DERWENTSIDE COLLEGE

Report and Financial Statements
For the Year Ended 31 July 2020

PROFESSIONAL ADVISERS

Chartered Accountants
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The members present their report and the audited financial statements for the year ended 31 July 2020.

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 13.

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 2019 and provides clarity on the College's Mission, Vision and Values which are shown below:

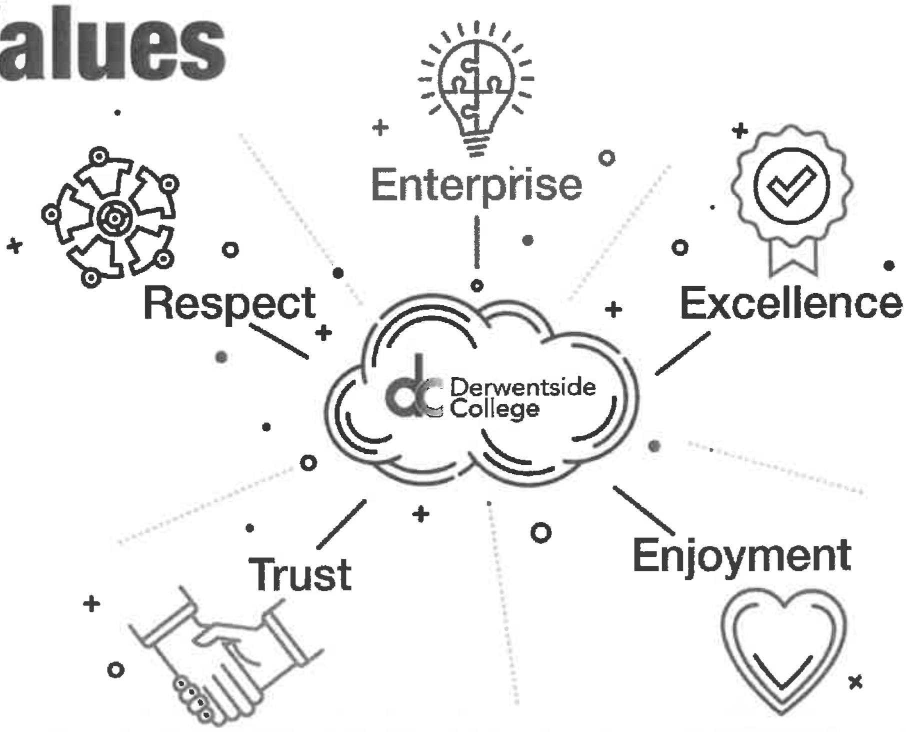
Mission

"To provide high quality education and training that shapes the future and transforms lives"

Vision - 2021

"To be the number one College in the North East and a shining light within the Further Education sector"

Values



Trust

- We take responsibility for our own work and actions, holding ourselves to account;
- We follow through on our commitments, making sure we deliver what we say we will;
- We are trusted to do our jobs well and we are given freedom and flexibility to achieve this in our own way.

Respect

- We treat everyone with respect and support each other;
- We value diversity and difference;
- We accept people for who they are.

Excellence

- We have the highest expectations for our learners;
- We strive to achieve excellence in all that we do;
- We take the lead on improving our services and get things done;
- We learn from our mistakes in an environment free from blame, where learning and reflection is encouraged.

Enjoyment

- We approach our work with enthusiasm and we are optimistic about the future;
- We enjoy our work and the relationships we have with each other;
- We are welcoming and friendly, and enjoy having fun with colleagues, learners and all those we come into contact with.

Enterprise

- We think differently and are not afraid to innovate and try new things;
- We accept that problems can occur, but we are solutions focussed, taking the lead and actively challenging the status quo;
- We adapt well to change and embrace new opportunities.

Strategic Summary

Overview

Over the last three years, the College has continued to perform well financially, continuing to generate a positive Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) surplus (Education specific EBITDA is £406k in 2019-20, and £629k in 2018-19) and strengthening its Net Assets before Pension Liabilities.

During the year, the College's financial health grade for 2018-19 was confirmed by the Education and Skills Funding Agency (ESFA) to be 'outstanding'. Our expectation has been to maintain this grade in 2019-20. The College was on track to meet our expectation until the Corona Virus lockdown came into force in March 2020. This has had a significant impact on our ability to create new apprenticeship starts and deliver training to AEB learner cohorts that were planned for March onwards.

At the start of the Corona Virus lockdown, the College management team re-forecast our expected out-turn for the 19-20 year. We have been given assurances that the full amount of AEB and 16-19 Classroom funding will not be subject to clawback, so the main area of funding we expected to significantly reduce was Apprenticeship funding. Whilst we initially decreased our income forecast for the 19-20 significantly, as the college was able to adapt rapidly and continue working with more employers than first thought, our Apprenticeship income, whilst lower than our 19-20 budget expectation, has seen some recovery in the latter part of the year.

Subsequent budget planning for 20-21 has been prepared with a prudent approach and we expect a lower level of Carry-In Apprenticeship funding in 20-21 due to the lower level of 19-20 new starts as a consequence of the national lockdown at the end of March.

Wherever possible training consultants have continued to engage remotely with learners, using Microsoft Teams to maintain learner visits. This has meant that the number of learners continuing their learning programme has been higher than we first anticipated and the level of withdrawals and breaks in learning has been lower than anticipated, leading to a better than expected funding position for apprenticeships at year end.

However, based on the figures presented within these accounts, there has still been a reduction in income when compared to our original plan for the year. Despite this reduction in income, we have also reduced costs where possible and as a result our financial health grade for 2019-20 will retain a grading of 'Outstanding', with a forecast predicting this to continue in 2020-21. The College's zero debt and strong current ratio (current assets : current liabilities) always enable us to score well on these measures. 2019-20 has seen a similar level of EBITDA surplus resulting in a maintained score for this category, but with a planned improvement in EBITDA surplus for future years our position is expected to remain strong.

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 board has approved future budget plans that recognise the difficulties that face the UK and College economy and are realistic and achievable and thus, the financial plan will continue to support the College in pursuance of its strategic objectives. Our aim over the coming years will be to increase the level of EBITDA surplus we are able to generate, thereby improving our solvency and ability to use cash surpluses to invest in our facilities and improve the learner experience.

Recent Progress

Like all companies in the UK, the latter half of 2020 has seen some very difficult circumstances for Derwentside College due to the Corona Virus pandemic.

All schools and colleges were instructed to close form March 20, 2020 and the college building remained closed to learners through the remainder of the academic year. The college was unable to deliver planned activity for short course 16-19 and Adult Education activity as we were unable to recruit learners to planned courses. However, classroom based funding for 16-19 and Adult learners has been guaranteed at contracted levels which has secured these streams of income.

As the lockdown became inevitable, College management focussed on the transfer to working remotely, making sure that staff were able to continue providing an environment to learners where they could continue to learn and progress across all streams of activity. This was especially important for our Apprenticeship learners, as we were concerned that levels of withdrawals and suspensions might increase rapidly due to the lockdown.

Our initial estimate of the impact this might have upon our finances took a very prudent view and the actual level of withdrawals and the subsequent decrease in income has been less than expected. This is due to Apprentices and Training Consultants moving to online meetings and assessments to replace face to face meetings. This has allowed apprentices to progress and employers have retained apprentices in greater numbers than we first thought likely.

As the College year has drawn to a close in Summer 2020, we have been bringing small numbers of classroom based students back into College on a one to one basis in order to finish off any work needed to assure their completion and achievement. This has been possible due to significant risk assessment throughout the College to ensure a Covid Safe environment which has subsequently allowed us to reopen in full to learners from September 2020.

Despite these difficulties, the College has had another very successful year. We have continued to make good progress towards the achievement of our mission and vision, as well as our 'statements of intent' against each of our identified key strategic pillars. Our progress is measured annually by the Corporation against our key strategic outputs, which are identified in our Annual Development Plan, and during 2019-20, significant improvement has been evident across a range of areas.

The College has consistently performed in top 10% against national benchmarks for learner achievement in all areas of provision. Although many benchmark measures have been suspended in light of the Corona Virus pandemic, in the most recent FE Choices survey our learners reported a satisfaction rate of 94%, which places us first amongst the North East Colleges and fourth best in England. Provisional outcomes from the national employer satisfaction survey paint a similar picture, with a provisional employer satisfaction rating of 94%, which represents an exceptional outcome.

The College, in many ways, is not a traditional further education College with the vast majority of our provision and income made up of apprenticeships (circa 70%). This has been an area of significant reform in recent years however, the College continues to successfully be a leading provider of apprenticeships both regionally and nationally, maintaining and building its market share and continuing to improve quality.

The College has a national reputation as a high quality provider of apprenticeships, which has been further enhanced during 2019-20 through our involvement in the High Volume Apprenticeship Providers Group - a group that meet regularly with decision makers with the aim of improving apprenticeship provision.

Moving forward, with the hope that the Corona Virus pandemic has stabilised, we will look to recover and grow our provision over the coming years, improving teaching, learning and assessment, with the aim of becoming an outstanding provider.

Our adult learning programmes were on track to improve during 2019-20. We have increased the volume of provision we deliver directly, further reducing our reliance on sub-contracting, and improving the quality of provision. Achievement rates on our adult programmes are anticipated to sit at 91% at the end of the 2019-20, which remains high despite a significant proportion our Adult provision unable to take place due to interruption from the Corona Virus pandemic. Our excellent relationships with Job Centre Plus were set to continue growing in 2019-20, but were brought to a halt by the national lockdown. Programmes have been able to re-start in earnest from August 2020 and will form a significant part of our Adult Classroom delivery, with demonstrable curriculum intent and implementation, as well as measurable impact through high quality learner destinations.

The College's full time learning programmes continued to see improvement in 2019-20, although representing the smallest aspect of our provision, during 2019/20 attainment levels look set to rise to 90% achievement, compared to 86% in 2018-19. Significant improvements are evident in the vocational subject areas, including an improvement in our 16-19 maths and English attainment having increased from 66% in 2018-19 to 79% in

2019/20. This was helped in 2019-20 through our participation in another SCIF project, this time, with Gateshead College acting as an improvement partner to us. The aim of the SCIF is to improve our maths and English performance in all areas and will ensure that our full time learning programmes match our high performance in other areas.

Moving forward, our objectives are to restore and grow our provision, in particular, against our full time programmes (16 to 18) and apprenticeships, whilst also continuing on our journey towards outstanding. Continuous improvement, combined with empowering leadership and management, will underpin this and will ensure we achieve our mission, and in particular, our vision, 'to be the number one College in the North East, and a shining light in the further education sector'.

The Further Education Landscape

The Further Education Landscape continues to change and develop, with 2019-20 representing another year of significant change and political uncertainty. In the sections below, an overview has been provided of key development in the external landscape that have featured during the year:

Corona Virus
As discussed in earlier sections of this report, the national lockdown and order to close the College buildings to learners has had a significant impact on both College activity and finances. All short course activity ceased on 20 March 2020 and existing Apprentices have been meeting Training Consultants via remote meetings online. The number of new starts for Apprenticeships dropped significantly in Spring 2020, but is now starting to improve.

Brexit
The UK officially left the EU, on 31 January 2020 and transitional arrangements are expected to end 31 December 2020. At present, there is great uncertainty around the potential outcome of Brexit, which creates significant political turmoil.

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.

Augar Review
In July 2019, Phillip Augar published his much anticipated report on post 18 education and funding. The report makes a number of recommendations relating to further education, which, if implemented, would be overwhelmingly positive for the sector. Following the publishing of the report, both the AoC and Principals & CEOs of Colleges across the country continue to encourage the Government to implement the recommendations made in the report.

FE Commissioner / Integrated Financial Model for Colleges
During 2019-20 complex financial modelling and information requests were introduced for Colleges. The aim was to provide ESFA and FE Commissioner a highly detailed dataset that would identify financial weaknesses within Colleges in advance of significant problems occurring.

Whilst in a stable environment this may have been a useful tool for the funding bodies, the rapidly changing landscape for FE means that the data needs to be refreshed more frequently. The modelling is complex and is undergoing further review to make it fit for purpose.

Government Comprehensive Spending Review
The Government Comprehensive Spending Review started in July 2020 with results expected to be published Autumn 2020.

The value of the FE sector is gaining recognition with earlier spending commitments coming to fruition. In 2019-20 we have seen the 16-19 funding rate improve and additional funds to support the increased costs of maintaining the Teachers' Pension Scheme contributions.

As part of support for the Sector during the Corona Virus pandemic, as well as guaranteed income for 16-18 and Adult Classroom activity, there has also been a capital allocation given to the College of £420k. Capital funds can only be spent on improving building condition and must be spent by March 2021, which for larger projects is a difficult timescale to meet..

T-Levels and the Overhaul of Technical and Professional 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 as we move forward, we will need to realign our classroom based provision to work within these new parameters.

Apprenticeships
The apprenticeship reforms, although largely implemented, continue to mean the College has to develop and change at pace. New funding rules and regulations are being developed and introduced regularly, and in order to comply, Colleges are spending an increasing amount of time on administration and compliance. The move from frameworks to standards is now fully implemented.

Despite this, there are many opportunities for growth into the future, with the College continuing to perform well. There remain challenges however, with employer uncertainty surrounding the stability of the UK economy due to Corona Virus and Brexit a common worry. Employers need confidence in the economic outlook to create apprentice opportunities, so Government action and incentives to improve the take up of apprentices is encouraging for the Apprenticeship sector.

Adult Education Budget Devolution
In 2019-20, the Adult Education Budget was devolved in Tees Valley, with the College securing a delivery contract. The college was on track to deliver in line with the contract agreement when delivery was forced to

stop due to the national lockdown in March. Funding has been guaranteed for the year and the contract has been awarded again in 2020-21 at the same value as the previous year. We are hopeful that we can demonstrate the value of our provision and expand the contract value.

New Ofsted Inspection Framework
A new Ofsted Education Inspection Framework (EIF) was consulted on during 2018-19 and has subsequently been introduced in September 2019. The new EIF represents a significant change in the focus and approach to inspections within further education and skills, with a shift towards the breadth and quality of the curriculum, and a specific focus on intent, implementation and impact.

Inspection visits were put on hold due to the Corona Virus pandemic in March, so although we are due an inspection imminently, this may now be deferred.

The College Development Plan – Strategy into Action

Mission, Vision and Values
The College's Mission, Vision and Values set out our core purpose; our aspirations for the future; and our organisational culture.

The College Development Plan
The College's Annual Development Plan represents the means by which the College will deliver against its Mission and Vision, supporting the achievement of its goals and providing clear direction on what needs to be done.

The College Development Plan is built around four Strategic Pillars, as follows:

- Leadership and Management
- Apprenticeships
- Full-Time Learning Programmes
- Adult Learning Programmes

The strategic pillars represent the core aspects of our business and within each one, we have set out a clear statement of intent providing clarity on what we want to achieve.

Our development planning and objectives flow from these statements and our self-assessment processes, providing clear direction towards the achievement of our Vision and statements of intent over time.

Our success will be measured against the achievement of our Development Plan and ultimately our strategic outputs, with the Executive Team and Board taking responsibility for monitoring our performance and progress over time.

Operational Implementation
In order to oversee the implementation of each aspect of our Development Plan, the College's internal structures have been aligned to the strategic pillars, with teams of staff empowered to lead development and continuous improvement against each strand.

Performance Review
On an annual basis, the Board of the Corporation receive a report from the Principal and Chief Executive, in November each year, highlighting performance against the Annual Development Plan and in particular, our defined Strategic Outputs. This provides the Board with a clear, high level summary of the College's performance, and over time, will demonstrate the College's success, or otherwise, in achieving its mission and vision.

Financial Position

The College generated a deficit in the year of £527k (2018/19: Deficit of £571k). The £527k deficit includes a charge of £630k relating to pension adjustments made under FRS 102 (£850k in 2018/19). Excluding this, the surplus reported was £103k (£279k in 2018/19), which represents a decrease of £176k on the previous year.

Fixed asset additions in the year amount to £229k (£216k in 2018/19). Approximately 40% of the expenditure related to updating and improving College buildings, 39% on replacement of fixtures, fittings and other equipment and the final 21% of expenditure being spent on replacing or improving IT equipment.

The College has reported net current assets of £1,358k at year end (£1,161k in 2018/19), which demonstrates a significant improvement on the prior year. This is mainly due to a reduction in year end creditors – both the amounts owed by funding bodies and the amount we owe college suppliers has decreased significantly in 2019-20.

Our Cash balance has decreased slightly in 2019-20 showing a year end balance of £1,880k (£1,935k in 2018/19). Both the ESFA and the FE Commissioner place a great deal of emphasis on the solvency of Colleges, so our aim to maintain a substantial cash balance continues. The College continues to have zero borrowings and 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.

At the end of the year the college has total assets less current liabilities of £8,919k (2018/19: £8,882k) and net liabilities of £7,706k (2018/19: £3,149k), including the pension liability. The significant movement which adds £4.66m to the overall College liability is due to the continuing increase in the LGPS valuation of pension liability. The 2019 triennial revaluation of the LGPS put the fund in a positive position, but since then the shockwave that has been felt in investment markets has led to LGPS actuary to significantly reverse the outlook for the fund. This is not anticipated to generate any significant financial challenges for the College over the coming years, other than the potential for further increases to employer contributions, but it could potentially limit the College's ability to raise funds through borrowing in the future.

The College is heavily dependent upon the main funding body (Education & Skills Funding Agency) for funding. The level of funding has decreased in 2018/19: £8,552k was recognised in the year (2018/19: £10,128k). The largest decrease was seen in 16-19 Programme Funding, due to the lower numbers of learners in year. With an uptick in 16-19 demographics in the college catchment area this funding stream is expected to improve in future years – a theory that has been borne out in levels of learner recruitment in early 2020/21. Both Adult Education and Apprenticeship income have decreased in 2019-20. Both these streams of income have been affected by the Corona Virus shutdown and the College focus is on recovery and growth of these streams of activity in 2020/21.

The financial statements include the impact of the accounting requirement relating to pension funds (FRS102 8.28) which results in a movement in the statement of comprehensive income and also the increase of the 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, other than employers pension contributions, 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. In 2018/19 two legal cases have resulted in an increase in the valuation of the College liability – GMP Equalisation and McCloud / Sargeant cases. In the year 2019/20 the economic impact of the Corona Virus has had a significant effect on the value of the pension scheme liability. More detail on this is given in the relevant Pensions note.

Student Numbers and Performance

During the year, the college recruited 401 16-18 classroom based learners and 849 Adult classroom based learners. As part of its Apprenticeship provision the College has 2,664 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 College's apprenticeship provision fails to adapt to the heightened expectations of Ofsted and the ESFA.
- **Risk 2**– Failure to meet learner recruitment and funding targets.
- **Risk 3** – Failure to effectively manage the College's sub contracted partnership provision.
- **Risk 4** – Failure to achieve and maintain high levels of retention, achievement rates and other outcome based measures.
- **Risk 5** – Failure to develop and improve the quality of teaching, learning and assessment.
- **Risk 6** – Failure to deliver the College's financial objectives.
- **Risk 7** – Political challenges and large scale recession from a combination of Brexit fallout and Covid-19 leads to a general downturn in the UK economy, with a subsequent mid / long term decline in public sector funding.
- **Risk 8** – A breach of IT security compromises secure and confidential information.
- **Risk 9** – Second wave of Corona virus results in a resumption of a widespread lockdown either nationally or locally which further disrupts business continuity.

Risks are not ranked by order of importance, but in the case of each risk, an individual risk score is formulated and 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	7.9

Percentage of time	Number of employees
0%	6
1-50%	3
51-99%	0
100%	0

Total cost of facility time	£3,062.44
Total pay bill	£5,394,674.42
Percentage of total bill spent on facility time	0.057%

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

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 and its cashflows are presented in the Financial Statements and accompanying Notes.

The College currently has no borrowings or overdraft facility. The College continues to re-invest in its Estate and Asset base using cash reserves without the need for any external borrowings and hence has no borrowing covenants to comply with. At 31 July 2020 the college holds a cash balance of £1,880k. Despite the difficult circumstances due to interruption from the Corona Virus lockdown from March 2020 onwards, cash has decreased by a relatively small amount of £55k in the year (31 July 2019 £1,935k).

The College has switched to remote online learning when required throughout the pandemic by the government which has not impacted student numbers of the quality of provision by the college and despite this change the college has continued to trade in line with its forecasts. The colleges cash balances remain in line with the year end amount.

The College has prepared forecasts for the period though until July 2022 taking account of the anticipated impact of COVID-19. The College has also prepared a severe but plausible downside forecast which assumes another lockdown in the forecast period, this assumes that the college's activities and revenue levels are similarly impacted in the way that they were in January 2021 by the deferral of some courses due to remote online learning. The College is of the opinion that, taking account of these forecasts (including the severe but plausible downside forecast), the College will have sufficient funds from cash reserves to meet its liabilities as they fall due over the period of 12 months from the date of approval of the financial statements (the going concern assessment period).

Although in 2019/20 the LGPS pension liabilities have increased significantly, and pension past service costs have affected the overall performance shown in our Statement of Comprehensive Income, both the college and ESFA view these items as a non cash matter which does not affect the ability of the college to produce a strong underlying performance which has generated good cash balances. The cash held by the college will allow us to continue making capital investment in the College facilities without external borrowing or requiring any overdraft facility both in the present and in the future.

The Derwentside College ESFA financial health grade in 2018/19 was outstanding, and our predictions for 2019/20 show that this will be maintained. Our current ratio score is predicted to remain at the maximum score available, our EBITDA score has been maintained in 2019/20 and with zero borrowing or overdraft 7,561we are in a strong position. The 2018/19 ESFA published results showed only 4 colleges in the North East with an outstanding health grade, with Derwentside College being one of them.

Consequently, the Corporation is confident that the College will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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 26 January 2021 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 2020.

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 2019/20

	Date of appointment	Term of office	Date of Resignation	Status of appointment	Committees Served
Mr C Todd	August 2018	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, May 2019	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	4 years		Independent	Audit, Search Sub Committee, Remuneration Task Group
Mr G Gibson	March 2008, re-appointed March 2012, March 2016, June 2020	4 years		Independent	Audit, Remuneration Task Group
Mrs N Dixon	December 2018	4 years		Staff	
Mrs G Granath	March 2012, re-appointed March 2016, (suspended March 2020 for 6 months due to ill health)	4 years		Independent	Audit
Mrs C Richards	June 2014, re-appointed June 2018	4 Years		Staff	
Ms A Form	December 2014, re-appointed December 2018	4 Years	08/10/2019	Independent	
Mr M Short	January 2015, re-appointed January 2019	4 Years		Independent	
Mr P Murray	July 2016	4 Years	08/10/2019	Independent	Audit
Mr J Devanney	October 2017	4 Years		Independent	Audit (appointed March 2020)
Mr B Layton	October 2019	1 Year		Student	
Dr K Chester	October 2019	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, 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.

Meetings of the board and all committees continued throughout 2019-20 despite the Corona Virus pandemic. Whilst these meetings were traditionally held in person and on site at the College, since March 2020 these have moved online and have taken place using Microsoft Teams in line with the meeting dates in the College's annual business cycle.

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 2020, 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 2020 are set out in note 9 to the financial statements.

Audit Committee

The audit committee comprises of four 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 2020 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 2020 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 2019 to 2020. 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 through to 31 July 2020. From 1 August 2020 assurance services will be provided by AuditOne. A comprehensive handover has taken place between PwC and AuditOne.

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 8 December 2020 and signed by its order:

A N Edwards (Chair)	C Todd (Principal)
Date: 26 January 2021	Date: 26 January 2021

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: 26 January 2021

C Todd (Principal)
Date: 26 January 2021

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 *2019 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the *College Accounts Direction 2019 to 2020* 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 26 January 2021 and signed on its behalf by:

AN Edwards

AN Edwards
Chair

INDEPENDENT AUDITOR’S REPORT TO THE CORPORATION OF DERWENTSIDE COLLEGE

Opinion

We have audited the financial statements of Derwentside College (“the College”) for the year ended 31 July 2020 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 2020, 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 2019 *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

The Corporation has prepared the financial statements on the going concern basis as it does not intend to liquidate the College or to cease its operations, and as it has concluded that the College’s financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (“the going concern period”).

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 a year from the date of approval of the financial statements. In our evaluation of the Corporation’s conclusions, we considered the inherent risks to the College’s business model, and analysed how those risks might affect the College’s financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the College will continue in operation.

Other information

The Corporation is responsible for the other information, which comprises the Members’ Report and 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 2019 to 2020 (July 2020) 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 19, 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.

Paul Moran
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
110 Quayside House
Newcastle upon Tyne
NE1 3DX
26 January 2021

DERWENTSIDE COLLEGE
Statement of Comprehensive Income
For the year ended 31 July 2020

	Note	Year ended 31 July 2020	Year ended 31 July 2019
		£'000	£'000
Income			
Funding body grants	3	8,552	10,128
Tuition fees and education contracts	4	331	692
Other grants and contracts	5	170	12
Other income	6	145	199
Investment income	7	9	8
Total Income		**9,207**	**11,039**
Expenditure			
Staff costs	8	5,956	6,213
Other operating expenses	10	3,199	4,761
Depreciation	13	389	436
Interest and other finance costs	11	190	200
Total Expenditure		**9,734**	**11,610**
Deficit before tax		**(527)**	**(571)**
Taxation	12	-	-
Deficit for the year		**(527)**	**(571)**
Actuarial (loss) / gain in respect on pension scheme	21	(4,030)	(1,390)
Total Comprehensive (Expense) / Income for the Year		**(4,557)**	**(1,961)**

	Income & Expenditure Reserve	Total
	£'000	£'000
Balance at 1 August 2018	**(1,188)**	**(1,188)**
Deficit for the year	(571)	(571)
Actuarial loss in respect of pension scheme	(1,390)	(1,390)
Balance at 31 July 2019	**(3,149)**	**(3,149)**
Deficit for the year	(527)	(527)
Actuarial loss in respect of pension scheme	(4.030)	(4,030)
Balance at 31 July 2020	**(7,706)**	**(7,706)**
Balance represented by:		
Pension reserve	(14,180)	(14,180)
Income & Expenditure reserve	6,474	6,474
Balance at 31 July 2020	**(7,706)**	**(7,706)**

	Note	31 July 2020 £'000	31 July 2019 £'000
Non-current assets			
Tangible Fixed Assets	13	7,561	7,721
		7,561	**7,721**
Current assets			
Trade and other receivables	14	134	419
Cash at bank and in hand	20	1,880	1,935
		2,014	2,354
Less: Creditors – amounts falling due within one year	15	(656)	(1,193)
Net current assets		**1,358**	**1,161**
Total assets less current liabilities		**8,919**	**8,882**
Less: Creditors - amounts falling due after more than one year	16	(1,734)	(1,812)
Provisions			
Defined benefit obligation	21	(14,180)	(9,520)
Other provisions	17	(711)	(699)
NET (LIABILITIES)		**(7,706)**	**(3,149)**
Income and expenditure account		**(7,706)**	**(3,149)**
TOTAL DEFICIT		**(7,706)**	**(3,149)**

The financial statements on pages 23 to 46 were approved and authorised for issue by the corporation on 26 January 2021 and were signed on its behalf by:-

A N Edwards (Chairman)

C Todd (Principal)

Statement of Cash Flows
For the year ended 31 July 2020

	Note	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Cash flow from operating activities			
Deficit for the year		(527)	(571)
Adjustment for non-cash items			
Depreciation	13	389	436
Release of capital grants	19	(78)	(79)
Decrease in debtors	14	285	203
(Decrease) / Increase in creditors	15	(537)	310
Increase / (Decrease) in provisions	17	11	(5)
LGPS Current service pension costs	21	1,120	860
LGPS Past service pension costs	21	10	420
LGPS Pension contributions paid	21	(690)	(630)
LGPS Interest charged on pension scheme liabilities	21	590	670
LGPS Interest earned on pension scheme assets	21	(400)	(470)
Adjustment for investing and financing activities			
Investment income	7	(9)	(8)
Interest payable	11	-	-
Net cash inflow from operating activities		164	1,136
Cash flows from investing activities			
Investment income	7	9	8
Payments to acquire fixed assets	13	(228)	(216)
		(219)	(208)
(Decrease) / Increase in cash or cash equivalents in the year		(55)	928
Cash and cash equivalents at the beginning of the year		1,935	1,007
Cash and cash equivalents at the end of the year		1,880	1,935

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 and its cashflows are presented in the Financial Statements and accompanying Notes.

The College currently has no borrowings or overdraft facility. The College continues to re-invest in its Estate and Asset base using cash reserves without the need for any external borrowings and hence has no borrowing covenants to comply with. At 31 July 2020 the college holds a cash balance of £1,880k. Despite the difficult circumstances due to interruption from the Corona Virus lockdown from March 2020 onwards, cash has decreased by a relatively small amount of £55k in the year (31 July 2019 £1,935k).

The College has switched to remote online learning when required throughout the pandemic by the government which has not impacted student numbers of the quality of provision by the college and despite this change the college has continued to trade in line with its forecasts. The colleges cash balances remain in line with the year end amount.

The College has prepared forecasts for the period though until July 2022 taking account of the anticipated impact of COVID-19. The College has also prepared a severe but plausible downside forecast which assumes another lockdown in the forecast period, this assumes that the college's activities and revenue levels are similarly impacted in the way that they were in January 2021 by the deferral of some courses due to remote online learning. The College is of the opinion that, taking account of these forecasts (including the severe but plausible downside forecast), the College will have sufficient funds from cash reserves to meet its liabilities as they fall due over the period of 12 months from the date of approval of the financial statements (the going concern assessment period).

Consequently, the Corporation is confident that the College will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

2 ACCOUNTING POLICIES (continued)

Recognition of income

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

The recurrent grant from 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.

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.

2 ACCOUNTING POLICIES (continued)

Enhanced Pensions

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

Non-current Assets - Tangible fixed assets

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

Land and buildings

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

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

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

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

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

Subsequent expenditure on existing fixed assets

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

Equipment

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

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

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

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

Cash and cash equivalents

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

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

2 ACCOUNTING POLICIES (continued)

Financial 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.

- *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 2019 has been used by the actuary in valuing the pensions liability at 31 July 2020. 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 2020 £'000	Year ended 31 July 2019 £'000
Recurrent grants		
Education & Skills Funding Agency – 16-18	2,017	2,995
Education & Skills Funding Agency - Adult	1,828	2,211
Education & Skills Funding Agency - Apprenticehips	3,972	4,404
Specific grants		
Education & Skills Funding Agency	242	346
ESFA Pension Scheme Contribution Grant	105	-
Tees Valley Combined Authority - Adult	273	-
Releases of deferred capital grants	66	66
Other funding body grants	49	106
	8,552	**10,128**

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

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
ESFA Adult Classroom Based Income	265	706
Payments to college partners	(206)	(506)
Net Adult Skills Income	**59**	**200**
Apprenticeships income	496	563
Payments to college partners	(400)	(450)
Net Apprentices income	**96**	**113**
16-18 Learner Responsive income	590	1,374
Payments to college partners	(462)	(1,012)
Net 16-18 Learner Responsive income	**128**	**362**

4 TUITION FEES AND EDUCATION CONTRACTS

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Adult Education Fees	38	61
Full Cost Provision	5	14
Fees for FE loan supported courses	195	203
Total tuition fees	238	278
Education contracts	7	295
Employer Apprenticeship Levy Fees	86	119
	331	**692**

5 OTHER GRANTS AND CONTRACTS

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Other grants and contracts	12	12
Corona Virus Job Retention Scheme grant	158	-
	170	**12**

6 OTHER INCOME

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Catering income	64	94
Other income generating activities	11	17
Miscellaneous income	70	88
	145	**199**

7 INVESTMENT INCOME

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Other interest receivable	9	8
	9	**8**

8 STAFF COSTS

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

	Year ended 31 July 2020 Number	Year ended 31 July 2019 Number
Teaching staff	74	85
Non teaching staff	64	60
	138	**145**

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Wages and salaries	4,235	4,374
Social security costs	404	421
Other pension costs excluding FRS102 charge	756	678
	5,395	5,473
Contracted out staffing services	24	19
	5,419	5,492
Fundamental restructuring costs	97	71
FRS102 pension charges	440	650
	5,956	**6,213**

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, Executive Director of Finance and Resources, Vice Principal Strategic Partnerships and Vice Principal Curriculum and Quality.

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	
	2020 Number	2019 Number	2020 Number	2019 Number
£ 20,001 to £25,000	1	-	-	-
£ 70,001 to £75,000	1	1		
£ 75,001 to £80,000	1	-	-	-
£ 80,001 to £85,000	1	1	-	-
£ 95,001 to £100,000		1	-	-
£105,001 to £110,000	1	-	-	-
	5	**3**	-	-

There is a salary sacrifice scheme relating to Childcare vouchers for one member of staff shown in the table above. In 2019/20 the value of this was £1,116 (2018/19 £1,488)

The position of Vice Principal - Curriculum was carried out by Zac Aldridge from 1/8/19 to 3/4/20 and Michael Johnson from 4/4/20 to 31/7/20.

Key management personnel emoluments are made up as follows:	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Salaries	365	255
Pension contributions	61	43
Total emoluments	**426**	**298**

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

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Salary	109	99
	109	**99**
Pension contributions	**20**	**17**

9 KEY MANAGEMENT PERSONNEL (continued)

Relationship of Principal / Chief Executive pay and remuneration expressed as a multiple:

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Principals basic salary as a multiple of the median of all staff	3.95	3.56
Principals total remuneration as a multiple of the median of all staff	3.95	3.57

Median salary is calculated using the full time equivalent salary for all college employed staff.

10 OTHER OPERATING EXPENSES

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Partnership costs	1,035	2,361
Teaching costs	1,016	1,196
Non teaching costs	635	695
Premises costs	513	509
	3,199	**4,761**

Other operating expenses include:	**Year ended 31 July 2020 £'000**	**Year ended 31 July 2019 £'000**
Independent auditors' remuneration		
Financial statements & regularity audit	24	28
Other services provided: Teacher pension statement audit	1	1
	25	**29**

11 INTEREST AND OTHER FINANCE COSTS

	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
On bank loans, overdrafts and other loans	-	-
Net interest on defined pension liability (note 21)	190	200
	190	**200**

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 2019	9,992	183	3,349	13,524
Additions	95	-	134	229
At 31 July 2020	10,087	183	3,483	13,753
Depreciation				
At 1 August 2019	2,812	85	2,906	5,803
Charge for year	220	6	163	389
At 31 July 2020	3,032	91	3,069	6,192
Net book value at 31 July 2020	**7,055**	**92**	**414**	**7,561**
Net book value at 31 July 2019	7,180	98	443	7,721

14 TRADE AND OTHER RECEIVABLES

	31 July 2020 £'000	31 July 2019 £'000
Amounts falling due within one year:		
Trade receivables	46	72
Prepayments and accrued income	88	347
	134	**419**

15 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 July 2020 £'000	31 July 2019 £'000
Trade payables	47	330
Other taxation and social security	104	98
Pension accrual	92	77
Accruals	303	524
Amounts owed to Funding Bodies	31	86
Deferred income – government capital grants	67	66
Deferred income - non government capital grants	12	12
	656	**1,193**

16 CREDITORS - AMOUNTS FALLING DUE AFTER ONE YEAR

	31 July 2020 £'000	31 July 2019 £'000
Deferred income – government capital grants	1,678	1,745
Deferred income - non government capital grants	56	67
	1,734	**1,812**

17 OTHER PROVISIONS

	College Enhanced Pensions £'000
At 1 August 2019	699
Expenditure in the year	(37)
Charge to income and expenditure account	49
At 31 July 2020	711

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:

	2020	2019	2018	2017	2016
Price inflation	1.4%	2.1%	2.8%	2.3%	2.3%
Discount rate (CPI)	2.3%	2.2%	2.1%	1.3%	1.3%

18 FINANCIAL INSTRUMENTS

The college has the following financial instruments:

	31 July 2020 £'000	31 July 2019 £'000
Financial Assets		
Debt instruments measured at amortised cost:		
Trade receivables	46	72
Accrued income	27	27
Cash at bank and in hand	1,880	1,935
Amounts owed by funding bodies	-	251
	1,953	**2,285**
Financial Liabilities		
Financial liabilities measured at amortised cost:		
Trade payables	47	330
Accruals	303	524
Amounts owed to Funding Bodies	31	86
	381	**940**

19 DEFERRED CAPITAL GRANTS

	SFA Funding £'000	Other Grants £'000	Total £'000
At 1 August 2019			
Land and buildings	1,804	53	1,857
Equipment	7	26	33
	1,811	79	1,890
Released to income and expenditure account			
Land and buildings	(64)	(1)	(65)
Equipment	(2)	(10)	(12)
At 31 July 2020	**(66)**	**(11)**	**(77)**
The year end balance comprising;			
Land and buildings	1,740	52	1,792
Equipment	5	16	21
At 31 July 2020	**1,745**	**68**	**1,813**
The year end balance comprising;			
Due in less than one year	67	12	79
Due in more than one year	1,678	56	1,734
At 31 July 2020	**1,745**	**68**	**1,813**

20 CASH AND CASH EQUIVALENTS

	At 1 August 2019 £'000	Cashflows £'000	Other Changes £'000	At 31 July 2020 £'000
Cash in hand, and at bank	1,935	(55)	-	1,880
	1,935	(55)	-	1,880

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 2020 £'000	Year ended 31 July 2019 £'000
Teachers Pension Scheme: contributions paid	242	200
Local Government Pension Scheme:		
Contributions paid	514	478
Shortfall payments recognised in non-teaching costs	147	143
FRS 102 adjustments	440	650
Charge to the Income and Expenditure Account (staff costs)	1,343	1,471
Enhanced pension charge to Income and Expenditure Account (other operating expenses)	41	45
Total Pension Cost for Year	**1,384**	**1,516**

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest available actuarial valuation of the TPS was 31 March 2016 and of the LGPS 31 March 2019.

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 that is available was carried out as at 31 March 2016 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 5 March 2019. The key results of the valuation are:

- New employer contribution rates were set at 23.68% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities for service to the effective date of £218.1 billion, and notional assets of £196.1 billion, giving a notional past service deficit of £22.0 billion;
- the employer contribution correction cost cap is 7.3% of pensionable pay from 01 April 2019 to 31 March 2023.

The new employer contribution rate for the TPS was implemented in September 2019.

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/-/media/documents/member/documents/news-items/teachers-pension-scheme-actuarial-valuation-2016.ashx?rev=1d463cd3f4344c199ca0c2bcf193dc90&hash=D90840D6F4AF06461F6D927C4E6265B0

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 £336k (2018-19: £313k). These amounts include employers contributions of £242k (2018-19 £200k).

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.

21 PENSION AND SIMILAR OBLIGATIONS (continued)

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2020 was £708,158 (£669,505 18/19) of which employers contributions totalled £514,094 (£477,616 18/19) and employees contributions totalled £194,064 (£191,889 18/19). In 2019/20 the contribution rates for employers was 16.8% from August 2019 to March 2020, rising to 20.2% from April 2020. Rates for employees range from 5.5% to 12.5% in the year to 31 July 2020, 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 2020 by a qualified independent actuary.

	At 31 July 2020	At 31 July 2019	At 31 July 2018	At 31 July 2017	At 31 July 2016
Inflation (RPI)	n/a	3.2%	3.2%	3.1%	2.9%
Inflation (CPI)	2.3%	2.2%	2.1%	2.0%	1.8%
Rate of increase in salaries	3.3%	3.7%	3.6%	3.5%	3.3%
Rate of increase for pensions	2.3%	2.2%	2.1%	2.0%	1.8%
Discount rate for liabilities	1.4%	2.1%	2.8%	2.6%	2.4%

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)

	2020	**2019**	**2018**	**2017**	**2016**
Retiring in 20 years:					
Males	23.2	24.0	25.5	25.6	24.9
Females	25.7	25.7	27.3	27.5	27.5
Retiring today:					
Males	22.2	22.3	23.3	23.4	22.7
Females	24.2	23.8	25.0	25.3	25.2

	Proportion of assets		Fair Value £'000	
	31 July 2020	31 July 2019	31 July 2020	31 July 2019
Equity instruments	49.3%	49.0%	9,258	9,163
Government bonds	24.2%	26.3%	4,545	4,918
Corporate bonds	14.7%	12.0%	2,761	2,244
Property	7.2%	7.4%	1,352	1,384
Cash	4.6%	5.3%	864	991
Total market value of assets			18,780	18,700

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 2020 £'000	31 July 2019 £'000
Fair value of plan assets	18,780	18,700
Present value of plan liabilities	(32,940)	(28,200)
Present value of unfunded liabilities	(20)	(20)
Net pensions liability	**(14,180)**	**(9,520)**

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

Amounts included in staff costs:	31 July 2020 £'000	31 July 2019 £'000
Current Service Cost	1,120	860
Past Service Cost	10	420
Total	**1,130**	**1,280**

Amounts included in interest and other finance costs:	31 July 2020 £'000	31 July 2019 £'000
Interest on plan assets	(400)	(470)
Interest on plan liabilities	590	670
Net interest on the defined benefit pension liability	**190**	**200**

Amounts included in other comprehensive income:	31 July 2020 £'000	31 July 2019 £'000
Actuarial loss in respect of pension scheme	4,030	1,390
Actuarial (gain): Unfunded defined benefit obligation	-	-
Total	**4,030**	**1,390**

Movement in net defined benefit (liability) during year

	2020 £'000	2019 £'000
Net defined benefit liability in plan at start of year	(9,500)	(7,260)
Movement in Year:		
Current Service cost	(1,120)	(860)
Employer Contributions	690	630
Past Service cost	(10)	(420)
Net interest on the defined liability	(190)	(200)
Actuarial (loss) / gain	(4,030)	(1,390)
Net defined benefit liability at end of year	**(14,160)**	**(9,500)**

21 PENSION AND SIMILAR OBLIGATIONS (continued)

Asset and Liability Reconciliation

Changes in the present value of defined benefit obligations:

	2020 £'000	2019 £'000
Defined benefit obligations at start of year	28,200	23,920
Current Service Cost	1,120	860
Past Service Cost	10	420
Interest cost	590	670
Actuarial losses / (gains) on liabilities	3,360	2,630
Estimated benefits paid	(540)	(490)
Contributions by scheme participants	200	190
Defined benefit obligations at end of year	**32,940**	**28,200**

Changes in the fair value of plan assets:

	2020 £'000	2019 £'000
Fair value of plan assets at start of year	18,700	16,660
Interest on plan assets	400	470
Return on plan assets	(670)	1,240
Employer contributions	690	630
Contributions by scheme participants	200	190
Estimated benefits paid	(540)	(490)
Fair value of plan assets at end of year	**18,780**	**18,700**

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

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Present value of defined benefit obligation (funded)	(32,940)	(28,200)	(23,920)	(22,860)	(21,520)
Present value unfunded liabilities	(20)	(20)	(20)	(40)	(40)
Fair Value of scheme assets	18,780	18,700	16,660	15,130	14,090
Deficit in the scheme	**(14,180)**	**(9,520)**	**(7,280)**	**(7,770)**	**(7,470)**

Sensitivity Analysis

Changes to the Present value of the total obligation:

	At 31 July 2020 £'000	At 31 July 2019 £'000
(Discount rate +0.1%)	32,250	27,670
(Discount rate -0.1%)	33,630	28,740
Mortality assumption – 1 year increase	34,190	29,150
Mortality assumption – 1 year decrease	31,720	27,260
CPI rate +0.1%	33,570	28,630
CPI rate -0.1%	32,350	27,780

21 PENSION AND SIMILAR OBLIGATIONS (continued)

GMP & McCloud liability with regard to LGPS: Two recent legal cases have 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.

In the case of the McCloud / Sargeant case, in December 2018 the Court of Appeal ruled that the transitional protection arrangements put in place when the Firefighters and Judges pension schemes were reformed were discriminatory. This was appealed to the Supreme Court, but the request to appeal was rejected on 27 June 2019.

In both cases AON (LGPS actuary) have considered the likely implications on the college pension liabilities. Using a method that aims to arrive at an approximate adjustment using average weightings for age of scheme members, salary increases, increase in cost of benefits, the liabilities of the scheme now include an adjustment for both legal cases. In 2018/19 this resulted in a significant increase in liabilities, particularly in staff past costs and actuarial loss. There has been further refinement of the impact of both cases, but this only results in a minor change to staff past costs in 2019/20 due to the adjustment in the previous year.

22 CAPITAL COMMITMENTS

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

	2020 £'000	2019 £'000
Commitments contracted for at 31 July	-	11

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 2020 £'000	Year ended 31 July 2019 £'000
Discretionary Support Funds		
ESFA support	226	282
	226	282
Disbursed to Students	(197)	(247)
Administration costs	(10)	(13)
Balance underspent as at 31 July	**19**	**22**

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 2018/19) 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 (ESFA)

In accordance with the terms of our engagement letter dated 1 August 2018 and further to the requirements and conditions of funding in ESFA grant funding agreements and contracts, or those of any other public funder, 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 01 August 2019 to 31 July 2020 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 ESFA. 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 ESFA or devolved authority has other assurance arrangements in place.

This report is made solely to the corporation of Derwentside College and the ESFA in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of Derwentside College and the ESFA 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 ESFA 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 established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the 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 01 August 2019 to 31 July 2020 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 ESFA. 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 01 August 2019 to 31 July 2020 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Paul Moran
For and on behalf of KPMG LLP, Reporting Accountant
110 Quayside House
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NE1 3DX
26 January 2021