DERWENTSIDE COLLEGE

Report and Financial Statements
For the Year Ended 31 July 2018

PROFESSIONAL ADVISERS

Chartered Accountants
& Statutory Auditor:
KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

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

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

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

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Contents

The members present their report and the audited financial statements for the year ended 31 July 2018.

Public Benefit Statement

Derwentside College is an exempt charity under Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016, is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 10.

In setting and reviewing the College's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirement that all organisations wishing to be recognised as charities must demonstrate, explicitly that their aims are for the public benefit.

The college has set out its aims in the following Mission, Vision and Values statements:

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. The college continues to generate an EBITDA surplus and strengthen its 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 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 had another very successful year. We have continued to make good progress towards improving our learner outcomes, with achievement rates consistently in the top 10% against national benchmarks, while our learner satisfaction score (92.4% satisfaction) came out top amongst all of the College's in the North East region. Our employer satisfaction is similarly excellent, with interim results giving an overall rating of 88%.

The introduction of the apprenticeship reforms on the 1st May 2017 created significant challenges and turbulence for the College, in particular, during the 2017-18 financial year. In the national context, the reforms have led to a significant downturn in the number of starts being generated by Colleges and Private Training Providers, however, this has not been the case at Derwentside College, where we have maintained a similar volume of starts. The apprenticeship reforms have created a number of issues for our sub-contracting partners, and as such, we have reduced the volume of activity we are engaged in during the year. This created some challenges for us in meeting our funding targets for apprenticeships, however, we were able to address these challenges in year, without any significant impact on our outturn EBITDA performance.

The College's full time learning provision has declined slightly in 2017-18, with a reduction in the overall number of students recruited by the College and its partners. This has been due to a demographic decline in the number of 16 to 18 year old learners in the local area. This has not created any issues for us during the year however, we are not complacent, and this will be a key area we will look to grow as we look to develop our new strategic plan.

The College's adult learning provision has gone from strength to strength during the year. An ambitious target was set for 2017-18 which has been exceeded, and the College secured growth against its own provision of over £300k. The College has therefore, reduced its reliance on sub-contracted activity within this key funding stream, placing it in a much stronger position for the future.

Moving forward, the College is in the process of developing a new strategic plan. With the appointment of our new Principal and Chief Executive, we are beginning to develop an ambitious strategy for the future, to become the number one College in the North East, and a beacon of excellence within the further education sector.

The Further Education Landscape

The College continues to operate in an environment of political uncertainty. 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 continue to represent the most significant threat and opportunity to Derwentside College at this point in time. Although the college has performed strongly with regard to numbers of Apprentices enrolled in 2017/18, 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;
- Introduction of off the job training rules and requirements;
- Learner progress monitoring;
- 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, and the date identified for our exit is the 29th March 2019. The Further Education sector is likely to be less affected than most however, any potential economic disruption carries an obvious risk to public spending, and thus, the level of funding available to further education Colleges.

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 ratio 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 £296k (2016-17: Deficit of £236k). The £296k deficit includes a charge of £510k relating to pension adjustments made under FRS 102 (£490k in 2016-17). Excluding this, the surplus reported was £214k, which represents a reduction of £40k on the previous year.

Fixed asset additions in the year amount to £247k (2016-17: £169k). Just over half the expenditure related to updating I.T equipment, with the remainder split between various Estates improvements - updating of curriculum areas as well as improvement in College Infrastructure - making the college more energy efficient and secure, whilst also upgrading essential services to remain compliant with current legislation.

The College has reported net current assets of £745k at year end, which demonstrates a significant improvement on the prior year (2016-17 – net current assets of £425k). This is mainly due to the funding for learner achievements due from ESFA at 31 July of £455k.

At the end of the year the college has total assets less current liabilities of £8,686k (2016-17: £8,551k) and net liabilities of £1,188k (2016-17: £1,892k), 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, despite a reduction in 2017/18 with a year end figure of £1,007k reported (2016-17: £1,801k). The reduction in cash can be attributed to change in cashflow patterns of the Apprenticeship funding, where funding is now paid retrospectively and this delay has impacted the cash balance in 2017/18. Any funds deemed to be surplus to operational requirement 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 body (Education & Skills Funding Agency) for funding. The level of funding has decreased in 2017/18: £11,202k was recognised in the year (2016-17: £12,638k), mostly of a recurring nature and including the release of some deferred capital grants. There were small reductions in the 16-19 Programme funding and Adult Classroom funding, but the majority of the decrease in funding was felt in Apprenticeship funding.

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 2,552 learners under the Learner Responsive Funding stream of which 678 were in the 16-18 year old age group. As part of its Employer Responsive provision the College has 4,734 Apprentices on programme.

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 recently implemented apprenticeship reforms lead to a period of instability and uncertainty.
- Risk 2 – The devolution of the Adult Education Budget to Mayoral Combined Authorities leads to reductions in future funding.
- 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 deliver the College's financial objectives;
- Risk 8 – The 'Brexit' decision leads to a period of political turmoil and uncertainty;
- Risk 9 – A breach of IT security compromises secure and confidential information.
- Risk 10 – Changes within the management team create organisational turbulence.

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.

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the college to publish information on facility time arrangements for trade union officials at the college

Numbers of employees involved in the relevant period	FTE employee number
9	8.4

Percentage of time	Number of employees
0%	5
1-50%	4
51-99%	0
100%	0

Total cost of facility time	2077.74
Total pay bill	£5,456,046.58
Percentage of total bill spent on facility time	0.038%

Time spent on paid trade union activities as a percentage of total paid facility time	0

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 auditor

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 auditor is 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 auditor is aware of that information.

Approved by order of the members of the Corporation on 11 December 2018 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 2018.

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 2017/18

	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	2 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	2 years		Independent	Audit, Search Sub Committee, Remuneration Task Group
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, re-appointed March 2016	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
Mr J Devanney	October 2017	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 2018, 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 2018 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 Education & Skills Funding Agency. 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 2018 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 2018 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 ESFA Post-16 Audit Code of Practice 2017 to 2018. 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 from 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 11 December 2018 and signed by its order:

A N Edwards (Chair)
Date: 11 December 2018

C Todd (Principal)
Date: 11 December 2018

Statement of Regularity, Propriety and Compliance

The Corporation has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the college's financial memorandum. As part of our consideration we have had due regard to the requirements of the financial memorandum.

We confirm on behalf of the Corporation, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the terms and conditions of funding under the College's financial memorandum.

We confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the ESFA.

A N Edwards (Chair)
Date: 11 December 2018

C Todd (Principal)
Date: 11 December 2018

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

Within the terms and conditions of the College's Financial Memorandum with the ESFA, 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 2017 to 2018* issued by the ESFA, 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
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 information about the legal and administrative status of the College.

The Corporation is responsible for keeping adequate 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 such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 ESFA are used only in accordance with the Financial Memorandum with the ESFA 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 ESFA are not put at risk.

Approved by order of the members of the Corporation on 11 December 2018 and signed on its behalf by:

AN Edwards Tony Edwards

Chair

INDEPENDENT AUDITOR'S REPORT TO CORPORATION OF DERWENTSIDE COLLEGE

Opinion

We have audited the financial statements of Derwentside College ("the College") for the year ended 31 July 2018 which comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, Statement of Cash Flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2018, and of the College's income and expenditure, gains and losses, changes in reserves, and cash flows, for the year then ended; and
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland,* and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education.*

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the College in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Corporation is responsible for the other information, which comprises the Members' Report and the Corporation's statement of corporate governance and internal control. 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 conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Post-16 Audit Code of Practice 2017 to 2018 (March 2018) issued by the Education and Skills Funding Agency we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the College; or
- the College's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Corporation's responsibilities

As explained more fully in their statement set out on page 15, the Corporation is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the College or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Corporation, in accordance with Article 22 of the College's Articles of Government. Our audit work has been undertaken so that we might state to the Corporation those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the Corporation for our audit work, for this report, or for the opinions we have formed.

Rachel Fleming

Rachel Fleming (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX

20 December 2018

Statement of Comprehensive Income
For the year ended 31 July 2018

	Note	Year ended 31 July 2018	Year ended 31 July 2017
		£'000	£'000
Income			
Funding body grants	3	11,203	12,638
Tuition fees and education contracts	4	584	515
Other grants and contracts	5	12	13
Other income	6	203	189
Investment income	7	2	-
Total Income		**12,004**	**13,355**
Expenditure			
Staff costs	8	6,302	5,516
Other operating expenses	10	5,376	7,491
Depreciation	13	432	414
Interest and other finance costs	11	190	170
Total Expenditure		**12,300**	**13,591**
Deficit before tax		**(296)**	**(236)**
Taxation	12	-	-
Deficit for the year		**(296)**	**(236)**
Actuarial gain in respect on pension scheme	21	1,000	190
Total Comprehensive Income / (Expense) for the Year		**704**	**(46)**

DERWENTSIDE COLLEGE
Statement of Changes in Reserves
For the year ended 31 July 2018

	Income & Expenditure Reserve	Total
	£'000	£'000
Balance at 1 August 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)**
Deficit for the year	(296)	(296)
Actuarial gain in respect of pension scheme	1,000	1,000
Balance at 31 July 2018	**(1,188)**	**(1,188)**
Balance represented by:		
Pension reserve	(7,280)	(7,280)
Income & Expenditure reserve	6,092	6,092
Balance at 31 July 2018	**(1,188)**	**(1,188)**

DERWENTSIDE COLLEGE
Balance Sheet
As at 31 July 2018

	Note	31 July 2018 £'000	31 July 2017 £'000
Non-current assets			
Tangible Fixed Assets	13	7,941	8,126
		7,941	**8,126**
Current assets			
Trade and other receivables	14	622	161
Cash at bank and in hand	20	1,007	1,801
		1,629	1,962
Less: Creditors – amounts falling due within one year	15	(884)	(1,537)
Net current assets		**745**	**425**
Total assets less current liabilities		**8,686**	**8,551**
Less: Creditors - amounts falling due after more than one year	16	(1,890)	(1,968)
Provisions			
Defined benefit obligation	21	(7,280)	(7,770)
Other provisions	17	(704)	(705)
TOTAL NET (LIABILITIES)		**(1,188)**	**(1,892)**
Income and expenditure account		**(1,188)**	**(1,892)**
TOTAL DEFICIT		**(1,188)**	**(1,892)**

The financial statements on pages 17 to 40 were approved and authorised for issue by the corporation on 11 December 2018 and were signed on its behalf by:-

A N Edwards (Chairman)

C Todd (Principal)

DERWENTSIDE COLLEGE
Statement of Cash Flows
For the year ended 31 July 2018

	Note	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Cash flow from operating activities			
Deficit for the year		(296)	(236)
Adjustment for non-cash items			
Depreciation	13	432	414
Release of capital grants	19	(78)	(79)
(Increase) in debtors	14	(461)	(74)
(Decrease) / Increase in creditors	15	(653)	303
(Decrease) in provisions	17	(1)	-
LGPS Current service pension costs	21	930	780
LGPS Past service pension costs	21	-	20
LGPS Pension contributions paid	21	(610)	(480)
LGPS Interest charged on pension scheme liabilities	21	590	510
LGPS Interest earned on pension scheme assets	21	(400)	(340)
Adjustment for investing and financing activities			
Investment income	7	(2)	-
Interest payable	11	-	-
Net cash inflow / (outflow) from operating activities		(549)	818
Cash flows from investing activities			
Investment income	7	2	-
Payments to acquire fixed assets	13	(247)	(169)
		(245)	(169)
(Decrease) / Increase in cash or cash equivalents in the year		(794)	649
Cash and cash equivalents at the beginning of the year		1,801	1,152
Cash and cash equivalents at the end of the year		1,007	1,801

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 2017 to 2018 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.

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 or overdraft facility. The College's forecasts and financial projections indicate that it will be able to operate in the future without the requirement for any form of borrowing.

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.

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 ESFA 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.

2 ACCOUNTING POLICIES (continued)

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 statement of comprehensive income 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 statement of comprehensive income 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 comprehensive income.

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

2 ACCOUNTING POLICIES (continued)

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.

Financial instruments

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 24, 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.

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. 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 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.

2 ACCOUNTING POLICIES (continued)

- *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 21, 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 2016 has been used by the actuary in valuing the pensions liability at 31 July 2018. 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 2018 £'000	Year ended 31 July 2017 £'000
Recurrent grants		
Education & Skills Funding Agency – 16-18	2,729	2,814
Education & Skills Funding Agency - Adult	2,234	2,269
Education & Skills Funding Agency - Apprenticehips	5,763	7,039
Specific grants		
Education & Skills Funding Agency	374	450
Releases of deferred capital grants	67	66
Other funding body grants	36	-
	11,203	**12,638**

In 2016/17 recurrent grants were split into two funding bodies (SFA £9,308 and EFA £2,814). With the completion of the merger of the two individual bodies, all funding now comes from the ESFA.

In 2016/17 Specific grants were split into two funding bodies (SFA £225 and EFA £225). With the completion of the merger of the two individual bodies, all funding now comes from the ESFA.

The income shown above includes that earned by the college in its capacity as a provider (and as consortium lead). Due to changes in the categorisations by the ESFA in 2017/18, the comparators for 2016/17 have also been recalculated so they can be directly compared. Total income claimed in the year under this arrangement and the related payments to partners were as follows:

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Adult Classroom Based Income	875	1,098
Payments to college partners	(622)	(787)
Net Adult Skills Income	**253**	**311**
Apprenticeships income	1,377	3,765
Payments to college partners	(1,124)	(2,976)
Net Apprentices income	**253**	**789**
16-18 Learner Responsive income	1,358	1,574
Payments to college partners	(953)	(1,143)
Net 16-18 Learner Responsive income	**405**	**431**

4 TUITION FEES AND EDUCATION CONTRACTS

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Adult Education Fees	20	42
Full Cost Provision	68	71
Fees for FE loan supported courses	209	261
Total tuition fees	297	374
Education contracts	243	141
Employer Apprenticeship Levy Fees	44	-
	584	**515**

5 OTHER GRANTS AND CONTRACTS

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Other grants and contracts	12	13
	12	**13**

6 OTHER INCOME

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Catering income	87	110
Other income generating activities	16	21
Miscellaneous income	100	58
	203	**189**

7 INVESTMENT INCOME

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Other interest receivable	2	-
	2	-

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 2018 Number	Year ended 31 July 2017 Number
Teaching staff	92	79
Non teaching staff	66	65
	158	**144**

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Wages and salaries	4,757	4,185
Social security costs	452	395
Other pension costs excluding FRS102 charge	727	595
	5,936	5,175
Contracted out staffing services	-	7
	5,936	5,182
Fundamental restructuring costs	46	14
FRS102 pension charges	320	320
	6,302	**5,516**

9 KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the Senior Management Team which comprises the Principal, Director of Finance and Resources, Director of Curriculum and Director of Business Development.

The number of key management personnel and other staff who received annual emoluments excluding pension contributions in the following ranges was;

	Key management personnel		**Other Staff**	
	2018 Number	**2017 Number**	**2018 Number**	**2017 Number**
£ 60,001 to £70,000	-	-	-	-
£ 70,001 to £80,000	2	2	-	-
£110,001 to £120,000	1	1	-	-
	3	3	-	-

There is a salary sacrifice scheme relating to Childcare vouchers for one member of staff shown in the table above. In 2017/18 the value of this was £1,488 (2016/7 £744)

The Director of Curriculum (Nigel Lister) was a part time position from August 2017 to April 2018 when he retired and was below the reporting threshold. The replacement post holder (Zac Aldridge commenced in April 2018 and the emoluments paid are below the reporting threshold.

Key management personnel emoluments are made up as follows:	**Year ended 31 July 2018 £'000**	**Year ended 31 July 2017 £'000**
Salaries	271	271
Pension contributions	45	39
Total emoluments	**316**	**310**

The above emoluments include amounts payable to the Accounting Officer (who is also the highest paid senior post-holder) of:

	Year ended 31 July 2018 £'000	**Year ended 31 July 2017 £'000**
Salary	115	115
	115	**115**
Pension contributions	19	17

10 OTHER OPERATING EXPENSES

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Partnership costs	2,831	4,962
Teaching costs	1,278	1,257
Non teaching costs	793	827
Premises costs	474	445
	5,376	**7,491**

Other operating expenses include:	**Year ended 31 July 2018 £'000**	**Year ended 31 July 2017 £'000**
Independent auditors' remuneration		
Financial statements & regularity audit	23	29
Additional controls assurance	14	20
Other services provided: Teacher pension statement audit	1	1
	38	**50**

11 INTEREST AND OTHER FINANCE COSTS

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
On bank loans, overdrafts and other loans	-	-
Net interest on defined pension liability (note 21)	190	170
	190	**170**

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 2017	9,917	183	2,961	13,061
Additions	27	-	220	247
At 31 July 2018	9,944	183	3,181	13,308
Depreciation				
At 1 August 2017	2,379	73	2,483	4,935
Charge for year	216	6	210	432
At 31 July 2018	2,595	79	2,693	5,367
Net book value at 31 July 2018	**7,349**	**104**	**488**	**7,941**
Net book value at 31 July 2017	7,538	110	478	8,126

14 TRADE AND OTHER RECEIVABLES

	31 July 2018 £'000	31 July 2017 £'000
Amounts falling due within one year:		
Trade receivables	76	39
Prepayments and accrued income	546	122
	622	**161**

15 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 July 2018 £'000	31 July 2017 £'000
Trade payables	250	84
Other taxation and social security	116	119
Pension accrual	83	86
Accruals	357	756
Amounts owed to Funding Bodies	-	413
Deferred income – government capital grants	66	66
Deferred income - non government capital grants	12	13
	884	**1,537**

16 CREDITORS - AMOUNTS FALLING DUE AFTER ONE YEAR

	31 July 2018 £'000	31 July 2017 £'000
Deferred income – government capital grants	1,811	1,877
Deferred income - non government capital grants	79	91
	1,890	**1,968**

17 OTHER PROVISIONS

	College Enhanced Pensions £'000
At 1 August 2017	705
Expenditure in the year	(45)
Charge to income and expenditure account	44
At 31 July 2018	704

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:

	2018	2017	2016	2015	2014
Price inflation	2.8%	2.3%	2.3%	3.5%	4.1%
Discount rate (CPI)	2.1%	1.3%	1.3%	1.7%	2.3%

18 FINANCIAL INSTRUMENTS

The college has the following financial instruments:

	31 July 2018 £'000	31 July 2017 £'000
Financial Assets		
Debt instruments measured at amortised cost:		
Trade receivables	76	39
Accrued income	27	27
Cash at bank and in hand	1,007	1,801
Amounts owed by funding bodies	455	-
	1,565	**1,867**

	31 July 2018 £'000	31 July 2017 £'000
Financial Liabilities		
Financial liabilities measured at amortised cost:		
Trade payables	250	84
Pension	83	86
Accruals	357	756
Amounts owed to Funding Bodies	-	413
	690	**1,339**

19 DEFERRED CAPITAL GRANTS

	SFA Funding £'000	Other Grants £'000	Total £'000
At 1 August 2017			
Land and buildings	1,932	58	1,990
Equipment	11	45	56
	1,943	103	2,046
Released to income and expenditure account			
Land and buildings	(64)	(2)	(66)
Equipment	(2)	(10)	(12)
At 31 July 2018	**1,877**	**91**	**1,968**
The year end balance comprising;			
Land and buildings	1,868	55	1,923
Equipment	9	36	45
At 31 July 2018	**1,877**	**91**	**1,968**
The year end balance comprising;			
Due in less than one year buildings	66	12	78
Due in more than one year	1,811	79	1,890
At 31 July 2018	**1,877**	**91**	**1,968**

20 CASH AND CASH EQUIVALENTS

	At 1 August 2017 £'000	Cashflows £'000	Other Changes £'000	At 31 July 2017 £'000
Cash in hand, and at bank	1,801	(794)	-	1,007
	1,801	(794)	-	1,007

21 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

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Teachers Pension Scheme: contributions paid	222	215
Local Government Pension Scheme:		
Contributions paid	506	380
Shortfall payments recognised in non-teaching costs	90	89
FRS 102 adjustments	320	320
Charge to the Income and Expenditure Account (staff costs)	1,138	1,004
Enhanced pension charge to Income and Expenditure Account (other operating expenses)	45	46
Total Pension Cost for Year	**1,183**	**1,050**

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 2016.

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 £346,298 (2016-17: £336,616). These amounts include employees and employers contributions.

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.

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 2018 was £711,486 (£556,471 16/17) of which employers contributions totalled £505,530 (£379,781 16/17) and employees contributions totalled £205,956 (£176,690 16/17). In 2017/18 the contribution rates for employers were 16.8%. Rates for employees range from 5.5% to 11.4% in the year to 31 July 2018, depending on salary.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2018 by a qualified independent actuary.

	At 31 July 2018	At 31 July 2017	At 31 July 2016	At 31 July 2015	At 31 July 2014
Inflation (RPI)	3.2%	3.1%	2.9%	3.1%	3.2%
Inflation (CPI)	2.1%	2.0%	1.8%	2.0%	2.2%
Rate of increase in salaries	3.6%	3.5%	3.3%	3.5%	3.7%
Rate of increase for pensions	2.1%	2.0%	1.8%	2.0%	2.2%
Discount rate for liabilities	2.8%	2.6%	2.4%	3.5%	4.1%

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)

	2018	**2017**	**2016**	**2015**	**2014**
Retiring in 20 years:					
Males	25.5	25.6	24.9	24.8	24.7
Females	27.3	27.5	27.5	27.4	27.3
Retiring today:					
Males	23.3	23.4	22.7	22.6	22.5
Females	25.0	25.3	25.2	25.1	25.0

	Proportion of assets		Fair Value £'000	
	31 July 2018	31 July 2017	31 July 2018	31 July 2017
Equity instruments	48.9%	48.5%	8,146	7,338
Government bonds	24.1%	30.8%	4,015	4,660
Corporate bonds	14.2%	8.5%	2,366	1,286
Property	7.4%	7.1%	1,233	1,074
Cash	5.4%	5.1%	900	772
Total market value of assets			16,660	15,130

21 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 2018 £'000	31 July 2017 £'000
Fair value of plan assets	16,660	15,130
Present value of plan liabilities	(23,920)	(22,860)
Present value of unfunded liabilities	(20)	(40)
Net pensions liability	**(7,280)**	**(7,770)**

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

Amounts included in staff costs:	31 July 2018 £'000	31 July 2017 £'000
Current Service Cost	930	780
Past Service Cost	-	20
Total	**930**	**800**

Amounts included in interest and other finance costs:	31 July 2018 £'000	31 July 2017 £'000
Interest on plan assets	(400)	(340)
Interest on plan liabilities	590	510
Net interest on the defined benefit pension liability	**190**	**170**

Amounts included in other comprehensive income:	31 July 2018 £'000	31 July 2017 £'000
Actuarial (gain) in respect of pension scheme	(980)	(190)
Actuarial (gain): Unfunded defined benefit obligation	(20)	-
Total	**(1,000)**	**(190)**

Movement in net defined benefit (liability) during year

	2018 £'000	2017 £'000
Net defined benefit liability in plan at start of year	(7,730)	(7,430)
Movement in Year:		
Current Service cost	(930)	(780)
Employer Contributions	610	480
Past Service cost	-	(20)
Net interest on the defined liability	(190)	(170)
Actuarial gain	980	190
Net defined benefit liability at end of year	**(7,260)**	**(7,730)**

21 PENSION AND SIMILAR OBLIGATIONS (continued)

Asset and Liability Reconciliation

Changes in the present value of defined benefit obligations:

	2018 £'000	2017 £'000
Defined benefit obligations at start of year	22,860	21,520
Current Service Cost	930	780
Past Service Cost	-	20
Interest cost	590	510
Actuarial (gains) / losses on liabilities	(290)	480
Estimated benefits paid	(380)	(620)
Contributions by scheme participants	210	170
Defined benefit obligations at end of year	23,920	22,860

Changes in the fair value of plan assets:

	2018 £'000	2017 £'000
Fair value of plan assets at start of year	15,130	14,090
Interest on plan assets	400	340
Return on plan assets	690	670
Employer contributions	610	480
Contributions by scheme participants	210	170
Estimated benefits paid	(380)	(620)
Fair value of plan assets at end of year	16,660	15,130

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

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Present value of defined benefit obligation (funded)	(23,920)	(22,860)	(21,520)	(17,700)	(15,770)
Present value unfunded liabilities	(20)	(40)	(40)	(40)	(40)
Fair Value of scheme assets	16,660	15,130	14,090	12,520	11,660
Deficit in the scheme	(7,280)	(7,770)	(7,470)	(5,220)	(4,150)

Sensitivity Analysis

Changes to the Present value of the total obligation:

	At 31 July 2018 £'000	At 31 July 2017 £'000
(Discount rate +0.1%)	23,470	22,430
(Discount rate -0.1%)	24,380	23,300
Mortality assumption – 1 year increase	24,620	23,540
Mortality assumption – 1 year decrease	23,230	22,180
CPI rate +0.1%	24,290	23,210
CPI rate -0.1%	23,560	22,520

21 PENSION AND SIMILAR OBLIGATIONS (continued)

Disclosure of contingent liability regarding LGPS: A recent legal case has taken place which may have an effect on the value of the LGPS liability. On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, "GMP". The Government will need to consider this outcome in conjunction with the Government's recent consultation on GMP indexation in public sector schemes before concluding on any changes required to LGPS schemes.

22 CAPITAL COMMITMENTS

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

	2018 £'000	2017 £'000
Commitments contracted for at 31 July	20	9

23 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 FRS 102 related party disclosures.

24 AMOUNTS DISBURSED AS AGENT

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Discretionary Support Funds		
ESFA support	269	293
	269	293
Disbursed to Students	(188)	(302)
Administration costs	(12)	(14)
Balance underspent / (overspent) as at 31 July	69	(23)

ESFA 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.

The ESFA does not provide specific funds for Adult Learner Support. Instead an amount of £94,020 (the same amount that was allocated in 2016/17) was ringfenced from the Adult Skills Budget to be used for Discretionary Learner Support. This is included in the support funds income shown above.

Reporting Accountant's Report on Regularity to the Corporation of Derwentside College and the Secretary of State for Education acting through the Education and Skills Funding Agency

In accordance with the terms of our engagement letter dated 1 August 2018 and further to the requirements of the funding agreement with Education and 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 2017 to 31 July 2018 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post-16 Audit Code of Practice issued by the Education and Skills 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 the Education and Skills Funding Agency has other assurance arrangements in place.

This report is made solely to the corporation of Derwentside College and the Education and 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 Education and 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 Education and Skills Funding Agency for our work, for this report, or for the conclusion we have formed.

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 to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Post-16 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 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Post-16 Audit Code of Practice issued by the Education and Skills 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.

The work undertaken to draw our conclusion included:

- Documenting the framework of authorities which govern the activities of the College;
- Undertaking a risk assessment based on our understanding of the general control environment and any weaknesses in internal controls identified by our audit of the financial statements;
- Reviewing the self-assessment questionnaire which supports the representations included in the Chair of Governors and Accounting Officer's statement on regularity, propriety and compliance with the framework of authorities;
- Testing transactions with related parties;
- Confirming through enquiry and sample testing that the College has complied with its procurement policies and that these policies comply with delegated authorities; and
- Reviewing any evidence of impropriety resulting from our work and determining whether it was significant enough to be referred to in our regularity report.

This list is not exhaustive and we performed additional procedures designed to provide us with sufficient appropriate evidence to express a limited assurance conclusion on regularity consistent with the requirements of the Post-16 Audit Code of Practice.

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 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Rachel Fleming

Rachel Fleming
For and on behalf of KPMG LLP, Reporting Accountant
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3 DX

20 December 2018