DERWENTSIDE COLLEGE

Report and Financial Statements
For the Year Ended 31 July 2022

PROFESSIONAL ADVISERS

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The members present their report and the audited financial statements for the year ended 31 July 2022.

Public Benefit Statement

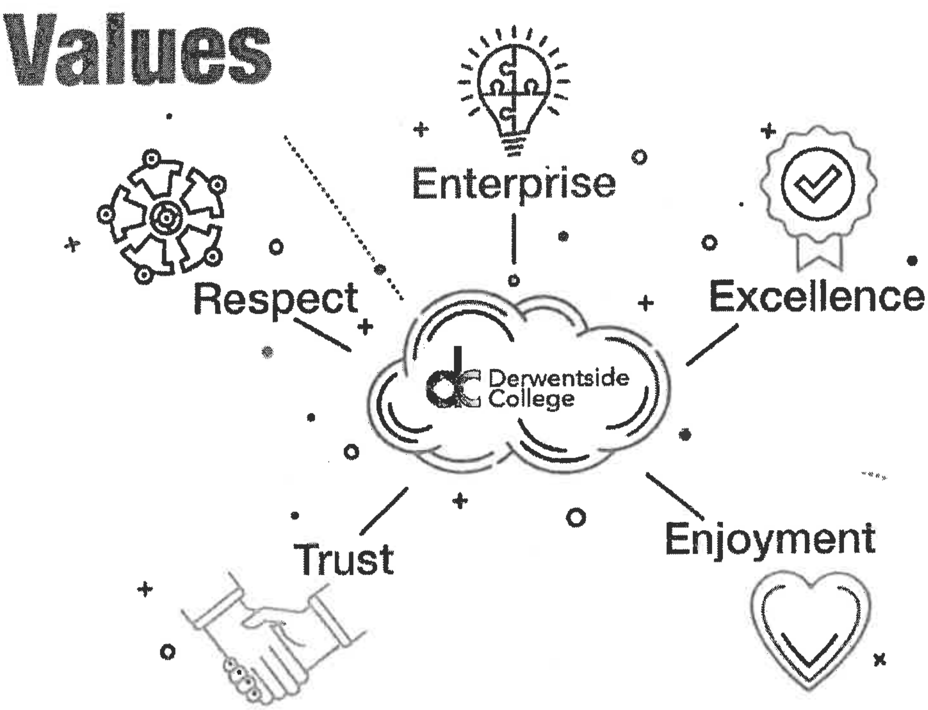
Derwentside College is an exempt charity under Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016, is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 14.

In setting and reviewing the College's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on charitable purposes and public benefit - 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 has recently published a new Strategic Development Plan which documents the aims of the College through to 2026. The plan provides clarity on the College's Mission, Vision and Values which are shown below:



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 five years, the College has continued to perform well financially, continuing to generate a positive Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA). The Education specific EBITDA surplus is £465k in 2021-22 (£746k in 2020-21). The overall position of Net Assets before Pension Liabilities has broadly remained static over the past year, with movements showing a lower Cash balance, being offset by a lower Current Creditors figure. The Education specific EBITDA removes deferred capital grant income and the interest and service costs of the LGPS in addition to the standard items in an EBITDA calculation.

There has been a significant swing in the value of the Local Government Pension Scheme (LGPS) liability. This is caused by an actuarial gain in the value of the liabilities of the scheme by £7.96m.

During the year, the College's financial health grade for 2020-21 was confirmed by the Education and Skills Funding Agency (ESFA) to be 'outstanding'. Based on the results presented in these accounts is our expectation that we will improve our Financial Health score, thereby retaining a grading of Outstanding Financial Health in 2021-22. The overall performance of the College has been positive in most areas despite a backdrop of increasing costs in all areas and a tight labour market resulting in recruiting difficulties – both in terms of staff and learner recruitment. In the early part of the year we continued to be affected by the latter stages of Coronavirus disruptions.

One particular area of activity that has been adversely in 2021-22 is our Adult Education Budget (AEB) provision. Much of the delivery in this area is short course activity, and is provided in conjunction with Job Centre Plus and others. During the first part of the year periods, delivery was still being restricted due to Coronavirus restrictions, but as the economy opened up and delivery became possible, the demand for labour increased significantly causing the College difficulty recruiting to short course, work based academies as employers have also been recruiting directly for their businesses from the same pool of candidates. As a result of this, we expect to face clawback of 2021-22 AEB funding, but only the actual income earned is recognised in the Statement of Comprehensive Income – the balance of the funding we have received is shown within our creditor balances as it will be repaid in 2022-23.

The College has continued to see growth in our Apprenticeship provision. Our engagement with employers continues to improve and has resulted in an increase in income in the 2021-22 year for Apprentice provision. The continued growth in Apprenticeships has resulted in increasing the number of Training Consultants the College employs during 2021-22 and this has resulted in continued expansion in our Payroll budgets – particularly into 2022-23. We are also very mindful of cost of living pressures for staff and have made a non-consolidated pay award of 2% in 2021-22. The 2022-23 payroll budget does not include a pay award, but this will be reviewed later in the financial year to assess affordability.

Training consultants have continued to engage remotely with learners, using Microsoft Teams to maintain learner visits, but in more areas of our business we are able to access workplaces, so there is a return to some learner visits being in person.

There has been an overall increase in turnover in the current year compared to 2020/21 and as a result our financial health grade for 2021-22 will retain a grading of 'Outstanding'. The College's zero debt and strong current ratio (current assets : current liabilities) always enable us to score well on these measures. The exact scoring methodology to be used in the 2022-23 year is yet to be confirmed, so forecasting a grade for the 22-23 year is uncertain.

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 Global, 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 maintain our financial health grading, generating cash to improve our solvency and increasing our ability to use cash surpluses to invest in our facilities and improve the learner experience.

Recent Progress

2021-22 has seen us emerge from a Global Coronavirus pandemic to then move directly into a Global Financial and inflationary crisis triggered by the war in Ukraine and the sanctions arising from it.

The first part of the year saw the College unable to deliver some of its activity – particularly short courses which were still affected by Coronavirus restrictions, although access to some workplaces to monitor apprenticeships was also affected.

From early 2022, the conflict between Russia and Ukraine has seen the cost of goods rise significantly and subsequently wage costs come under pressure. We have been relatively isolated from increases in energy costs which were fixed in September 2021, but have been re-negotiated for the year ahead in October 2022.

Coupled with a very tight labour market, the College finds itself in a position where prospective learners are opting to enter employment directly rather than re-train via Work Based Academies. The College is also seeing the effect of the rising price of goods – particularly in areas such as supplies for Construction, Engineering, Catering, Hairdressing and Beauty Therapy.

The College has progressed with a long held plan to fully refurbish its Hairdressing and Beauty salons and has made a significant capital investment in doing so. Timed towards the end of the 2021-22 year, the works and costs will be spread over the 21-22 and 22-23 financial years. Including regular IT replacement and other works which have taken place in 2021-22, the College has invested £744k of it's own accumulated cash balances in its Estate.

Despite these difficulties, the College has had a 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. We have created a completely new Strategic Plan which outlines the College aims through to 2026 and provides targets for our key strategic outputs, which the Board of the Corporation use to measure performance on an annual basis.

The College has consistently performed in top 10% against national benchmarks for learner achievement in all areas of classroom provision. In the most recent FE Choices survey available to the sector, our learners reported a satisfaction rate of 94%, which places us first amongst the North East Colleges and fourth best in England. Outcomes from the national employer satisfaction survey paint a similar picture, with employer satisfaction rating of 94%, which represents an exceptional outcome.

The College, in many ways, is not a traditional further education College with just over half of our income being generated by our Apprenticeship provision. The College has been well placed to work with employers, doing everything we can to make sure that they find it a simple process to employ young apprentices. This has allowed the College to continue be a leading provider of Apprenticeships both regionally and nationally, maintaining and building its market share and continuing to improve quality.

Although the worst of the Coronavirus pandemic seems to be behind us, the rapid risk in inflation and particularly energy costs with the ramifications it has on all other costs has become the biggest concern to the College. We have set budgets for 2022-23 which hope to be sufficient for the year, but this will need to be monitored closely. We are moving forward with plans to constantly improve the College estate, which in turn will help us to improve learner numbers, grow our provision over the coming years, improving teaching, learning and assessment - all with the aim of becoming an outstanding provider.

For 2020-21, achievement rates on our adult programmes are anticipated to reach around 95% at the end of 2021/22 (2020/21 97.8%). The comparison with prior year is not all together straight forward as rates in the past two years were affected by the Coronavirus pandemic.

The College has found fulfilling the AEB allocation in 2021-22 difficult. We have continued to increase the volume of provision we deliver directly, further reducing our reliance on sub-contracting, and improving the quality of provision. The tail end of the Coronavirus restrictions saw a delayed start to some of our programmes in August 2021 and labour market shortages in the latter part of the year means recruitment learners to short course programmes is difficult. It is our intention to fully achieve the AEB allocation in 2022-23 with the aim of avoiding future clawback of funding.

The College's full time 16-18 learning programmes achievement is expected to remain high at around 90%, during 2021/22, compared to 92.6% in 2020/21. Achievement rates across all vocational areas remain high with a further improvement in English and Maths to around 91% expected in 2021/22, compared to 84.3% in 2020/21 and 79% in 2019/20.

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 an outstanding College that is highly valued by our learners and partners'.

The Further Education Landscape

The Further Education Landscape continues to change and develop, with 2021-22 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:

Effect of energy price increases and inflation

Since early 2022, the invasion of Ukraine and the subsequent sanctions placed on Russia, there has been very significant increases in the cost of energy. This in turn affects the cost of nearly all supplies as there is inevitably energy used to manufacture and transport goods. With the cost of living increasing, the College is likely to come under increasing pressure to increase wages at a time when funding rates are generally remaining static.

The 16-18 funding rate has been increased for the 2022-23 academic year, but this was announced well before any price increases were evident and the rate increase also comes with a requirement to deliver an additional 40 hours learning activity, so any funding increase is absorbed by additional teaching requirements.

Coronavirus restrictions and post lockdown employment boom

As discussed in earlier sections of this report, the early part of the College year saw some restrictions continuing, which had an impact on our ability to run short course AEB activity. JCP activity in particular was subject to restrictions in participation, and some of our remotely delivered activity found difficulty in sourcing venues that were willing to operate.

Once restrictions were fully lifted, we then found that employers were far more willing to employ individuals directly to try and replace staff that had left during the Coronavirus pandemic. This meant that it has been difficult to recruit substantial numbers of learners to courses designed to upskill indviduals and get them ready for the workplace via pre-employment courses.

Apprenticeship provision has continued to grow in year and has become more straightforward to delivery as workplaces reopen to training consultants post Covid. We can still deliver remote learning where this is practical and apprentices have continued to meet with their Training Consultants via remote meetings online. The number of new starts for Apprenticeships has continued to remain robust in 2021-22 and continues to improve going forward.

Inflation and Energy Prices

The College is seeing the impact of rising prices on three fronts:

Firstly there are increased costs of goods and services. The College has set an increased non pay budget in 2022/23, although the current rate of overall inflation is much higher than the budget uplift we have been able to factor into budgets – although it should be noted that much of the headline inflation rate is based on energy cost inflation.

Secondly, our energy agreements for the provision of Electricity and Gas are subject to a contract renewal on an annual basis each October and costs will rise in October 2022 even including the promised Government assistance over the Winter months in late 2022 / early 2023. We have increased the energy budget by 12.5%, but it now looks that this may not be sufficient to meet the increased costs and this will become an additional cost pressure in year.

Finally, we are very aware that the personal household budgets of all staff are being squeezed and rates of pay have remained relatively static. A one off, non consolidated pay award of 2% was made in 2021/22 and it is our intention to review financial performance throughout 2022/23 to see if this can be repeated. However, the rate of inflation is currently very high and without significant change to the DfE funding rates for activity which would guarantee long term funding, it is very difficult to make permanent increases to pay rates.

FE Commissioner / College Financial Forecast Return (CFFR)
Since 2019-20 the complex financial Integrated Financial Model for Colleges (IFMC) was introduced for Colleges and since 202-21 this evolved into being the College Financial Forecast Return (CFFR). The aim of the return is still to provide ESFA and FE Commissioner a cash solvency based, highly detailed dataset that would identify financial weaknesses within Colleges in advance of significant problems occurring. The College has consistently met the deadlines for submitting its CFFR.

Changes in Government – General economic outlook
Since early 2022 the current Government has been undergoing a protracted leadership process. This appeared to be resolved in September 2022 with the appointment of Liz Truss, which then rapidly unravelled with the UK economy in crisis. At the time of writing (25 October 2022), Rishi Sunak has been appointed Prime Minister and the financial markets appear to have responded well to the appointment. whilst the appointment of a Prime Minster is now resolved, it is unclear what the new Conservative Party intentions with regard to FE are. It is a possibility there may be a new Education Secretary, but a cabinet is yet to be appointed at this time.

It is expected that the chancellor will in due course set out Government policy to stabilise the economy. The support for energy costs has been limited to 6 months for domestic and business users, limiting government exposure. Interest rates and Government borrowing costs appear to be falling after a 6 week period coinciding with the policies of the Liz Truss premiership. However, with borrowing still set to increase in order to support energy costs, there may be spending cuts and tax rises needed to balance the economy and in general, a recession is likely and the economic outlook is currently looking worse than it has for some time.

ONS review of FE College classification
The ONS is carrying out a review of Further Education Colleges with a view to determining if they should be classified as Public or Private Sector organisations. FE Colleges are currently viewed as being within the Private Sector and have a significant degree of independence to manage their own affairs, albeit with a need to observe the rules set by the DfE funding body and FE Commissioner amongst others.

A reclassification to Public Sector could mean the DfE having more control over the decisions Colleges make, but it could also allow Colleges to be closer matched to Academies and Schools in terms of funding, pay and VAT regulations which could be beneficial to FE Colleges.

The review was expected to be complete by September 2022, but announcement was delayed until 29 November. We have therefore, only very recently learned that FE Colleges will be re-classified as public sector organisations. This has no effect on the results presented in these accounts, but the College will be subject to the framework for financial management that is set out in Managing Public Money (MPM). How this will affect College operations and reporting will become clearer as a new College Handbook is developed and published by the DfE.

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 comprises of occupations grouped together 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 is 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 have been created at the start of each technical route, with nationally recognised certificates at levels 2 and 3. Each programme includes 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. In order to successfully complete a T Level Qualification at Level 3, learners need to achieve the vocational qualification, English and Maths at Level 2 and have completed a substantial work experience and project. 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 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 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 have been created across the country, likely building on existing infrastructure, to provide technical education in STEM subjects at levels 3, 4 and 5.

As it currently stands, Derwentside College is due to start delivering a T Level program in Childcare from September 2023. At the time of writing, we are waiting for the latest government review around current Level 3 qualifications before making a final decision on any further provision from September 2024.

Apprenticeships

Apprenticeship provision at the College continues to grow at a sustainable pace. Despite the removal of employer incentives there continues to be 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 inflation and interest rates a common worry. There is a mixture of employer concern about committing to employ new apprentices, but in other areas, recent significant labour shortages has led to continued demand from employers who wish to recruit apprentices.

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.

Adult Education Budget Devolution

Since 2019-20, the Adult Education Budget has been devolved in Tees Valley, with the College securing a delivery contract. During 2020/21, the College was able to obtain approval to expand its AEB delivery in the Tees Valley area, increasing this income stream to £393k in year. The College has delivered a similar level of activity in 2021/22 and continues to become an established provider in the Tees Valley.

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. There was a further review of the EIF published in July 2022 and from September 2022 FE Colleges are now be subject to an additional judgement on how well their provision meets local need.

Inspection visits were put on hold due to the Coronavirus pandemic from March 2020, but inspection visits have fully recommenced. We underwent a full Ofsted inspection early in October 2022 being one of the very

first Colleges in the country to be visited under the new inspection framework. The time spent in recent months to carry out as much advanced preparation as possible was well spent, with the College being graded as Good in all areas.

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 recently reviewed it Strategic Plan and has reset it's objectives through to 2026. This then influences the Annual Development Plan which has the specific actions that will take place allowing us to reach our overall targets and 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 £846k (2020/21: Deficit of £563k). The deficit includes a charge of £940k relating to pension adjustments made under FRS 102 (£890k in 2020/21). Excluding these accounting entries, the surplus reported would be £94k (£327k surplus in 2020/21).

Fixed asset additions in the year amount to £744k (£687k in 2020/21). A significant amount of captial has been allocated to the refurbishment of our Hair and Beauty Salons. The works took place from May 22 to September 22, so the costs of the investment are split over the 2021/22 and 2022/23 financial years. Overall for the 2021/22 year, approximately 65% of the expenditure related to updating and improving College buildings (in cash terms £482k – of which £334k related to the Hair & Beauty project), 13% (£94k) on replacement of fixtures, fittings and other equipment and the final 23% (168k) of expenditure being spent on replacing or improving IT equipment.

The College has reported net current assets of £1,490k at year end (£1,809k in 2020/21), which is a deterioration from the prior year. This is mainly due to the increased level of capital investment, but also clawback of prior

year AEB funding. There has again been overfunding of AEB income in the year and as a result our year end creditors (particularly the amounts repayable to the ESFA) have continued to remain high, although overall our current ratio remains in a strong position at year end.

Our Cash balance has decreased in 2021/22 showing a year end balance of £2,664k (£3,010k in 2020/21). This is partly due to repaying the clawed back 2020-21 AEB income which will reoccur as a result of under performance compared to the 2021/22 allocation. The net decrease in cash is £346k, which considering ESFA clawback of £388k and capital expenditure of £744k still shows that underlying cash generation is positive.

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 £9,474k (2020/21: £9,526k) and net assets of £2,616k (2020/21 net liability: £4,629k), including the pension liability.

The significant movement which decreases the overall College liability by £8.32m is due to the continuing volatility in the LGPS valuation of the pension liability. In 2019/20 the LGPS pension liability increased by £4.66m, in 2020/21 the liability decreased by £2.75m, and is now subject to a very large gain (further decreasing the liability significantly). The overall balance sheet shows a net asset position for the first time since the 2014/15 year end.

The main factor in the swing in values is the change in the discount rate. The discount rate increased from 1.7% in 2020/21 to 3.5% in 2021/22 – an increasing discount rate reduces the value of the liability.

Due to the current level of high inflation we have instructed the actuary to make an allowance in the Defined Benefit Obligation of the expected impact of CPI inflation on the pension increase order for April 2023. This is a change in accounting policy from previous years. It is expected that the April 2023 pension increase order will reflect CPI inflation for the year ending 30 September 2022. Therefore, an allowance has been included in the results presented for CPI inflation between 30 September 2021 and the accounting date of 9.0%. this is recognised within Other Comprehensive Income. Allowance for CPI inflation for the period after the accounting date is included within the CPI inflation assumption and reflects market expectations at the accounting date.

The scheme is undergoing its tri-ennial valuation which was due to take place in March 2022, and the results of this should be published within the following year.

The College is heavily dependent upon the main funding body (Education & Skills Funding Agency) for funding. The level of ESFA total funding has increased in 2021/22: £8,541k was recognised in the year (2020/21: £8,211k). The largest decreases were seen in 16-19 Programme Funding, due to the lower funding allocation for 2021/22. We have seen improvement in 16-19 enrolments for the 2022/23 year, which will serve to increase the funding allocation in subsequent years.

Adult Education Budget provision has been significantly affected in two ways. The early part of the 2021/22 year was affected by the receding Coronavirus pandemic restrictions, followed by recruitment boom by employers that took potential learners straight into employment without the skills training that would be provided by the College. AEB activity has not reached the funding allocation provided and it will be subject to a funding clawback for 2021/22, which has been provided for at 31 July 2022. The £8,541k recognised in the 31 July 2022 accounts does not include any income that we expect to be clawed back.

Apprenticeship income has increased in 2021/22 and is expected to perform at a similar level in 2022/23.

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.

Student Numbers and Performance

During the 2021/22 year, the College recruited 362 16-18 classroom based learners (2020/21: 405) and 1073 Adult classroom based learners (2020/21: 1017). As part of its Apprenticeship provision the College has 2,544 Apprentices on programme (2020/21: 2,645).

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 Strategic Risks identified at 31 July 2022 are as follows:

- **Risk 1** – Failure to meet learner recruitment and funding targets.
- **Risk 2** – Failure to effectively manage the College's sub contracted partnership provision.
- **Risk 3** – Failure to achieve and maintain a Self Assessment or Ofsted rating of 'Good' or 'Outstanding'.
- **Risk 4** – Failure to develop and improve the quality of teaching, learning and assessment.
- **Risk 5** – Failure to deliver the College's financial objectives.
- **Risk 6** – Political and economic uncertainties lead to a general downturn in the UK economy, with a subsequent mid / long term decline in public sector funding.
- **Risk 7** – A breach IT security compromises secure and confidential information.
- **Risk 8** – Global pandemic causes business continuity issues for the College.
- **Risk 9** – The FE White Paper 'Skills for Jobs for Lifelong Learning for Opportunity and Growth' results in outcomes that are detrimental to College independence.
- **Risk 10** - Tightening labour market results in difficulty in recruiting and retaining skilled staff.

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
5	4.8

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

Total cost of facility time	£3,661.43
Total pay bill	£5,242,495.04
Percentage of total bill spent on facility time	0.070%

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 cash flows 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 2022 the College holds a cash balance of £2,664k, (2020-21 £3,010k).

Despite the difficult circumstances due to interruption from the Coronavirus throughout the year, cash has decreased by £346k (2020-21 £1,130k increase). This due to a combination of factors – our capital investment has been higher than usual in the year (£744k) and there has been clawback of over £395k of ESFA funding that inflated the year end cash balance at 31 July 2021.

The College has faced a difficult year but has continued to trade in line with its most of its forecasts – with the exception of AEB provision as discussed in the Members Report earlier.

The College has prepared forecasts for the period though until July 2024 taking account of the anticipated completion of the large capital project and ESFA clawbacks to take place in 2022/23 The College is of the opinion that, taking account of these forecasts, 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).

The largest single influence on the 2021/22 accounts is the charges and liabilities of the Local Government Pension Scheme (LGPS). In 2019/20 the LGPS pension liabilities increased significantly, mainly due to the assets of the scheme being valued at 31 March 2020, just as equity markets suffered a severe contraction. Much of the reduction in value reversed in the year to 31 July 2021 with a significant improvement in the value of the scheme assets and a corresponding decrease in the value of the LGPS liability. An increase in the discount used for the 2021/22 valuation has seen the liabilities of the scheme decrease significantly, which could well change again in 2022/23 as recent and prediction inflation increases are factored in. However, 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 2020-21 was confirmed as outstanding, and our predictions for 2021-22 show that this will be maintained at level that Outstanding. Our current ratio score is predicted to remain at the maximum score available, but the difficult current economic climate of inflationary price increases means our EBITDA score is our lowest scoring category, although it still allows us to retain the

top grade. Having continued zero borrowing or overdraft means we score maximum points for Gearing, although this ratio is set to be discontinued after this year as Colleges without debt are deemed to be benefitting too well by managing themselves effectively without borrowings. Our position is that it is right to be rewarded for avoiding debt and we have objected to proposed changes to the scoring system. The 2020-21 ESFA published results showed 5 FE 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 6 December 2022 and signed on that date 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 new *UK Corporate Governance Code* issued by the Financial Reporting Council in 2018 and the revised *AoC Code of Good Governance for English Colleges* in March 2019. 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 2022.

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 2021/22

	Date of appointment	Term of office	Date of Resignation	Status of appointment	21-22 attendance	Committees Served
Mr C Todd	August 2018	Ongoing		Principal	8 of 8	Search & Governance 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, May 2021, May 2022	1 year		Independent	8 of 8	Search & Governance Committee, Remuneration Committee
Mr G Marshall	**April 2001, re-appointed April 2005, March 2009, May 2013 & May 2017, May 2021**	**4 years**		**Independent**		**RESIGNED**
Mr G Gibson	March 2008, re-appointed March 2012, March 2016 June 2020	4 years		Independent	3 of 8	Audit Committee
Mrs C Richards	**June 2014, re-appointed June 2018**	**4 Years**		**Staff**	**8 of 8**	**Term of office expired June 2022**
Mr M Short	January 2015, re-appointed January 2019	4 Years		Independent	4 of 8	
Mrs N Dixon	December 2018	4 years		Staff	8 of 8	
Dr K Chester (appointed Vice-Chair Nov 20)	8 October 2019	4 years		Independent	7 of 8	Search & Governance Committee, Remuneration Committee
Mr S Howard	5 October 2020	4 years		Independent	7 of 8	
Mr M Sowerby	8 December 2020	4 years		Independent	6 of 8	
Mr B Layton	5 October 2021	4 years		Independent	3 of 8	
Mr D Allsop (appointed Chair of Audit Committee Mar22)	5 October 2021	4 years		Independent	7 of 8	Audit Committee Chair
Mr C Bozeate	5 October 2021	4 years		Independent	6 of 8	Audit Committee
Mr G Lyons	5 October 2021	4 years		Independent	5 of 8	

The members who attended the Audit Committee during the year and up to the date of signature of this report were as listed in Table 2.

Table 2. Members in attendance at The Audit Committee:

Audit Committee Member	Attendance 2021-22
Mr D Allsop (Chair)	3 of 3
Mr G Gibson	3 of 3
Mr C Bozeate	2 of 3
Mr C Todd	3 of 3

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 & governance 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.

Board members fully take part in development activities. In 2021/22 a series of additional insight sessions took place under the banner of Special Interest Groups. Delivered by Executive Team members who are specialists in their areas, Board members were able to gain a better understanding about topics such as ESFA funding, budgetary control, Safeguarding and Apprenticeship provision. Board members are also assigned as Envoys to College committees such as Safeguarding, Health & Safety and Equality, Diversity and Inclusion Committees. The aim of these is to have better understanding of the day to day working of the College which they can then share with Board colleagues. All board members complete Safeguarding training and are subject to DBS checking.

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 2021-22 despite some Coronavirus disruptions in the early part of the year. Most of the board meetings have been held in person and on site at the College, with only one meeting conducted online, taking using Microsoft Teams in accordance with the meeting dates in the College's annual business cycle.

Governance Review

The Corporation undertook a full independent Governance review which commenced April 2022 and was conducted by Stone King. The Corporation has made significant changes to the format and focus of board meetings and the way in which reports and information is delivered. The governance report made other recommendations particularly with regard the composition of the board itself and as a result, the Corporation is working with an external specialist to undergo a search exercise to replace the chair and recruit additional board members.

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 2022, 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 2022 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.

In order to provide the Board with assurance regarding the performance of its audit providers, the Committee considers and challenges the following:

- The Internal Audit Strategic Plan:
- Regular Internal Audit Assurance Reports:
- The External Auditors Findings Report:
- The External Audit Strategy;
- Strategic Risk Assessment Reports;

- The relationship between the College management and the auditors as reported to the Committee by both parties;
- The Committee annually reviews the College's Financial Regulations.

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.

The board appointed AuditOne to provide Internal Audit services with effect from 1 August 2020 and MHA Tait Walker were appointed as External Auditors, replacing KPMG LLP during 2021. Azets Audit Services Limited, trading as Azets Audit Services were appointed to the College following their acquisition of the trade of Tait Walker LLP trading as MHA Tait Walker on 1 May 2022.

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 2022 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 2022 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 2021 to 2022. 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 AuditOne since 1 August 2020.

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 executive 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 executive 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 6 December 2022 and signed by its order:

A N Edwards (Chair)
Date: 6 December 2022

C Todd (Principal and Accounting Officer)
Date: 6 December 2022

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 Corporation's grant funding agreement and contracts with the ESFA. As part of our consideration we have had due regard to the requirements of the grant funding agreements and contracts with the ESFA.

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 Corporation, or material non-compliance with the terms and conditions of funding, under the Corporation's grant funding agreements and contracts with the ESFA, or any other public funder.

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.

Approved by order of the members of the Corporation on 6 December 2022 and signed by its order:

A N Edwards (Chair)
Date: 6 December 2022

C Todd (Principal & Accounting Officer)
Date: 6 December 2022

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

Within the terms and conditions of the Corporation's grant funding agreements and contracts with ESFA, the Corporation – through its Accounting Officer – is required to prepare financial statements and an operating and financial review for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education, ESFA's College accounts direction and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the Corporation and its surplus / deficit of income over expenditure for that period.

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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess whether the Corporation is a going concern, noting the key supporting assumptions qualifications or mitigating actions as appropriate
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the College will continue in operation.

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

The Corporation is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and which enable it to ensure that the financial statements are prepared in accordance with relevant legislation including the Further and Higher Education Act 1992 and Charities Act 2011, and relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard its assets and to prevent and detect fraud and other irregularities.

The Corporation is responsible for the maintenance and integrity of its website; the work carried out by 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 and any other public funds are used only in accordance with the ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time by the ESFA or any other public funder. Members of the Corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the Corporation's resources and expenditure so that the benefits that should be derived from the application of public funds from the ESFA and other public bodies are not put at risk.

Approved by order of the members of the Corporation on 6 December 2022 and signed on its behalf on that date by:

AN Edwards (Chair)

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF DERWENTSIDE COLLEGE

Opinion

We have audited the financial statements of the Corporation of Derwentside College (the 'College') for the year ended 31 July 2022 which comprise the statement of comprehensive income, the statement of changes in reserves, the balance sheet, the statement of cash flows, and the notes to the financial statements, including the statement of accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice). In our opinion, the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2022 and of its surplus of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporation's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the College's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Corporation is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Post 16 Audit Code of Practice issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.
- Conclusions relating to appropriateness of the use of the going concern basis of accounting and disclosures of material uncertainties, subject to the requirements of ISA 570 Going Concern, and whether the auditor has concluded that there is a material misstatement in other information, subject to the requirements of ISA 720 The Auditor's Responsibilities Relating to Other Information.

Responsibilities of the Corporation of Derwentside College

As explained more fully in the Statement of Corporation Responsibilities on page 21, the Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporation is responsible for assessing the 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 the Corporation either intends to liquidate the College or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Enquiry of management and those charged with governance around actual and potential litigation and claims;

- Review OFSTED report;
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias.
- Reviewing minutes of meetings of those charged with governance;
- Reviewing internal audit reports; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Corporation, as a body, in accordance with 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Azets Audit Services

Brian Laidlaw BA CA (Senior Statutory Auditor)
For and on behalf of Azets Audit Services
Chartered Accountants
Statutory Auditor
Bulman House
Regent Centre
Gosforth
Newcastle upon Tyne
NE3 3LS

Date 12th December 2022

Azets Audit Services is a trading name of Azets Audit Services Limited.

DERWENTSIDE COLLEGE
Statement of Comprehensive Income
For the year ended 31 July 2022

	Note	Year ended 31 July 2022	Year ended 31 July 2021
		£'000	£'000
Income			
Funding body grants	3	8,541	8,211
Tuition fees and education contracts	4	329	361
Other grants and contracts	5	14	80
Other income	6	134	70
Investment income	7	-	-
Total Income		**9,018**	**8,722**
Expenditure			
Staff costs	8	6,316	5,655
Other operating expenses	10	2,874	2,879
Depreciation	13	477	531
Interest and other finance costs	11	197	220
Total Expenditure		**9,864**	**9,285**
Deficit before tax		**(846)**	**(563)**
Taxation	12	-	-
Deficit for the year		**(846)**	**(563)**
Actuarial gain in respect of pension schemes	17/20	8,091	3,640
Total Comprehensive Income for the Year		**7,245**	**3,077**

DERWENTSIDE COLLEGE
Statement of Changes in Reserves
For the year ended 31 July 2022

	Income & Expenditure Reserve	**Total**
	£'000	**£'000**
Balance at 1 August 2020	**(7,706)**	**(7,706)**
Deficit for the year	(563)	(563)
Actuarial loss in respect of pension scheme	3,640	3,640
Balance at 31 July 2021	**(4,629)**	**(4,629)**
Deficit for the year	(846)	(846)
Actuarial gain in respect of pension scheme	8,091	8,091
Balance at 31 July 2022	**2,616**	**2,616**
Balance represented by:		
Pension reserve	(4,410)	(4,410)
Income & Expenditure reserve	7,026	7,026
Balance at 31 July 2022	**2,616**	**2,616**

DERWENTSIDE COLLEGE
Balance Sheet
As at 31 July 2022

	Note	31 July 2022 £'000	31 July 2021 £'000
Non-current assets			
Tangible Fixed Assets	13	7,984	7,717
		7,984	**7,717**
Current assets			
Trade and other receivables	14	144	161
Cash at bank and in hand	19	2,664	3,010
		2,808	3,171
Less: Creditors – amounts falling due within one year	15	(1,318)	(1,362)
Net current assets		**1,490**	**1,809**
Total assets less current liabilities		**9,474**	**9,526**
Less: Creditors - amounts falling due after more than one year	16	(1,906)	(2,019)
Provisions			
Defined benefit obligation	20	(4,410)	(11,430)
Other provisions	17	(542)	(706)
NET ASSETS / (LIABILITIES)		**2,616**	**(4,629)**
Income and expenditure account		**2,616**	**(4,629)**
TOTAL RESERVES		**2,616**	**(4,629)**

The financial statements on pages 24 to 47 were approved and authorised for issue by the Corporation on 6 December 2022 and were signed on its behalf on that date by:-

A N Edwards (Chairman)

C Todd (Principal & Accounting Officer)

DERWENTSIDE COLLEGE
Statement of Cash Flows
For the year ended 31 July 2022

	Note	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Cash flow from operating activities			
Deficit for the year		(846)	(563)
Adjustment for non-cash items			
Depreciation	13	477	531
Release of capital grants	18	(113)	(112)
Decrease / (Increase) in debtors	14	17	(27)
(Decrease) / Increase in creditors	15	(44)	671
(Decrease) in provisions	17	(164)	(5)
Actuary gain on Enhanced Pension Provision	17	131	-
LGPS Current service pension costs	20	1400	1,300
LGPS Past service pension costs	20	-	-
LGPS Curtailment costs	20	-	20
LGPS Pension contributions paid	20	(650)	(630)
LGPS Interest charged on pension scheme liabilities	20	570	460
LGPS Interest earned on pension scheme assets	20	(380)	(260)
Adjustment for investing and financing activities			
Investment income	7	-	-
Interest payable	11	-	-
Net cash inflow from operating activities		398	1,385
Cash flows from investing activities			
Investment income	7	-	-
Capital Grants received in year	18	-	432
Payments to acquire fixed assets	13	(744)	(687)
		(744)	(255)
(Decrease) / Increase in cash or cash equivalents in the year		(346)	1,130
Cash and cash equivalents at the beginning of the year		3,010	1,880
Cash and cash equivalents at the end of the year		2,664	3,010

1 COMPLIANCE WITH FRS102

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2019 (the 2019 FE HE SORP), the College Accounts Direction for 2021 to 2022 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 cash flows 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 2022 the College holds a cash balance of £2,664k (cash balance July 2021 £3,010k). Overall there has been a net cash outflow of £346k in the year, despite using cash reserves of £744k to invest in capital projects during the year.

We have experienced difficult circumstances in the year due to residual interruption from the Coronavirus pandemic, followed by a contrasting very active labour market impacting our AEB provision, and have a clawback provision in place for AEB of £550k.

The College has prepared forecasts for the period though until July 2024 which forecast modest growth in activity and continued targeted investment in our facilities. The College is of the opinion that, taking account of these forecasts, 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 23, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of discretionary support fund applications and payments.

2 ACCOUNTING POLICIES (continued)

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether there are indicators of impairment of the College's tangible assets. 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 2022. 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 2022 £'000	Year ended 31 July 2021 £'000
Recurrent grants		
Education & Skills Funding Agency – 16-18	1,643	1,755
Education & Skills Funding Agency - Adult	1,341	1,756
Education & Skills Funding Agency - Apprenticehips	4,748	3,958
Specific grants		
Education & Skills Funding Agency	140	130
ESFA National Skills Fund	49	-
ESFA Pension Scheme Contribution Grant	86	93
Tees Valley Combined Authority - Adult	344	393
Releases of deferred capital grants	99	99
Other funding body grants	91	27
	8,541	**8,211**

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 2022 £'000	Year ended 31 July 2021 £'000
ESFA Adult Classroom Based Income	223	266
Payments to College partners	(168)	(200)
Net Adult Skills Income	**55**	**66**
Apprenticeships income	147	380
Payments to College partners	(110)	(285)
Net Apprentices income	**37**	**95**
16-18 Learner Responsive income	504	683
Payments to College partners	(379)	(514)
Net 16-18 Learner Responsive income	**125**	**169**

4 TUITION FEES AND EDUCATION CONTRACTS

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Adult Education Fees	43	60
Full Cost Provision	1	1
Fees for FE loan supported courses	211	212
Total tuition fees	255	273
Education contracts	15	5
Employer Apprenticeship Levy Fees	59	83
	329	**361**

5 OTHER GRANTS AND CONTRACTS

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Other grants and contracts	14	13
Coronavirus Job Retention Scheme grant	-	67
	14	**80**

6 OTHER INCOME

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Catering income	67	31
Other income generating activities	11	5
Miscellaneous income	56	34
	134	**70**

7 INVESTMENT INCOME

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Other interest receivable	-	-
	-	-

8 STAFF COSTS

The average number of persons (including key management personnel) employed by the College during the year, expressed as a headcount, was

	Year ended 31 July 2022 Number	Year ended 31 July 2021 Number
Teaching Staff	101	81
Non Teaching Staff	48	69
	149	150

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 2022 Number	Year ended 31 July 2021 Number
Teaching staff	80	78
Non teaching staff	54	57
	134	**135**

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Wages and salaries	4,181	3,819
Social security costs	411	365
Other pension costs excluding FRS102 adjustments	945	781
	5,537	4,965
Contracted out staffing services	-	-
	5,537	4,965
Fundamental restructuring costs	29	20
FRS102 pension adjustments	750	670
	6,316	**5,655**

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	
	2022	2021	2021	2020
	Number	Number	Number	Number
£ 30,001 to £35,000	1	1	-	-
£ 55,001 to £60,000	-	1	-	-
£ 65,001 to £70,000	1	-	-	-
£ 70,001 to £75,000	-	1	-	-
£ 75,001 to £80,000	1	-	-	-
£ 80,001 to £85,000	1	1	-	-
£110,001 to £115,000	-	1	-	-
£115,001 to £120,000	1	-	-	-
	5	**5**	-	-

Key management personnel emoluments are made up as follows:	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Salaries	376	359
Pension contributions	75	75
Total emoluments	**451**	**434**

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

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Salary	116	110
	116	**110**
Pension contributions	21	22

Emoluments to key management personnel – including the Principal and Chief Executive, are set by the Remuneration Committee. All key management personnel are subject to an annual appraisal and performance review and the Committee takes the appraisal process, as well as the College performance in the year and external factors such as benchmarking to AOC standards into account when making its decisions.

9 KEY MANAGEMENT PERSONNEL (continued)

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

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Principals basic salary as a multiple of the median of all staff	4.10	3.98
Principals total remuneration as a multiple of the median of all staff	4.01	3.98

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

10 OTHER OPERATING EXPENSES

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Partnership costs	576	999
Teaching costs	1,158	876
Non teaching costs	419	513
Premises costs	590	491
	2,743	**2,879**

Other operating expenses include:	**Year ended 31 July 2022 £'000**	**Year ended 31 July 2020 £'000**
Independent auditors' remuneration		
Financial statements & regularity audit (KPMG)	-	8
Financial statements & regularity audit (Azets Audit Services – previously MHA Tait Walker)	24	26
Other services provided: Teacher pension statement audit	1	1
	25	**35**

11 INTEREST AND OTHER FINANCE COSTS

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
On bank loans, overdrafts and other loans	-	-
Net interest on defined pension liability (note 20)	190	220
Interest on Enhanced Pension Provision	7	-
	197	**220**

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 2021	10,425	183	3,832	14,440
Additions	482	-	262	744
At 31 July 2022	10,907	183	4,094	15,184
Depreciation				
At 1 August 2021	3,351	97	3,275	6,723
Charge for year	258	6	213	477
At 31 July 2022	3,609	103	3,488	7,200
Net book value at 31 July 2022	**7,298**	**80**	**604**	**7,984**
Net book value at 31 July 2021	7,074	86	557	7,717

14 TRADE AND OTHER RECEIVABLES

	31 July 2022 £'000	31 July 2021 £'000
Amounts falling due within one year:		
Trade receivables	36	37
Prepayments and accrued income	108	124
	144	**161**

15 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 July 2022 £'000	31 July 2021 £'000
Trade payables	89	73
Other taxation and social security	101	90
Pension accrual	104	90
Accruals	295	373
Amounts owed to Funding Bodies	616	623
Deferred income – government capital grants	99	99
Deferred income - non government capital grants	14	14
	1,318	**1,362**

16 CREDITORS - AMOUNTS FALLING DUE AFTER ONE YEAR

	31 July 2022 £'000	31 July 2021 £'000
Deferred income – government capital grants	1,869	1,968
Deferred income - non government capital grants	37	51
	1,906	**2,019**

17 OTHER PROVISIONS

	College Enhanced Pensions £'000
At 1 August 2021	706
Expenditure in the year	(40)
Charge to income and expenditure account	7
Actuarial (gains) / losses	(131)
At 31 July 2022	542

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:

	2022	2021	2020	2019	2018
Price inflation	3.3%	1.0%	1.4%	2.1%	2.8%
Discount rate (CPI)	2.9%	2.6%	2.3%	2.2%	2.1%

18 DEFERRED CAPITAL GRANTS

	SFA Funding £'000	Other Grants £'000	Total £'000
At 1 August 2021			
Land and buildings	1,975	50	2,025
Equipment	92	15	107
	2,067	65	2,132
Grants received in year .			
Land and buildings	-	-	-
Equipment	-	-	-
Released to income and expenditure account			
Land and buildings	(74)	(2)	(76)
Equipment	(25)	(12)	(37)
At 31 July 2022	**(1,968)**	**(51)**	**(2,019)**
The year end balance comprising;			
Land and buildings	1,901	49	1,950
Equipment	67	2	69
At 31 July 2022	**1,968**	**51**	**2,019**
The year end balance comprising;			
Due in less than one year	99	14	113
Due in more than one year	1,869	37	1,906
At 31 July 2022	**1,968**	**51**	**2,019**

19 CASH AND CASH EQUIVALENTS

	At 1 August 2021 £'000	Cashflows £'000	Other Changes £'000	At 31 July 2022 £'000
Cash in hand, and at bank	3,010	(346)	-	2,664
	3,010	(346)	-	2,664

20 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 2022 £'000	**Year ended 31 July 2021 £'000**
Teachers Pension Scheme: contributions paid	273	255
Local Government Pension Scheme:		
Contributions paid	584	526
Shortfall payments recognised in non-teaching costs	88	85
FRS 102 adjustments	750	670
Charge to the Income and Expenditure Account (staff costs)	**1,695**	**1,536**

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 2019 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. Retirement and other pension benefits are paid by public funds provided by Parliament.

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

Valuation of the Teachers' Pension Scheme

The latest actuarial review of the TPS was carried out as at 31 March 2019 and are 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) in April 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 £198 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. DfE has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2021/22 academic year.

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

The pension costs paid to TPS in the year amounted to £375k (2020/21: £351k). These amounts include employers contributions of £273k (2020/21 £255k).

FRS 102 (28)

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

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

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2022 was £865,367 (£786,902 20/21) of which employers contributions totalled £584,313 (£526,046 20/21), employees contributions totalled £193,054 (£175,856 20/21) and shortfall deficit payments were £88,000 (£85,000 20/21). In 2021/22 the contribution rates for employers was 20.2% (applied from April 2020). Rates for employees range from 5.5% to 12.5% in the year to 31 July 2022, depending on salary.

Due to the current level of high inflation we have instructed the actuary to make an allowance in the Defined Benefit Obligation of the expected impact of CPI inflation on the pension increase order for April 2023. This is a change in accounting policy from previous years. It is expected that the April 2023 pension increase order will reflect CPI inflation for the year ending 30 September 2022. Therefore, an allowance has been included in the results presented for CPI inflation between 30 September 2021 and the accounting date of 9.0%. this is recognised within Other Comprehensive Income. Allowance for CPI inflation for the period after the accounting date is included within the CPI inflation assumption and reflects market expectations at the accounting date.

20 PENSION AND SIMILAR OBLIGATIONS (continued)

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2019 updated to 31 July 2022 by a qualified independent actuary.

	At 31 July 2022	At 31 July 2021	At 31 July 2020	At 31 July 2019	At 31 July 2018
Inflation (RPI)	n/a	n/a	n/a	3.2%	3.2%
Inflation (CPI)	2.6%	2.6%	2.3%	2.2%	2.1%
Rate of increase in salaries	3.6%	3.6%	3.3%	3.7%	3.6%
Rate of increase for pensions	2.6%	2.6%	2.3%	2.2%	2.1%
Discount rate for liabilities	3.5%	1.7%	1.4%	2.1%	2.8%

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)

	2022	**2021**	**2020**	**2019**	**2018**
Retiring in 20 years:					
Males	23.2	23.3	23.2	24.0	25.5
Females	25.7	25.8	25.7	25.7	27.3
Retiring today:					
Males	22.1	22.3	22.2	22.3	23.3
Females	24.2	24.3	24.2	23.8	25.0

	Proportion of assets		Fair Value £'000	
	31 July 2022	31 July 2021	31 July 2022	31 July 2021
Equity instruments	54.7%	55.8%	11,380	12,471
Multi Asset Credit	14.5%	-	3,020	-
Government bonds	11.3%	16.0%	2,350	3,576
Property	8.4%	6.2%	1,750	1,386
Corporate bonds	4.4%	17.5%	920	3,911
Cash	1.4%	4.5%	290	1,006
Other	5.3%	-	1,100	-
Total market value of assets			20,810	22,350

20 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 2022 £'000	31 July 2021 £'000
Fair value of plan assets	20,810	22,350
Present value of plan liabilities	(25,200)	(33,760)
Present value of unfunded liabilities	(20)	(20)
Net pensions liability	**(4,410)**	**(11,430)**

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

Amounts included in staff costs:	31 July 2022 £'000	31 July 2021 £'000
Current Service Cost	1,400	1,300
Past Service Cost	-	-
Total	**1,400**	**1,300**

Amounts included in interest and other finance costs:	31 July 2022 £'000	31 July 2021 £'000
Interest on plan assets	(380)	(260)
Interest on plan liabilities	570	460
Curtailment cost	0	20
Net interest on the defined benefit pension liability	**190**	**220**

Amounts included in other comprehensive income:	31 July 2022 £'000	31 July 2021 £'000
Actuarial (gain) / loss in respect of pension scheme	(7,960)	(3,640)
Actuarial (gain): Unfunded defined benefit obligation	-	-
Total	**(7,960)**	**(3,640)**

Movement in net defined benefit (liability) during year	**2022 £'000**	**2021 £'000**
Net defined benefit liability in plan at start of year	(11,410)	(14,160)
Movement in Year:		
Current Service cost	(1,400)	(1,300)
Employer Contributions	650	630
Past Service cost	(0)	(0)
Net interest on the defined liability	(190)	(200)
Curtailment cost	(0)	(20)
Actuarial gain / (loss)	7,960	3,640
Net defined benefit liability at end of year	**(4,390)**	**(11,410)**

20 PENSION AND SIMILAR OBLIGATIONS (continued)

Asset and Liability Reconciliation

Changes in the present value of defined benefit obligations:

	2022 £'000	2021 £'000
Defined benefit obligations at start of year	33,760	32,940
Current Service Cost	1,400	1,300
Past Service Cost	-	-
Interest cost	570	460
Actuarial (gains) / losses on liabilities	(10,000)	(540)
Estimated benefits paid	(720)	(600)
Contributions by scheme participants	190	180
Curtailment cost	-	20
Defined benefit obligations at end of year	**25,200**	**33,760**

Changes in the fair value of plan assets:

	2022 £'000	2021 £'000
Fair value of plan assets at start of year	22,350	18,780
Interest on plan assets	380	260
Return on plan assets	(2,040)	3,100
Employer contributions	650	630
Contributions by scheme participants	190	180
Estimated benefits paid	(720)	(600)
Fair value of plan assets at end of year	**20,810**	**22,350**

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

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Present value of defined benefit obligation (funded)	(25,200)	(33,760)	(32,940)	(28,200)	(23,920)
Present value unfunded liabilities	(20)	(20)	(20)	(20)	(20)
Fair Value of scheme assets	20,810	22,350	18,780	18,700	16,660
Deficit in the scheme	**(4,410)**	**(11,430)**	**(14,180)**	**(9,520)**	**(7,280)**

Sensitivity Analysis

Changes to the Present value of the total obligation:

	At 31 July 2022 £'000	At 31 July 2021 £'000
(Discount rate +0.1%)	24,670	33,050
(Discount rate -0.1%)	25,730	34,470
Mortality assumption: 1 year increase	24,440	32,510
Mortality assumption: 1 year decrease	25,960	35,040
CPI rate +0.1%	25,680	34,400
CPI rate -0.1%	24,750	33,150

21 CAPITAL COMMITMENTS

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

	2022 £'000	2021 £'000
Commitments contracted for at 31 July	429	-
	429	**-**

22 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.

There were no waived payments, expenses or remuneration paid to Governors in the current or prior year.

23 AMOUNTS DISBURSED AS AGENT

	Year ended 31 July 2022 £'000	Year ended 31 July 2021 £'000
Discretionary Support Funds		
ESFA support	245	273
	245	273
Disbursed to Students	(157)	(176)
Administration costs	(9)	(10)
Balance underspent as at 31 July	**79**	**87**

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 2020-21) was ringfenced from the Adult Skills Budget to be used for Discretionary Learner Support. This is included in the support funds income shown above.

24 POST BALANCE SHEET EVENT

On 29 November 2022 the Office for National Statistics (ONS) has announced that it has reclassified colleges into the central government sector. This decision was with immediate effect.
The College is now subject to the framework for financial management set out in Managing Public Money (MPM).

The above announced has had no impact on these financial statements.

Derwentside College Reporting Accountant's Assurance Report on Regularity

To: The Corporation of Derwentside College and Secretary of State for Education acting through the Education and Skills Funding Agency ("the ESFA")

In accordance with the terms of our engagement letter dated 5 October 2022 and further to the requirements and conditions of funding in the ESFA's 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 the Corporation of Derwentside College during the period 1 August 2021 to 31 July 2022 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 ("the Code") issued by the ESFA and in any relevant conditions of funding concerning adult education notified by a relevant funder. 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) data 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 the Corporation 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, are 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 Code. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2021 to 31 July 2022 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 Code 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.

Reporting accountant's assurance report on regularity (continued)

The work undertaken to draw to our conclusion includes:

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

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

Conclusion

In the course of our work nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2021 to 31 July 2022 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

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Azets Audit Services is a trading name of Azets Audit Services Limited

Date 12th December 2022