DERWENTSIDE COLLEGE

Report and Financial Statements
For the Year Ended 31 July 2016

PROFESSIONAL ADVISERS

Chartered Accountants
& Statutory Auditor:
PricewaterhouseCoopers LLP
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3AZ

Bankers:
Barclays Bank Plc
Barclays House
5 St Ann's Street
Quayside
Newcastle upon Tyne
NE1 2BH

Lloyds Banking Group
1st Floor
Black Horse House
91 Sandyford Road
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Additional controls assurance provider:
PricewaterhouseCoopers LLP
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Solicitors:
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The Cube
Barrack Road
Newcastle upon Tyne
NE4 6DB

Contents

The members present their report and the audited financial statements for the year ended 31 July 2016.

Legal status

The corporation was established under The Further and Higher Education Act 1992 for the purpose of conducting Derwentside College. The college is an exempt charity for the purposes of the Charities Act 1993 as amended by the Charities Act 2011.

Mission, Vision and Values

The College's Development Plan was agreed in July 2014 and provides clarity on the College's Mission, Vision and Values which are described below:

Mission

'Derwentside College provides high quality education and training that focuses on developing the knowledge, skills and qualities needed by our learners to progress into sustained employment and build successful careers.'

Vision

Derwentside College aims to be:

- The best College in the country at supporting learners into sustained employment and building successful careers;
- Renowned for our excellent relationships with employers and partners;
- Recognised as delivering innovative and excellent teaching, learning and assessment.

Values

The College's values are:

Excellence
We strive to be the best in all areas of strategic importance to the College enabling our learners, employers and staff to achieve high expectations and ambitious goals.

Employability
We focus relentlessly on improving employability and up-skilling and make a major contribution to the prosperity and success of individuals and businesses in Derwentside, County Durham and the North East region. We encourage and develop enterprising behaviour in our learners and staff and create an environment where innovation flourishes.

Partnership
We build outstanding, sustainable and mutually beneficial relationships with our stakeholders who contribute to our strategic purpose including sub-contractors, employers and schools. Within the College we promote and nurture partnership through highly effective team working that is both supportive and challenging in the pursuit of excellence and success.

Accountability
We will do what is right and will lead to success for our learners, employers and the College. We will take personal responsibility for contributing to this success and for overcoming barriers. We will be constantly learning and developing.

Strategic Summary

Overview

Over the last three years, the College has continued to perform well financially generating a year on year EBITDA surplus and strengthening the balance sheet.

During the year, the College has successfully delivered against its financial objective to return to 'good' financial health. Significant improvement in the current ratio is also evident in the accounts, with a return to net current assets being achieved. In addition, EBITDA performance has been positive and the College's low debt profile provides a strong platform for future financial success.

During 2015-16, the Corporation terminated its loan agreements with Barclays bank, repaying the £1.7m principal sum, alongside break costs of £152k. The College has subsequently moved its banking services successfully from Barclays to Lloyds. The impact of the repayment of the loan resulted in the requirement to put in place a 12 month overdraft facility of £500k with Lloyds Bank. This agreement began in March 2016 and will expire at the end of February 2017. To date, the overdraft facility has not been used.

Moving forward, the Corporation Board is confident that the College remains a going concern based on our improved financial health, but also a prudent and deliverable financial plan going forward. The financial plan will deliver positive EBITDA surpluses over the coming years, which will support increased cash generation and the further strengthening of the current ratio.

Recent Progress

Derwentside College has built on its already strong position over the last 12 months, developing and enhancing its curriculum offer to include construction skills courses, whilst also continuing to grow its Apprenticeship and Traineeship provision. The College has very strong links with the local business community and its partnerships with employers are outstanding.

During the year, the College has significantly grown its apprenticeship business, with substantial increases in funding and learner numbers against both 16-18 and 19+ apprenticeship programmes. This growth bodes well for the 2016-17 financial year and combined with the significant progress being made in driving forward the quality of provision, provides us with a strong platform for future success.

In addition, the College has grown its classroom based provision successfully over the course of the last 12 months. This has been particularly pertinent within the 19+ age category, where the College has delivered approximately £300k of growth against its own provision in year. EFA 16-18 funding has remained broadly static however, this remains a priority area of growth for us going forward.

Moving into 2016-17, the College will continue to develop and expand its market share through sustainable growth, focusing on the key priorities established by the Government and using this as a mechanism to drive forward continued curriculum development and change. The College continues to work towards the delivery of its three year Strategic Plan, with the aim of delivering significant growth and financial success over the coming years.

Quality and standards have continued to be a major area of focus and improvement for the College, with the College receiving a 'good' Ofsted report during the year (April 2016). The College's apprenticeship success rates have improved significantly, while classroom based success rates remain in the top 10% of College's nationally. The College is now moving forward with the aim of becoming an 'outstanding' provider.

The Further Education Landscape

The College continues to operate in an environment of political uncertainty with a relatively new government and cabinet and significant uncertainty in the policy environment. In the sections below, the most significant external challenges facing the College over the coming years are identified and outlined:

Area Reviews

The Department for Business, Innovation and Skills (BIS) has announced its intention for every Further Education and Sixth From College to undergo an Area Review between September 2015 and March 2017. Recommendations made during the Area Review process are expected to be implemented by 2020, subject to the approval of each independent institution.

Area Reviews will involve FE and sixth form colleges but will not involve independent training providers, unless they opt in to the process, or schools (although the Regional Schools Commissioner will be a member of the steering group). The government has made clear its overall intention is to move towards fewer, usually larger, more resilient and efficient providers in order to create a system of further education which is financially sustainable and meets the wide range of demands which individuals and employers make on colleges.

Derwentside College is participating in the North East Area Review, which began in September 2016.

Apprenticeship Reform

The Government is in the process of delivering significant reforms to the way Apprenticeships are delivered and funded into the future. Trailblazer apprenticeship programmes are underway in a variety of areas, with Colleges and Private Training Providers working collaboratively with employers to develop new apprenticeship frameworks and pathways. The Government expectation is that all new apprenticeship starts will be on trailblazer programmes by 2017, which represents a significant curriculum and logistical challenge for the College.

In addition, the Government intends to fund apprenticeships differently in the future, with a 0.5% levy on businesses being introduced in April 2017. Funding will no longer be routed through the SFA and will work through the digital apprenticeship scheme, with Colleges and private training providers being paid on the basis of activity generated. Although these changes are potentially threatening, there remain opportunities to grow the College's business and to expand based on its successful reputation in this area.

Devolution

The new Cities and Local Government Devolution Bill outlines the government's vision to give English cities more powers, via Local Enterprise Partnerships (LEPs) and City Regions. The bill places in statute the deal already given to Manchester and creates a framework through which other combined authorities could achieve the same.

The North East Combined Authority recently rejected the opportunity to secure a devolution deal however, this remains an area of potential risk and uncertainty for the College.

The College Development Plan - Strategic Priorities 2015-16 to 2017-18

Financial & Corporate Priorities

- Generate a cash surplus of at least 4% of income (EBITDA – Education Specific);
- Improve the current ration to at least 1.30 and maintain this into the future;
- Strive towards and maintain a financial health rating of 'good' using the SFA scoring methodology;
- Diversify income by setting and achieving growth targets across all priority income streams;

- Continue to invest in the college's estate and capital resources in order to further improve the learner experience and to enable the delivery of growth;
- Continue to invest in Digital and Learning Technologies to enrich learning and to improve business intelligence.

Business Development Priorities

- Grow apprenticeship provision with a particular focus on increasing the proportion of 16 – 24 year olds;
- Expand Higher Apprenticeships in line with regional and national priorities;
- Plan for apprenticeship reform and position the college to compete on its strengths;
- Strengthen the College's links with schools and the wider community in order to support the growth of 16 – 18 classroom provision;
- Continue to expand the employer base for the College's Traineeship offer, using it as a progression pathway into apprenticeships;
- Continue to strengthen relationships with Jobcentre Plus to enable the expansion of provision and support for the unemployed in line with government priorities;
- Diversify income by significant expansion of FE loans, full-cost commercial training and ESF funded provision;
- Continue to partner with sub-contractors that offer high quality and a strategic fit.

Curriculum Priorities

- Continue to strengthen the English and Maths offer to ensure the College is fully compliant with the conditions of funding;
- Increase the proportion of 16 – 18 year olds on Level 3 programmes by creating more effective career pathways, with a particular focus on attracting more able school leavers;
- Broaden and grow the Engineering and Manufacturing provision;
- Further expand the Construction offer;
- Develop provision in Business and Administration to establish an effective progression pathway into traineeships, apprenticeships and work;
- Increase the part-time curriculum offer to support the expansion of FE loans provision;
- Reintroduce HE programmes in conjunction with a strategic HE partner;
- Introduce online and flexible learning programmes in order to make full use of our investment in Digital and Learning Technologies.

Quality Improvement Priorities

- Significantly improve success rates on apprenticeships;
- Continue to strengthen arrangements for supporting learners, fully taking into account the new Ofsted focus on personal development, behaviour and welfare;
- Make significant progress towards raising quality to outstanding across all aspects of the common inspection framework;
- Be well prepared for a short-notice Ofsted inspection.

Equality and Diversity Priorities

- Identify and close any significant learner achievement gaps in success rates;
- Identify and strive towards closing any significant participation gaps working, where appropriate, with stakeholders within industries where there is under-representation.

Human Resource Priorities

- Develop and implement a Continuous Professional Development plan that enables all staff to effectively contribute to the achievement of the College's strategic objectives;

- Develop and implement a qualifications strategy that at least meets industry occupational standards and strives for best practice;

- Develop and implement a management and leadership development programme to give College managers the skills and confidence needed to effectively lead and coach their teams.

Key Performance Indicators and Monitoring Statistics

The College measures performance through a range of key performance indicators and monitoring statistics. These cover funding performance, financial management, curriculum efficiency, quality improvement and continuing professional development. Details of the KPIs monitored by the Corporation Board are included in the College's Strategic Plan.

Financial Position

The College generated a deficit in the year of £75k (2014-15: £135k). The £75k deficit includes a charge of £280k relating to pension adjustments made under FRS 102. Excluding this, the surplus was £205k, which is in line with the budget established by the Board.

Fixed asset additions in the year amount to £345k (2014-15: £447k). £169k of this related to building improvements, including some significant refurbishment works that took place during the summer, while the remaining balance of £176k related predominantly to IT equipment and furniture.

The College has reported net current assets of £5k at year end, which demonstrates a significant improvement on the prior year (2014-15 – net current liabilities of £200k). The repayment of loans during November 2015 resulted in an overall reduction in cash during the year however, the College has managed cash successfully during the year and is in a good position at year end (31 July 2016 cash balance of £1,152k).

At the end of the year the college has net assets (excluding pension liability) of £8,376k (2014-15: £8,230k) and net liabilities of £1,845k, including the pension liability. The pension liability is not anticipated to generate any significant financial challenges for the College over the coming years, other than the potential for increased employer contributions, but it does potentially limit the College's ability to raise funds through borrowing in the future.

The College's cash balance continued to be positive at year end, with a figure of £1,152k reported (2014-15: £3,997k). Any surplus funds are placed in a premium interest account with the College's bankers. It is an aim of the College to further increase reserves and maintain cash balances to create a contingency fund and also finance further investment.

The College is heavily dependent upon the main funding bodies (Skills Funding Agency and Education Funding Agency) for funding. £12,460k (2014-15: £12,431k) was recognised in the year, mostly of a recurring nature and including the release of some deferred capital grants.

The financial statements include the impact of the accounting requirement relating to pension funds (FRS102) which results in a movement in the income and expenditure account and also the inclusion of a pension liability in the balance sheet. This only relates to the pensions of non-teaching staff and is administered as part of the Durham County Council Local Government Pension Scheme. It does not involve any actual cash spend, and is based on a range of actuarial assumptions. The impact of FRS102 is ignored by the funding bodies in the assessment of financial health and sustainability.

Student Numbers and Performance

During the year, the college recruited 2,415 learners under the Learner Responsive Funding stream of which 730 were in the 16-18 year old age group. As part of its Employer Responsive provision the College enrolled 5,773 Apprentices of which 427 were in the 16-18 year old age group.

Principal Risks and Uncertainties

The College has identified the key risks that might prevent the achievement of its strategic and development plans. These are reviewed and agreed by the Corporation Board regularly throughout the year. The College's Strategic Risks are as follows:

- Risk 1 – The introduction of major reforms to Apprenticeships
- Risk 2 – The devolution of funding and control over the Adult Education Budget to the North East Combined Authority
- Risk 3– Failure to meet learner recruitment and funding targets
- Risk 4 – Failure to effectively manage the College's significant sub contracted partnership provision
- Risk 5 – Failure to achieve and maintain high success rates and other outcome based measures.
- Risk 6 – Failure to develop and improve the quality of teaching, learning and assessment
- Risk 7 – Failure to retain key staff and stabilise the staffing structure at all levels.
- Risk 8 – Failure to deliver the College's financial objectives.
- Risk 9 – The 'Brexit' decision leads to a period of political turmoil and uncertainty.
- Risk 10 – The Area Review process diverts key College staff and results in a dip in performance.
- Risk 11 – A breach of IT security results in in system breaches and intrusions into secure information.

In the case of each risk, a detailed action plan is in place where appropriate, to control and mitigate individual risks within the accepted risk appetite of the Corporation Board.

Stakeholder Relationships

In line with other colleges, Derwentside College has many stakeholders. These include:

- Learners
- Staff
- Local schools and academies
- Partners
- Funding Bodies
- Local employers
- Local authorities
- The local community
- Other FE institutions
- Other training providers
- Trade unions
- Professional bodies

The College recognises the importance of these relationships and engages in regular communication with them.

Employment of Disabled Persons and Equal Opportunities

The college considers all applications for employment from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled every effort is made to ensure that employment with the college continues. The college's policy is to provide training, career development and opportunities for promotion that are, as far as possible, identical to those for other employees.

The college believes that discrimination against someone on the grounds of age, disability, special needs, gender, marital status, sexual orientation, religion, race, colour, nationality, ethnic or national origin, political belief or any other grounds is incompatible with its belief in the equal value of all people. It is therefore

committed to promoting equality of opportunity in education, training and employment by the continuous development of a non-discriminatory culture and an environment free from harassment, bullying or unfair treatment regardless of individual differences.

The College has an Equality and Diversity Committee that includes Board and Trade Union representation. Under the 2010 Equality Act the college has published, on its website, information to demonstrate compliance and also prepared and published a number of equality objectives.

Disability Statement

The college seeks to achieve the objectives set down in the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Acts 2001 and 2005.

a) All buildings facilitate easy access to people with disability;

b) There is a list of specialist equipment, such as lighting for audio facilities, which the college can make available for use by students;

c) The admissions policy for all students is described in the college charter. Appeals against a decision not to offer a place are dealt with under the complaints policy;

d) The college has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities;

e) Specialist programmes are described in programme information guides, and achievements and destinations are recorded and published in the standard college format;

f) Counselling and welfare services are described in the college charter.

Going Concern

After reviewing financial and other information available, the Corporation considers that the college has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Disclosure of information to independent auditors

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

Approved by order of the members of the Corporation on 13 December 2016 and signed by its order:

A N Edwards
Chair

The Corporation

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the revised *Combined Code on Corporate Governance* issued by the London Stock Exchange in July 2006. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

In the opinion of the governors, the College complies with all the provisions of the Combined Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2016.

The members who served on the corporation during the year and up to the date of signature of this report were as listed in Table 1.

Table 1: Governors serving on the College board during 2015/16

	Date of appointment	Term of office	Date of Resignation	Status of appointment	Committees Served
Mrs K Redhead	March 2014	Ongoing		Principal	Search Sub Committee
Mr A N Edwards (Chairman from Oct 01 to date)	April 1997, re-appointed April 2001, April 2005, March 2009 & May 2013	4 years		Independent	Search Sub Committee, Remuneration Task Group
Mr G Marshall (Vice chair from Sept 07 to date)	April 2001, re-appointed April 2005, March 2009 & May 2013	4 years		Independent	Audit, Search Sub Committee, Remuneration Task Group
Mr J Davies	February 2000, re-appointed February 2004, July 2008 & July 2012 Re-appointed July 2016	4 years 1 year		Independent	Audit
Mr G Gibson	March 2008, re-appointed March 2012, March 2016	4 years		Independent	Audit, Remuneration Task Group
Mrs S Nicholson	December 2010, reappointed December 2014	4 years		Staff	
Mr D Temperley	January 2012	4 years	January 2016	Independent	Audit
Mrs G Granath	March 2012, re-appointed March 2016	4 years		Independent	Audit
Mrs C Richards	June 2014	4 Years		Staff	
Ms A Form	December 2014	4 Years		Independent	
Mr M Short	January 2015	4 Years		Independent	

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

The corporation conducts its business through regular board and committee meetings. Full minutes of all meetings are available from the clerk to the corporation at: Derwentside College, Front Street, Consett, County Durham, DH8 5EE.

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

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The corporation meets a number of times each term.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the corporation. These committees are remuneration and search and audit.

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

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

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

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

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a search committee which is comprised of 4 members; the Chairman and Vice Chairman of the Board, the Principal and one member who is not a governor from the local business community. The Corporation is responsible for the selection and nomination of any new member for the corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding 4 years.

Remuneration Committee

Throughout the year ended 31 July 2016, the College's remuneration committee comprised the Chairman of the Board, the Vice Chairman and one other member. The committee's responsibilities are to make recommendations to the board on remuneration and benefits of the principal.

Details of remuneration for the year ended 31 July 2016 are set out in note 9 to the financial statements.

Audit Committee

The audit committee comprises of six members of the corporation (excluding the Principal and chair). The committee operates in accordance with written terms of reference approved by the corporation.

The audit committee meets on a termly basis and provides a forum for reporting by the College's internal, regularity and financial statements independent auditors, who have access to the committee for

The college's internal independent auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the audit committee. Management are responsible for the implementation of agreed recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

The audit committee also advises the Corporation on the appointment of internal, regularity and financial statements independent auditors and their remuneration for both audit and non-audit work.

Internal Control

Scope of responsibility

The Corporation is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Corporation has delegated the day to day responsibility to the Principal, as Accounting Officer for maintaining a sound system of internal control that supports the achievements of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which they are personally responsible, in accordance with the responsibilities assigned to the Principal in the Financial Memorandum between Derwentside College and the Skills Funding Agency (SFA) and the Education Funding Agency (EFA). The Principal is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks of the achievement of college policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Derwentside College for the year ended 31 July 2016 and up to the date of approval of the annual report and financial statements.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the year ending 31 July 2016 and up to the date of approval of the annual report and financial statements. The process is regularly reviewed by the Corporation.

The risk and control framework

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts

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

Derwentside College has an additional controls assurance service, which operates in accordance with the requirements of the SFA / EFA Joint Audit Code of Practice. The work of the additional controls assurance service is informed by an analysis of the risks to which the college is exposed, and annual additional controls assurance plans are based on this analysis. The analysis of risks and the additional controls assurance plans are endorsed by the Corporation on the recommendation of the audit committee. The Independent Additional controls assurance service has provided reports throughout the year for the Audit Committee and annually for the Board of the Corporation. The Independent additional controls assurance service provides assurance of the college's system of risk management, controls and governance processes. Additional controls assurance services have been provided by PricewaterhouseCoopers LLP since 1 August 2015.

Review of effectiveness

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

- the work of the internal independent auditors
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework
- comments made by the College's financial statements independent auditors, the regularity independent auditors in their management letters and other reports.

The Principal has been advised on the implications of the result of the Principal's review of the effectiveness of the system of internal control by the audit committee which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the audit committee also receive regular reports from internal audit, which include recommendations for improvement. The audit committee's role in this area is confined to a high level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the audit committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

Based on the advice of the Audit Committee and the Principal, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibilities for the 'effective and efficient use of resources, the solvency of the institution and the body and safeguarding of their assets'.

Approved by order of the members of the Corporation on 13 December 2016 and signed by its order:

K Redhead

A N Edwards (Chair)
Date

K Redhead (Principal)
Date

DERWENTSIDE COLLEGE
Statement of Responsibilities of the Members of the Corporation
For the Year Ended 31 July 2016

The members of the Corporation are required to present audited financial statements for each financial year.

Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency (SFA) and the Corporation of the College, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the *College Accounts Direction 2015 to 2016* issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

The Corporation is also required to prepare a Members Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

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

Approved by order of the members of the Corporation on 13 December 2016 and signed on its behalf by:

A N Edwards
Chair

Independent auditors' report to the Corporation of Derwentside College (the "institution")

Report on the financial statements

Our opinion

In our opinion, Derwentside College's financial statements (the "financial statements"):

- give a true and fair view of the state of the institution's affairs as at 31 July 2016 and of the institution's income and expenditure and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 July 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Reserves for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statement is the Statement of Recommended Practice for Further and Higher Education, incorporating United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Corporation has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed in the Joint Audit Code of Practice issued by the Education Funding Agency and the Chief Executive of Skills Funding

In our opinion, in all material respects:

- proper accounting records have been kept, and
- the financial statements are in agreement with the accounting records and returns.

Responsibilities for the financial statements and the audit

Respective responsibilities of the Corporation and auditors

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 13 the Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Corporation as a body in accordance with Article 22 of the institution's Articles of Governmentand 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to institution's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Corporation; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the members' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle
16 December 2016

DERWENTSIDE COLLEGE
Statement of Comprehensive Income
For the year ended 31 July 2016

	Note	Year ended 31 July 2016	Year ended 31 July 2015
		£'000	£'000
Income			
Funding body grants	3	12,460	12,431
Tuition fees and education contracts	4	416	489
Other grants and contracts	5	43	11
Other income	6	126	242
Investment income	7	4	8
Total Income		**13,049**	**13,181**
Expenditure			
Staff costs	8	5,145	4,955
Other operating expenses	10	7,377	7,713
Depreciation	13	404	366
Interest and other finance costs	11	198	282
Total Expenditure		**13,124**	**13,316**
Deficit before tax		**(75)**	**(135)**
Taxation	12	-	-
Deficit for the year		**(75)**	**(135)**
Actuarial loss in respect on pension scheme	22	(1,970)	(860)
Total Comprehensive Expense for the Year		**(2,045)**	**(995)**

	Income & Expenditure Reserve	Restricted Reserve	Total
	£'000	£'000	£'000
Balance at 1 August 2014	**1,194**	**19**	**1,213**
Deficit for the year	(135)	-	(135)
Actuarial loss in respect of pension scheme	(860)	-	(860)
Release of restricted reserve	1	(19)	(18)
Balance at 31 July 2015	**200**	-	**200**
Deficit for the year	(75)	-	(75)
Actuarial loss in respect of pension scheme	(1,970)	-	(1,970)
Balance at 31 July 2016	**(1,845)**	-	**(1,845)**
Balance represented by:			
Pension reserve	(7,470)	-	(7,470)
Income & Expenditure reserve	5,625	-	5,625
Balance at 31 July 2016	**(1,845)**	-	**(1,845)**

DERWENTSIDE COLLEGE
Balance Sheet
As at 31 July 2016

	Note	31 July 2016 £'000	31 July 2015 £'000
Non current assets			
Tangible Fixed Assets	13	8,371	8,430
		8,371	**8,430**
Current assets			
Trade and other receivables	14	87	164
Cash at bank and in hand	21	1,152	3,997
		1,239	4,161
Less: Creditors – amounts falling due within one year	15	(1,234)	(4,361)
Net current assets / (liabilities)		**5**	**(200)**
Total assets less current liabilities		**8,376**	**8,230**
Less: Creditors - amounts falling due after more than one year	16	(2,046)	(2,126)
Provisions			
Defined benefit obligation	22	(7,470)	(5,220)
Other provisions	18	(705)	(684)
TOTAL NET (LIABILITIES) / ASSETS		**(1,845)**	**200**
Income and expenditure account		**(1,845)**	**200**
TOTAL FUNDS		**(1,845)**	**200**

The financial statements on pages 16 to 40 were approved and authorised for issue by the corporation on 13 December 2016 and were signed on its behalf by:-

A N Edwards (Chairman)

K Redhead

K Redhead (Principal)

Statement of Cash Flows
For the year ended 31 July 2016

	Note	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Cash flow from operating activities			
Deficit for the year		(75)	(135)
Adjustment for non-cash items			
Depreciation	13	404	366
Release of capital grants		(80)	(79)
Decrease / (Increase) in debtors	14	77	(62)
Decrease in creditors	15	(1,427)	(816)
Increase in provisions	18	21	27
LGPS Current service pension costs	22	560	500
LGPS Pension contributions paid	22	(450)	(450)
LGPS Interest charged on pension scheme liabilities	22	610	640
LGPS Interest earned on pension scheme assets	22	(440)	(480)
Adjustment for investing and financing activities			
Investment income	7	(4)	(8)
Interest payable	11	28	122
Net cash outflow from operating activities		(776)	(375)
Cash flows from investing activities			
Investment income	7	4	8
Payments to acquire fixed assets	13	(345)	(447)
		(341)	(439)
Cash flows from financing activities			
Interest payable	11	(28)	(122)
Repayment of amounts borrowed	21	(1,700)	(281)
		(1,728)	(403)
Decrease in cash or cash equivalents in the year		(2,845)	(1,217)
Cash and cash equivalents at the beginning of the year		3,997	5,214
Cash and cash equivalents at the end of the year		1,152	3,997

1 COMPLIANCE WITH FRS102

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the College Accounts Direction for 2015 to 2016 and in accordance with Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

2 ACCOUNTING POLICIES

Statement of accounting policies

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

Basis of preparation

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

Transition to the 2015 FE HE SORP

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP.

The 2015 FE HE SORP requires colleges to prepare a single statement of comprehensive income, and not the alternative presentation of a separate income statement and a statement of other comprehensive income. This represents a change in accounting policy from the previous period where separate statements for the Income and Expenditure account and for the Statement of Total Recognised Gains and Losses were presented.

The application of first time adoption allows certain exemptions from the full requirements of the FRS 102 and the 2015 FE HE SORP in the transition period.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Going concern

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

The College currently has no borrowings as these were repaid in full during November 2015. Additionally there is £500k of uncommitted overdraft facility available for unconditional drawdown with all being secured by a fixed and floating charge on College assets. The terms of the existing agreement were for a 12 month period and are due to expire February 2017. This was arranged to cover an identified period in April / May 2016 when cash balances were expected to be low after repaying Barclays loans and the SFA clawback for 2014/15 activity. However, cashflow was effectively managed and the facility was never required. The College's forecasts and financial projections indicate that it will be able to operate in the future without requiring usage of this facility.

Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

2 ACCOUNTING POLICIES (continued)

Recognition of income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the statement of comprehensive income. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

The recurrent grant from SFA / EFA represents the funding allocations attributable to the current financial year and is credited direct to the Statement of Comprehensive Income.

Grants from non-government sources are recognised in income when the College 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.

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS 102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

Income from tuition fees is stated gross of any expenditure which is not a discount and is recognised in the period for which it is received.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned on a receivable basis.

Accounting for post-employment benefits

Post-employment benefits to employees of the College are principally provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit plans, which are externally funded and contracted out of the State Second Pension.

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method. The TPS is a multi-employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.
Actuarial gains and losses are recognised immediately in other recognised gains and losses.

Enhanced Pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a college annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the College's income in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Land and buildings

Freehold buildings are depreciated on a straight line basis over their expected useful lives as follows:

- Freehold Buildings – 25-50 years
- Leasehold Buildings – 50 years

Freehold buildings are depreciated over their expected useful economic life to the College of between 25 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 25 and 50 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred income account within creditors, and are released to the statement of comprehensive income over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

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

Subsequent expenditure on existing fixed assets
Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to the College, in which case it is capitalised and depreciated on the relevant basis.

Equipment

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

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

• motor vehicles	25% per annum
• general equipment	25% per annum
• computer equipment	20% per annum
• furniture, fixtures and fittings	10% per annum

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to income and expenditure account over the expected useful economic life of the related equipment.

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. Liquid resources include sums on deposit with Lloyds Banking Group

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 3 months or less from the date of acquisition.

2 ACCOUNTING POLICIES (continued)

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

All loans, investments and short term deposits held by the college are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the college has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Taxation

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

The College is partially exempt in respect of Value Added Tax, so that it can recover minimal amounts of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

Maintenance of premises

The cost of routine corrective maintenance is charged to the income and expenditure account in the period it is incurred.

Provisions and contingent liabilities

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

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

A contingent liability arises from a past event that gives the College a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but are disclosed in the notes to the financial statements.

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support funds and learner loan support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction. These transactions are shown in Note 25, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of discretionary support fund applications and payments.

2 ACCOUNTING POLICIES (continued)

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether there are indicators of impairment of the college's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- *Tangible fixed assets*

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

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 22, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

3 FUNDING BODY GRANTS

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Recurrent grants		
Skills Funding Agency	9,066	8,781
Educational Funding Agency	2,720	2,822
Specific grants		
Skills Funding Agency	318	411
Educational Funding Agency	290	351
Releases of deferred capital grants	66	66
	12,460	**12,431**

The income shown above includes that earned by the college in its capacity as a provider (and as consortium lead). Total income claimed in the year under this arrangement and the related payments to partners were as follows:

	Note	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Adult Skills Income		4,355	4,665
Payments to college partners		(3,247)	(3,407)
Net Adult Skills Income		**1,108**	**1,258**
16-18 Apprentices income		440	278
Payments to college partners		(351)	(217)
Net 16-18Apprentices income		**89**	**61**
16-18 Learner Responsive income		1,637	1,469
Payments to college partners		(1,215)	(1,045)
Net 16-18 Learner Responsive income		**422**	**424**

4 TUITION FEES AND EDUCATION CONTRACTS

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Adult Education Fees	22	27
Full Cost Provision	55	54
Fees for FE loan supported courses	216	217
Total tuition fees	293	298
Education contracts	123	191
	416	**489**

5 OTHER GRANTS AND CONTRACTS

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Other grants and contracts	43	11
	43	**11**

6 OTHER INCOME

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Catering income	102	120
Other income generating activities	13	15
Miscellaneous income	11	16
Sale of Fixed Assets	-	91
	126	**242**

7 INVESTMENT INCOME

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Other interest receivable	4	8
	4	**8**

8 STAFF COSTS

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

	Year ended 31 July 2016 Number	Year ended 31 July 2015 Number
Teaching staff	77	78
Non teaching staff	68	67
	145	**145**

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Wages and salaries	4,124	4,046
Social security costs	328	293
Other pension costs excluding FRS102 charge	564	528
	5,016	4,867
Contracted out staffing services	19	9
	5,035	4,876
Fundamental restructuring costs	-	29
FRS102 pension charges	110	50
	5,145	**4,955**

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

	Key management personnel		Other Staff	
	2016	2015	2016	2015
£ 60,001 to £70,000	-	-	1	-
£ 70,001 to £80,000	-	-	2	2
£100,001 to £110,000	-	1	-	-
£110,001 to £120,000	1	-	-	-
	1	**1**	**3**	**2**

There are no salary sacrifice schemes in place for any members of staff shown in the tables above.

9 SENIOR POST-HOLDERS' EMOLUMENTS

	Year ended 31 July 2016 Number	Year ended 31 July 2015 Number
The number of senior post-holders including the Principal was:	1	1

Senior post-holders' emoluments are made up as follows:

	Year ended 31 July 2016 £	Year ended 31 July 2015 £
Salaries	115,000	108,333
Benefits in kind	-	767
Pension contributions	15,647	14,733
Total emoluments	**130,647**	**123,833**

The above emoluments include amounts payable to the Principal to 31 July 2016 (who is also the highest paid senior post-holder) of:

	Year ended 31 July 2016 £	Year ended 31 July 2015 £
Salary	115,000	108,333
Benefits in kind	-	767
	115,000	**109,100**
Pension contributions	**15,647**	**14,733**

10 OTHER OPERATING EXPENSES

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Partnership costs	5,007	4,969
Teaching costs	1,216	1,319
Non teaching costs	688	962
Premises costs	466	463
	7,377	7,713

Other operating expenses include:	**Year ended 31 July 2016 £'000**	**Year ended 31 July 2015 £'000**
Independent auditors' remuneration		
Financial statements & regularity audit	23	23
Additional controls assurance	22	15
Other services provided: Teacher pension statement audit	1	1
	46	**39**

11 INTEREST AND OTHER FINANCE COSTS

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
On bank loans, overdrafts and other loans	28	122
Net interest on defined pension liability (note 22)	170	160
	198	**282**

12 TAXATION

The members do not believe the corporation was liable for any corporation tax arising out of its activities.

13 TANGIBLE FIXED ASSETS

	Land and buildings			
	Freehold £'000	Long leasehold '£000	Equipment £'000	Total £'000
Cost				
At 1 August 2015	9,743	183	2,621	12,547
Additions	169	-	176	345
At 31 July 2016	9,912	183	2,797	12,892
Depreciation				
At 1 August 2015	1,949	61	2,107	4,117
Charge for year	215	6	183	404
At 31 July 2016	2,164	67	2,290	4,521
Net book value at 31 July 2016	**7,748**	**116**	**507**	**8,371**
Net book value at 31 July 2015	7,794	122	514	8,430

14 TRADE AND OTHER RECEIVABLES

	31 July 2016 £'000	31 July 2015 £'000
Amounts falling due within one year:		
Trade receivables	20	50
Prepayments and accrued income	67	114
	87	**164**

15 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 July 2016 £'000	31 July 2015 £'000
Bank loans and overdrafts	-	1,700
Trade payables	163	673
Other taxation and social security	99	90
Pension	68	71
Accruals	743	608
Amounts owed to Funding Bodies	82	1,126
Deferred income	-	14
Deferred income - government capital grants	66	67
Deferred income - non government capital grants	13	12
	1,234	**4,361**

16 CREDITORS - AMOUNTS FALLING DUE AFTER ONE YEAR

	31 July 2016 £'000	31 July 2015 £'000
Deferred income – government capital grants	1,944	2,010
Deferred income - non government capital grants	102	116
	2,046	**2,126**

17 MATURITY OF DEBT

	31 July 2016 £'000	31 July 2015 £'000
Bank loans and overdrafts are repayable as follows:		
In one year or less or on demand	-	1,700
	-	**1,700**

Bank loans were repaid in full in November 2015.

18 OTHER PROVISIONS

	College Enhanced Pensions £'000
At 1 August 2015	684
Expenditure in the year	(46)
Charge to income and expenditure account	67
At 31 July 2016	705

The enhanced pension provision relates to the cost of staff who have already left the College's employ and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date. This provision has been recalculated in accordance with the guidance issued by the LSC and its successor organisations.

The principal assumptions for this calculation are:

	2016	2015	2014	2013	2012
Price inflation	2.3%	3.5%	4.1%	4.3%	3.9%
Discount rate (CPI)	1.3%	1.7%	2.3%	2.5%	2.5%

19 FINANCIAL INSTRUMENTS

The college has the following financial instruments:

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Financial Assets		
Debt instruments measured at amortised cost:		
Trade receivables	20	50
Accrued income	27	27
Cash at bank and in hand	1,152	3,997
	1,199	**4,074**
Financial Liabilities		
Financial liabilities measured at amortised cost:		
Bank loans	-	1,700
Trade payables	163	673
Pension	68	71
Accruals	743	608
Amounts owed to Funding Bodies	82	1,126
	1,056	**4,178**

20 DEFERRED CAPITAL GRANTS

	SFA Funding £'000	Other Grants £'000	Total £'000
At 1 August 2015			
Land and buildings	2,060	64	2,124
Equipment	16	65	81
	2,076	129	2,205
Released to income and expenditure account			
Land and buildings	(64)	(3)	(67)
Equipment	(2)	(11)	(13)
At 31 July 2016	**2,010**	**115**	**2,125**
The year end balance comprising;			
Land and buildings	1,996	61	2,057
Equipment	14	54	68
At 31 July 2016	**2,010**	**115**	**2,125**
The year end balance comprising;			
Due in less than one year	66	13	79
Due in more than one year	1,944	102	2,046
At 31 July 2016	**2,010**	**115**	**2,125**

21 CASH AND CASH EQUIVALENTS

	At 1 August 2015 £'000	Cash flows £'000	Other Changes £'000	At 31 July 2016 £'000
Cash in hand, and at bank	3,997	(2,845)	-	1,152
Debt due within 1 year	(1,700)	1,700	-	-
	2,297	(1,145)	-	1,152

22 PENSIONS AND SIMILAR OBLIGATIONS

The College's employees belong to two principal pension schemes, the Teachers' Pensions Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which was managed by Durham County Council. Both are defined-benefit schemes.

Total pension cost for the year

	31 July 2016 £'000	31 July 2015 £'000
Teachers Pension Scheme: contributions paid	211	168
Local Government Pension Scheme:		
Contributions paid	353	360
FRS 102 adjustments	110	50
Charge to the Income and Expenditure Account (staff costs)	674	578
Enhanced pension charge to Income and Expenditure Account (other operating expenses)	67	73
Total Pension Cost for Year	**741**	**651**

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2013.

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

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

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

Valuation of the Teachers' Pension Scheme
The latest actuarial review of the TPS was carried out as at 31 March 2012 and in accordance with The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. The valuation report was published by the Department for Education (the Department) on 9 June 2014. The key results of the valuation are:

- New employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);

- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;

- an employer cost cap of 10.9% of pensionable pay.

The new employer contribution rate for the TPS was implemented in September 2015.
A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:

https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx

Scheme Changes
Following the Hutton report in March 2011 and the subsequent consultations with trade unions and other representative bodies on reform of the TPS, the Department published a Proposed Final Agreement, setting out the design for a reformed TPS to be implemented from 1 April 2015.

The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual rate of 1/57th; and a Normal Pension Age equal to State Pension Age, but with options to enable members to retire earlier or later than their Normal Pension Age. Importantly, pension benefits built up before 1 April 2015 will be fully protected.

In addition, the Proposed Final Agreement includes a Government commitment that those within 10 years of Normal Pension Age on 1 April 2012 will see no change to the age at which they can retire, and no decrease in the amount of pension they receive when they retire. There will also be further transitional protection, tapered over a three and a half year period, for people who would fall up to three and a half years outside of the 10 year protection.

Regulations giving effect to a reformed Teachers' Pension Scheme came into force on 1 April 2014 and the reformed scheme commenced on 1 April 2015.

The pension costs paid to TPS in the year amounted to £330,590 (2015: £279,984)

FRS 102 (28)
Under the definitions set out in FRS 102 (28.11), the TPS is a multi-employer pension plan. The College is unable to identify its share of the underlying assets and liabilities of the plan.

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

22 PENSION AND SIMILAR OBLIGATIONS (continued)

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2016 was £530,548 of which employers contributions totalled £353,247 and employees contributions totalled £177,301. In 2015/16 the contribution rates were 13.6% for employers and range from 5.5% to 7.5% for employees, depending on salary.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2016 by a qualified independent actuary.

	At 31 July 2016	At 31 July 2015	At 31 July 2014	At 31 July 2013	At 31 July 2012
Inflation (RPI)	2.9%	3.1%	3.2%	3.6%	3.0%
Inflation (CPI)	1.8%	2.0%	2.2%	2.7%	2.0%
Rate of increase in salaries	3.3%	3.5%	3.7%	4.6%	4.5%
Rate of increase for pensions	1.8%	2.0%	2.2%	2.7%	2.0%
Discount rate for liabilities	2.4%	3.5%	4.1%	4.4%	4.0%

Principal demographic assumptions

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

Life expectancy from age 65 (years)

	2016	**2015**	**2014**	**2013**	**2012**
Retiring in 20 years:					
Males	24.9	24.8	24.7	23.9	23.8
Females	27.5	27.4	27.3	26.2	26.1
Retiring today:					
Males	22.7	22.6	22.5	22.1	22.0
Females	25.2	25.1	25.0	24.3	24.1

	Proportion of assets		Fair Value £'000	
	31 July 2016	31 July 2015	31 July 2016	31 July 2015
Equity instruments	43.2%	47.2%	6,087	5,909
Government bonds	32.5%	29.1%	4,579	3,643
Corporate bonds	8.9%	8.8%	1,254	1,102
Property	7.8%	5.9%	1,099	739
Cash	7.6%	7.5%	1,071	939
Other	0%	1.5%	-	188
Total market value of assets			14,090	12,520

22 PENSION AND SIMILAR OBLIGATIONS (continued)

The amounts recognised in the balance sheet in respect of the defined benefit pension plan is as follows:

	31 July 2016 £'000	31 July 2015 £'000
Fair value of plan assets	14,090	12,520
Present value of plan liabilities	(21,520)	(17,700)
Present value of unfunded liabilities	(40)	(40)
Net Pensions (liability)	**(7,470)**	**(5,220)**

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

Amounts included in staff costs	31 July 2016 £'000	31 July 2015 £'000
Current Service Cost	560	500
Total	**560**	**500**

Amounts included in interest and other finance costs	31 July 2016 £'000	31 July 2015 £'000
Interest on plan assets	(440)	(480)
Interest on plan liabilities	610	640
Net interest on the defined benefit pension liability	**170**	**160**

Amounts included in Other Comprehensive Income	31 July 2016 £'000	31 July 2015 £'000
Actuarial loss in respect of pension scheme	1,970	860
Net interest on the defined benefit pension liability	**1,970**	**860**

Movement in net defined benefit (liability) during year

	31 July 2016 £'000	31 July 2015 £'000
Net defined benefit liability in plan at 1 August	(5,180)	(4,110)
Movement in Year:		
Current Service cost	(560)	(500)
Employer Contributions	450	450
Past Service cost	-	-
Net interest on the defined liability	(170)	(160)
Actuarial gain or loss	(1,970)	(860)
Net defined benefit liability at 31 July	**(7,430)**	**(5,180)**

22 PENSION AND SIMILAR OBLIGATIONS (continued)

Asset and Liability Reconciliation

Changes in the present value of defined benefit obligations:

	31 July 2016 £'000	31 July 2015 £'000
Defined benefit obligations at start of year	17,700	15,770
Current Service Cost	560	500
Interest cost	610	640
Actuarial losses	3,140	1,150
Estimated benefits paid	(670)	(540)
Contributions by scheme participants	180	180
Defined benefit obligations at end of year	21,520	17,700

Changes in the fair value of plan assets:

	31 July 2016 £'000	31 July 2015 £'000
Fair value of plan assets at start of period	12,520	11,660
Interest on plan assets	440	480
Return on plan assets	1,170	290
Employer contributions	450	450
Contributions by scheme participants	180	180
Estimated benefits paid	(670)	(540)
Fair value of plan assets at end of period	14,090	12,520

The five year history of asset values, present value of liabilities and experience adjustments is as follows:

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Present value of defined benefit obligation (funded)	(21,520)	(17,700)	(15,770)	(16,050)	(14,740)
Present value unfunded liabilities	(40)	(40)	(40)	(40)	(40)
Fair Value of scheme assets	14,090	12,520	11,660	11,170	9,730
Deficit in the scheme	**(7,470)**	**(5,220)**	**(4,150)**	**(4,920)**	**(5,050)**
Experience adjustments					
on scheme liabilities	n/a	90	610	(10)	(100)
on scheme assets	n/a	90	(290)	720	(220)

23 CAPITAL COMMITMENTS

At 31 July the college had contracted for, but not yet paid capital expenditure of:

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Commitments contracted for at 31 July	31	106

24 RELATED PARTY TRANSACTIONS

Due to the nature of the college's operations and the composition of the board of governors (being drawn from local public and private sector organisations) there is the possibility that transactions could take place with organisations in which a member of the board of governors may have an interest.

All transactions involving organisations in which a member of the board of governors may have an interest are conducted at arm's length and in accordance with the college's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed in accordance with FRS102 related party disclosures.

25 AMOUNTS DISBURSED AS AGENT

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Discretionary Support Funds		
SFA / EFA support	280	358
	280	358
Disbursed to Students	(275)	(329)
Administration costs	(13)	(16)
Balance (overspent) / unspent at 31 July	**(8)**	**13**

SFA / EFA grants are available solely for students. In the majority of instances, the College acts only as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the statement of comprehensive income. The income and expenditure consolidated in the College's financial statements relates to the payment of Childcare from the access fund paid by the College on the student's behalf.

26 TRANISTION TO FRS 102 AND THE 2015 FE HE SORP

The year ended 31 July 2016 is the first year that the College has presented its financial statements under FRS 102 and the 2015 FE HE SORP. The following disclosures are required in the year of transition.

The last financial statements prepared under previous UK GAAP were for the year ended 31 July 2015 and the date of transition to FRS 102 and the 2015 FE HE SORP was therefore 1 August 2014. As a consequence of adopting FRS 102 and the 2015 FE HE SORP, a number of accounting policies have changed to comply with those standards.

There is an adjustment to the surplus declared in the Statement of Comprehensive Income for 2014/15:

Financial Performance

		Year ended 31 July 2015 £'000
Surplus for the year after tax under previous SORP		65
Pension provisions actuarial loss	(a)	(860)
Changes to measurement of service costs on defined benefit plan	(a)	(20)
Changes to measurement of net finance costs	(a)	(180)
Total comprehensive income for year under FRS102		(995)

Reconciliation of reserves		**As at 1 August 2014 £'000**	**As at 31 July 2015 £'000**
Total funds under previous SORP		3,497	2,405
Reclassification on deferred capital grants to creditors	(b)	(2,284)	(2,205)
Total reserves under FRS102		**1,213**	**200**

(a) Under previous UK GAAP an expected return on defined benefit plan assets was recognised in comprehensive income. FRS102 requires the recognition in the Statement of Comprehensive Income, of a net interest cost based on the net defined benefit obligation.

(b) In accordance with the requirements of FRS102, deferred capital grants have been presented in creditors, split between those falling due within one year and those falling due after more than one year.

Addresses:
The Corporation Derwentside College
The Chief Executive of the Skills Funding Agency

Independent Reporting Accountant's Assurance Report on Regularity to the Corporation of Derwentside College and the Secretary of State for Business, Innovation and Skills acting through Skills Funding Agency

In accordance with the terms of our engagement letter 25 July 2016 and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by Derwentside College during the period 1 August 2015 to 31 July 2016 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which Skills Funding Agency has other assurance arrangements in place.
This report is made solely to the corporation of Derwentside College and the Skills Funding Agency in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of Derwentside College and the Skills Funding Agency those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the corporation of Derwentside College and the Skills Funding Agency for our work, for this report, or for the conclusion we have formed, save where expressly agreed in writing.

Respective responsibilities of Derwentside College and the reporting accountant

The corporation of Derwentside College is responsible, under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited

assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice.
We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 have not been applied to purposes intended by

Parliament or that the financial transactions do not conform to the authorities which govern them as set out in the Association of Colleges Accounts Direction 2015 to 2016.

Approach

We conducted our engagement in accordance with the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. We performed a limited assurance engagement as defined in that framework.

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

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

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

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them as set out in the Association of Colleges Accounts Direction 2015 to 2016.

PricewaterhouseCoopers LLP
Chartered Accountants
Newcastle upon Tyne
16 December 2016