business plan for the start-up phase of a new higher education entity, the ability to navigate a complex listed company, and to gain the necessary long term support for the project. She was approached by Pearson from a previous listed company where she was on the board of directors with responsibility for innovation and teaching and learning, as having the necessary skills and experience for the new role within Pearson and her remuneration package was set accordingly. This was prior to the Governing Body in its current configuration.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended :**

**31 December 2019**

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**Directors' remuneration (continued)**

Since the establishment of the Governing Body in May 2017 the remuneration package of the Principal has been its responsibility. The Principal's existing package was considered and its various components understood including the Incentives Plans (which relate to Pearson Group wide benefits and depend on the performance of Pearson plc as a whole). The benefits are standard when benchmarked across a particular level of seniority within Pearson Group and most elements of the package are applicable to all staff (in varying amounts).

The Governing Body's Remuneration Committee, chaired by the Deputy Chair of the Board of Governors along with three further independent members, received information about and reviewed the Principal's remuneration at its November 2018 and December 2019 meetings. The Principal was not present for these discussions.

The Committee paid particular attention to reviewing data for the remuneration packages of Heads of Provider across the sector and to benchmarking the Principal's basic salary by comparing it, as much as is possible, to those providers of a similar income and nature. In considering the Principal's current salary against some of these other organisations, it was noted that the level of responsibility of the Accountable Officer and CEO of a provider is fundamentally the same irrespective of the number of students. It was also borne in mind that the College is not yet in steady state and the Principal was responsible for the founding of the College, getting it through approvals and funding rounds, establishing long term financial support and non-profit status, and ensuring independent governance and guaranteed academic autonomy.

The particular remuneration package for 2019 was informed by these principles and already applicable practice. The Principal was awarded the same inflationary percentage increase as the majority of people working at Pearson plc with effect from 1 January 2019 (and has had standard inflation based pay rises only since commencing in 2011). In considering the Principal's eligibility for performance related pay the Committee took account of the achievement of objectives that had been set for the previous year and reached a grading which placed the Principal in the mid-range.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

**31 December 2019**

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**Finance costs**

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Interest payable on related party balances	<b>763</b>	-
Loss on change in cashflows on related party loan	<b>189</b>	-
<b>Total finance costs</b>	<b>952</b>	-

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended :

31 December 2019

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## Tax on deficit

	2019	2018
	£'000	£'000
Note		
<b>Current tax</b>		
UK corporation tax on deficit for the year	(1,018)	(1,191)
Adjustments in respect of prior years	36	(34)
<b>Total current tax</b>	<b>(982)</b>	<b>(1,225)</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(11)	55
In respect of share based payments	(9)	-
Adjustments in respect of prior years	7	66
<b>Total deferred tax</b>	<b>(13)</b>	<b>121</b>
<b>Total tax credit on deficit</b>	<b>(995)</b>	<b>(1,104)</b>
<b>UK standard effective rate of corporation tax (%)</b>	<b>19.0</b>	<b>19.0</b>

The tax credit for the year can be reconciled to the deficit for the financial year in the income and expenditure account as follows:

	2019	2018
	£'000	£'000
<b>Deficit before tax</b>	<b>(5,612)</b>	<b>(6,069)</b>
Tax on deficit at standard UK corporation tax rate of 19.0% (2018: 19.00%)	(1,066)	(1,153)
Effects of:		
Expenses not deductible for tax purposes	10	39
Adjustments in respect of prior years	43	32
Change in tax laws and rates	18	(6)
In respect of share schemes	-	(16)
<b>Total tax credit for the year</b>	<b>(995)</b>	<b>(1,104)</b>

The current rate of corporation tax is 19%. It had been expected to reduce to 17% effective 1 April 2020, however, this was changed to 19% in the 2020 Budget. This change has no material impact on the deferred tax assets or liabilities recognised by the company.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

**31 December 2019**

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**Intangible assets**

	<b>Product development</b>	<b>Software</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>			
At 1 January 2018	3,748	437	4,185
Additions	1,054	-	1,054
Disposals	(405)	-	(405)
Reclassification	100	(97)	3
<b>At 31 December 2018</b>	<b>4,497</b>	<b>340</b>	<b>4,837</b>
Additions	903	-	903
Reclassification	(325)	55	(270)
<b>At 31 December 2019</b>	<b>5,075</b>	<b>395</b>	<b>5,470</b>
<b>Accumulated Amortisation</b>			
At 1 January 2018	1,333	71	1,404
Charge for the year	659	92	751
<b>At 31 December 2018</b>	<b>1,992</b>	<b>163</b>	<b>2,155</b>
Charge for the year	674	109	783
<b>At 31 December 2019</b>	<b>2,666</b>	<b>272</b>	<b>2,938</b>
<b>Net book value</b>			
At 1 January 2018	2,415	366	2,781
At 31 December 2018	2,505	177	2,682
<b>At 31 December 2019</b>	<b>2,409</b>	<b>123</b>	<b>2,532</b>

**Product development**

Costs relating to the development of educational programmes and content. The useful economic life is estimated as 5 years. The remaining useful life of these assets is between 2 and 5 years. Product development includes costs of £857,664 (2018: £1,015,494) relating to assets under construction which are not amortised. During the year assets under construction of £325,000 were reclassified, upon completion of construction, to i) software (£55,000) and ii) to property, plant and equipment (£270,000).

**Software**

Software relates to a student information package to aid student registration, invoicing and interfacing. The useful economic life is estimated as 5 years. The remaining useful life of these assets is 2 years.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

**31 December 2019**

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**Property, plant and equipment**

	Leasehold improvements	Fixtures and fittings	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 1 January 2018	2,133	1,967	4,100
Additions	-	1,995	1,995
Disposals	(78)	(85)	(163)
Reclassification	(49)	46	(3)
At 31 December 2018	2,006	3,923	5,929
Additions	-	19	19
Disposals	-	(329)	(329)
Reclassification	1,787	(1,517)	270
<b>At 31 December 2019</b>	<b>3,793</b>	<b>2,096</b>	<b>5,889</b>
<b>Accumulated Depreciation</b>			
At 1 January 2018	395	630	1,025
Charge for the year	203	363	566
Disposals	(78)	(7)	(85)
At 31 December 2018	520	986	1,506
Charge for the year	348	467	815
Disposals	-	(329)	(329)
<b>At 31 December 2019</b>	<b>868</b>	<b>1,124</b>	<b>1,992</b>
<b>Net book value</b>			
At 1 January 2018	1,738	1,337	3,075
At 31 December 2018	1,486	2,937	4,423
<b>At 31 December 2019</b>	<b>2,925</b>	<b>972</b>	<b>3,897</b>

Fixtures & fittings includes costs relating to assets under construction which are not depreciated, which is not disclosed separately in the table above. During the year, £1,517,000 were reclassified to leasehold improvement, upon completion of construction

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

31 December 2019

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**Investments**

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Subsidiary undertakings	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended :

31 December 2019

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Investments - subsidiary undertakings

	£'000
<b>Cost</b>	
At 1 January 2018 and 1 January 2019	6,136
<b>At 31 December 2018 and 31 December 2019</b>	<b>6,136</b>
<b>Provision</b>	
At 1 January 2018 and 1 January 2019	6,136
<b>At 31 December 2018 and 31 December 2019</b>	<b>6,136</b>
<b>Net book value</b>	
At 31 December 2018	-
<b>At 31 December 2019</b>	<b>-</b>

Details of subsidiary undertakings:

			2019	2018
<b>Subsidiary</b>	<b>Class of shares held</b>	<b>Place of incorporation</b>	<b>Direct % held</b>	<b>Direct % held</b>
Escape Studios Limited (in liquidation)*	Ordinary	England and Wales	100%	100%

\* Registered office: Evergreen House North, Grafton Place, London, NW1 2DX

Investments in subsidiaries are stated at cost less provision for impairment.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

31 December 2019

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**Trade and other receivables**

		2019	2018
	Note	£'000	£'000
<b>Amounts falling due within one year</b>			
Trade receivables		4,210	2,776
Amounts owed by group undertakings	20	11	1,374
Prepayments and accrued income		3,244	2,102
<b>Total trade and other receivables</b>		<b>7,465</b>	<b>6,252</b>
Corporation tax		1,019	1,210
<b>Total current tax asset</b>		<b>1,019</b>	<b>1,210</b>
<b>Total receivables</b>		<b>8,484</b>	<b>7,462</b>

Accrued income represents contract assets which are unbilled amounts where revenue recognised over time has been recognised in excess of customer billings to date. The movement in accrued income from 2018 to 2019 reflects the increase in activity during 2019. Impairment charges on accrued income assets are £294,256 (2018: £nil). The carrying value of the company's trade and other receivables approximates its fair value (see note 18 for further details). Trade receivables are stated net of provisions for bad and doubtful debts.

The movements in the provision for bad and doubtful debts are as follows:

	2019	2018
	£'000	£'000
At beginning of year	795	655
Profit and loss movements	392	140
Utilised	(345)	-
<b>At end of year</b>	<b>842</b>	<b>795</b>

Concentrations of credit risk with respect to trade receivables are limited due to the company's large number of customers.

The ageing of the company's trade receivables is as follows:

	2019	2018
	£'000	£'000
Within due date	3,268	2,036
Up to three months past due date	151	118
Three to six months past due date	791	622
<b>Net trade receivables</b>	<b>4,210</b>	<b>2,776</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

**31 December 2019**

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**Liabilities**

		<b>2019</b>	<i>Restated</i> <b>2018</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Current liabilities</b>			
Bank loans and overdrafts		-	20,583
Trade payables		<b>664</b>	861
Amounts owed to group undertakings	20	<b>2,056</b>	279
Other liabilities		-	7
Accruals and deferred income		<b>3,531</b>	2,764
		<b>6,251</b>	24,494
<b>Non-current liabilities</b>			
Amounts owed to group undertakings	20	<b>38,348</b>	19,017
		<b>38,348</b>	19,017

The carrying value of the company's trade and other liabilities approximates its fair value (see note 18 for further details).

The movement in deferred income from 2018 to 2019 reflects an increase in activity during 2019 which straddles the year end.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended :

31 December 2019

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Deferred taxation

		Timing differences	Total
<b>Asset/(liability)</b>	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
At 1 January 2018		53	53
Charge to profit and loss		(121)	(121)
At 31 December 2018 and 1 January 2019		(68)	(68)
Credit to profit and loss	8	13	13
<b>At 31 December 2019</b>		<b>(55)</b>	<b>(55)</b>

The deferred tax asset/(liability) is a result of timing differences, which are expected to be recovered in the future.

No deferred tax asset has been recognised on accumulated losses in either year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended :

31 December 2019

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Called up share capital

	2019	2018
	£'000	£'000
<b>Total share capital</b>	<b>1</b>	<b>1</b>

	2019	2018	2019	2018
	No '000s	No '000s	£'000	£'000
<b>Ordinary shares £1 each</b>				
Allotted, called up and fully paid	1	1	1	1



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended :**

**31 December 2019**

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**Share-based payments**

The company's employees are entitled to shares and options under the following equity-settled employee option and share plans:

*Save-for-Shares Plans*

Since 1994, the Group has operated a Save-As-You-Earn plan for UK employees. In 1998, the Group introduced a Worldwide Save for Shares Plan. Under these plans, employees can save a portion of their monthly salary over periods of three, five or seven years. At the end of this period, the employee has the option to purchase ordinary shares with the accumulated funds at a purchase price equivalent to 80% of the market price prevailing at the time of the commencement of the employee's participation in the plan. Options that are not exercised within six months of the third, fifth or seventh anniversary after grant lapse unconditionally.

*Long-Term Incentive Plan*

The plan was first introduced in 2001, renewed again in 2006 and again in 2011. The plan consists of restricted shares. The vesting of restricted shares is normally dependent on continuing service over a three to five-year period, and in the case of executive directors and senior management upon the satisfaction of corporate performance targets over a three-year period. These targets may be based on market and/or non-market performance criteria. Restricted shares awarded to executive directors in May 2019 and May 2018 vest dependent on relative total shareholder return, return on invested capital and earnings per share growth. Other restricted shares awarded in 2019 and 2018 vest depending on continuing service over periods of up to three years.

*Management Incentive Plan*

The plan was introduced in 2017 combining the Group's Annual Incentive Plan and Long-Term Incentive Plan for senior management. The number of shares to be granted to participants is dependent on Group performance in the calendar year preceding the date of grant (on the same basis as the Annual Incentive Plan). Subsequently, the shares vest dependent on continuing service over a three year period, and additionally in the case of Pearson Executive Management upon satisfaction of non-market based performance criteria as determined by the Remuneration Committee. Restricted shares awarded as part of the 2018 Management Incentive Plan were granted in April 2019. Restricted shares awarded as part of the 2019 Management Incentive Plan were granted in April 2020.

	<b>2019</b>	<b>2019</b>
	<b>Number of</b>	<b>Weighted</b>
	<b>share</b>	<b>average</b>
	<b>options</b>	<b>exercise</b>
	<b>000s</b>	<b>price</b>
		<b>£</b>
Outstanding at beginning of year	14	6.29
Granted during the year	5	6.77
Exercised during the year	-	6.74
Forfeited during year	(5)	7.33
Outstanding at end of year	14	6.08

The options outstanding at the end of the year have weighted average remaining contractual lives and exercise prices as follows:

	<b>2019</b>	<b>2019</b>
	<b>Number of</b>	<b>Weighted</b>
	<b>share</b>	<b>average</b>
	<b>options</b>	<b>contract.</b>
	<b>000s</b>	<b>life</b>
		<b>Years</b>
<b>Range of exercise prices</b>		
<b>£</b>	<b>000s</b>	<b>Years</b>
5-10	14	2.67

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended :**

**31 December 2019**

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**Retirement benefit schemes**

The company participates in The Pearson Pension Plan. This is a hybrid with both defined benefit and defined contribution sections but, predominantly, consisting of defined benefit liabilities.

There is no contractual agreement or stated policy for charging the net defined benefit cost. The company is charged an agreed fee for the year by the sponsoring entity. In accordance with IAS 19 (Revised 2011), the company recognises a cost equal to its contribution payable for the period, which in the year ended 31 December 2019 was £374,000 (2018: £396,000). The sponsoring entity to this plan is Pearson Services Limited, consolidated with Pearson PLC, further details are disclosed in the financial statements of Pearson plc on pages 171 to 176 which are publicly available.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

31 December 2019

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**Financial instruments**

The accounting classification of each class of the company's financial assets and financial liabilities, and their carrying values, is as follows:

	2019		2018	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
<b>Financial assets</b>				
<i>Financial assets at amortised cost</i>				
Cash and cash equivalents	387	387	-	-
Trade receivables	4,210	4,210	2,776	2,776
Accrued income	3,841	3,841	2,046	2,046
Amounts owed by group undertakings	11	11	1,374	1,374
	<b>8,449</b>	<b>8,449</b>	6,196	6,196
<b>Financial liabilities</b>				
<i>Financial liabilities at amortised cost</i>				
Trade payables	664	664	861	861
Amounts owed to group undertakings	40,404	40,404	19,296	19,296
Accruals	-	-	537	537
Bank loans and overdrafts	-	-	20,583	20,583
	<b>41,068</b>	<b>41,068</b>	41,278	41,278

**Fair value measurement**

IFRS 7 requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the value measurements:

Level 1: inputs are quoted prices in active markets

Level 2: a valuation that uses observable inputs for the asset or liability other than quoted prices in active markets

Level 3: a valuation using unobservable inputs i.e. a valuation technique

There were no transfers between levels throughout the periods under review.

The fair values of financial instruments closely approximate their carrying values and are categorised as Level 2.

Cash and cash equivalents comprise cash at bank and in hand and have fair values that approximate their carrying amounts due to their short-term nature.

**Financial risk management**

The company is exposed to liquidity risk and credit risk. The directors oversee the management of these risks. The policies for managing each of these risks are summarised below:

**Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the directors. The directors manage liquidity risk by continuously monitoring forecast and actual cash flows and by maintaining adequate cash reserves.

The table below summarises the maturity profile of the company's financial liabilities:

	31 December 2019				Total £'000
	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	More than 5 years £'000	
Trade and other payables	4,195	-	-	-	4,195
Amount due from related party	2,056	-	-	38,348	40,404
	<b>6,251</b>	-	-	<b>38,348</b>	<b>44,599</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

31 December 2019

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**Financial instruments (continued)**

	31 December 2018				Total
	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	More than 5 years £'000	
Trade and other payables	3,632	-	-	-	3,632
Bank loans and overdrafts	20,583	-	-	-	20,583
Amount due to related party	279	-	-	19,017	19,296
	24,495	-	-	19,017	43,512

***Credit risk***

The company's principal financial assets are cash and cash equivalents, trade receivables, accrued income and amounts owed by group undertakings. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

For trade receivables and accrued income (contract assets) the company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, risk associated with the industry and country in which customers operate may also influence the credit risk. A default on a trade receivable is when the counterparty fails to make contractual payments within the stated payment terms. Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. The carrying amounts of financial assets, trade receivables and accrued income represent the maximum credit exposure.

***Capital risk management***

The company's objective when managing capital is to maintain a flexible capital structure that optimises the cost and availability of capital at acceptable risk.

In the management of capital and in its definition, we include issued capital, long-term debt and cash.

The company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the business.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended :**

**31 December 2019**

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**Contingent liabilities**

**Bank guarantees**

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 17 of its subsidiaries, 'the guarantors', are combined, with cleared debit and credit balances being offset for interest calculation purposes. In order to comply with banking regulations, each guarantor to this arrangement has provided a multilateral guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants. Under this arrangement, the net cash position at 31 December 2019 was £47,364,372 (2018: net cash position £51,597,127).

The maximum amount of this guarantee is limited to a net overdraft of £50,000,000.

	<b>2019</b>	2018
<b>Potential liability arising from these guarantee arrangements :</b>	<b>£'000</b>	£'000
Parent undertaking and fellow subsidiary undertakings	<b>50,000</b>	29,417

At 31 December 2019 the company had an overdraft of £nil (2018: £20,583,296) under this arrangement.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended :

31 December 2019

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**Related party transactions**

**(a) Transactions with other related parties:**

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Sale of goods to related parties	4	12
Management charges from ultimate parent	(87)	(94)
Management charges from related parties	(258)	(268)
Purchases from related parties	(51)	(287)

**(b) Outstanding balances with other related parties**

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Pearson plc	(1,010)	16
Pearson Education Limited	(812)	805
Pearson Management Services Limited	(124)	424
Pearson Shared Services Limited	(14)	(279)
TQ Education and Training Limited	(95)	3
Escape Studios Limited	11	125

**(c) Loans from related parties**

	<b>2019</b>	2018
	<b>£'000</b>	£'000
<i>Longman Group (Overseas Holdings) Limited</i>		
At 1 January	(19,017)	(23,445)
Loan advanced	(23,699)	-
Group relief	1,174	-
Interest charged	(763)	-
Fair value movement	3,957	4,428
<b>At 31 December</b>	<b>(38,348)</b>	<b>(19,017)</b>

**(d) Terms and conditions**

Services were sold to other related parties during the year based on the price lists in force and terms that would be available to third parties. All other transactions were made on normal commercial terms and conditions and at market rates.

The loan from Longman Group (Overseas Holdings) Limited, parent company, is repayable on 30 June 2028.

**(e) Key management personnel**

Key management personnel are deemed to be the directors of the company.

It is the Board of Directors which had responsibility for planning, directing and controlling the activities of the company in 2019. Key management personnel compensation is disclosed in note 6.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended :**

**31 December 2019**

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**Ultimate parent undertaking**

The immediate parent undertaking is Longman Group (Overseas Holdings) Limited.

The ultimate parent undertaking and controlling party is Pearson plc, incorporated in the UK, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Pearson plc's consolidated financial statements can be obtained from the Company Secretary at Pearson plc, 80 Strand, London WC2R 0RL.