

NORTHUMBERLAND COLLEGE

**Consolidated Report
and
Financial Statements
for the year ended
31 July 2017**

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 2016-2017:

Marcus Clinton	Principal and CEO; Accounting Officer
Carol Welch	Director of Finance, ICT and Data
Trina Beaumont	Vice Principal Employer, Enterprise and Commercial Services
Louise Kinghorn	Vice Principal Quality, Learning & Outcomes

Board of Governors

A full list of Governors is given on page 24-26 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

Bankers:

Barclay's Bank
5 St Ann's Street
Newcastle upon Tyne NE1 3DX

Solicitors:

Sintons
The Cube
Barrack Rd
Newcastle upon Tyne NE4 8DB

Northumberland College Financial Statements for the Year Ended 31 July 2017

Contents

Report of the Governing Body	1-22
Statement of Corporate Governance and Internal Control	23-31
Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding	32
Statement of the Responsibilities of the Members of the Corporation	33-34
Independent Auditor's Report to the Corporation of Northumberland College	35-37
Consolidated and College Statement of Comprehensive Income	38
Consolidated and College Statement of Changes in Reserves	39
Consolidated and College Balance Sheets	40
Consolidated Statement of Cash flows	41
Notes to the Accounts	42-64

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 2017.

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.

Mission

The College's mission as approved by its members is:

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

With the vision of:

- *To be an exceptional college and the place of choice that embraces enterprise, innovation and creativity and employability skills for the success of all our students*

Public Benefit

Northumberland College is an exempt charity under Part 3 of the Charities Act 2011 and, following the machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The 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 24-26.

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 50 years. The College runs its courses from a number of campuses and centres which include Ashington (main campus) and Kirkley Hall (land based industries hub).

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.

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. Excellent 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 at the heart of our agenda, 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.

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.

In delivering its mission, the College provides the following identifiable public benefits through the advancement of education:

- High quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce
- Efficient delivery maximising the return to the public purse
- Links with Local Enterprise Partnerships (LEPs)

The Report of the Governing Body details further the mechanisms used by the College to demonstrate its public benefit ethos.

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.

Implementation of Strategic Plan

In July 2016 the College adopted a new three-year strategic plan which covers the period from 1 August 2016 to 31 July 2019. The achievement of the College's mission and vision is underpinned by 8 Key Strategic Aims each with a series of objectives, and directly leading into the Strategic Risk Register.

The Corporation monitors the performance of the College against its Key Strategic Aims and associated objectives at regular intervals. The College's Strategic Aims are as follows:

1 Prepare our Students for Work

There is a need to ensure our students have a complete study programme ensuring they develop the vocational and employability skills that employers demand.

Northumberland College Financial Statements for the Year Ended 31 July 2017
REPORT OF THE GOVERNING BODY (continued)

2 Curriculum and specialisation development

There is a need to ensure our curriculum delivery is highly efficient encompassing innovative use of technology and curriculum design. There is a need to ensure our curriculum offer is current with pathways through to existing and future jobs. There is a need for specialisation.

3 Sustainability

There is a need to ensure the College is sustainable for the foreseeable future and can continue to grow income and control costs.

4 Investment

There is a need to invest in the College to secure the specialist resource that existing and emerging curriculum requires. To create a series of highly efficient and modern learning centres.

5 Outstanding

It is the intention of the College to become an outstanding provider. All strategic areas will contribute to this.

6 Environment and student experience

There is a need to 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 highly flexible and utilising technology to be as effective as possible.

7 Working with Employers

The College must ensure it is highly responsive, flexible and understanding of employers needs with high levels of employer engagement and high quality apprenticeship and bespoke training.

8 Leadership

Inspiring and highly effective leadership is pivotal to the College achieving its aims.

At the end of year one of the 2016 – 2019 Strategic Plan, the College remains a vibrant and thriving place to study and is performing well. For example, it has

- Maintained a positive health grade and has returned positive operating cash flows over a number of years which allow it to continuously invest in its infrastructure and resources.
- secured significant financial support for a major capital investment to the College estate.
- Maintained good success rates and improved Mathematics and English rates with Mathematics being above the national rates.

REPORT OF THE GOVERNING BODY (continued)

- collaborated on a variety of projects with schools and other organisations.
- developed good quality provision with a Grade 2 'Good' Ofsted inspection outcome in all aspects in May 2017.
- increased learner recruitment particularly HE, Adult and Leisure Learning programmes.
- Modernised the curriculum offer across the college including new areas of science, creative digital media, programming, robotics and mechatronics.
- Undertaken a comprehensive curriculum review to ensure the best practice from the sector is being considered and implemented and enhancing the learning pedagogy of the college.

Financial Objectives

The College's financial objectives are captured within the Sustainability and Investment Key Strategic Aims and the College's business plan is built up around these objectives.

The College's focus during 2016-2017 has been to:

- Achieve a financial surplus
- Maintain cash solvency position
- Strengthening of College reserves
- Maintain a positive health grade
- Reduce the over reliance on income from public funds
- Invest to improve the student experience, provide specialist resources and resources that also generate non funded income

Key Performance Indicator	Measure / Target 2016-2017	Actual for 2016-2017
EBITDA as % of income – standard	8.32%	5.8%
EBITDA – standard (£000)	1,810	1,228
Staff costs as % of income	58%	59%
Cash days in hand/liquidity (adjusted current ratio)	1.07	1.08
Borrowing as % of income	40	38
Reliance on ESFA income (%)	67	74
Financial Health Score	170 Satisfactory	150 Satisfactory

Achievement of these objectives is described in the commentary on the Financial Results on page 5.

The College is committed to observing the importance of sector measures and uses the FE Choices data available on the Gov.uk website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Education and

Northumberland College Financial Statements for the Year Ended 31 July 2017 **REPORT OF THE GOVERNING BODY (continued)**

Skills Funding Agency (ESFA). The current financial health rating is "satisfactory" which is considered an acceptable outcome.

Achievement of Objectives

The College's EDITDA (Earnings Before Interest, Taxation, Depreciation and Amortisation) for the year ended 31 July 2017 is £582k less than budgeted. This is mainly due to shortfalls on the delivery of certain lines of income which include Apprenticeships (£602k) and the Adult Education Budget (£112k). This shortfall in the EDITDA has had an adverse impact on operating cashflows.

The table below highlights the main funding shortfalls:

Funding Stream	Allocation Target £000	Allocation Number	Actual Income £000	Actual Number
Adult Education Budget	2,422	N/A	2,310	2,140
16-18 Learner Responsive	8,034	1,523	8,034	1,486
Apprenticeships	2,496	N/A	1,894	996

Further good progress has been made in improving the College's systems and processes around curriculum planning. 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 2016-2017 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.

Staff and Student Involvement

The College considers good communication with its staff and students to be very important. A weekly staff bulletin is 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 2016-2017 demonstrate that the high level of overall student satisfaction has been maintained. In 2015-16 the new Student Association was launched and it has been highly effective this year at raising student issues and working with the College Leadership Team to resolve them. Throughout 2016-2017 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. As part of a wider staff engagement programme including a number of initiatives, the annual staff survey

REPORT OF THE GOVERNING BODY (continued)

was reintroduced in 2015-16 following several years without one. Although the return rate was low, which itself is being worked on, the survey nonetheless flags areas upon which to focus efforts including staff accommodation and ICT resources (now actioned), job security and College cultures and values. To demonstrate that the College does take the survey results seriously, both Governors and the Executive Team are actively listening and are keen to ensure continual improvement. A series of Governor led focus groups will be happening in early 2017-18 to further explore all areas (and also mitigate the low response rate) with a cross section of staff.

Financial Results

The Group generated a deficit in the year of £102k (2015-2016 surplus: £507k), this includes expenditure of £177k (2015-2016: £106k) relating to restructuring costs. In addition to this an actuarial gain of £947k (2015-2016: £100k) was posted resulting in the total comprehensive income for the year being £845k (2015-2016: £607k).

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 the current year, this company made an operating profit of £76k (2015-16: £108k). 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 the year to 31 July 2017 the company made a loss of £3k (2015-16: loss of £18k). It is anticipated that the Company will yield better financial results during 2017-2018.

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 has no short term borrowings in place. All other borrowing requires the authorisation of the Corporation.

Taxation

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

Cash flows

A £890k net cash inflow from operating activities (2015-16: inflow £983k), cash flow has continued to improve during the course of the year. The College incurred capital expenditure of £3,216k (2015-16: £1,461k) this year on continuing to significantly enhance the teaching facilities at both the Ashington and Kirkley Hall campuses. The net cash flow position was supported by the College securing a £2,250k grant from the North East Local Enterprise Partnership to build the £2,500k STEM centre at the Ashington Campus.

Northumberland College Financial Statements for the Year Ended 31 July 2017

REPORT OF THE GOVERNING BODY (continued)

Liquidity

The College has two loans with Northumberland County Council which totalled £8,027k as at 31 July 2017. The satisfactory trading performance in 2016-2017 has resulted in the College's current ratio remaining stable when compared with the previous year.

Reserves policy

The College 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 College has a consolidated accumulated income and expenditure reserve account deficit of £2,152k; this is made up of a pension reserve deficit of £4,450k and an income and expenditure reserve surplus of £2,298k. The pension reserves deficit has decreased by £990k to £4,450k (2015-16 deficit of £5,440k). It is the Corporation's intention to increase reserves over the life of the strategic plan through the generation of annual operating surpluses.

Current and Future Development and Performance

Student numbers

In 2016-2017 the Group has delivered activity that has produced £16,038k in funding body income (2015-16: £13,723k). The College recruited 1,486 (2015-16: 1,542) 16-18-year-old learners, 2,708 (2015-16: 3,052) adult learners and 996 (2015-16: 1,015) apprentices.

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 14 year olds to adults. In September 2016 the College launched its new Career College recruiting 16 year olds on to Rural Tourism and in September 2017 two pathways were launched for Year 10 students; Engineering at the Ashington Campus, and Rural Tourism at the Kirkley Hall Campus.

During 2016-2017 a full Curriculum Review was undertaken in order to drive improvement, innovation and efficiencies. This involved visiting a number of colleges in the sector and internal workshops. Key improvements coming out of this included:

- A standard three-day timetable model for full time provision
- A renewed approach to tutorials, utilising a dedicated tutorial team
- The introduction of timetabled directed learning sessions
- Strategies to improve group sizes and staffing efficiencies
- Continued modernisation of the curriculum offer

REPORT OF THE GOVERNING BODY (continued)

The courses offered are mostly vocationally related and, over the years, the College has developed a reputation for good quality provision in a number of key curriculum areas, including Health and Social Care, Hair and Beauty, Engineering, Art and Design, Land Based Industries, Rural Tourism and Hospitality and ICT Digital Technologies. The new College STEM centre opened in September 2017. During 2016-2017 a new Leisure Learning community initiative was developed and it is now running a range of evening and weekend courses out of fourteen centres across the county.

The curriculum offer at the Berwick Campus has continued to increase in line with local demand, with a significant increase in enrolments.

The College has a specialist land-based campus at Kirkley Hall which provides a wide range of provision. More recently it has significantly redeveloped its provision in land-based industries and outdoor education as well as developing its highly successful zoological gardens. A new outdoor activity centre is thriving, providing another real working environment to support the enterprise agenda together with the enterprise hubs. New buildings are now open which have significantly upgraded the facilities at Kirkley Hall to provide a centre of excellence for rural enterprise for the county of Northumberland.

Key strengths of the College:

- Initial advice and guidance is very effective with the College attaining its MATRIX accreditation again in March 2017. Teachers purposefully use the first six weeks of courses to develop students' skills and induct them into their programme to help them finally to decide that it is the correct programme of study. In addition, students achieve a range of useful qualifications in this time. Teachers provide effective guidance on next steps in learning at the beginning and during the students' course.
- Employers provide practice activities and experiences that increase students' practical skills. All students become highly skilful in recognising the needs of service users. Students develop high standards of communication skills which they use to good effect to discuss complex situations.
- A combination of good work placements, additional qualifications and work on the college zoo and equine units, activity centre, farm, hair and beauty salons and restaurant are very effective in developing employability, independence and practical skills to prepare students for future employment and enrich learning. The College were the first in the country to open an MOT and Service centre with high student involvement. Enterprise is a fundamental part of the student programme and opportunities are given throughout a student's time at the College to develop entrepreneurial skills. All students are given the chance to undertake a two-day boot camp with the activity centre developing and understanding the linkage of skills such as teamwork and confidence to the expectations of employers.
- Support for students is excellent. Students benefit from the high expectations and care they receive from enthusiastic and supportive teachers. Staff demonstrate detailed knowledge and understanding of the needs of their students and provide support both in and outside lessons.
- The quality of teaching, learning and assessment is good, which is reflected in the College's continuing success rates, which in 2016-2017 are good. As a result of a strong focus on raising the quality of teaching, learning and assessment for all students, the

REPORT OF THE GOVERNING BODY (continued)

proportion of sessions that are good or better is 95%. A highly effective and multi-faceted learning and teaching improvement shares a range of good and some innovative practice between curriculum areas. Teachers are embracing new strategies and this is improving the experience of students.

- There is a robust Academy Review and Self Assessment process which ensures effective monitoring of the quality of provision and progression of detailed action plans.
- Annual Training Needs Analysis sessions are carried out with individual departments which allows for both bespoke training and development to be planned for as well as giving teaching staff the opportunity to contribute and take the lead on their professional development. Departmental Professional Development Plans are created for each department which have improved the impact of the CPD completed which is evident in the rise in both Long Term Actual Observation grades and success rates.
- Initial assessment is used well to establish students' starting points and additional needs. Each student has an individual interview to review their progress every six weeks and there is a continuing focus on the role of English and Maths in the workplace. Initial assessments and 1-1 Reviews are recorded on the College's online monitoring software (ProMonitor) along with any additional support needs to ensure all teachers plan progression routes well with a strong focus on employability. In many subjects, such as health and social care and child care, land based, public services and information and communication technology (ICT), qualifications and units are available as additions to the main programme of study. In other areas, volunteering activities and external trips enhance students' social skills, confidence and knowledge.
- The celebration of success is strong with student of the term awards and all students having the opportunity to attend end of year graduation ceremonies as long as they have committed to all aspects of the Passport to Employment which is aimed at developing employability skills as well as technical competence.
- The Learning Resource Centre provides a modern, well-resourced and welcoming facility. The virtual learning environment is continually being developed as a resource for students.
- All full-time students study functional or GCSE English and Mathematics to improve their skill levels, and these are effectively integrated into most subjects.
- The Chair of Governors and Principal have communicated a clear vision and strategic direction for the College that has inspired and motivated staff and students. Strategic priorities are clearly focussed on improving teaching, learning and assessment, partnership building, enterprise and readiness for work, income diversification and maintaining financial stability.
- Governors, who have considerable expertise and a good range of skills, hold senior leaders to account and set demanding targets to raise standards. As a result, they are well aware of the strengths and weaknesses of the College's academic and financial performance.
- Leaders and managers have played a key role in the improvements in teaching and learning. The observation of learning and teaching strategy and its application is comprehensive.

REPORT OF THE GOVERNING BODY (continued)

- In May 2017 the College underwent a short Ofsted inspection which confirmed that the College remains a good provider. The report stated that,

Inspection findings

- Leaders and governors are ambitious for Northumberland College to provide high-quality education and training that enable learners, many of whom join the college with low prior attainments, to achieve and progress to further learning or employment. Governors, the principal and other leaders have successfully established a culture of high expectations for staff and for what learners can achieve. Leaders and managers implement quality improvement arrangements appropriately. This leads to an accurate self-assessment report which provides leaders and governors with a good understanding of the college's strengths and remaining areas for improvement. Leaders are knowledgeable about the effectiveness of different curriculum areas of the college. They accurately identify outstanding features, such as in arts, media and publishing, and provision that requires improvement, such as in construction and engineering. Leaders and managers use a wide range of performance indicators which they update regularly to maintain a well-informed view about the progress that the college is making in bringing about improvements and maintaining strengths. Governors use these performance indicators effectively to hold the principal and senior leaders to account. Governors and leaders are committed to resolving the remaining areas for improvement to achieve their ambition that Northumberland College will become an outstanding college.
- Leaders and managers ensure that the requirements of 16 to 19 study programmes are met effectively in all subject areas. Learners carry out planned work experience or, if they are not yet ready to participate in external placements, have a challenging experience of work built into their study programme. Learners improve their employability skills within the college through working in a good range of real working environments. They improve their interpersonal skills and behaviour through a wide range of enrichment activities, including a 'boot camp' at the college's outdoor activity centre. The passport to employment encourages learners to record the personal and work related skills they develop through their study programme activities. Learners' academic and vocational achievements are celebrated effectively across the college through their participation in regional and national competitions and graduation events. A wide range of cross-college events and themed tutorials raise learners' awareness about topics such as online safety, mental, physical and sexual health, and the risks associated with extremism and radicalisation.
- All learners on 16 to 19 study programmes who have not already achieved GCSEs at grades A* to C in English and/or mathematics take qualifications in these subjects. Managers correctly recognised that, in 2015/16, the quality of provision and learners' progress and achievement, particularly in functional skills qualifications in both English and mathematics, were not good enough. Leaders took prompt action to bring about improvements. They established an English and mathematics academy and appointed new managers. The robust application of performance management arrangements in the new academy led to a number of staff leaving the college. Managers recruit new staff carefully to ensure that they have appropriate skills and qualifications.

REPORT OF THE GOVERNING BODY (continued)

- Managers have improved the rigour of the arrangements for identifying accurately learners' starting points and the specific English and mathematical skills that learners need to improve. They have also introduced a more rigorous system for monitoring and recording learners' progress and achievement on English and mathematics courses. Through this, they are able to identify promptly those learners who are at risk of not achieving, and put appropriate additional support in place. As a result of the improvements made since September 2016, many more learners are now making good progress in improving their skills and achieving qualifications in both English and mathematics. Managers correctly recognise, however, that despite the progress that the college has made in 2016-2017, further improvements are required before they can evaluate the quality of provision and outcomes for learners in English and mathematics as consistently good. Learners' attendance, particularly in mathematics lessons, is too low. Although the proportion of learners who achieve functional skills qualifications is improving, achievement rates remain around the average for similar colleges in England.
- Leaders and managers consider a wide range of appropriate evidence to underpin their evaluation that the quality of provision and outcomes for learners on programmes in arts, media and publishing are outstanding. Leadership and management of this provision are highly effective. Teachers plan learning thoroughly, considering carefully the diverse needs of learners, many of whom have complex needs and barriers to learning. Learners gain a good understanding about the expectations of employers in the sector because they undertake live assignments with local clients. Learners acquire excellent skills through their learning activities. The standards of learners' work and performance are particularly high. A very high proportion of learners achieve their intended qualifications. The large majority of learners who achieve qualifications at levels 1 and 2 progress to the next level at Northumberland College. A very high proportion of learners who achieve qualifications at level 3 join higher education courses, many at prestigious universities.
- After evaluating the quality of delivery and outcomes on the apprenticeship programme as requiring improvement in 2015/16, leaders put in place a range of appropriate actions to bring about improvements. Previously delivered within academies, the quality of provision and outcomes for apprentices varied too much across the college. In summer 2016, leaders established an apprenticeship academy and transferred responsibility for the delivery of apprenticeships, including the management of staff, to this academy and its new manager. Since the establishment of the academy, common process and practices across the delivery of all apprenticeship provision have been introduced, and procedures to monitor and record apprentices' progress have been strengthened. Managers of apprenticeship programmes and the staff who deliver on them have improved their use of data about apprentices' progress to identify apprentices who are at risk of falling behind. They now use this information to put appropriate additional support in place. Managers now apply the college's performance management arrangements to all staff who deliver apprenticeships. This has enabled managers to identify a few instances where staff are not performing well, and provide support and challenge to help them to improve. The actions put in place since summer 2016 are beginning to have an impact on improving the quality of apprenticeship delivery and the progress that apprentices make. However, managers recognise that further improvements are necessary before they can evaluate all apprenticeship provision across the college as being good.

Northumberland College Financial Statements for the Year Ended 31 July 2017

REPORT OF THE GOVERNING BODY (continued)

- The previous inspection found that learners received excellent support and this was a key factor in motivating them to succeed and overcome barriers to learning. Leaders and managers continue to ensure that learners benefit from a comprehensive range of learning, pastoral and financial support, including help to travel to the college. This enables the large majority to stay on their programmes and make progress in their learning. Leaders and managers evaluate routinely the impact of support provided for learners and any interventions made. As a result, they respond effectively to the changing needs of learners: for example, they responded well to an increase in mental health referrals this year. Mentors in each academy respond quickly to learners' support needs, including through making referrals for more specialist support when necessary. Mentors design group tutorial activities and resources that enable learners to improve their understanding about a range of topics related to their personal development, safety and welfare. Through the work of the careers and pastoral support team, learners receive good advice about the learning and course options available to them based on their planned next steps in learning and their career ambitions.

Self-assessment grades for 2016-2017 provision, against the 2015 Ofsted Common Inspection Framework (CIF) are detailed in the table below:

Overall effectiveness of provision	2
Effectiveness of leadership and management	2
Quality of teaching, learning and assessment	2
Personal development, behaviour and welfare	2
Outcomes for learners	2
Travel & Tourism, Sport, Military, Outdoor adventure, Military and Football	2
Hair and Beauty and Hospitality	2
Construction	2
Engineering and Renewables	2
Art	1
IT	2
Business	2
Animal, Equine & Vet	3
Land and Environment	2
Maths and English	2
Childcare Health and Care and Early Years	2

Student achievements

- Overall achievement rates for all ages and all durations were 82%, which has decreased from 83% in 2015-2016. This is at national benchmark rate which is also expected to decrease. The decrease was chiefly caused by underachievement of Employability learners on short level 1 courses in comparison with previous years.
- Overall achievement rates for 16-18 learners remain at 78.0%. For 19+ learners overall achievement rates decreased from 88% in 2015-16 to 85% for 2016-2017. The new Maths and English Strategy and specialist leadership have improved Maths and English results in 2016-2017.

Northumberland College Financial Statements for the Year Ended 31 July 2017

REPORT OF THE GOVERNING BODY (continued)

- Achievement rates excluding the impact of Maths and English are 84% for 16-18 learners and 85% for 19+ learners.
- GCSE Maths and English results have improved. English A-G is now at 80%, equal to National Rate. Our progress in English is around the average for the North East Region and considerably better than GFE (General Further Education). This is a positive in view of our low ranking for 'qualifications on entry' (GCSE English qualifications on Entry ranked by provider, Northumberland College is 223rd out of 269). English A-C pass rate is 26%, equal to North East Region and 1% above GFE.
- Maths A-G has improved by 8% and is now 3% above 2015-2016 National Rate, and for A-C our pass rate is 27%, 8% ahead of GFE. The College is ranked 214th out of 269 colleges in terms of qualifications on entry for GCSE maths.
- Functional Skills English achievement rates have improved at all levels and are on/above National Rate with the exception of level 2. Overall achievement rate is now within 1% of National Rate. Functional skills Math achievement overall has improved by 6% but remains 6% below National Rate.
- Achievement rates for Apprenticeships have dropped to 52.3% for timely achievement due to a necessary data cleansing exercise carried out in the new Apprenticeship Academy during 2016-2017.

The College offers provision from Foundation Level to Higher Education. The College has a substantial contract for employer responsive provision offering Apprenticeships and Advanced Apprenticeships, NVQs in the Workplace and commercial training. The College also provides provision for those who are without work through its partnership with Jobcentre Plus through its Employability programme. Most of the learners aged 16-18, study full time. The College delivers provision throughout Northumberland. The College continually reviews its curriculum offer and the most appropriate locations for delivery. The curriculum offer is very mixed and includes Construction, Hospitality, Art and Design, Sport, Hair, Beauty, ICT, Business, Travel and Tourism and Health and Social Care, Military and Football. Our land based provision is delivered at our Kirkley Hall campus where we have a zoo, equine centre, activity centre and farm providing real working environments for our learners.

The curriculum and learning programme on offer is relevant to learners' needs and aligned to local and regional priorities. Excellent employability skills are developed through relevant work experience and placements. Increased learner motivation and enjoyment are derived from additional qualifications and enrichment activities. There is a real focus on the learner journey from initial dealings with the College to help with positive destinations such as further study or employment. The results of the destination survey for leavers in 2015-2016 showed that 89% of leavers went on to have a positive outcome through further study or employment.

Northumberland College has developed its capacity to engage with the business community by introducing a dedicated Business Solutions Team. In addition to the increase in hard outcomes in, for example, apprenticeship starts, the engagement strategy and additional business development capacity coupled to the enterprise initiative has enabled the College to engage with over 900 employers. Priority areas for increasing apprenticeships are Advanced Engineering, Manufacturing, Construction, Hospitality, IT and Land Based Industries. This has enabled us to raise our profile and reputation with local, regional and national employers and better instil in learners the enterprise and employability skills required of today's workforce. As such, the College is becoming a better force for good

REPORT OF THE GOVERNING BODY (continued)

within the local community, acting as a local point for learners and employers alike, and developing wider and deeper provision that meets demand and provide for learners an experience that will better equip them with the skills required to meet their career aspirations.

Teaching, learning and assessment are good. The provision of high quality CPD focussed upon learning, teaching and assessment and the continual support provided by the Learning and Teaching Advocacy Team and curriculum management have driven up the quality of teaching and learning observed throughout the year. Learners are happy with teaching and learning and the 'on programme' survey demonstrates that this has remained high for a number of years. The 'Licence to Teach' programme ensures new teachers are supported well into their new roles keeping the high standards of learning, teaching and assessment consistent across college. The Learning Advocates offer bespoke training and support continuously to teachers across college which addresses diverse needs. The Teaching How2 World Fair ensures best practice in learning, teaching and assessment is shared not just in curriculum areas but across college which has had a positive impact on practice.

Leadership and management across the College is good and has been focused on improving the learning environment and developing work against the new Common Inspection Framework on updating Safeguarding and PREVENT, Equality and Diversity, Performance Management, Development of Employability and Enterprise Skills, Impartial Careers Advice, Maths and English and Apprenticeship Delivery models.

In 2016-2017 Safeguarding and PREVENT policies and procedures were reviewed and updated and extensive training was carried out with staff and students. Other activity carried out included continuing good relationships and work with external agencies. Safeguarding and Prevent continued to be monitored via the Executive on a weekly basis and by the cross college Safeguarding and Prevent Committee who meet on a monthly basis and manage the College's Safeguarding Risk Register and Action Plan. The College now has two staff members who have undertaken the Home Office's WRAP training for Prevent.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998 requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2016 to 31 July 2017 the average creditor days of the College was 30 days. The College incurred no interest charges in respect of late payments for this period.

Future developments

The position of the College has continued to move forward with the College generating positive operating cash flows during 2016-2017, success rates remaining stable and the College building on being assessed as Grade 2 (Good) in its Ofsted inspection in May 2017. The College has assessed itself as being a 'Satisfactory' grade for financial health at the end of 2016-2017 and is forecasting to be 'Satisfactory' in 2017-2018.

The College has a robust financial plan going forward and an ambitious, emerging strategy to sustain and secure further improvement. The current leadership and governance team led by the Chair of Governors, Jacqui Henderson CBE, and the Executive Team provides a solid platform for strong leadership to move the College forward.

Northumberland College Financial Statements for the Year Ended 31 July 2017

REPORT OF THE GOVERNING BODY (continued)

Following a series of workshops with staff and Governors and students a new strategic plan was written to cover the period 2016-2019. This contains eight key strategic aims: Prepare our Students for Work, Curriculum and specialisation development, Sustainability, Investment, Outstanding, Environment and student experience, Working with Employers, Leadership.

The College has continued during 2016-2017 to make a significant investment in the teaching facilities at both the Kirkley Hall and Ashington sites. At the Ashington Campus this has been focused on improving the classrooms with new furniture, painting, blinds and carpets, refurbishment of HE Centre, and the development of dedicated areas at both Ashington and Kirkley Hall for Career College students. Learning Resource Centres have been reconfigured to accommodate a large number of additional IT facilities specifically dedicated to Directed Learning, which has been made possible by the 2016-2017 IT Technical Refresh project, which has transformed the College's ICT hardware infrastructure (circa 1,600 new desktop pc's and mobile devices for staff and students). All Academies also benefit from their own portable tablet trolleys, transforming any classroom into a place with accessible ICT facilities. The Kirkley Hall land based campus has benefited from new animal enclosures in the zoological gardens and new surface works. A new base for the College's Business Solutions team has been developed at the Ashington Campus and also new lifts have been installed. At Berwick a new motor vehicle centre has opened and at Hexham the hair salon has moved to a new prominent high location.

The injection of some much needed capital investment has therefore met many of the specific objectives in the learning environment element of the 2013-2016 plan and 2016-2019 plan and the significant improvements made to College buildings and facilities will help to support future recruitment and growth opportunities.

Moving into 2017-2018 plans are underway to:

- Upgrade the Equine and Farm facilities
- Continue to develop a Wind and Renewable Energy Hub in partnership with Port of Blyth
- Improve the college centre at Berwick in partnership with the Community Trust
- Refurbish the Ball Centre for Dog Grooming and Veterinary Nursing students
- Refurbish and modernise the 4th floor North at Ashington into a Digital Technology Suite
- Continue to equip the new STEM Centre with specialist equipment
- Complete the roll out of the Tech Refresh programme to all students and staff
- Redecoration of the main function rooms at Kirkley Hall to aid commercial activities

Over the past year, the College has developed an Employer Engagement and Sales Strategy and formed a cross college Employer Engagement Group to drive this agenda forward for the College. A number of strategic relationships with key local, regional and international organisations have been developed along with the hosting of employment and skills forums which have been met with much acclaim from external agencies. The College is already working with many local businesses, agencies, charities, local authorities and public sector organisations to embrace the skills agenda and become a catalyst for change. Strong links have been built with the North East Local Enterprise Partnership and the already positive relationship that the College has with Northumberland County Council will help to influence decisions made on behalf of the College by the North East Combined Authority.

Northumberland College Financial Statements for the Year Ended 31 July 2017

REPORT OF THE GOVERNING BODY (continued)

There are many developments planned in the near future including the HE portfolio of courses which continues to grow with further expansion planned in 2017-2018. The College will be focused in 2017-2018 planning for the implementation of the Sainsbury Review and the new technical qualifications.

In 2016-2017 capacity for Special Educational Needs and Disability students was enhanced via the new 'Inspire Academy' offering a five day and highly supported provision based at Kirkley Hall, which will continue to be developed throughout 2017-2018. Tourism provision is now based at Kirkley Hall as part of the planned positioning of the College as a regional centre of excellence for Tourism and Hospitality, directly matching Northumberland's fastest growth sectors. The College has steadily been introducing new technology and blended learning packages under a new E Learning post and this will be accelerated during 2017-2018 as a result of the recent Curriculum Review process.

The student journey continues to be focused onto preparation for work in 2017-2018 with the *Student Journey – Passport to Employment* being well received and work is being undertaken in preparation for the introduction of the new T-Quals. To further enhance the Passport to Employment and support the inclusion of Enterprise, the College has formed a close relationship with the Federation of Small Businesses who have run a series of Masterclasses for students during the year. Additionally, the College has re-instated a Special Interest Group for Enterprise, the group chaired by an external member of the business community meets on a termly basis to assist the development of enterprise in College.

A further development for 2016-2017 is the College's ambition to achieve Leaders in Diversity status. Working closely with the National Centre for Diversity the College has established a cross college Equality, Diversity and Inclusion (EDI) group to increase awareness of EDI and to embed good practice across and within the organisation. Alongside the National Centre for Diversity, the College Leadership Team has participated in devising an EDI Action Plan and the College has achieved Interim Leaders in Diversity status whilst working towards achieving full status in 2017-2018.

Income diversification and student real experience has been further helped in 2016-2017 by the continuing use of the new barbering salon, MOT and Service Centre, Recruitment Agency and the Activity Centre infrastructure.

Going Concern

The College and Group has maintained its overall financial position and strengthened its reserves during 2016-2017 and it is expected that the College and Group will continue to maintain its financial position during 2017-2018.

Northumberland College Financial Statements for the Year Ended 31 July 2017

REPORT OF THE GOVERNING BODY (continued)

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 £7,961k of net assets (including £4,450k pension liability) and long term debt of £7,669k.

People

The Group employs 366 people (expressed as full time equivalent) of whom 214 are teaching staff.

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.

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.

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.

REPORT OF THE GOVERNING BODY (continued)

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 HEFCE. In 2016-2017, 85% of the College's revenue was ultimately public funded and this level of requirement in the short to medium term is expected to continue. The College is however making every effort to diversify its income streams with the main aim of becoming less reliant on public funding as there can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

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 from August 2008. 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 will significantly change 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

REPORT OF THE GOVERNING BODY (continued)

introduction of the apprenticeship levy will significantly affect the market place through the full implications are not yet known as government policy continues to develop.

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.

(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 2016-2017, the employers' contribution rate to the Local Government Pension Scheme (LGPS) increased from 20.6% to 26.8% of pensionable pay due to the impact of the 31 March 2016 actuarial valuation.

As a result of the recent 31 March 2016 actuarial valuation, the pension deficit has decreased by £990k from £5,440k to £4,450k. The financial statements report the share of the Northumberland County Council LGPS deficit on the College's balance sheet in line with the requirements of FRS 102.

2. Failure to maintain the financial viability sustainability of the College

The College's current health grade is classified as Satisfactory which was the grade which was originally budgeted. The trading environment of the FE sector is challenging due to a number of factors, which include:

Northumberland College Financial Statements for the Year Ended 31 July 2017

REPORT OF THE GOVERNING BODY (continued)

- 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.
- Rising staff costs due to changes to employer national insurance contribution rates and an unprecedented increase of 6.3% 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

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.

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

REPORT OF THE GOVERNING BODY (continued)

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 2016-2017 the Safeguarding, Equality and Diversity and Health and Safety Committee 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.

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.

Northumberland College Financial Statements for the Year Ended 31 July 2017

REPORT OF THE GOVERNING BODY (continued)

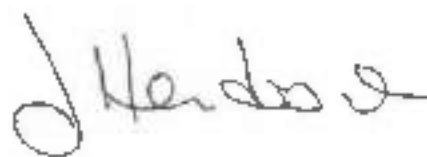
- g. Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

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.

Approved by order of the Members of the Corporation on 20 December 2017 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'J Henderson', written in a cursive style.

J Henderson
Chair

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 2016 to 31st July 2017 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 2014 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 2017. 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.

The College is an exempt charity within the meaning of Part 3 of the Charities Act 2011. 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.

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 1/9/16 to 31/7/17.

Name	Date of appointment	Terms of office (years)	Date of resignation	Status of appointment	Committees Served	Attendance
Jacqui Henderson CBE	Appointed Chair of Governors 04.04.2012 Reappointed 03.04.2016	5	n/a	Corporation Chair and Remuneration Committee Chair	Remuneration, Search and Finance and Resources Committees and Director of Business Solutions Recruitment Services Limited.	6/6
Lynn Tomkins	Appointed Vice-Chair 22.07.2014 Reappointed 18.07.2017	3	n/a	Corporation Vice-Chair Search Committee Chair	Search and Remuneration Committees and Director of Kirkley Hall Limited	3/6
Richard Dale	21.02.2012 Reappointed 21.02.2013 Reappointed 19.02.2017	5	n/a	Finance and Resources Committee Chair	Finance and Resources and Remuneration Committees	4/6
Ros Smith	25.01.2012 Reappointed 25.01.2013 Reappointed 24.01.2017	5	n/a	Audit Committee Chair	Audit and Remuneration Committees.	6/6
Jude Lerich	26.05.2015 Reappointed 17.05.2016	2	n/a	Governor	Audit Committee and Chair/Director of Kirkley Hall Limited	6/6
Stuart Evans	26.05.2015 Reappointed 17.05.2016	2	n/a	Governor	Audit Committee	4/6

Northumberland College Financial Statements for the Year Ended 31 July 2017

Statement of Corporate Governance and Internal Control (continued)

Robert Arckless MBE	01.09.2013 Reappointed 01.09.2014	7	Retired 31.07.2017	Safeguarding and Prevent Lead	n/a	4/6
Bob Palon CBE	20.10.2015 Reappointed 18.10.2016	1	Retired 02.12.2016	Governor	Finance and Resources Committee	1/1
Prof. Peter Strike	01.08.2016 Reappointed 18.07.2017	1	n/a	Governor	Finance and Resources Committee	2/6
David McPherson	01.10.2016	3 months	Retired 01.01.2017	Governor	n/a	1/2
Hona Standfield	01.11.2016 Reappointed 01.11.2017	n/a	n/a	Governor	n/a	4/6
Kelly Angus	18.07.2017	n/a	n/a	Chair of Curriculum and Quality Committee	n/a	n/a
Wayne Daley	18.07.2017	n/a	n/a	Governor	n/a	n/a
Charles Enderby	18.07.2017	n/a	n/a	Governor	n/a	n/a
Marcus Clinton	01.11.2014	Ex Officio	n/a	Principal	Search and Finance and Resources Committees Director of Kirkley Hall Limited and Business Solutions Recruitment Services Limited	6/6
Paul Emmerson	15.10.2013 Reappointed 14.10.2014 Reappointed 12.07.2017	4	n/a	Staff Governor	Search Committee	5/6

Northumberland College Financial Statements for the Year Ended 31 July 2017

Statement of Corporate Governance and Internal Control (continued)

Simon Mee	10.12.2013 Reappointed 10.12.2014 Reappointed 12.07.2017	4	n/a	Staff Governor	Audit Committee	6/6
Kayleigh Moffat	Appointed 23.02.2016 Re-Appointed 15.09.2016	1	Retired 31.07.2016 Resigned 01.11.2016	Student Governor	n/a	1/1
Lewis Mortimer	Appointed 23.02.2016 Reappointed 15.09.2016	1	Retired 31.07.2016 Retired 31.07.2017	Student Governor	n/a	4/6
Sophie Kerr	Appointed 02.11.2016	1	Retired 31.07.2017	Student Governor	n/a	3/5

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 six times per annum.

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, has been established for 2017-2018. 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

Northumberland College Financial Statements for the Year Ended 31 July 2017

Statement of Corporate Governance and Internal Control (continued)

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.

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 three 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 benchmark 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 2017 and graded itself Good on the Ofsted scale.

Northumberland College Financial Statements for the Year Ended 31 July 2017

Statement of Corporate Governance and Internal Control (continued)

Remuneration Committee

The College's Remuneration Committee comprises four members of the Corporation in 2016-2017 but this will increase to five members in 2017-2018. 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 2017 are set out in note 7 to the financial statements.

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 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

The Search 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 issues relating to the membership of the Corporation including composition, attendance, terms of office, eligibility, code of conduct and register of interests.

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 2017 and up to the date of approval of the annual report and accounts.

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 2017 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

Northumberland College Financial Statements for the Year Ended 31 July 2017

Statement of Corporate Governance and Internal Control (continued)

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.

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
- 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 2017 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2017 by

Northumberland College Financial Statements for the Year Ended 31 July 2017

Statement of Corporate Governance and Internal Control (continued)

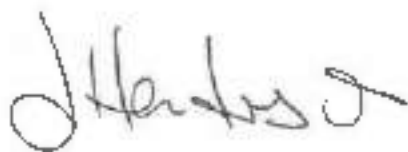
considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2017.

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 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"*.

Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on 20 December 2017 and signed on its behalf by:



J Henderson
Chair



M Clinton
Accounting Officer

Northumberland College Financial Statements for the Year Ended 31 July 2017

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

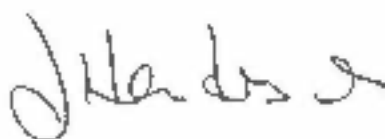
The Corporation has considered its responsibility to notify the Education and Skills Funding Agency of material irregularity, impropriety and non-compliance with Education and Skills Funding Agency terms and conditions of funding, under the financial memorandum/funding agreement in place between the 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.



Marcus Clinton
Accounting Officer
20 December 2017



Jacqui Henderson
Chair of Governors
20 December 2017

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 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 United Kingdom Generally Accepted Accounting Practice and which give a true and fair view of the state of affairs of the College and of the College's surplus 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.

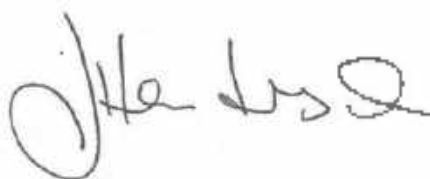
The Corporation is responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the College, and enable that the financial statements are prepared in accordance with the Charities Act 2011 and other relevant accounting standards responsible for taking steps in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

Members of the Corporation are responsible for ensuring that funds from the Education and Skills Funding Agency are used only in accordance with the authorities that govern them as defined by and in accordance with Further & Higher Education Act 1992, subsequent legislation and related regulations and the Financial Memorandum with the Education and Skills Funding Agency and any other conditions that may be prescribed from time to time.

Northumberland College Financial Statements for the Year Ended 31 July 2017

Approved by order of the members of the Corporation on 20 December 2017 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'J Henderson', written in a cursive style.

J Henderson

Chair

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 2017 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" as set out in our engagement letter dated 20 July 2017.

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 2017 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/college] in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the governors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the [group's or the] college's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The governors are responsible for the 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. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 2016 to 2017 issued by the Department for Education 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 Governing Body of Northumberland College

As explained more fully in the Statement of the Governing Body's Responsibilities set out on pages 33 to 34, the Governing Body 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 Governing Body 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 Governing Body is responsible for assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Governing Body either intend to liquidate the College or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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.

This report is made solely to the Governing Body, as a body, in accordance with the Financial Memorandum published by the Skills Funding Agency/ the Funding Agreement published by the Education Funding Agency and our engagement letter dated 20 July 2017. Our audit work has been undertaken so that we might state to the Governing Body, as a body, those matters we are required under our engagement letter dated 20 July 2017 to state to them in an auditor's report and for no other purpose. To the fullest extent permitted

Northumberland College Financial Statements for the Year Ended 31 July 2017

by law, we do not accept or assume responsibility to anyone other than the Governing Body, as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

RSMUK Audit LLP
Chartered Accountants
1 St James' Gate
Newcastle upon Tyne
NE1 4AD

21 December 2017

Consolidated and College Statements of Comprehensive Income

	Notes	2017		2016	
		Group	College	Group	College
		£'000	£'000	£'000	£'000
INCOME					
Funding body grants	3	16,038	16,033	13,723	13,719
Tuition fees and education contracts	4	2,379	1,375	1,948	1,948
Other income	5	2,750	1,576	2,334	1,414
Investment income	6	7	7	14	14
Total income		21,174	19,995	18,019	17,095
EXPENDITURE					
Staff costs	7	12,396	11,617	10,776	10,258
Fundamental restructuring costs	7	177	177	106	106
Other operating expenses	8	7,371	7,060	5,363	5,072
Depreciation	11	1,003	989	960	935
Interest and other finance costs	9	329	320	315	315
Total expenditure		21,277	20,172	17,520	16,686
(Deficit)/surplus before other gains and losses		(103)	(177)	499	409
Gain/(loss) on disposal of assets		1	1	8	8
(Deficit)/surplus before tax		(102)	(176)	507	417
Taxation	10	0	0	0	0
(Deficit)/surplus for the year		(102)	(176)	507	417
Reimbursement of net defined benefit pension liability	24	947	947	100	100
Total Comprehensive Income for the year		845	771	607	517

Northumberland College Financial Statements for the Year Ended 31 July 2017

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	(4,000)	10,509	6,509
Surplus from the income and expenditure account	507	-	507
Other comprehensive income	100	-	100
Transfers between revaluation and income and expenditure reserves	198	(198)	0
Total comprehensive income for the year	805	(198)	607
Balance at 31 July 2016	(3,195)	10,311	7,116

College			
Balance at 1 st August 2015	(4,096)	10,509	6,413
Surplus from the income and expenditure account	417	-	417
Other comprehensive income	100	-	100
Transfers between revaluation and income and expenditure reserves	198	(198)	0
Total comprehensive income for the year	715	(198)	517
Balance at 31 July 2016	(3,381)	10,311	6,930

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Group			
Balance at 1 st August 2016	(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

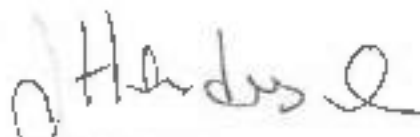
College			
Balance at 1 st August 2016	(3,381)	10,311	6,930
Deficit from the income and expenditure account	(176)	-	(176)
Other comprehensive income	947	-	947
Transfers between revaluation and income and expenditure reserves	198	(198)	0
Total comprehensive income for the year	669	(198)	471
Balance at 31 July 2017	(2,412)	10,113	7,701

Northumberland College Financial Statements for the Year Ended 31 July 2017

Consolidated and College Balance Sheets as at 31 July

	Notes	Group 2017 £'000	College £'000	Group 2016 £'000	College £'000
Non current assets					
Tangible fixed assets	11	26,323	26,263	24,110	24,066
		<u>26,323</u>	<u>26,263</u>	<u>24,110</u>	<u>24,066</u>
Current assets					
Stocks		212	196	186	173
Trade and other receivables	13	1,923	1,804	593	550
Cash and cash equivalents	18	2,059	1,807	2,745	2,477
		<u>4,194</u>	<u>3,807</u>	<u>3,524</u>	<u>3,200</u>
Less: Creditors – amounts falling due within one year	14	4,295	4,128	2,866	2,684
Net current (liabilities)/assets		<u>(101)</u>	<u>(321)</u>	<u>658</u>	<u>516</u>
Total assets less current liabilities		26,222	25,962	24,768	24,582
Creditors – amounts falling due after more than one year	15	15,519	13,519	12,067	12,067
Provisions					
Defined benefit obligations	17	4,450	4,450	5,440	5,440
Other provisions	17	292	292	145	145
Total net assets		<u>7,961</u>	<u>7,701</u>	<u>7,116</u>	<u>6,930</u>
Unrestricted Reserves					
Income and expenditure account		(2,152)	(2,412)	(3,195)	(3,381)
Revaluation reserve		10,113	10,113	10,311	10,311
Total unrestricted reserves		<u>7,961</u>	<u>7,701</u>	<u>7,116</u>	<u>6,930</u>

The financial statements on pages 38 to 64 were approved and authorised for issue by the Corporation on 20 December 2017 and were signed on its behalf on that date by:


J Henderson
Chair


M Clinton
Accounting Officer

Northumberland College Financial Statements for the Year Ended 31 July 2017

Consolidated Statement of Cash Flows

	Notes	2017 £'000	2016 £'000
Cash flow from operating activities			
(Deficit)/surplus for the year		(103)	307
Adjustment for non-cash items			
Depreciation		1,033	960
(Increase) in stocks		(26)	(25)
(Increase) in debtors		(1,330)	(146)
Increase/(decrease) in creditors due within one year		1,240	(350)
(Decrease) in creditors due after one year		(200)	(56)
(Decrease) in provisions	17	(16)	(60)
Pensions costs less contributions payable		120	40
Adjustment for investing or financing activities			
Investment income		17	(14)
Interest payable		209	143
(Surplus) on sale of fixed assets		11	(8)
Net cash flow from operating activities		<u>890</u>	<u>993</u>
Cash flows from investing activities			
Capital grants received		1,625	15
Investment income		7	14
Payments made to acquire fixed assets	13	(2,717)	(1,461)
Net cash flow from investing activities		<u>(1,085)</u>	<u>(1,432)</u>
Cash flows from financing activities			
Interest Paid		(140)	(145)
Repayments of amounts borrowed		(351)	(344)
Net cashflow from financial activities		<u>(491)</u>	<u>(489)</u>
(Decrease) in cash and cash equivalents in the year		<u>(686)</u>	<u>(928)</u>
Cash and cash equivalents at beginning of the year	16	2,745	3,673
Cash and cash equivalents at end of the year	18	2,059	2,745
Movement in cash equivalents		<u>(686)</u>	<u>(928)</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 2016 to 2017* 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 26. 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 2017.

Going concern

The activities of the Governors, together with the factors likely to affect its future development and performance are set out in the Governors Report. The financial position of the College, its cash flow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The College currently has £8,027k of loans outstanding on terms negotiated in 2010 and renegotiated in 2015-16 which are secured by a fixed and floating charge on College assets.

Northumberland College Financial Statements for the Year Ended 31 July 2017

At the balance sheet date, the Group had net current liabilities of £102k (2015-2016: £658k net current assets).

The College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Recognition of income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult 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.

Northumberland College Financial Statements for the Year Ended 31 July 2017

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.

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 |

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.

Northumberland College Financial Statements for the Year Ended 31 July 2017

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.

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to income in the period in which they arise.

Northumberland College Financial Statements for the Year Ended 31 July 2017

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.

Northumberland College Financial Statements for the Year Ended 31 July 2017

- Determine whether there are indicators of impairment of the group's tangible assets, including goodwill. 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 2017. 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

	2017		2016	
	Group £'000	College £'000	Group £'000	College £'000
Recurrent grants				
Education and Skills Funding Agency 16-18 (excl apprenticeships)	8,034	8,034	7,693	7,693
Education and Skills Funding Agency - adult	2,310	2,310	2,347	2,347
Education and Skills Funding Agency - apprenticeships	1,894	1,894	2,246	2,246
Education and Skills Funding Agency - ESF	2,523	2,523	0	0
Releases of government capital grants	86	86	79	79
Other ESFA Income	517	517	584	580
Higher Education Funding Council	321	321	285	285
Franchised	72	72	58	58
HE grant	20	20	22	22
Local authorities and Schools	261	261	409	409
Total	16,038	16,033	13,723	13,719

Northumberland College Financial Statements for the Year Ended 31 July 2017

4. Tuition fees and education contracts

	2017		2016	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Advanced level courses designated for FE Loans	849	849	616	616
SFA funded provision - Adult Skills	74	74	92	92
Full cost provision	424	424	334	334
Higher education courses designated for HE Loans	1,032	1,032	906	906
Total tuition fees	2,379	2,379	1,948	1,948
Total	2,379	2,379	1,948	1,948

5. Other income

	2017		2016	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	171	171	183	183
Other income generating activities	1,558	384	1,286	369
Release of non-government capital grants	34	34	94	94
Examination fee income	43	43	50	50
Forming activities	180	180	157	157
Other income	764	764	562	561
Total	2,750	1,576	2,334	1,414

6. Investment income

	2017		2016	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other interest receivable	7	7	14	14

Northumberland College Financial Statements for the Year Ended 31 July 2017

7. Staff costs – Group and College

	2017		2016	
	Group	College	Group	College
	No.	No.	No.	No.
Teaching staff	214	214	194	194
Non-teaching staff	152	116	125	106
	366	330	319	300
Staff costs for the above persons				
Wages and salaries	9,554	8,881	8,624	8,173
Social security costs	790	737	596	578
Other pension costs	1,700	1,656	1,339	1,290
Payroll sub total	12,053	11,274	10,559	10,041
Contracted out staffing services	343	343	217	217
	12,396	11,617	10,776	10,258
Fundamental restructuring costs – Contractual	177	177	106	106
Total Staff costs	12,573	11,794	10,882	10,364

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

	2017	2016
	No.	No.
The number of key management personnel, including the Principal, CEO and Accounting Officer was:	4	4

	Key management personnel		Other staff	
	2017	2016	2017	2016
	No.	No.	No.	No.
£70,001 to £80,000 p.a.	2	2	0	0
£80,001 to £90,000 p.a.	1	1	0	0
£100,001 to £120,000 p.a.	0	1	0	0
£120,001 to £130,000 p.a.	1	0	0	0
	4	4	0	0

Key management personnel emoluments are made up as follows:

	2017	2016
	£'000	£'000
Salaries	308	298
Benefits in kind	0	0
Employers NI	38	34
	346	332
Pension contributions	53	51
Total emoluments	399	383

Northumberland College Financial Statements for the Year Ended 31 July 2017

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

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

	2017	2016
	£'000	£'000
Salaries	110	103
Benefits in kind	0	3
Employers NI	14	12
	<u>124</u>	<u>117</u>
Pension contributions	<u>16</u>	<u>16</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: £0).

5. Other operating expenses

	2017		2016	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	3,387	3,592	1,637	1,640
Non-teaching costs	2,457	2,140	2,292	1,998
Premises costs	1,378	1,328	1,434	1,434
Total	<u>7,372</u>	<u>7,060</u>	<u>5,363</u>	<u>5,072</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	<u>246</u>	<u>246</u>	<u>113</u>	<u>113</u>

* includes £24,000 in respect of the College (2015/16: £24,000)

** includes £25,727 in respect of the College (2015/16: £25,727)

Northumberland College Financial Statements for the Year Ended 31 July 2017

9. Interest and other finance costs

Group and College

	2017	2016
	£'000	£'000
On bank loans, overdrafts and other loans	109	145
Person finance costs (note 24)	120	170
Total	329	315

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 2016	29,344	110	6,571	250	36,275
Additions	449	2,168	559	0	3,216
At 31 July 2017	29,793	2,278	7,130	250	41,451
Depreciation					
At 1 August 2016	7,584	-	6,565	16	14,165
Charge for the year	555	-	448	-	1,003
At 31 July 2017	8,139	0	7,013	16	15,168
Net book value at 31 July 2017	21,654	2,278	2,117	234	26,283
Net book value at 31 July 2016	21,760	110	2,006	235	24,111

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 2015	29,326	110	8,432	251	38,119
Additions	434	2,168	600	-	3,202
At 31 July 2017	29,760	2,278	9,032	251	41,321
Depreciation					
At 1 August 2015	7,559	-	6,477	16	14,052
Charge for the year	552	-	418	-	989
At 31 July 2017	8,111	0	6,895	16	15,041
Net book value at 31 July 2017	21,649	2,278	2,137	235	26,299
Net book value at 31 July 2016	21,767	110	3,955	235	26,067

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 £201k (2015-2016: £nil) in respect of assets held under finance leases.

Northumberland College Financial Statements for the Year Ended 31 July 2017

The net book value of equipment includes an amount of £268k (2015-2016: £nil) 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

	2017		2016	
	Group £'000	College £'000	Group £'000	College £'000
Amounts falling due within one year				
Trade receivables	274	185	236	169
Amounts owed by group undertakings	-	(7)	-	61
Prepayments and accrued income	1,609	1,626	357	320
Total	1,923	1,804	593	550

14. Creditors: amounts falling due within one year

	2017		2016	
	Group £'000	College £'000	Group £'000	College £'000
Loans and overdrafts	358	358	351	351
Obligations under finance leases	114	114	-	-
Trade payables	1,248	1,224	453	424
Amounts owed to group undertakings				
Subsidiary undertakings	-	-	-	4
Other taxation and social security	245	178	245	194
Accruals and deferred income	1,734	1,657	1,289	1,181
Deferred income - government capital grants	166	166	105	105
Amounts owed to the ESFA	430	430	423	423
Total	4,295	4,128	2,866	2,684

Northumberland College Financial Statements for the Year Ended 31 July 2017

15. Creditors: amounts falling due after one year

	2017		2016	
	Group £'000	College £'000	Group £'000	College £'000
Loans	7,669	7,669	8,027	8,027
Obligations under finance leases	385	385	-	-
Deferred income - government capital grants	5,465	5,465	4,040	4,040
Total	13,519	13,519	12,067	12,067

16. Maturity of debt

Loans and overdrafts

Loans and overdrafts are repayable as follows:

	2017		2016	
	Group £'000	College £'000	Group £'000	College £'000
In one year or less	358	358	351	351
Between one and two years	365	365	358	358
Between two and five years	1,141	1,141	1,117	1,117
In five years or more	5,163	5,163	6,552	6,552
Total	8,027	8,027	8,378	8,378

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 2017 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 2017 is £6,175k.

Northumberland College Financial Statements for the Year Ended 31 July 2017

Finance leases

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

	2017		2016	
	Group	College	Group	College
	£'000	£'000	£'000	£'000
In one year or less	114	114	0	0
Between two and five years	320	320	0	0
In five years or more	63	63	0	0
Total	<u>497</u>	<u>497</u>	<u>0</u>	<u>0</u>

17. Provisions

Group and College

	Defined benefit obligations	Enhanced pensions	Total
	£'000	£'000	£'000
At 1 August 2016	5,440	145	5,585
Expenditure in the period	(1,080)	-	(933)
Additions in period	90	147	90
At 31 July 2017	<u>4,450</u>	<u>292</u>	<u>4,742</u>

18. Cash and cash equivalents

	Group		
	As at 1 August 2016	Cash flows	As at 31 July 2017
	£'000	£'000	£'000
Cash and cash equivalents	2,745	(686)	2,059
Overdrafts	-	-	0
Total	<u>2,745</u>	<u>(686)</u>	<u>2,059</u>

	College		
	As at 1 August 2016	Cash flows	As at 31 July 2017
	£'000	£'000	£'000
Cash and cash equivalents	2,477	(670)	1,807
Overdrafts	-	-	0
Total	<u>2,477</u>	<u>(670)</u>	<u>1,807</u>

Northumberland College Financial Statements for the Year Ended 31 July 2017

19. Capital and other commitments

	2017	2016
	Group and College	Group and College
	£'000	£'000
Commitments contracted for at 31 July	<u>1,181</u>	<u>70</u>

20. Lease obligations

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

	2017	2016
	Group and College	Group and College
	£'000	£'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	104	97
Later than one year and not later than five years	309	164
Later than five years	<u>93</u>	<u>43</u>
	<u>506</u>	<u>304</u>
Other		
Not later than one year	70	6
Later than one year and not later than five years	165	15
Later than five years	<u>25</u>	<u>3</u>
	<u>260</u>	<u>24</u>

21. Contingent liabilities

There are no contingent liabilities.

22. Events after the reporting period

There are no events after the reporting period.

Northumberland College Financial Statements for the Year Ended 31 July 2017

23. Financial Instruments

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

	2017	2016
	Group	Group
	£'000	£'000
Financial Assets		
Debt instruments measured at amortised costs	1,517	341
	<u>1,517</u>	<u>341</u>
Financial liabilities		
Measured at amortised cost	3,827	2,009
Loan commitments	8,027	8,375
	<u>11,854</u>	<u>10,384</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.

	2017	2016
	£000	£000
Total pension cost for the year		
Teachers' Pension Scheme: contributions paid	629	539
Local Government Pension Scheme:		
Contributions paid	1,080	930
FRS 102 Credit	-	(130)
Charge to the Statement of Comprehensive Income	<u>1,080</u>	<u>800</u>
Total pension cost for year within staff costs (note 7)	<u>1,709</u>	<u>1,339</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 £203k (2015-2016: £176k) were payable to the scheme at 31st July 2017 and are included within creditors.

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 15.48% 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 £629k (2015-2016: £539k).

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 2017 were £1,313k of which employer's contributions totalled £1,080k and employees' contributions totalled £233k. 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.

Deficit contributions

The College has entered into an agreement with the LGPS to make additional contributions of £22,958 per month for the period 1st August 2016 to 31st March 2017 and £9,317 per month for the period 1st April 2017 to 31st March 2018 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 2017 by a qualified independent actuary.

	2017	2016
Rate of increase in salaries	2.5%	1.5%
Future pensions increases	2.0%	1.5%
Discount rate for scheme liabilities	2.6%	2.5%
Inflation assumption (CPI)	2.00%	1.5%

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

	2017 years	2016 years
<i>Retiring today</i>		
Males	22.8	23.1
Females	24.9	25.6
<i>Retiring in 20 years</i>		
Males	25.0	25.3
Females	27.2	28.0

Northumberland College Financial Statements for the Year Ended 31 July 2017

	Fair Value at 31 July 2017	Fair Value at 31 July 2016
	£'000	£'000
Equities	14,795	13,260
Government bonds	3,760	3,525
Corporate bonds	1,593	1,655
Property	980	937
Cash	27	-
Other	936	659
Total fair value of plan assets	21,990	19,940
Actual return of plan assets	1,220	2,010

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 as follows:

	2017	2016
	£'000	£'000
Fair value of plan assets	21,990	19,940
Present value of defined benefit obligation	(26,440)	(25,380)
Net pensions liability	(4,450)	(5,440)

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

	2017	2016
	£'000	£'000
Amounts included in staff costs		
Current service cost	1,380	760
Past service cost	-	40
Total	1,080	800
Financing cost		
Interest on net defined benefit obligation	120	170
	120	170
Amount recognised in Other Comprehensive Income		
Asset gains arising during the period	710	1,390
Liability (losses) arising during the period	430	(1,290)
Actuarial loss arising on enhanced pension	(163)	-
Amount recognised in Other Comprehensive Income	977	100

Northumberland College Financial Statements for the Year Ended 31 July 2017

Movement in net defined benefit obligation during year

	2017	2016
	£'000	£'000
Net defined benefit obligation in scheme at 1 August	(5,440)	(5,500)
Movement in year:		
Current service cost	(1,080)	(780)
Employer contributions	1,080	930
Past service cost	-	(40)
Net interest on the defined liability	(120)	(170)
Actuarial gain or loss	1,110	100
Net defined benefit obligation at 31 July	<u>(4,450)</u>	<u>(5,440)</u>

Asset and Liability Reconciliation

	2017
	£'000
Changes in the present value of defined benefit obligations	
Defined benefit obligations at start of period	25,380
Current service cost	1,080
Interest cost on defined benefit obligation	630
Contributions by Scheme participants	730
Actuarial gains/(losses) on liabilities	(400)
Net benefits paid	(480)
Past Service cost	-
Curtailments and settlements	-
Defined benefit obligations at end of period	<u>26,440</u>
Changes in fair value of plan assets	
Fair value of plan assets at start of period	19,940
Interest income on assets	510
Re-measurement gains/(losses) on assets	710
Contributions by the employer	1,380
Contributions by Scheme participants	730
Net benefits paid	(480)
Fair value of plan assets at end of period	<u>21,990</u>

Northumberland College Financial Statements for the Year Ended 31 July 2017

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 (2015-2016: £nil).

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2015-2016: £nil).

Two Governors (GR Arckless and W Daley) are senior councillors 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) and NBSL is one of the College's delivery partners on the £4.9m ESF (European Social Fund) – Improving the Labour Market Relevance of Education and Training Systems contract. Details of the transactions with NBSL are shown below.

Our Principal (Marcus Clinton) is 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)	
	2017	2016	2017	2016
Northumberland County Council	£,000	£,000	£,000	£,000
Secured loan (note 15)	209	145	(8,027)	(8,378)
LEP funding	1251	(398)	68	-
Rates	12	65	-	-
Rental of premises	27	23	(9)	-
NBSL				
ESF Partner Payments	363	-	(267)	-
Landex				
Membership Fee	3	-	-	-
British Horse Society				
Centre approval	1	-	-	-

26. Amounts disbursed as agent

	2017	2016
	£'000	£'000
Funding body grants – bursary support	177	374
Funding body grants – discretionary learner support	257	286
Funding body grants – residential bursaries	129	139
	<u>563</u>	<u>799</u>
		63

Northumberland College Financial Statements for the Year Ended 31 July 2017

Disbursed to students	393	(589)
Administration costs	(19)	(35)
Balance unspent as at 31 July, included in creditors	<u>151</u>	<u>175</u>

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.

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF NORTHUMBERLAND COLLEGE AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH THE DEPARTMENT FOR EDUCATION

Conclusion

We have carried out an engagement, in accordance with the terms of our engagement letter dated 20 July 2017 and further to the requirements of the financial memorandum with Skills Funding Agency/funding agreement with the Education Funding Agency, to obtain limited assurance about whether the expenditure disbursed and income received by Northumberland College during the year from 1 August 2016 have been prepared to 31 July 2017 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the year from 1 August 2016 to 31 July 2017 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Basis for conclusion

The framework that has been applied is set out in the Post-16 Audit Code of Practice 2016 to 2017 issued by the Department for Education. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which Education and Skills Funding Agency has other assurance arrangements in place.

We are independent of Northumberland College in accordance with the ethical requirements that are applicable to this engagement and we have fulfilled our ethical requirements in accordance with these requirements. We believe the assurance evidence we have obtained is sufficient to provide a basis for our conclusion.

Responsibilities of Governing Body of Northumberland College for regularity

The Corporation of Northumberland College is responsible, under the ESFA financial memorandum and the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. The corporation of Northumberland College is also responsible for preparing the Governing body's Statement of Regularity, Propriety and Compliance.

Reporting accountant's responsibilities for reporting on regularity

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance

Northumberland College Financial Statements for the Year Ended 31 July 2017

with our engagement letter and the requirements of the Post-16 Audit Code of Practice 2016 to 2017.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and the procedures performed vary in nature and timing from, and are less in extent than for a reasonable assurance engagement; consequently, a limited assurance engagement does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the year from 1 August 2016 to 31 July 2017 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Our work included identification and assessment of the design and operational effectiveness of the controls, policies and procedures that have been implemented to ensure compliance with the framework of authorities including the specific requirements of the financial memorandum with Skills Funding Agency and high level financial control areas where we identified a material irregularity is likely to arise. We undertook detailed testing, on a sample basis, on the identified areas where a material irregularity is likely to arise where such areas are in respect of controls, policies and procedures that apply to classes of transactions.

This work was integrated with our audit of the financial statements and evidence was also derived from the conduct of that audit to the extent it supports the regularity conclusion.

This report is made solely to the corporation of Northumberland College and the Secretary of State for Education acting through the Department for Education in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of Northumberland College and the Secretary of State for Education acting through the Department for Education those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the corporation of Northumberland College and the Secretary of State for Education acting through the Department for Education for our work, for this report, or for the conclusion we have formed.

RSM UK AUDIT LLP

Chartered Accountants

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

