DERWENTSIDE COLLEGE

Report and Financial Statements
For the Year Ended 31 July 2015

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The members present their report and the audited financial statements for the year ended 31 July 2015.

Legal status

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

Mission, Vision and Values

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

Mission

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

Vision

Derwentside College aims to be:

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

Values

The College's values are:

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

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

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

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

Strategic Summary

Overview

During the last three years, the College has performed well financially generating a year on year surplus in the income and expenditure account and strengthening the balance sheet.

During 2014-15, the Corporation Board made the bold decision to reclassify the College's long term debt owing to Barclays Bank as a current liability. The Corporation's intention in doing this was repay its loans in full during November 2015 and to strengthen the long term financial health of the College. This decision will ultimately deliver improvements in cash generation and profitability, however in the short term, it has resulted in a weakened set of results being reported at the end of July 2015.

The impact of the treatment of the loan on the July 2015 accounts has resulted in a lower than anticipated surplus (£65k) and has contributed to a net current liabilities position being reported in the balance sheet. The net current liabilities position has also been exacerbated through the recognition of funds owed to the SFA at year end of £1.126m, which relates to overpayment of the Adult Apprenticeship allocation. This has had the effect of inflating the College's underlying cash balance and partly explains the increased creditors figure reported of £4.282m.

The overall effect of the treatment of the loan and the current liabilities position has been a reduction in financial health from 'good' to 'satisfactory' based on the SFA scoring methodology.

The Corporation Board is confident that the College remains a going concern. The net current liabilities position reported at year end although a point of note, the Board do not anticipate the solvency of the College to be impacted during the 2015-16 financial year. In recognition that cash flow is a major risk, the College is in the process of agreeing a 12 month overdraft facility of £500k. Once in place, the overdraft facility will ensure the College is able to meet its working capital requirements during March 2016, where cash flows are identified as being at their lowest.

The College has a robust three year financial plan in place which demonstrates continued improvement in financial performance over the coming years. The financial plan is based on a number of highly prudent assumptions and is supported by a cost improvement plan, which is to be largely implemented during 2015-16. The delivery of the financial plan will be critical to the College's success and will ensure that the College continues to perform well financially over the coming years.

Recent Progress

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

Moving forward, the College will continue to develop and expand its market share through sustainable growth, focusing on the key priorities established by the Government and using this as a mechanism to drive forward continued curriculum development and change. A new Strategic Plan was agreed in July 2015 with the aim of achieving this and the Senior Management Team will look to implement this over the next three years.

Since 2010, the College has restructured the business to respond positively to the new agenda for FE and to take account of the market realities of working in Derwentside. Primarily this has involved a strategic focus on developing employer responsive provision and routes into employment, with a significant increase in Apprenticeship and Traineeship provision. The College has achieved this through a combination of its own curriculum offer, but also through the positive sub-contracting partnerships that it has successfully developed over the years.

Quality and standards have continued to be a major area of focus and improvement for the College. The College received a good Ofsted report (March 2012) which judged the College's partnership work and work with employers to be outstanding. The College's apprenticeship success rates are continuing to improve, while classroom based success rates remain in the top 10% of College's nationally. The College has recently self-assessed its performance as 'good' based on the new Ofsted Inspection Framework, with several 'outstanding' features identified.

The Further Education Landscape

The College continues to operate in an environment of political uncertainty with a relatively new government and the first Conservative government for 18 years. In the sections below, the most significant external challenges facing the College over the coming years are identified and outlined:

Area Reviews

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

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

Derwentside College is due to participate in the North East Area Review in April 2016.

Apprenticeship Reform

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

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

Devolution

The new Cities and Local Government Devolution Bill outlines the government's vision to give English cities more powers, via Local Enterprise Partnerships (LEPs) and City Regions. The bill places in statute the deal already given to Manchester and creates a framework through which other combined authorities could achieve the same. The local colleges in Manchester have played a leading role so far in this. If devolution is extended further, colleges will want to ensure that they are central to these changes that could provide new opportunities if colleges are able to tailor even more qualifications to the local jobs market, helping to create a pipeline of skilled people. Funding for City Deals will be contingent upon there being elected Mayors, although this is proving to be contentious in some areas.

The North East Combined Authority recently submitted a proposal for a devolution deal and this has been approved in principle.

Comprehensive Spending Review

The Chancellor announced the 2015 Autumn Statement and Spending Review on the 25th November 2015. The Spending Review had been anticipated to introduce significant cuts to further education budgets however, in reality, they do not appear to present the significant challenges many Colleges had been preparing for.

The five main headlines from the statement are:

- The national base funding rate for 16-19 year olds is to be maintained for four years.
- The Adult Skills participation budget will be fixed in cash terms.
- Apprenticeship levy of 0.5% introduced on payrolls over £3m.
- FE loans extended to 19 to 23 year olds on level 3 and 4 courses.
- Sixth form Colleges have been given the option to convert to Academy status.

The precise implications of these headlines are not yet known however, the College had been planning for the worst and as such, we are well placed to address any potential challenges that arise.

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

Financial & Corporate Priorities

- Generate a cash surplus of 5% of income (EBITDA);
- Retain a cash balance the equivalent of at least 15% of income;
- Deliver a minimum financial health rating of 'good' using the SFA scoring methodology;
- Diversify income by setting and achieving growth targets across all priority income streams. Continue to invest in the college's estate and capital resources in order to further improve the learner experience and to enable the delivery of growth;
- Continue to invest in Digital and Learning Technologies to enrich learning and to improve business intelligence.

Business Development Priorities

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

Curriculum Priorities

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

Quality Improvement Priorities

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

Equality and Diversity Priorities

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

Human Resource Priorities

- Develop and implement a Continuous Professional Development plan that enables all staff to effectively contribute to the achievement of the College's strategic objectives;
- Develop and implement a qualifications strategy that at least meets industry occupational standards and strives for best practice;
- Develop and implement a management and leadership development programme to give College managers the skills and confidence needed to effectively lead and coach their teams.

Key Performance Indicators and Monitoring Statistics

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

Financial Position

The College generated a surplus in the year of £65K (2013/14: £495K). This figure includes £10K (2013/14: £160K) for the purely accounting adjustment for FRS17 relating to potential pension deficits. Excluding this, the surplus was £75K (2013/14: £655K). The 2014/15 surplus was also influenced by one-off staff restructuring costs of £29k (2013/14: £40K).

Fixed asset additions in the year amount to £447K (2013/14: £208K). £185K of this spend relates to IT expenditure. Other spend in the year related to improving the Derwentside College website and initial works on the new Construction Academy and other significant improvements to the structure of the college.

The College has reported a net current liability of £121k at year end, which reflects the reclassification of long term loans as current liabilities. The repayment of the loans during 2015-16 will result in the need to manage cash flow carefully, however a detailed cash flow forecast is in place which demonstrates that the College remains as a going concern. In addition, the College is in the process of agreeing an overdraft facility to provide an extra layer of security in this key area.

At the end of the year the college has net assets (excluding pension liability) of £7,625K (2013/14: £7,647K) which includes cash balances of £3,997K (2013/14: £5,216K). Any surplus funds are placed in a premium interest account with the College's bankers. It is an aim of the College to further increase reserves and maintain cash balances to create a contingency fund and also finance further investment.

Commercial loans relating to the new building, now stand at £1,700K (2013/14: £1,981K), down from an initial £4,986K and with £281K having been repaid during the year. Interest rates were fixed to ensure certainty of charges over the period of the loan. The loans will be repaid in full during 2015-16.

The College is heavily dependent upon the main funding bodies (Skills Funding Agency and Education Funding Agency) for funding. £12,431K (2013/14: £13,163K) was recognised in the year, mostly of a recurring nature and including the release of some deferred capital grants.

The financial statements include the impact of the accounting requirement relating to pension funds (FRS17) which results in a movement in the income and expenditure account and also the inclusion of a pension liability in the balance sheet. This only relates to the pensions of non-teaching staff and is administered as part of the Durham County Council Local Government Pension Scheme. It does not involve any actual cash spend, and is based on a range of actuarial assumptions. The impact of FRS17 is ignored by the funding bodies and the banks.

Student Numbers and Performance

During the year, the college recruited 3,382 learners under the Learner Responsive Funding stream of which 674 were in the 16-18 year old age group. As part of its Employer Responsive provision the College enrolled 4,717 Apprentices of which 354 were in the 16-18 year old age group.

Principal Risks and Uncertainties

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

- Risk 1 – Failure to address the challenges arising from the Governments national review of apprenticeships.
- Risk 2 – Failure to meet learner recruitment and funding targets
- Risk 3 – Failure to effectively manage the College's significant sub contracted partnership provision
- Risk 4 – Failure to achieve and maintain high success rates and other outcome based measures.
- Risk 5 – Failure to respond to the new Further Education and Skills inspection regime which comes into effect from the 1st September 2015.
- Risk 6 – Failure to develop and improve the quality of teaching, learning and assessment

- Risk 7 – Failure to retain key staff and stabilise the staffing structure at all levels.
- Risk 8 – Failure to meet the College's financial objectives.
- Risk 9 – Failure to deliver the budgeted surplus for 2015-16.
- Risk 10 – Failure to address the challenges arising from the Government's austerity measures and to diversify the College's income base.

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

Stakeholder Relationships

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

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

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

Employment of Disabled Persons and Equal Opportunities

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

The college believes that discrimination against someone on the grounds of age, disability, special needs, gender, marital status, sexual orientation, religion, race, colour, nationality, ethnic or national origin, political belief or any other grounds is incompatible with its belief in the equal value of all people. It is therefore committed to promoting equality of opportunity in education, training and employment by the continuous development of a non-discriminatory culture and an environment free from harassment, bullying or unfair treatment regardless of individual differences.

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

Disability Statement

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

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

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

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

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

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

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

Going Concern

After reviewing financial and other information available, as explained previously within the Operating and Financial Review and note 1 to the financial statements, the Corporation considers that the college has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Disclosure of information to independent auditors

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

Approved by order of the members of the Corporation on 15 December 2015 and signed by its order:

A N Edwards
Chair

PROFESSIONAL ADVISERS

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& Statutory Auditor:
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32 Gallowgate
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NE1 4BF

The Corporation

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

In the opinion of the governors, the College complies with all the provisions of the Combined Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2015.

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 2014/15

	Date of appointment	Term of office	Date of Resignation	Status of appointment	Committees Served
Mrs K Redhead	March 2014	Ongoing		Principal	Search Sub Committee
Mr A N Edwards (Chairman from Oct 01 to date)	April 1997, re-appointed April 2001, April 2005, March 2009 & May 2013	4 years		Independent	Search Sub Committee, Remuneration Task Group
Mr G Marshall (Vice chair from Sept 07 to date)	April 2001, re-appointed April 2005, March 2009 & May 2013	4 years		Independent	Audit, Search Sub Committee, Remuneration Task Group
Mr J Davies	February 2000, re-appointed February 2004, July 2008 & July 2012	4 years		Independent	Audit
Mr G Gibson	March 2008, re-appointed March 2012	4 years		Independent	Audit, Remuneration Task Group
Mrs S Nicholson	December 2010, reappointed December 2014	4 years		Staff	
Mr D Temperley	January 2012	4 years		Independent	Audit
Mrs G Granath	March 2012	4 years		Independent	Audit
Mrs C Richards	June 2014	4 Years		Staff	
Ms A Form	December 2014	4 Years		Independent	
Mr M Short	January 2015	4 Years		Independent	
Ms N Dixon	March 2014	2 Years	January 2015		

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, Co Durham, DH8 5EE.

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

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

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

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

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

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

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

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a search committee which is comprised of 3 members; the Chairman and Vice Chairman of the Board and the Principal. 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 2015, 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 and the other senior post holder.

Details of remuneration for the year ended 31 July 2015 are set out in note 7 to the financial statements.

Audit Committee

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

The audit committee meets on a termly basis and provides a forum for reporting by the College's internal, regularity and financial statements independent auditors, who have access to the committee for independent discussion, without the presence of college management. The committee also receives and considers reports from the main FE funding bodies as they affect the College's business.

The college's internal independent auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the audit committee. Management are responsible for the implementation of agreed

recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

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

Internal Control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks of the achievement of college policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Derwentside College for the year ended 31 July 2015 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 2015 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 a controls assurance service, provided by PricewaterhouseCoopers LLP, which operates in accordance with the requirements of the SFA / EFA Interim Joint Audit Code of Practice. The work of the controls assurance service is informed by an analysis of the risks to which the college is exposed, and annual audit plans are based on this analysis. The analysis of risks and the audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. The controls assurance service has provided reports throughout the year for the Audit Committee and annually for the Board of the Corporation, including a year end summary report of the areas subject to review in the year ended 31 July 2015.

Review of effectiveness

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

- the work of the 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 his review of the effectiveness of the system of internal control by the audit committee which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

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

Approved by order of the members of the Corporation on 15 December 2015 and signed by its order:

A N Edwards (Chair)
Date 15/12/15

K Redhead (Principal)
Date 15.12.15

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

Within the terms and conditions of the Financial Memorandum agreed between the SFA / EFA and the corporation of the college, the corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and with the Accounts Direction issued by the SFA / EFA which give a true and fair view of the state of affairs of the college and the result for that year.

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

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

The corporation is also required to prepare an operating and financial review, which describes what it is trying to do and how it is going about it, including the legal and administrative status of the college.

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

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

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

Approved by order of the members of the corporation on 15 December 2015 and signed on its behalf by:

A N Edwards
Chair

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

Report on the financial statements

Our opinion

In our opinion:

- Derwentside College's financial statements (the "financial statements") give a true and fair view of the state of the institution's affairs as at 31 July 2015 and of the institution's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

Emphasis of Matter – Going Concern
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of disclosures made in note 1 to the financial statements concerning the College's ability to continue as a going concern. The College breached the covenants related to its loan facility in June 2015 and as a result payment of the outstanding loan facility could be requested in full by the lender with no notice. The College does not expect repayment to be demanded however no confirmation has been provided by the lender that they will not request repayment of the loan. Also the College has prepared cash flow forecasts, which include the repayment of its current loan facility, and these forecasts show that the College has sufficient cash to meet its liabilities as they fall due although these forecasts are underpinned by a cost reduction programme operating from 2015-2018. In addition, the College is exploring alternative working capital facilities to increase its cash headroom, although none of these additional facilities have yet been agreed. There is no certainty over the effectiveness of the cost reduction programme, the achievement of student recruitment, the continued access to the current loan facility nor the agreement of additional facilities. These conditions indicates the existence of a material uncertainty that may cast significant doubt about the College's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the College was unable to continue as a going concern.

What we have audited

The financial statements comprise:

- the Balance Sheet as at 31 July 2015;
- the Income and Expenditure Account for the year then ended;
- the Statement of Total Recognised Gains and Losses for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Reconciliation of net cash flow to movement in funds; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the Statement of Recommended Practice for Further and Higher Education, incorporating United Kingdom Generally Accepted Accounting Practice.

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

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

In our opinion, in all material respects:

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

Responsibilities for the financial statements and the audit

Respective responsibilities of the Corporation and auditors

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 15, the Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Corporation as a body in accordance with Article 22 of the institution's Articles of Government and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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

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

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

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

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
21 December 2015

DERWENTSIDE COLLEGE
Income and Expenditure Account
For the year ended 31 July 2015

	Note	Year ended 31 July 2015	Year ended 31 July 2014
		£'000	£'000
Income			
Funding body grants	2	12,431	13,163
Tuition fees and education contracts	3	298	269
Investment income & Sale of Fixed Assets	5	99	7
Other income	4	353	575
Total Income		**13,181**	**14,014**
Expenditure			
Staff costs	6	4,876	4,922
Restructuring costs	6	29	40
FRS17 past & current service cost	6, 27	30	110
Other operating expenses	8	7,713	7,929
Exceptional inter company debt release			-
Depreciation	12	366	327
Interest payable	9	102	191
Total Expenditure		**13,116**	**13,519**
Surplus on continuing operations after depreciation of tangible fixed assets at cost and valuation and before tax and exceptional items		**65**	**495**
Surplus on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax		65	495
Taxation	10	-	-
Surplus on continuing operations after depreciation of assets at valuation and disposal of assets and tax	11	**65**	**495**

The income and expenditure account is in respect of continuing activities.

DERWENTSIDE COLLEGE
Statement of the Total Recognised Gains and Losses
For the year ended 31 July 2015

	Note	Year ended 31 July 2015 £'000	Year ended 31 July 2014 £'000
Surplus on continuing operations after depreciation and disposal of tangible fixed assets at cost and valuation and tax		65	495
Actuarial (loss) / gain in respect of pension scheme	27	(1,060)	930
Release of Restricted Reserve	20	(18)	-
TOTAL RECOGNISED (LOSSES) / GAINS RELATING TO THE YEAR		**(1,013)**	**1,425**
RECONCILIATION			
Opening reserves		1,213	(212)
Total recognised (loss) / gain for the year		(1,013)	1,425
CLOSING RESERVES		**200**	**1,213**

DERWENTSIDE COLLEGE
Balance Sheet
As at 31 July 2015

	Note	31 July 2015 £'000	31 July 2014 £'000
Fixed assets			
Tangible assets	12	8,430	8,348
		8,430	**8,348**
Current assets			
Debtors	14	164	102
Cash at bank and in hand		3,997	5,216
Assets held for sale	14	-	18
		4,161	5,336
Less: Creditors – amounts falling due within one year	15	(4,282)	(3,681)
Net current (liabilities) / assets		**(121)**	**1,655**
Total assets less current liabilities		**8,309**	**10,003**
Less: Creditors - amounts falling due after more than one year	16	-	(1,700)
Less: Provisions for liabilities	18	(684)	(656)
Net assets excluding pension liability		**7,625**	**7,647**
Pension liability	27	(5,220)	(4,150)
NET ASSETS INCLUDING PENSION LIABILITY		**2,405**	**3,497**
Deferred capital grants Reserves	19	2,205	2,284
Income and expenditure account excluding pension reserve	21	5,420	5,344
Pension reserve	27	(5,220)	(4,150)
Income and expenditure account including pension reserve	21	**200**	**1,194**
Restricted reserve	20	-	19
Total reserves		**200**	**1,213**
TOTAL FUNDS		**2,405**	**3,497**

The financial statements on pages 18 to 42 were approved and authorised for issue by the corporation on 15 December 2015 and were signed on its behalf by:-

A N Edwards (Chairman)

K Redhead (Principal)

DERWENTSIDE COLLEGE
Cash Flow Statement
For the year ended 31 July 2015

	Note	Year ended 31 July 2015 £'000	Year ended 31 July 2014 £'000
Cash flow from operating activities	22	(377)	3,306
Returns on investments and servicing of finance	23	(114)	(134)
Capital expenditure and financial investment	24	(447)	(208)
Cash (outflow) / inflow before financing		**(938)**	**2,964**
Financing	25	(281)	(281)
(Decrease) / increase in cash in the year		**(1,219)**	**2,683**

Reconciliation of net cash flow to movement in funds

(Decrease) / Increase in cash in the year		(1,219)	2,683
Cash outflow from decrease in borrowings	25	281	281
Movement in net funds in the year		(938)	2,964
Net funds at 1 August	26	3,235	270
Net funds at 31 July	26	**2,297**	**3,235**