DERWENTSIDE COLLEGE

Report and Financial Statements
For the Year Ended 31 July 2017

PROFESSIONAL ADVISERS

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

Additional controls assurance providers:
PricewaterhouseCoopers LLP
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3AZ

Bankers:
Lloyds Banking Group
4th Floor
Grey Street Branch
Newcastle upon Tyne
NE1 6AG

Solicitors:
Sintons LLP
The Cube
Barrack Road
Newcastle upon Tyne
NE4 6DB

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The members present their report and the audited financial statements for the year ended 31 July 2017.

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 maintain a minimum grade of 'good' for financial health. Significant improvement in the current ratio and cash balance held is also evident in the accounts. In addition, EBITDA performance has been positive and the College's low debt profile provides a strong platform for future financial success and investment.

Moving forward, the Corporation Board is confident that the College remains a going concern based on our strong financial performance and positive outlook for the future. The financial plan will continue to support the College in pursuance of its strategic objectives, though increasing the amount of cash and profit generated, and further strengthening 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 and continuing to grow its apprenticeship and classroom based provision for adults. The College has very strong links with the local business community and its partnerships with employers remain outstanding.

The College has significantly grown its apprenticeship business in year, with substantial increases in funding and learner numbers against both 16-18 and 19+ apprenticeship programmes. The introduction of the Apprenticeship reforms in May 2017 has fundamentally changed the environment the College operates within however, the College has kept abreast of the changes and is well placed to capitalise on the opportunities available, whilst also mitigating any potential threats.

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 group, where the College has delivered approximately £200k of growth against its own provision in year. EFA 16-18 funding has seen a slight decline due to local demographics however, this remains a priority area of growth for us going forward.

During the year, the College considered the acquisition of one of its sub-contracting partners (KF Training Limited), however, following due diligence, the decision was made not to pursue this option further and instead, the College terminated its contracts with the business. Subsequently, the College transferred a number of eligible staff from KF Training Limited to the College, taking full control of the contract and learners. The financial impact of this is minimal in the 2016-17 financial statements, but we do anticipate a longer term financial gain as a result.

Moving into 2017-18, 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 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 building on its 'good' Ofsted report (April 2016) during the year and delivering further improvements in achievement rates. The College's apprenticeship success rates have improved again, despite some in year challenges, while classroom based success rates remain in the top 10% of College's nationally. The College continues to strive towards 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 change taking place in the policy environment. In the sections below, the most significant external challenges facing the College over the coming years are identified and outlined:

Apprenticeship Reforms

The apprenticeship reforms represent the most significant threat and opportunity to Derwentside College at this point in time. The reforms are multi-faceted and as such, there are a number of key aspects that will need to be managed and monitored closely over the coming years. These include the introduction of:

- Variable and competitive pricing;
- Standards to replace existing apprenticeship frameworks;
- The introduction of the Digital Apprenticeship System (DAS);
- New funding methodologies and payment processes;
- Changes to funding rules, including sub-contracting arrangements and requirements;
- Employer fees.

In each of the areas identified above, the College has a well-developed strategy in place however, the full impact of the reforms will not be clear for some time.

Brexit

The ultimate aim of the government is to leave the EU by the next election in 2022. The Further Education sector is likely to be less affected than most however, any potential economic disruption carries an obvious risk to public spending.

On a more positive note, the government's aim of reducing immigration will increase demand for skills within the UK, potentially creating skills gaps and shortages which will give new demand for our work.

Reform of Technical Education

The government introduced its post-16 Skills Plan in July 2016, which set out proposed reforms to the technical education system in England. Under the proposals, there will be two education routes from age 16: a technical options and an academic option.

The technical option will group together occupations with shared training requirements into 15 technical education routes, which will continue to be delivered by a combination of college-based education and apprenticeships. The remit of the Institute for Apprenticeships will be expanded to cover all technical education and the Institute will be responsible for convening panels of employers to advise on the standards that individuals will need to meet in each route.

Two-year college-based programmes will be created at the start of each technical route, with nationally recognised certificates at levels 2 and 3. Each programme will include a 'common core', applying to all individuals studying that route and aligned to apprenticeships, followed by specialisation towards a skilled occupation or set of occupations. Certificates achieved through college-based study are likely to include a technical qualification (T-levels), and college-based learners will also be entitled to a work placement. For learners not able to access a technical route at 16, there will be a 'transition year' where tailored support will be provided based on their prior attainment.

Routes will then extend up to higher skill levels, with the Institute for Apprenticeships maintaining a register of technical qualifications at levels 4 and 5 which are eligible for Government-backed student

loans. The five National Colleges will focus on delivering technical education at levels 4 to 6 in sectors crucial to the Government's productivity agenda. In addition, a network of Institutes of Technology will be created across the country, likely building on existing infrastructure, to provide technical education in STEM subjects at levels 3, 4 and 5.

Derwentside College is likely to be presented with significant opportunities under the technical education reforms.

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 £236k (2015-16: £75k). The £236k deficit includes a charge of £490k relating to pension adjustments made under FRS 102 (£280k in 2015-16). Excluding this, the surplus reported was £254k, which represents an improvement of £49k on the previous year.

Fixed asset additions in the year amount to £169k (2015-16: £345k). The majority of expenditure related to IT infrastructure and equipment investment, along with some essential estates activities.

The College has reported net current assets of £425k at year end, which demonstrates a significant improvement on the prior year (2015-16 – net current assets of £5k). The College has delivered this through the successful management of its cash resources, improving its cash balance from £1,152k to £1,801k during the year.

At the end of the year the college has net assets (excluding pension liability) of £8,551k (2015-16: £8,376k) and net liabilities of £1,892k (2015-16: £1,845), 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 could 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 £1,801k reported (2015-16: £1,152k). 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. £12,638k (2015-16: £12,460k) 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 statement of comprehensive income 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 2,398 learners under the Learner Responsive Funding stream of which 713 were in the 16-18 year old age group. As part of its Employer Responsive provision the College has 5,938 Apprentices on programme, of which 420 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– Failure to meet learner recruitment and funding targets;
- Risk 3 – Failure to effectively manage the College's significant sub contracted partnership provision;
- Risk 4 – Failure to achieve and maintain high success rates and other outcome based measures;
- Risk 5 – Failure to develop and improve the quality of teaching, learning and assessment;
- Risk 6 – Failure to deliver the College's financial objectives;
- Risk 7 – The 'Brexit' decision leads to a period of political turmoil and uncertainty;
- Risk 8 – The acquisition of KF Training Limited has places a strain on the College's financial performance and diverts key resources;
- Risk 9 – A breach of IT security compromises secure and confidential 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 12 December 2017 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 and the *Code of Good Governance for English Colleges* in March 2015. 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 2017.

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 2016/17

	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 & May 2017	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 & May 2017	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	December 2016	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	
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	
Mr P Murray	July 2016	4 Years		Independent	Audit

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 2017, 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 2017 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 independent discussion, without the presence of college management. The committee also receives and considers reports from the main FE funding bodies as they affect the College's business.

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 2017 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 2017 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

- 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 Post-16 Audit Code of Practice 2016 to 2017. 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 additional controls assurance service
- 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 additional controls assurance service, 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 12 December 2017 and signed by its order:

A N Edwards (Chair)
Date

K Redhead (Principal)
Date

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 2016 to 2017* 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.

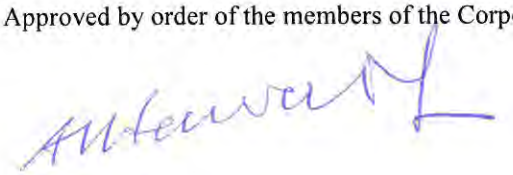
The Corporation is also required to prepare a Members Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

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 Corporation is responsible for the maintenance and integrity of the College website; 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 12 December 2017 and signed on its behalf by:



A N Edwards
Chair

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

Report on the audit of the financial statements

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 2017 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise the Balance Sheets as at 31 July 2017; 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.

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 institution 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 when:

- the Corporation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporation has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the institution'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 institution'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 Corporation is 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 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.

Responsibilities for the financial statements and the audit

Responsibilities of the Corporation for the financial statements
As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 14, the Corporation is 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 Corporation is 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 Corporation is responsible for assessing the institution's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Corporation either intends to liquidate the institution or to cease operations, or has 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 Financial Reporting Council's website at: 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 Corporation as a body in accordance with Article 22 of the institution's Articles of Government 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

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

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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
12 December 2017

DERWENTSIDE COLLEGE
Statement of Comprehensive Income
For the year ended 31 July 2017

	Note	Year ended 31 July 2017	Year ended 31 July 2016
		£'000	£'000
Income			
Funding body grants	3	12,638	12,460
Tuition fees and education contracts	4	515	416
Other grants and contracts	5	13	43
Other income	6	189	126
Investment income	7	-	4
Total Income		**13,355**	**13,049**
Expenditure			
Staff costs	8	5,516	5,145
Other operating expenses	10	7,491	7,377
Depreciation	13	414	404
Interest and other finance costs	11	170	198
Total Expenditure		**13,591**	**13,124**
Deficit before tax		**(236)**	**(75)**
Taxation	12	-	-
Deficit for the year		**(236)**	**(75)**
Actuarial gain / (loss) in respect on pension scheme	21	190	(1,970)
Total Comprehensive Expense for the Year		**(46)**	**(2,045)**

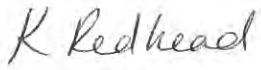
DERWENTSIDE COLLEGE
Statement of Changes in Reserves
For the year ended 31 July 2017

	Income & Expenditure Reserve	Total
	£'000	£'000
Balance at 1 August 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)**
Deficit for the year	(236)	(236)
Actuarial gain in respect of pension scheme	190	190
Balance at 31 July 2017	**(1,892)**	**(1,892)**
Balance represented by:		
Pension reserve	(7,770)	(7,770)
Income & Expenditure reserve	5,878	5,878
Balance at 31 July 2017	**(1,892)**	**(1,892)**

DERWENTSIDE COLLEGE
Balance Sheet
As at 31 July 2017

	Note	31 July 2017 £'000	31 July 2016 £'000
Non-current assets			
Tangible Fixed Assets	13	8,126	8,371
		8,126	**8,371**
Current assets			
Trade and other receivables	14	161	87
Cash at bank and in hand	20	1,801	1,152
		1,962	1,239
Less: Creditors – amounts falling due within one year	15	(1,537)	(1,234)
Net current assets		**425**	**5**
Total assets less current liabilities		**8,551**	**8,376**
Less: Creditors - amounts falling due after more than one year	16	(1,968)	(2,046)
Provisions			
Defined benefit obligation	21	(7,770)	(7,470)
Other provisions	17	(705)	(705)
TOTAL NET (LIABILITIES)		**(1,892)**	**(1,845)**
Income and expenditure account		**(1,892)**	**(1,845)**
TOTAL DEFECIT		**(1,892)**	**(1,845)**

The financial statements on pages 17 to 40 were approved and authorised for issue by the corporation on 12 December 2017 and were signed on its behalf by:-



A N Edwards (Chairman)

K Redhead (Principal)

DERWENTSIDE COLLEGE
Statement of Cash Flows
For the year ended 31 July 2017

	Note	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000
Cash flow from operating activities			
Deficit for the year		(236)	(75)
Adjustment for non-cash items			
Depreciation	13	414	404
Release of capital grants	19	(79)	(80)
(Increase) / Decrease in debtors	14	(74)	77
Increase / (Decrease) in creditors	15	303	(1,427)
Increase in provisions	17	-	21
LGPS Current service pension costs	21	780	560
LGPS Past service pension costs	21	20	-
LGPS Pension contributions paid	21	(480)	(450)
LGPS Interest charged on pension scheme liabilities	21	510	610
LGPS Interest earned on pension scheme assets	21	(340)	(440)
Adjustment for investing and financing activities			
Investment income	7	-	(4)
Interest payable	11	-	28
Net cash inflow / (outflow) from operating activities		818	(776)
Cash flows from investing activities			
Investment income	7	-	4
Payments to acquire fixed assets	13	(169)	(345)
		(169)	(341)
Cash flows from financing activities			
Interest payable	11	-	(28)
Repayment of amounts borrowed	20	-	(1,700)
		-	(1,728)
Increase / (Decrease) in cash or cash equivalents in the year		649	(2,845)
Cash and cash equivalents at the beginning of the year		1,152	3,997
Cash and cash equivalents at the end of the year		1,801	1,152