

NORTHUMBERLAND COLLEGE

**Consolidated Report
and
Financial Statements
for the year ended
31 July 2018**

Northumberland College Financial Statements for the Year Ended 31 July 2018

Key Management Personnel, Board of Governors and Professional Advisers

Key Management Personnel

Key management personnel are defined as members of the College Executive Team and were represented by the following in 2017-18:

Marcus Clinton	Principal and CEO; Accounting Officer (left 30/04/2018)
Ian Clinton	Interim Principal and CEO; Accounting Officer (from 01/04/2018)
Trina Beaumont	Vice Principal Employer, Enterprise and Commercial Services (left 30/06/2018)
Peter Nangle	Vice Principal Curriculum (from 01/04/2018)
Carol Welch	Director of Finance, ICT and Data (left 31/07/2018)
Terry Andrews	Vice Principal Finance and Resources (from 24/04/2018)
Louise Kinghorn	Vice Principal Quality, Learning and Outcomes

Board of Governors

A full list of Governors is given on pages 16-18 of these financial statements.

Donna Swan acted as Clerk to the Corporation throughout the year.

Professional Advisers

Financial Statements Auditors and Reporting Accountants:

RSM UK Audit LLP
1 St James Gate
Newcastle upon Tyne
NE1 4AD

Internal Auditors:

Mazars LLP
Mazars House
Gelderd Road
Gildersome Leeds
LS27 7JN

Northumberland College Financial Statements for the Year Ended 31 July 2018

Bankers:

Barclay's Bank

5 St Ann's Street

Newcastle upon Tyne

NE1 3DX

Solicitors:

Sintons

The Cube

Barrack Rd

Newcastle upon Tyne

NE4 6DB

Northumberland College Financial Statements for the Year Ended 31 July 2018

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REPORT OF THE GOVERNING BODY

Nature, Objectives and Strategies

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

After the 2017/18 year end, a discussion was taken by the governing body to seek a merger with Sunderland College.

Legal Status

The Corporation was established under The Further and Higher Education Act 1992 for the purpose of conducting Northumberland College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

Public Benefit

Northumberland College is an exempt charity under Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they have had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements. The members of the Governing Body, who are trustees of the charity, are disclosed on pages 19-21.

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

Northumberland College is the only general Further Education College in Northumberland, covering 1,935 square miles of the most sparsely populated county in the country. The College has been delivering vocational training, from introductory level to higher education, for more than 60 years. The College runs its courses from a number of campuses and centres which include Ashington (main campus), Kirkley Hall (land based industries hub), Berwick upon Tweed and Hexham.

As well as delivering full and part time courses for school leavers and adult learners, we also work with employers to deliver apprenticeships, workplace and bespoke training courses. The College also provides provision for those who are without work through its partnership with Jobcentre Plus through its Employability programme.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

The curriculum and learning programme on offer is relevant to learners' needs and aligned to local and regional priorities. Employability skills are developed through relevant work experience, real working environments, commercial enterprises and placements. Increased learner motivation and enjoyment are derived from additional qualifications and enrichment activities. Enterprise is very relevant in equipping students with the exposure to real work as much as possible to equip them with the all-round skills and aptitudes to gain employment and is being developed.

The academic and vocational training programmes which are delivered by the College make a significant contribution to improving the life chances of a large number of young people and adult learners many of whom come from significantly diverse backgrounds. This includes a high proportion with low levels of prior attainment and many who face challenges in terms of social and economic deprivation. The College seeks to add value to the social, economic and physical well-being of the community we serve by attracting, training and educating students successfully and in accordance with our core values, so that they themselves, by virtue of that successful education and training, are in turn able to benefit our community.

The governors can confirm that the activities of the College have complied with the duty in section 17 (5) of the Charities Act 2011 to have due regard to the public benefit guidance published by the Charity Commission.

2017-18 College Restructuring Exercise

In order to address the key strategic aims noted below, 2017-18 saw fundamental changes of leadership and management at Northumberland College part way through the academic year. In April 2018 three of the four members of the Executive Team left the college with one remaining. For the latter part of 2017-18 the Executive team consisted of:

- Interim Principal & Chief Executive Officer
- Interim Vice Principal Curriculum
- Interim Vice Principal Finance and Resources
- Vice Principal Quality and Student Services

The new College Executive Team quickly determined that leadership across the college required improvement and swiftly orchestrated a cross college organisational restructure and three Assistant Principals were appointed internally:

- Assistant Principal Education and Training
- Assistant Principal Apprenticeships and Employer Engagement
- Assistant Principal Student Services

This restructure reduced the College Leadership from 35 managers to 19 with the impact being:

- Clearer lines of management accountability
- Reduced numbers of academies to improve consistency
- The introduction of 'team leader' strand of curriculum management to strengthen operational management controls

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

- The merger of Apprenticeship and Business Development departments aligning their priorities moving forward
- Separation of Quality from Curriculum to ensure that Quality monitoring was seen as a separate function and being seen to be impartial
- A change in management in MIS, which has led to improved data being available to all managers

College Mission and Key Strategic Aims

At Northumberland College we are committed to and passionate about securing positive outcomes for our students. Our mission is:

"To provide outstanding education and training and apprenticeships, preparing our students for work, serving the needs of our community and businesses."

Key Strategic Aims:

- Prepare our students for work: To ensure our students have a complete study programme ensuring they develop the vocational and employability skills that employers demand
- Curriculum and specialisation development: To ensure our curriculum delivery is highly efficient encompassing innovative use of technology and curriculum design; deliver a curriculum offer which is current with pathways to existing and future jobs; to meet the need for specialisation.
- Sustainability: Ensure that the College is sustainable for the foreseeable future and can continue to grow income and control costs.
- Investment: Invest in the College to secure the specialist resource that existing and emerging curriculum requires, and create a series of highly efficient and modern learning centres.
- Become outstanding: All strategic areas contribute to the College becoming an outstanding provider.
- Environment and student experience: Ensure our environment caters for all our students' needs offering a comfortable environment, conducive to meeting social, academic and specialist resource needs. Our environment also needs to be flexible and utilise technology to be as efficient as possible
- Working with Employers: Ensure we are highly responsive, flexible and understanding of employer's needs, with high levels of employer engagement and high quality apprenticeship and bespoke training.
- Leadership: Inspiring and highly effective leadership is pivotal to the College achieving its aims.
- The achievement of these aims has been foremost in the thinking of the whole leadership of the college and has resulted in the restructuring exercise noted above.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

College Vision

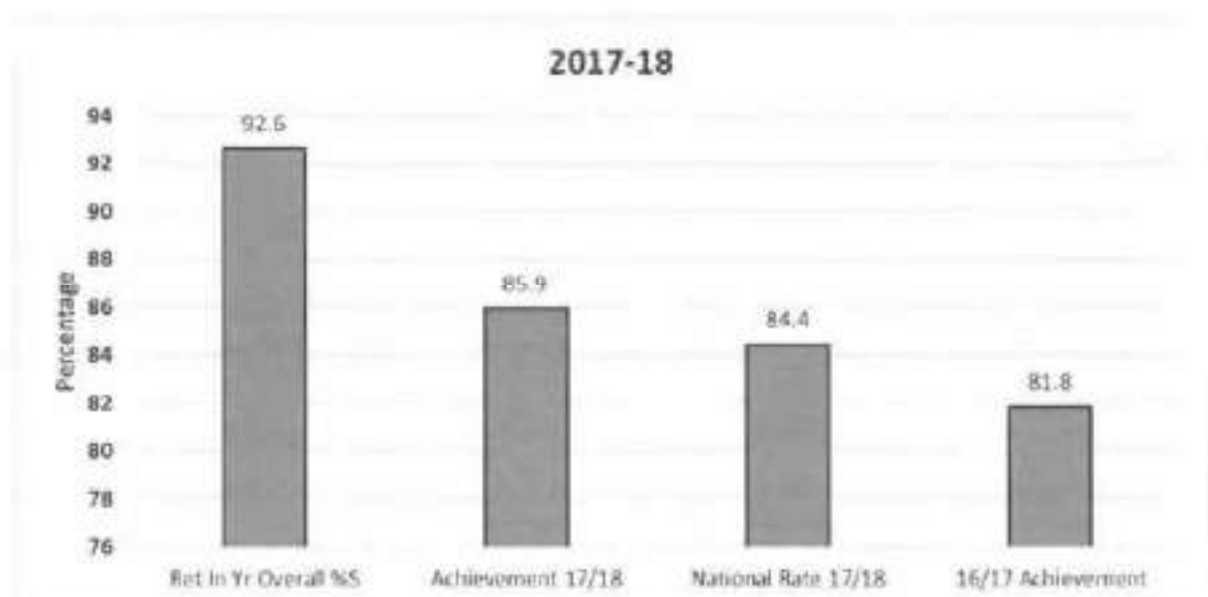
Northumberland College aims to be an exceptional college and the place of choice that embraces enterprise, innovation, creativity and employability skills for the success of all our students. At Northumberland College we are committed to achieving positive outcomes for students via an employer led curriculum which offers both a pathway to work and a first class experience – developing the skills, qualities and attributes required to succeed in the workplace. We seek to be at the heart of the economic and social well-being of our county.

Student Achievement 2017-18

Achievement rates for 2017-18 compared with 2016-17 for all classroom based provision

As can be seen in the table below, Overall, the headline achievement rate for 2017-18 is 85.9%. This is 1.5% above the National Rates (NR) and an increase of 4.1% from 2016-17 (81.8%). The All Ages All Levels NR increased by 1.6% from 2016-17 to 2017-18.

Year	Starts	Ret	NR	Pass	NR	Ach	NR
2016-17	8,440	93.9	90.8	87.1	89.3	81.8	82.8
2017-18	8,199	92.6	92.1	92.7	91.6	85.9	84.4



There is an increase in achievement rates for both 16-18 and 19+ learners from 2016/17. In the case of 16-18, it is a marginal increase of 0.7%.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

Financial Objectives

Although achievement rates at the college have been good the College fell short of a number of its strategic financial objectives during 2017-18, resulting in the organisation restructuring exercise and new senior management team brought in to address the financial performance for 2018-19.

The College's performance during 2017-18 includes:

- Financial deficit at end of year
- Deteriorated cash position
- ESFA Financial Health grade reduced to inadequate
- Continued reliance on income from public funds
- Lack of investment to improve the student experience, provide specialist resources and resources that also generate non funded income

Key Performance Indicator	Measure / Target 2017-18	Actual for 2017-18
EBITDA as % of income – standard	6.6%	-4.8%
EBITDA – standard (£000)	1,630	(995)
Staff costs as % of income	58%	66.1%
Cash days in hand/liquidity (adjusted current ratio)	0.87	0.18
Borrowing as % of income	32.1	45.6
Reliance on ESFA income (%)	67	71.6
Financial Health Score	160 Satisfactory	30 Inadequate

The College is required to complete the annual Finance Record for the Education and Skills Funding Agency (ESFA). The current financial health rating is "inadequate" which is not considered an acceptable outcome.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

Achievement of Objectives

The College's EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortisation) in 2017-18 was £2.625k less than budgeted. This is mainly due to shortfalls on the delivery of certain lines of income which include Apprenticeships (£1,098k) and the Adult Education Budget (£306k). This shortfall in the EBITDA has had an adverse impact on operating cashflows.

The table below highlights the main funding shortfalls:

Funding Stream	Allocation Target £000	Actual Income £000	Shortfall £000
Adult Education Budget	2,367	2,061	306
European Social Fund (ESF) Labour Market Relevance (LMR)	3,073	2,241	832
Apprenticeships	3,230	2,132	1,098

Progress has been made in improving the College's systems and processes around curriculum planning for 2018-19. The College's curriculum plan is fully linked to the budget setting process ensuring that each Academy's curriculum offering is assessed for financial viability but also that they provide good quality provision to learners.

Management information monitoring and reporting requirements were fully incorporated within the Curriculum Quality Calendar throughout 2017-18 with learner attendance and retention data monitored and managed effectively by staff across College. The benefits of this are seen in the achievement of retention rates which are in excess of the national average. The changes made will have a positive impact on the performance of all College locations.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

Staff and Student Involvement

The College considers good communication with its staff and students to be very important. Regular staff bulletins are posted to the staff intranet and regular briefings, updates and team meetings are undertaken by the Principal and a staff appreciation event was held. The College encourages staff and student involvement through membership of formal committees and representative student councils operate at the Ashington and Kirkley Hall sites. Each year both staff and students are invited to give feedback to the College through satisfaction surveys. The Student Survey results for 2017-18 demonstrate that the high level of overall student satisfaction has been maintained. Throughout 2017-18 Student Association representatives attended a number of College meetings including College Governance meetings. The College remains committed to being an outstanding place to work for all its staff and to maximise recruitment and retention of staff.

Financial Results

The Group generated a deficit in the year of £2,396k (2016-17 deficit: £102k), which includes expenditure of £730k (2016-17: £177k) relating to restructuring costs. In addition an actuarial gain of £850k (2016-17: £947k), relating to the LGPS pension scheme, was posted resulting in the total comprehensive income for the year being £1,540k deficit (2016-17: £845k surplus).

The College has two subsidiaries, Kirkley Hall Limited and Business Solutions Recruitment Services Limited. Kirkley Hall Limited's principal business activity is the provision of various commercial activities which are centred in and around Kirkley Hall. In 2017-18, this company made an operating profit of £63k (2016-17: £76k). Business Solutions Recruitment Services Limited was formed in June 2015 and its principal business activity is the provision of recruitment services to local and regional businesses. During 2017-18 the company made a loss of £8k (2016-17: loss of £3k). A decision has been made to close the subsidiary.

Treasury policies and objectives

Treasury management is the management of the College's cash flows, its banking and money market transactions; the effective control of the risk associated with those activities and the pursuit of optimum performance consistent with those risks.

The College has a separate treasury management policy in place.

The College borrowings have been moved to short term, due to difficulties making repayments. As a result of which, the loan could be called in at any time. All other borrowing requires the authorisation of the Corporation.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

Taxation

The majority of the College's activities do not fall to be charged to Corporation Tax.

Cash flows

There was a £975k net cash outflow from operating activities during 2017-18 (2016-17: inflow £890k). Cash flow continued to deteriorate during the course of the year. The Group incurred capital expenditure of £1,903k (2017: £3,216k), which was predominantly financed by finance leases and capital grants, on continuing to enhance the teaching facilities at the Ashington and Kirkley Hall campuses.

Liquidity

The College has two loans with Northumberland County Council which totalled £8,027k as at 31 July 2018. Short term loans have also increased due to the issues described above. The unsatisfactory trading performance in 2017-18 has resulted in the College's current ratio weakening when compared with the previous year.

Reserves policy

The Group has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities. The Group has a consolidated accumulated income and expenditure reserve account deficit of £3,500k; this includes a pension reserve deficit of £3,800k. The pension reserves deficit decreased by £650k to £3,800k (2016-17 deficit of £4,450k).

Current and Future Development and Performance

Student numbers

In 2017-18 the Group has delivered activity that has produced £14,989k in funding body income (2016-17: £16,036k). The College recruited 1,437 (2016-17: 1,486) 16-18-year-old learners, 2,807 (2016-17: 2,708) adult learners and 1,041 (2016-17: 996) apprentices.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

Curriculum developments

The College makes a significant contribution to improving the life chances of a large number of young people and adult learners many of whom come from significantly diverse backgrounds. This includes a high proportion with low levels of prior attainment and many who face challenges in terms of social and economic deprivation.

The College offers FE courses up to A Level equivalent, with progression opportunities into higher education, including HND, Foundation degree and includes Level 6 courses. It also offers Apprenticeships and Work-Based training in addition to specialist commercial courses to meet the needs of businesses. It caters for full-time and part-time students of all ages from 16 year olds to adults.

In 2017-18, the curriculum developments were limited. In 2018/19, the curriculum is more fully aligned with LEP and the North of the Tyne Devolution agenda. Progression routes have been put in place in STEM related topics to reflect the high level of skill base needed in Engineering and Technology; however, the curriculum is also cognisant of the skills gaps in numeracy, literacy and IT, as identified in the Northumberland Local Plan.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, came into force on 1 November 1998. The College when entering into a contract for the purchase of goods or services, notifies the supplier that the College's payment terms are month end following the month of invoice. During the accounting period 1 August 2017 to 31 July 2018, the College paid 76 per cent of its invoices within this contractual obligation. The College incurred no interest charges in respect of the late payment for this period.

Resources

The College has various resources that it can deploy in pursuit of its strategic objectives. It is currently identifying surplus land for disposal at its Kirkley Hall campus. Any disposal of land will require the approval of Northumberland County Council who has a fixed and floating charge on all College land and buildings.

Financial

The Group has £6,415k of net assets (including £3,800k pension liability) and long term debt of £8,027k.

People

The Group employs 428 people (expressed as full time equivalent) of whom 222 are teaching staff.

REPORT OF THE GOVERNING BODY (continued)

Reputation

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and external relationships.

Events after the end of the reporting period

Following discussions between Northumberland College, Sunderland College and the Further Education Commissioner for the North, it has now been agreed in principle that Northumberland College will merge with Sunderland College.

Staff at Northumberland College will now continue to work in close partnership with colleagues in Sunderland College in anticipation of the formal merger, anticipated to complete on 1 March 2019.

Principal Risks and Uncertainties

The College continues to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation.

The College maintains both strategic and operational risk registers. The College senior leadership team has identified eight key strategic risks, each risk has been assigned to an individual within the senior leadership team who is required to manage and monitor the risk across the year. Strategic risks are reviewed and revised on a regular basis and this is reported to the Audit Committee. The key strategic risks relate to a failure to:

- achieve target student outcomes
- maintain financial sustainability
- develop and evolve an effective business continuity plan
- respond appropriately to the changing external environment
- respond adequately to changes in local transport policy
- engage effectively with key stakeholders
- operate effective HR systems and processes
- provide an IT infrastructure that is fit for purpose for both staff and students
- ensure students and staff are safeguarded effectively
- ensure the College is compliant with all Health and Safety legislation

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

Operational risk registers are held against key functional areas and each area assigned to a member of the College leadership team who is required to manage and monitor the register over the year, amending as and when required.

In order for the College to gain assurance that risks are being managed effectively, the College scores strategic and operational risks both before controls (gross risk) and after controls (net risk).

The gross risk will capture the full potential magnitude of the risk, while the net risk will score the risk to reflect the mitigating actions taken by the College.

Based on the strategic plan, the Senior Leadership Team undertakes a comprehensive regular review of the strategic risks to which the College is exposed and have overall responsibility for the administration, implementation and monitoring of the risk management systems and processes of the College. They co-ordinate the review of the strategic risk register ensuring that systems, procedures and controls which mitigate any potential impact on the College have been identified and that these controls are then implemented and their effectiveness reviewed. In addition to this the Senior Leadership Team also considers any risks which may arise as a result of a new area of work being undertaken by the College.

On a regular basis the Senior Leadership Team reports the strategic risks to the Audit Committee and the Board of Governors where the gross risk is classified as 'medium and above', along with the mitigating actions taken and the net risk score and any progress made.

Outlined below is a description of some of the more material risks that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

1. Failure to respond appropriately to the changing external environment

(a) Government Funding

The College has considerable reliance on continued government funding through the education sector funding bodies and through Office for Students. In 2017-18, 81% of the College's revenue was ultimately public funded and this level of requirement is expected to continue in the short to medium term.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

The College is aware of several issues which may impact on future funding:

- The demand led funding system applied to FE colleges and other providers in respect of adult provision. The funding methodology applies a series of factors such as guided learning hours and success rates to calculate an amount of funding to be received for each learner. Such funding cannot be guaranteed though.
- The government is reviewing its priorities for the adult skills sector to ensure that the UK has the skills needed to compete in the global economy.
- The introduction of the Apprenticeship Levy has significantly changed the relationship between the College and employers and represents both an opportunity and a threat.
- The College is aware of several issues which may impact on future funding, including apprenticeship reforms and the devolution of the adult education budget. The college, in conjunction with its key stakeholders, is developing a strategy for growth in response to the devolution agenda and to the apprenticeships reform. It is recognised that the introduction of the apprenticeship levy has significantly affect the market place.

This risk is mitigated in a number of ways:

- Funding is derived through a number of direct and indirect contractual arrangements.
- By ensuring the College is rigorous in delivering high quality education and training.
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies.
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding.
- Regular dialogue with funding bodies in due course.
- The continuation of the delivery of European Social Fund contracts either as the lead provider or as a partner provider.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

(b) Tuition fee policy

Ministers have confirmed that the fee assumption remains at 50% (this is the percentage of fees which the Government funds Adult courses). In line with the majority of other colleges, the College will increase tuition fees in accordance with the rising fee assumptions. The risk for the College is that demand falls off as fees increase. This will impact on the growth strategy of the College.

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students.
- Close monitoring of the demand for courses as prices change.

The College assists students whom face financial barriers to participation in further education and training by making bursary awards in ways that best fit the needs and circumstances of each student. The bursary awards will cover items such as the costs of transport, meals, books and equipment.

(c) Maintain adequate funding of pension liabilities

During 2017-18, the employers' contribution rate to the Local Government Pension Scheme (LGPS) was 26.8% of pensionable pay due to the impact of the 31 March 2016 actuarial valuation.

As a result of the recent update to the 31 March 2016 actuarial valuation, the pension deficit has decreased from £4,450k to £3,800k. The financial statements report the College's share of the Northumberland County Council LGPS deficit on its balance sheet in line with the requirements of FRS 102.

2. Failure to maintain the financial viability of the College

The College's current health grade is classified as Inadequate due to the deficit outturn. The trading environment of the FE sector is challenging due to a number of factors, which include:

- Falling student numbers due to local demographics
- Continuing constraints on further education funding arising from the ongoing cuts in public sector spending
- Government legislative changes which include the introduction of the Apprenticeship Levy which has resulted in a significant unforeseen decline in the uptake of Apprenticeships by levy paying employers.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

- Rising staff costs due to changes to employer national insurance contribution rates and increases in the College's LGPS employer contribution rate as a consequence of the 31 March 2016 actuarial valuation.

These risks are mitigated in a number of ways:

- By rigorous budget setting procedures and sensitivity analysis
- Regular in year budget monitoring
- Robust financial controls
- Exploring ongoing procurement efficiencies

The merger proposals are also relevant to this issue.

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, Northumberland College has many stakeholders. These include:

- Students;
- Education sector funding bodies;
- FE Commissioner
- Staff;
- Local employers (with specific links);
- Local Authorities;
- Local Enterprise Partnerships (LEPs)
- The local community;
- Other FE institutions;
- Accrediting Universities;
- Trade unions; and
- Professional bodies.

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

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

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.

Relevant union officials

Numbers of employees who were relevant union officials during the relevant period	FTE employee number
2	1.9

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	2
1-50%	0
51-99%	0
100%	0

Percentage of pay bill spent on facility time

Total cost of facility time	£2,010
Total pay bill	£46,249
Percentage of total bill spent on facility time	4.3%

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time	3.2%
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Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

Equality

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion and belief and sex. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis. The College's Equality Policy is published on the College's Intranet site.

The College publishes an Annual Equality Report and Equality Objectives to ensure compliance with all relevant equality legislation including the Equality Act 2010. The College undertakes equality impact assessments on all new policies and procedures and publishes the results. Equality impact assessments are also undertaken for existing policies and procedures on a prioritised basis.

The College is a 'Positive about Disabled' employer and has committed to the principles and objectives of the Positive about Disabled standard. The College considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. 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 which, as far as possible, provide identical opportunities to those of non-disabled employees.

The College has committed to the 'Mindful Employer' initiative to assist the mental health wellbeing of staff. The College has achieved accreditation to the Committed to Equality (C2E) standard at the gold (highest) level. The College has also implemented an updated Equality and Diversity training programme which all staff have attended. Refresher training and training for new starters is carried out on an ongoing basis.

During 2017-18 the Safeguarding and Health and Safety Committees held regular scheduled meetings. This further strengthens the links between those involved in different areas of the College. The committee includes governor representation as well as representation from the wider community to ensure that the focus remains not only within College but also locally, regionally and nationally.

The Prevent Agenda has been incorporated into the College's safeguarding policies and procedures with senior college staff having direct links to regional and national thematic groups. We use dedicated Safeguarding Software which enables us to take a much more detailed approach to the support provided for learners.

Northumberland College Financial Statements for the Year Ended 31 July 2018

REPORT OF THE GOVERNING BODY (continued)

Disability Equality Statement

The College seeks to achieve the objectives set down in the Equality Act 2010:

- a. As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2008-09, and the results of this formed the basis of funding capital projects aimed at improving access.
- b. The College has appointed an Access Co-ordinator, who provides information, advice and arranges support where necessary for students with disabilities.
- c. There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre.
- d. 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.
- e. The College has made a significant investment in the appointment of a specialist team to support students with learning difficulties and/or disabilities and has recently introduced a dedicated Mental Health Team whom work across all campuses and outreach centres. 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.
- f. Specialist programmes are described in College prospectuses and achievements and destinations are recorded and published in the standard College format.
- g. Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Disclosure of information to 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 auditors are aware of that information.

The governors appointed RSM UK Audit LLP as auditors on 21 July 2015.

As noted above our Chair for the period from April 2012 to December 2018 has resigned. The Governors wish to place on record their sincere thanks to Jacqui Henderson CBE for all the work, effort and care that she has given to the College and to wish her all the best for the future. Her presence and standing will be sorely missed.

Approved by order of the Members of the Corporation on 29 January 2019 and signed on its behalf by:



L Tomkins

Chair

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1st August 2017 to 31st July 2018 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. in full accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code"); and
- iii. having due regard to the UK Corporate Governance Code 2018 insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College has adopted and complied with the Code. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the Governors, the College complies with all the provisions of the Code, and it has complied throughout the year ended 31 July 2018. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted on 26th May 2015.

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control (continued)

The Corporation

The members who served on the Corporation during the year and up to the date of signature of this report are as listed in the table below. Attendance figures are for the period 1/8/17 to 31/7/18).

Name	Date of appointment	Terms of office (years)	Date of resignation or retirement	Status of appointment	Committees Served	Attendance
Jacqui Henderson CBE	Appointed Chair of Governors 04.04.2012 Reappointed 03.04.2016 Resigned 20.12.18	8	n/a	Corporation Chair and Remuneration Committee Chair	Remuneration, Search, Curriculum and Quality, Finance and Resources Committees and Director of Business Solutions Recruitment Services Limited	10/10
Lynn Tomkins	Appointed Vice-Chair 22.07.2014 Reappointed 18.07.2017 Appointed Chair of Governors 20.12.18	6	n/a	Corporation Vice-Chair Search Committee Chair	Search and Remuneration Committees and Director of Kirkley Hall Limited.	5/10
Richard Dale	21.02.2012 Reappointed 21.02.2013 Reappointed 19.02.2017	7	n/a	Finance and Resources Committee Chair	Finance and Resources and Remuneration Committees.	8/10
Ros Smith	25.01.2012 Reappointed 25.01.2013 Reappointed 24.01.2017	7	n/a	Audit Committee Chair	Audit and Remuneration Committees.	6/10
Jude Leitch	26.05.2015 Reappointed 17.05.2016	4	n/a	Governor	Audit Committee and Chair/Director of Kirkley Hall Limited	7/10

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control (continued)

Stuart Evans	26.05.2015 Reappointed 17.05.2016	4	31.12.2017	Governor	Audit Committee	2/3
Robert Arckless MBE	01.09.2013 Reappointed 01.09.2014	4	31.08.2017	Safeguarding and Prevent Lead	n/a	0/0
Prof. Peter Strike	01.08.2016 Reappointed 18.07.2017	4	n/a	Governor	Finance and Resources Committee	10/10
Fiona Standfield	01.11.2016 Reappointed 01.11.2017	4	n/a	Governor	n/a	3/10
Kelly Angus	18.07.2017 Reappointed 17.07.2018	4	n/a	Chair of Curriculum and Quality Committee	n/a	6/10
Wayne Daley	18.07.2017 Reappointed 17.07.2018	4	n/a	Governor	n/a	6/10
Charles Enderby	18.07.2017 Reappointed 17.07.2018	4	n/a	Governor	n/a	8/10
Peter Sweeney	01.12.2017	1	n/a	Governor and Safeguarding Lead	Audit Committee	8/8
Marcus Clinton	01.11.2014	Ex Officio	31.03.2018	Principal	Search and Finance and Resources Committees Director of Kirkley Hall Limited and Business Solutions Recruitment Services Limited	4/6
Ian Clinton OBE	01.04.2018	Ex Officio		Interim Principal	Search and Finance and Resources	4/4

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control (continued)

					Committees Director of Kirkley Hall Limited and Business Solutions Recruitment Services Limited	
Paul Emmerson	15.10.2013 Re-elected 14.10.2014 Re-elected 12.07.2017	7	n/a	Staff Governor	Search Committee	9/10
Simon Miles	10.12.2013 Re-elected 10.12.2014 Re-elected 12.07.2017	7	n/a	Staff Governor	Audit Committee	8/10
Corey Donaldson	01.12.2017	1	28.02.2018	Student Governor	n/a	0/2
Craig Hackett	01.12.2017	1	31.07.2018	Student Governor	n/a	0/8

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

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 ten times per annum.

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control (continued)

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 Finance and Resources, Remuneration, Search and Audit. A new Committee, Curriculum and Quality, was established in 2017-18. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at:

Northumberland College

College Road

Ashington

Northumberland

NE63 9RG

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.

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 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 Chairman and Accounting Officer are separate.

All Governors give of their time freely and no remuneration or expenses were paid in the year. No Governor or person connected with a Governor received any benefit from any means tested bursaries.

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control (continued)

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, consisting of four members of the Corporation, which 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 four years but they can be re-appointed for a further period of time.

Corporation performance

The Governing Body reviews its effectiveness via the governance self-assessment process which is undertaken on an annual basis. The process is rigorous, enabling governors to participate in the process and includes an assessment of performance against the values and principal responsibilities set out in the Code. The performance of the Chair of Governors and that of the Committee Chairs and individual Governors are also assessed.

The outcomes from the self-assessment exercise are discussed by the Governing Body and carried forward into the governance improvement plan which concentrates on a few key actions to improve governance over the course of the year. The governance improvement plan is regularly reviewed by the Governing Body and progress against agreed outcomes measured. The process also informs the governor training and development plan which is aimed at addressing the individual development needs of governors.

The Governing Body seeks, where possible, to bench mark its performance and processes against other FE colleges and those of other organisations outside the FE sector.

The Corporation carried out a self assessment of its own performance for the year ended 31 July 2018 and overall graded itself as "Requires Improvement" on the Ofsted scale, but with elements of "Good".

Remuneration Committee

The College's Remuneration Committee comprises four members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other key management personnel.

Details of remuneration for the year ended 31 July 2018 are set out in note 7 to the financial statements.

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control (continued)

Audit Committee

The Audit Committee comprises four members of the Corporation (excluding the Accounting Officer and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets at a minimum three times per annum and provides a forum for reporting by the College's internal, reporting accountants and financial statements 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 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 is responsible for the implementation of agreed audit recommendations and internal audit undertakes periodic follow-up reviews to ensure such recommendations have been implemented.

The Audit Committee also advises the Corporation on the appointment of internal, reporting accountants and financial statements auditors and their remuneration for audit and non-audit work as well as reporting annually to the Corporation.

Finance and Resources Committee

The Finance and Resources Committee comprises up to six members of the Corporation (including the Accounting Officer but excluding members of the Audit Committee). The Committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the corporation on the financial, human resources and estates aspects of College governance.

Search Committee

Whilst the Search Committee is constituted for six members of the Corporation (including the Chair of the Corporation and the Accounting Officer) during the reporting period there were two vacancies. The Committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the corporation on issues relating to the membership of the Corporation including composition, attendance, terms of office, eligibility, code of conduct and register of interests.

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control (continued)

Curriculum and Quality Committee

The Curriculum and Quality Committee comprises six members of the Corporation (including the Chair of the Corporation and the Accounting Officer). The Committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the Corporation on matters relating to curriculum strategy, performance and impact and to monitor standards in teaching and learning.

The Committee will meet four times a year to participate in the annual self-assessment review, consider curriculum design and development and monitor/benchmark the College's performance against that of similar colleges nationally. The Committee is also responsible for maintaining oversight of Ofsted's Common Inspection Framework and QAA.

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 achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between Northumberland College and the funding bodies. He 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 to 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 Northumberland College for the year ended 31 July 2018 and up to the date of approval of the annual report and accounts.

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control (continued)

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 period ending 31 July 2018 and up to the date of approval of the annual report and accounts. This 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.

Northumberland College has an internal audit service, outsourced to Mazars LLP, which operates in accordance with the requirements of the ESFA's *Post 16 Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. At minimum, annually, Mazars LLP provides the governing body with a report on internal audit activity in the College. The report includes Mazars LLP independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes. The report noted that the internal control arrangements were generally adequate and effective, but with fundamental weaknesses in income forecasting.

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 internal auditors

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control (continued)

- 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 auditors, the reporting accountant for regularity assurance, in their management letters and other reports.

The Accounting Officer 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 other sources of assurance, 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 and other sources of assurance, 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. At its December 2018 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2018.

Based on the advice of the Audit Committee and the Accounting Officer, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has, in difficult circumstances, fulfilled its statutory responsibility for *'the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets'*. This responsibility has been taken forward through the merger with Sunderland College.

Northumberland College Financial Statements for the Year Ended 31 July 2018

Statement of Corporate Governance and Internal Control (continued)

Going concern

The Governors assess whether the use of going concern is appropriate, i.e. whether there are any material uncertainties related to events or conditions that may cast significant doubt on the ability of the college to continue as a going concern.

The Governors have received cash flow forecasts to 31 July 2019, which show that the Group does not have sufficient funds available to meet their liabilities as they fall due. The loans due to Northumberland County Council are disclosed as due within one year and there are ongoing discussions with the Council regarding its repayment. In addition, the Governors are working with the ESFA to transfer the College activities, assets and liabilities to 'Sunderland College' on 1 March 2019.

For these reasons, the financial statements are prepared on a basis other than going concern.

Approved by order of the members of the Corporation on 29 January 2019 and signed on its behalf by:



L Tomkins

Chair



I Clinton

Accounting Officer

Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding

The Corporation has considered its responsibility to notify the Education and Skills Funding Agency of material irregularity, impropriety and non-compliance with Education and Skills Funding Agency terms and conditions of funding, under the financial memorandum/funding agreement in place between the College and the Education and Skills Funding Agency. As part of our consideration we have had due regard to the requirements of the financial memorandum/funding agreement.

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

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 Education and Skills Funding Agency.



Ian Clinton
Accounting Officer
29th January 2019



Lynn Tomkins
Chair of Governors
29th January 2019

Statement of Responsibilities of the Members of the Corporation

The members of the Corporation, who act as trustees for the charitable activities of the College, are required to present audited financial statements for each financial year.

The law applicable to charities in England and the terms and conditions of the Financial Memorandum between the Education and Skills Funding Agency and the Corporation of the College, requires the corporation of the college to prepare financial statements and the Operating and Financial Review for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions, the annual Accounts Direction issued by the Education and Skills Funding Agency, and in accordance with FRS102 and which give a true and fair view of the state of affairs of the College and of the College's 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
- 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 college.

The corporation is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the college and which enable it to ensure that the financial statements are prepared in accordance with 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 the college's 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 ESFA are used only in accordance with ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time. Members of the corporation must ensure that there are appropriate financial and management controls in place 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 college's resources and expenditure so that the benefits that should be derived from the application of public funds from ESFA are not put at risk.

Approved by order of the members of the Corporation on 29 January 2019 and signed on its behalf by:



L Tomkins

Chair

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF NORTHUMBERLAND COLLEGE

Opinion

We have audited the financial statements of Northumberland College (the "College") and its subsidiaries (the "Group") for the year ended 31 July 2018 which comprise the consolidated and college statements of comprehensive income, the consolidated and college balance sheets, the consolidated and college statements of changes in reserves, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards, including FRS 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 Group's and of the College's affairs as at 31 July 2018 and of the Group's and the College's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

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 group and 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.

Emphasis of matter non – going concern basis

In forming our opinion on the financial statements which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements. As described in note 1, the College intends to transfer its activities, assets and liabilities to Sunderland College. The financial statements for the period ended 31 July 2018 have been drawn up on a basis other than that of going concern.

Other information

The other information comprises the information included in the Report and Financial Statements other than the financial statements and our auditor's report thereon. The governors are responsible

for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 where the Post-16 Audit Code of Practice 2017 to 2018 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;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations required for our audit.

Responsibilities of the Corporation of Northumberland College

As explained more fully in the Statement of the Corporation's Responsibilities set out on pages 32 to 33, the Corporation is responsible for the preparation of 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 Group's and 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 intend to liquidate the Group or the College or to cease operations, or have no realistic alternative but to do so.

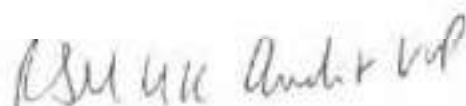
Auditor's responsibilities for the audit of the financial statements

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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://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 Funding Agreement published by the Education and Skills Funding Agency and our engagement letter dated 20 July 2017. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are engaged 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 Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.



RSM UK AUDIT LLP

Chartered Accountants

1 St James' Gate

Newcastle Upon Tyne

NE1 4AD



Consolidated and College Statements of Comprehensive Income

	Notes	2018		2017	
		Group	College	Group	College
		£'000	£'000	£'000	£'000
INCOME					
Funding body grants	3	14,989	14,987	16,038	16,033
Tuition fees and education contracts	4	2,647	2,647	2,379	2,379
Other income	5	2,671	1,428	2,750	1,576
Investment income	6	2	2	7	7
Total income		20,309	19,064	21,174	19,995
EXPENDITURE					
Staff costs	7	13,729	12,869	12,396	11,617
Fundamental restructuring costs	7	730	730	177	177
Other operating expenses	8	6,848	6,535	7,372	7,060
Depreciation	11	1,223	1,208	1,003	989
Interest and other finance costs	9	478	478	329	329
Total expenditure		23,008	21,820	21,277	20,172
(Deficit) before other gains and losses		(2,699)	(2,757)	(103)	(177)
Gain/(loss) on disposal of assets		303	303	1	1
(Deficit) before tax		(2,396)	(2,454)	(102)	(176)
Taxation	10	0	0	0	0
(Deficit) for the year		(2,396)	(2,454)	(102)	(176)
Remeasurement of net defined benefit pension liability	24	850	850	947	947
Total Comprehensive Income for the year		(1,546)	(1,604)	845	771

Consolidated and College Statement of Changes in Reserves

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Group			
Balance at 1 st August 2015	(3,195)	10,311	7,116
Deficit from the income and expenditure account	(102)	-	(102)
Other comprehensive income	947	-	947
Transfers between revaluation and income and expenditure reserves	198	(198)	0
Total comprehensive income for the year	1,043	(198)	845
Balance at 31 July 2017	(2,152)	10,113	7,961
College			
Balance at 1 st August 2016	(3,381)	10,311	6,930
Deficit from the income and expenditure account	(176)	-	(176)
Other comprehensive income	947	-	947
Transfers between revaluation and income and expenditure reserves	198	(198)	0
Total comprehensive income for the year	969	(198)	771
Balance at 31 July 2017	(2,412)	10,113	7,701
	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Group			
Balance at 1 st August 2017	(2,152)	10,113	7,961
Deficit from the income and expenditure account	(2,396)	-	(2,396)
Other comprehensive income	850	-	850
Transfers between revaluation and income and expenditure reserves	198	(198)	0
Total comprehensive income for the year	(1,348)	(198)	(1,546)
Balance at 31 July 2018	(3,500)	9,915	6,415

	£'000	£'000	£'000
College			
Balance at 1 st August 2017	(2,412)	10,113	7,701
Deficit from the income and expenditure account	(2,454)	-	(2,454)
Other comprehensive income	850	-	850
Transfers between revaluation and income and expenditure reserves	198	(198)	0
Total comprehensive income for the year	<u>(1,406)</u>	<u>(198)</u>	<u>(1,604)</u>
Balance at 31 July 2018	<u>(3,818)</u>	<u>9,915</u>	<u>6,097</u>

Consolidated and College Balance Sheets as at 31 July

	Notes	Group	College	Group	College
		2018		2017	
		£'000	£'000	£'000	£'000
Non current assets					
Tangible Fixed assets	11	<u>27,000</u>	<u>26,954</u>	<u>26,323</u>	<u>26,283</u>
		27,000	26,954	26,323	26,283
Current assets					
Stocks		214	199	212	196
Trade and other receivables	13	1,175	1,003	1,923	1,804
Cash and cash equivalents	18	<u>455</u>	<u>278</u>	<u>2,059</u>	<u>1,807</u>
		1,844	1,478	4,194	3,807
Less: Creditors – amounts falling due within one year	14	<u>(11,505)</u>	<u>(11,411)</u>	<u>(4,295)</u>	<u>(4,128)</u>
Net current (liabilities)		(9,661)	(9,933)	(101)	(321)
Total assets less current liabilities		17,339	17,021	26,222	25,962
Creditors – amounts falling due after more than one year	15	<u>(6,837)</u>	<u>(6,837)</u>	<u>(13,519)</u>	<u>(13,519)</u>
Provisions					
Defined benefit obligations	17	<u>(3,800)</u>	<u>(3,800)</u>	<u>(4,450)</u>	<u>(4,450)</u>
Other provisions	17	<u>(287)</u>	<u>(287)</u>	<u>(292)</u>	<u>(292)</u>
Total net assets		6,415	6,097	7,961	7,701
Unrestricted Reserves					
Income and expenditure account		<u>(3,500)</u>	<u>(3,818)</u>	<u>(2,152)</u>	<u>(2,412)</u>
Revaluation reserve		<u>9,915</u>	<u>9,915</u>	<u>10,113</u>	<u>10,113</u>
Total unrestricted reserves		6,415	6,097	7,961	7,701

The financial statements on pages 35 to 71 were approved and authorised for issue by the Corporation on 29 January 2019 and were signed on its behalf on that date by



L Tomkins
Chair



I Clinton
Accounting Officer

Consolidated Statement of Cash Flows

	Notes	2018 £'000	2017 £'000
Cash flow from operating activities			
(Deficit) for the year		(2,395)	(103)
Adjustment for non-cash items			
Depreciation		1,223	1,003
(Increase) in stocks		(3)	(26)
(Increase) in debtors		1,051	(1,330)
Increase/(decrease) in creditors due within one year		(619)	1,240
(Decrease) in creditors due after one year		(499)	(200)
(Decrease) in provisions	17	(5)	(16)
Pensions costs less contributions payable		200	120
Adjustment for investing or financing activities			
Investment income		(2)	(7)
Interest payable		376	209
(Surplus) on sale of fixed assets		(303)	(1)
Net cash flow from operating activities		<u>(975)</u>	<u>890</u>
Cash flows from investing activities			
Capital grants received		664	1,625
Investment income		2	7
Payments made to acquire fixed assets		<u>(908)</u>	<u>(2,717)</u>
Net cash flow from investing activities		<u>(242)</u>	<u>(1,085)</u>
Cash flows from financing activities			
Interest Paid		(34)	(140)
Repayments of amounts borrowed		<u>(353)</u>	<u>(351)</u>
Net cashflow from financial activities		<u>(387)</u>	<u>(491)</u>
(Decrease) in cash and cash equivalents in the year		<u><u>(1,604)</u></u>	<u><u>(686)</u></u>
Cash and cash equivalents at beginning of the year	18	2,059	2,745
Cash and cash equivalents at end of the year	18	<u>455</u>	<u>2,059</u>
Movement in cash equivalents		<u><u>(1,604)</u></u>	<u><u>(686)</u></u>

Notes to the Accounts

1. Statement of accounting policies and estimation techniques

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

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2017 to 2018* and in accordance with Financial Reporting Standard 102 – *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland* (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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.

General Information

Northumberland College is a corporation established under the Further and Higher Education Act 1992 as an English general college of further education. The address of the College's principal place of business is given on page 22. The nature of the College's operations are set out in the Report to the Governing Body.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the use of previous valuations as deemed cost at transition for certain non-current assets. The financial statements are presented in Sterling which is also the functional currency of the College. Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, Kirkley Hall Limited and Business Solutions Recruitment Services Limited, controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain

benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. All financial statements are made up to 31 July 2018.

Going concern

The Governors assess whether the use of going concern is appropriate, i.e. whether there are any material uncertainties related to events or conditions that may cast significant doubt on the ability of the college to continue as a going concern.

The Governors have received cash flow forecasts to 31 July 2019, which show that the Group does not have sufficient funds available to meet their liabilities as they fall due. The loans due to Northumberland County Council are disclosed as due within one year and there are ongoing discussions with the Council, regarding its repayment. In addition, the Governors are working with the ESFA to transfer the College activities, assets and liabilities to 'Sunderland College' on 1 March 2019.

For these reasons, the financial statements are prepared on a basis other than going concern.

The assets and liabilities will be transferred as part of the transaction at their carrying value. No material adjustment arose as a result of ceasing to apply the going concern basis.

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 Education Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. 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 HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the Statement of Comprehensive Income.

Where part of a government grant is deferred, the deferred element is recognised as deferred income within creditors and allocated between creditors due within one year and creditors due after more than one year as appropriate.

Grants (including research 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 accrued to the income and expenditure account 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 income statement 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 interest and other finance costs.

Actuarial gains and losses are recognised immediately in actuarial gains and losses.

Short term Employment benefits

Short term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

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. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Land and buildings

Freehold land is not depreciated as it is considered to have an infinite useful life.

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

Where land and buildings are acquired with the aid of specific government 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 income and expenditure account 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.

On adoption of FRS 102 in 2015-16, the College followed the transitional provision to retain the book value of most land and buildings, which were revalued in 1993, as deemed cost but not to adopt a policy of revaluations of these properties in the future. The College did however revalue the surplus land at Kirkley Hall and this produced a revaluation surplus of £1.2m.

Assets under construction

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July. They are not depreciated until they are brought into use.

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:

- | | |
|------------------------------------|----------|
| • computer equipment | 4 years |
| • furniture, fixtures and fittings | 12 years |

Herd and flock

The herd and flock included in fixed assets are included at fair value.

Borrowing costs

Borrowing costs are recognised as expenditure in the period in which they are incurred.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income. Any lease premiums or incentives relating to leases signed after 1st August 2014 are spread over the minimum lease term. The College has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1st August 2014.

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as finance leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Investments

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

Inventories

Inventories are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective items.

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.

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

Financial liabilities and equity

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 Group 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 Group 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 only recover around 3% 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.

The College's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

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. 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.

2. Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the group'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, other than investment properties, 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 24, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

3. Funding body grants

	2018		2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Recurrent grants				
Education and Skills Funding Agency - 16-18 (excl apprenticeships)	7,866	7,864	8,034	8,034
Education and Skills Funding Agency - adult	2,157	2,157	2,310	2,310
Education and Skills Funding Agency - apprenticeships	2,132	2,132	1,894	1,894
Education and Skills Funding Agency - ESF	2,153	2,153	2,523	2,523
Releases of government capital grants	92	92	86	86
Other ESFA income	30	30	517	512
Higher Education Funding Council	318	318	321	321
Franchised	42	42	72	72
HE grant	9	9	20	20
Local authorities and Schools	190	190	261	261
Total	14,989	14,987	16,038	16,033

4. Tuition fees and education contracts

	2018		2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Advanced level courses designated for FE Loans	722	722	849	849
SFA funded provision - Adult Skills	59	59	74	74
Full cost provision	344	344	424	424
Higher education courses designated for HE Loans	1,522	1,522	1,032	1,032
Total tuition fees	2,647	2,647	2,379	2,379
Total	2,647	2,647	2,379	2,379

5. Other income

	2018		2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	196	196	171	171
Other income generating activities	1,628	385	1,558	384
Release of non-government capital grants	56	56	34	34
Examination fee income	34	34	43	43
Farming activities	190	190	180	180
Other income	567	567	764	764
Total	2,671	1,428	2,750	1,576

6. Investment income

	2018		2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other interest receivable	2	2	7	7

7. Staff costs – Group and College

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

	2018		2017	
	Group	College	Group	College
	No.	No.	No.	No.
Teaching staff	222	221	214	214
Non-teaching staff	206	173	152	116
	<u>428</u>	<u>394</u>	<u>366</u>	<u>330</u>
Staff costs for the above persons	£'000	£'000	£'000	£'000
Wages and salaries	10,329	9,491	9,554	8,881
Social security costs	837	791	790	737
Other pension costs	1,948	1,972	1,709	1,656
Payroll sub total	13,114	12,254	12,053	11,274
Contracted out staffing services	615	615	343	343
	<u>13,729</u>	<u>12,869</u>	<u>12,396</u>	<u>11,617</u>
Fundamental restructuring costs – Contractual	730	730	177	177
Total Staff costs	14,459	13,599	12,573	11,794

Emoluments of Key management personnel, Principal, CEO and Accounting Officer and other higher paid staff

	2018	2017
	No.	No.
The number of key management personnel including the Principal, CEO and Accounting Officer was:	7	4

	Key management personnel		Other staff	
	2018	2017	2018	2017
	No.	No.	No.	No.
£70,001 to £80,000 p.a.	3	2	0	0
£80,001 to £90,000 p.a.	1	1	0	0
£100,001 to £110,000 p.a.	2	0	0	0
£120,001 to £130,000 p.a.	0	1	0	0
£130,001 to £140,000 p.a.	1	0	0	0
	<u>7</u>	<u>4</u>	<u>0</u>	<u>0</u>

Key management personnel emoluments are made up as follows:

	2018	2017
	£'000	£'000
Salaries	375	308
Benefits in kind	0	0
Employers NI	<u>42</u>	<u>38</u>
	417	346
Pension contributions	<u>59</u>	<u>53</u>
Total emoluments	<u>476</u>	<u>399</u>

There were no amounts due to key management personnel that were waived in year, nor any salary arrangements in place.

One individual included in the key management personnel received £20k for compensation of loss of office. The payment was approved by the Board.

The above emoluments include amounts payable to the Principal, CEO and Accounting Officer (who is the highest paid officer).

There were two Principals employed in the year ending 31 July 18. The details of the Principal's emoluments are as follows:-

Principal from Aug 17 to April 18

	2018	2017
	£'000	£'000
Salaries	76	110
Benefits in kind	0	0
Employers NI	7	14
	<u>83</u>	<u>124</u>
Pension contributions	<u>12</u>	<u>16</u>

Principal from April 18 to July 18

	2018	2017
	£'000	£'000
Salaries	39	0
Benefits in kind	0	0
Employers NI	5	0
	<u>44</u>	<u>0</u>
Pension contributions	<u>0</u>	<u>0</u>

The pension contributions in respect of the Principal, CEO and Accounting Officer and senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme and the Local Government Pension Scheme and are paid at the same rate as for other employees.

The members of the Corporation other than the Principal, CEO and Accounting Officer and the staff members did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. No governors were reimbursed expenses during the year (2016-7: £0).

8. Other operating expenses

	2018		2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	3,487	3,487	3,587	3,592
Non-teaching costs	1,941	1,629	2,457	2,149
Premises costs	1,420	1,419	1,328	1,328
Total	<u>6,848</u>	<u>6,535</u>	<u>7,372</u>	<u>7,069</u>

Other operating expenses include:

Auditors' remuneration:

Financial statements audit*	25	24	25	24
Internal audit**	26	26	26	26
Other services provided by the financial statements auditor:				
TPS Pension Audit	1	1	1	1
Taxation compliance	2	-	2	-
Hire of assets under operating leases	244	244	246	246
Gain/(loss) on disposal of assets	303	303	1	1

* includes £24,000 in respect of the College (2016-17: £24,000)

** includes £25,727 in respect of the College (2016-17: £25,727)

9. Interest and other finance costs

Group and College

	2018	2017
	£'000	£'000
On bank loans, overdrafts and other loans	345	209
On finance leases	33	-
Pension finance costs (note 24)	100	120
Total	478	329

10. Taxation

The members believe that College was not liable for any Corporation Tax arising out of its activities during either period.

11. Tangible fixed assets (Group)

	Land and buildings		Equipment	Herd and Flock	Total
	Freehold	Assets in the course of construction			
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 August 2017	29,793	2,278	9,170	250	41,490
Additions	(146)	-	2,049	-	1,901
Transfers	2,061	(2,192)	131		-
At 31 July 2018	31,706	86	11,350	250	43,391
Depreciation					
At 1 August 2017	8,139	-	7,013	16	15,168
Charge for the year	548	-	681	(6)	1,223
At 31 July 2018	8,687	-	7,694	10	16,391
Net book value at 31 July 2018	23,019	86	3,656	240	27,000
Net book value at 31 July 2017	21,654	2,278	2,157	234	26,323

Tangible fixed assets (College only)

	Land and buildings		Equipment	Herd and Flock	Total
	Freehold	Assets in the course of construction			
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 August 2017	29,760	2,278	9,036	251	41,325
Additions	(148)	-	2,026	-	1,878
Transfers	2,061	(2,192)	131	-	-
At 31 July 2018	31,673	86	11,193	251	43,203
Depreciation					
At 1 August 2017	8,111	-	6,915	16	15,042
Charge for the year	545	-	669	(6)	1,208
At 31 July 2018	8,656	-	7,584	10	16,249
Net book value at 31 July 2018	23,018	86	3,609	241	26,954
Net book value at 31 July 2017	21,649	2,278	2,121	235	26,283

The transitional rules set out in FRS 15 Tangible Fixed Assets have been applied accordingly, the book values of implementation have been retained.

Land and buildings were valued for the purpose of the 1993 financial statements at depreciated replacement cost by qualified staff employed by Northumberland County Council. In 1999 the land and buildings of the former Kirkley Hall College were valued at depreciated replacement cost by a firm of independent chartered surveyors. That valuation was brought into the books of Northumberland College following merger with Kirkley Hall College on 1 January 2000. Other tangible fixed assets inherited from the LEA at incorporation have been valued by the Corporation on a depreciated replacement cost basis with the assistance of independent professional advice.

Land and buildings with a net book value of £7,798k have been financed by exchequer funds through for example, the receipt of capital grants. Should these assets be sold, the College may be liable, under the terms of the Finance Memorandum with the Education and Skills Funding Agency, to surrender the proceeds.

If inherited land and buildings had not been valued, they would have been included at a cost and net book value of nil.

Under FRS 102 transitional arrangements, the College in 2015-16 revalued its surplus land at Kirkley Hall and this resulted in a revaluation value of £1.2m.

The net book value of land and buildings includes an amount of £299k (2016-17: £201k) in respect of assets held under finance leases.

The net book value of equipment includes an amount of £1,158k (2016-17: £268k) in respect of assets held under finance leases.

12. Non current investments (College only)

	2017 £'000	2016 £'000
Investments in subsidiary companies	-	-

The College owns 100% of the 1 issued ordinary £1 shares of the following subsidiary companies, both of which are incorporated in England and Wales and have the following principal activities:

Kirkley Hall Ltd	Various commercial activities centred at Kirkley Hall.
Business Solutions Recruitment Services Ltd	Recruitment agency of both temporary and permanent employees for local and regional employers.

13. Trade and Other Receivables

	2018		2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade receivables	335	191	274	165
Amounts owed by group undertakings	-	-	-	(7)
Prepayments and accrued income	840	812	1,849	1,626
Total	1,175	1,003	1,923	1,804

14. Creditors: amounts falling due within one year

	2018		2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Loans and overdrafts	8,027	8,027	358	358
Obligations under finance leases	274	274	114	114
Trade payables	785	740	1,248	1,224
Amounts owed to group undertakings:		138		
Subsidiary undertakings	-	-	-	-
Other taxation and social security	426	343	245	178
Accruals and deferred income	1,781	1,677	1,734	1,657
Deferred income - government capital grants	164	164	166	166
Amounts owed to the ESFA	48	48	430	430
Total	<u>11,505</u>	<u>11,411</u>	<u>4,295</u>	<u>4,128</u>

15. Creditors: amounts falling due after one year

	2018		2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Loans	-	-	7,669	7,669
Obligations under finance leases	863	863	385	385
Deferred income - government capital grants	5,974	5,974	5,465	5,465
Total	<u>6,837</u>	<u>6,837</u>	<u>13,519</u>	<u>13,519</u>

15. Maturity of debt

Loans

Loans are repayable as follows:

	2018		2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
In one year or less	8,027	8,027	358	358
Between one and two years	-	-	365	365
Between two and five years	-	-	1,141	1,141
In five years or more	-	-	6,163	6,163
Total	8,027	8,027	8,027	8,027

The College has two loans with Northumberland County Council which are both secured on a portion of the freehold land and buildings of the College.

A loan of £3.0m, repayable by instalments falling due between 1 August 2011 and 31 August 2025, attracts an interest rate of 3.72% and the amount outstanding on this loan at 31 July 2018 is £1,852k.

A loan of £6.5m, repayable by instalments falling due between 31 March 2015 and 31 March 2055, attracts an interest rate of 4.55% and the amount outstanding on this loan as at 31 July 2018 is £6,175k.

Finance leases

The net finance lease obligations to which the institution is committed are:

	2018		2017	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
In one year or less	274	274	114	114
Between two and five years	761	760	320	320
In five years or more	102	103	63	63
Total	1,137	1,137	497	497

17. Provisions

Group and College

	Defined benefit obligations	Enhanced pensions	Total
	£'000	£'000	£'000
At 1 August 2017	4,450	292	4,742
Expenditure in the period	(1,300)	(21)	(1,321)
Additions in period	650	16	666
At 31 July 2018	<u>3,800</u>	<u>287</u>	<u>4,087</u>

18. Cash and cash equivalents

	Group		
	As at 1 August 2017	Cash flows	As at 31 July 2018
	£'000	£'000	£'000
Cash and cash equivalents	2,059	(1,604)	455
Overdrafts	-	-	-
Total	<u>2,059</u>	<u>(1,604)</u>	<u>455</u>

	College		
	As at 1 August 2017	Cash flows	As at 31 July 2018
	£'000	£'000	£'000
Cash and cash equivalents	1,807	(1,531)	276
Overdrafts	-	-	-
Total	<u>1,807</u>	<u>(1,531)</u>	<u>276</u>

19. Capital and other commitments

	2018	2017
	Group and College	Group and College
	£'000	£'000
Commitments contracted for at 31 July	<u>-</u>	<u>1,181</u>

20. Lease obligations

At 31 July the College had minimum lease payments under non-cancellable operating leases as follows:

	2018	2017
	Group and College	Group and College
	£'000	£'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	106	104
Later than one year and not later than five years	344	303
Later than five years	<u>319</u>	<u>93</u>
	<u>769</u>	<u>500</u>
Other		
Not later than one year	80	70
Later than one year and not later than five years	145	165
Later than five years	<u>-</u>	<u>28</u>
	<u>225</u>	<u>263</u>

21. Contingent liabilities

There are no contingent liabilities.

22. Events after the reporting period

On 6 September 2018 the Corporation agreed in principle that the College should merge with Sunderland College. It is currently anticipated that this will be completed on 1 March 2019.

23. Financial Instruments

The carrying amount of the Group's financial instruments at 31 July were:

	2018	2017
	Group	Group
	£'000	£'000
Financial Assets		
Debt instruments measured at amortised costs	912	1,517
	<u>912</u>	<u>1,517</u>
Financial liabilities		
Measured at amortised cost	4,162	3,827
Loan commitments	8,027	8,027
	<u>12,189</u>	<u>11,854</u>

24. Retirement benefits

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 is managed by Northumberland County Council. Both are multi-employer defined-benefit schemes.

Total pension cost for the year	2018	2017
	£000	£000
Teachers' Pension Scheme: contributions paid	648	629
Local Government Pension Scheme:		
Contributions paid	1,400	1,080
FRS 102 Credit	(100)	-
Charge to the Statement of Comprehensive Income	<u>1,300</u>	<u>1,080</u>
Total pension cost for year within staff costs (note 7)	<u>1,948</u>	<u>1,709</u>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2016.

Contributions amounting to £207k (2016-17: £203k) were payable to the scheme at 31st July 2018 and are included within creditors.

Teachers' Pension Scheme

Valuation of the Teachers' Pension Scheme

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the Teachers' Pension Scheme (TPS). The aim of the review is to specify the level of future contributions. Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors.

The TPS is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pensions Regulations 2014.

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.

Valuation of the Teachers' Pension Scheme

The latest actuarial review of the TPS was carried out as at 31 March 2012 and in accordance with The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. The valuation report was published by the Department for Education (the Department) on 9 June 2014. The key results of the valuation are:

- New employer contribution rates were set at 18.48% of pensionable pay (including administration fees of 0.08%), increasing from 14.1% on 1 September 2015;
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay;
- Assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings;
- Rate of real earnings growth is assumed to be 2.75%;
- Assumed nominal rate of return is 5.06%.

The new employer contribution rate for the TPS was implemented in September 2015.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:

<https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx>

The pension costs paid to TPS in the year amounted to £648k (2016-17: £629k).

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Northumberland County Council. The total contributions made for the year ended 31 July 2018 were £1,563k of which employer's contributions totalled £1,300k and employees' contributions totalled £263k. The agreed contribution rates for future years are 26.8% for employers and range from 5.5% to 12.5% for employees, depending on salary.

The current valuation does not reflect the expected increase in benefits and therefore liability as a result of Guaranteed Minimum Pension ('GMP') equalisation between men and women which is required as a result of the removal of the Additional State Pension. Methodologies for a long-term solution are still being investigated by the Government as set out in the published (January 2018) outcome of the Government Consultation 'Indexation and Equalisation of GMP in Public Sector Pensions Schemes' and therefore the expected impact cannot be reliably estimated and consequently no provision/liability has been recognised.

Deficit contributions

The College has entered into an agreement with the LGPS to make additional contributions of £9,317 per month for the period 1st August 2017 to 31st March 2018 and £13,917 per month for the period 1st April 2018 to 31st March 2019 in addition to normal funding levels until the next full valuation, at which point the situation will be reviewed again.

Principal Actuarial Assumptions

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

	2018	2017
Rate of increase in salaries	3.6%	2.5%
Future pensions increases	2.1%	2.0%
Discount rate for scheme liabilities	2.8%	2.6%
Inflation assumption (CPI)	2.1%	2.0%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	2018	2017
	years	Years
<i>Retiring today</i>		
Males	22.9	22.8
Females	25.0	24.9
<i>Retiring in 20 years</i>		
Males	25.1	25.0
Females	27.3	27.2

	Fair Value at 31 July 2018	Fair Value at 31 July 2017
	£'000	£'000
Equities	16,598	14,799
Government bonds	4,543	3,760
Corporate bonds	1,847	1,893
Property	998	880
Cash	-	22
Other	974	836
Total fair value of plan assets	24,960	21,990
Actual return of plan assets	1,900	1,220

The adoption of FRS102 removes the requirement to recognise an expected return on assets item in the profit and loss charge. This item is replaced with a net financing charge which is based on the discount rate assumption.

The amount included in the balance sheet in respect of the defined benefit pension plan is as follows:

	2018	2017
	£'000	£'000
Fair value of plan assets	24,960	21,990
Present value of defined benefit obligation	<u>(28,760)</u>	<u>(25,440)</u>
Net pensions liability	<u>(3,800)</u>	<u>(4,450)</u>

Amounts recognised in the Statement of Comprehensive Income in respect of the plan

	2018	2017
	£'000	£'000
Amounts included in staff costs		
Current service cost	1,390	1,080
Past service cost	<u>10</u>	<u>-</u>
Total	<u>1,400</u>	<u>1,080</u>

Financing cost

Interest on net defined benefit obligation	<u>100</u>	<u>120</u>
	<u>100</u>	<u>120</u>

Amount recognised in Other Comprehensive Income

Asset gains arising during the period	1,310	710
Liability (losses) arising during the period	<u>(460)</u>	<u>400</u>
Actuarial loss arising on enhanced pension	<u>-</u>	<u>(163)</u>
Amount recognised in Other Comprehensive Income	<u>850</u>	<u>947</u>

Movement in net defined benefit obligation during year

	2018	2017
	£'000	£'000
Net defined benefit obligation in scheme at 1 August	(4,450)	(5,440)
Movement in year:		
Current service cost	(1,390)	(1,080)
Employer contributions	1,300	1,080
Past service cost	(10)	-
Net interest on the defined (liability)	(100)	(120)
Actuarial gain or loss	850	1,110
Net defined benefit obligation at 31 July	(3,800)	(4,450)

Asset and Liability Reconciliation

	2018
	£'000
Changes in the present value of defined benefit obligations	
Defined benefit obligations at start of period	26,440
Current service cost	1,390
Interest cost on defined benefit obligation	690
Contributions by Scheme participants	280
Actuarial gains/(losses) on liabilities	460
Net benefits paid	(490)
Past Service cost	10
Curtailments and settlements	-
Defined benefit obligations at end of period	28,760

Changes in fair value of plan assets

	2018
	£'000
Fair value of plan assets at start of period	21,990
Interest income on assets	590
Re-measurement gains/(losses) on assets	1,310
Contributions by the employer	1,300
Contributions by Scheme participants	260
Net benefits paid	<u>(490)</u>
Fair value of plan assets at end of period	<u>24,960</u>

25. Related party transaction

Owing 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, it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

The total expenses paid to or on behalf of the Governors during the year was £nil (2016-17: £nil).

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2016-17: £nil).

One Governor (W Daley) is a senior councillor of Northumberland County Council (NCC) and one Governor (K Angus) is a senior staff member at NCC. Details of transactions with Northumberland County Council are shown below.

One Governor (R Smith) is a director of Northumberland Business Service Limited (NBSL), one of the College's delivery partners on the £7.4m European Social Fund (ESF) – Improving the Labour Market Relevance of Education and Training Systems contract. Details of the transactions with NBSL are shown below.

The former Principal was a Director of Landex and a member of the British Horse Society. Details of the transactions with Landex and the British Horse Society are shown below.

Nature of transaction / relationship	(Income)/ Expenditure		Debtor / (Creditor)	
	2018	2017	2018	2017
	£,000	£,000	£,000	£,000
Northumberland County Council				
Secured Loan (note 15)	345	209	(8,027)	(8,027)
LEAP funding	(190)	(261)	9	68
High Needs funding	(97)	(71)	-	-
Rates	65	72	-	-
Rental of premises	27	27	(8)	(8)
Datalinks	47	-	-	-
NBSL				
ESF Partner Payments	189	363	(4)	(267)
Landex				
Membership Fee	7	3	-	-
British Horse Society				
Centre approval	-	1	-	-

26. Post Balance Sheet Events

Following discussions between Northumberland College, Sunderland College and the Further Education Commissioner for the North, it has now been agreed in principle that Northumberland College will merge with Sunderland College.

Staff at Northumberland College will now continue to work in close partnership with colleagues in Sunderland College in anticipation of the formal merger, anticipated to complete on 1 March 2019.

27. Amounts disbursed as agent

	2018	2017
	£'000	£'000
Funding body grants – bursary support	151	177
Funding body grants – discretionary learner support	250	257
Funding body grants – residential bursaries	113	129
	<u>514</u>	<u>563</u>
Disbursed to students	(423)	(393)
Administration costs	(19)	(19)
	<u>72</u>	<u>151</u>
Balance unspent as at 31 July, included in creditors		

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the Statement of Comprehensive Income.