

**Consolidated Financial Statements for the year
ended 31 July 2016**



BISHOP AUCKLAND COLLEGE

Report and Consolidated Financial Statements

for the year ended 31 July 2016

Consolidated Financial Statements for the year ended 31 July 2016



Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2015/16:

Natalie Davison-Terranova	Principal and CEO; Accounting officer
Lee Childs	Chief Executive SWDT
Richard Hinch	Director of Curriculum
Elizabeth Lamb	Director of Quality
Judith Layfield	Director of Finance and Planning
Clare Wray	Director of Service Standards

Board of Governors

A full list of Governors is given on pages 18 and 19 of these financial statements. Mr John Banks acted as Clerk to the Corporation throughout the period.

Professional advisers

Financial statements auditors and reporting accountants:

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

Bankers:

Barclays Bank plc
PO Box 378
71 Grey Street
Newcastle
NE99 1JP

Internal auditors:

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Solicitors:

Muckle LLP
Time Central
32 Gallowgate
Newcastle upon Tyne
NE1 4BF

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Members' Report

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2016.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Bishop Auckland College. The College is exempt for the purposes of part 3 of the Charities Act 2011.

Mission

The College mission statement is:

"To enhance the economic prosperity of young people, adults and employers through high quality, work related education and training."

Vision

"Bishop Auckland College aspires to be outstanding and to be the first choice provider for developing the skills and workforce of the future in South Durham."

Values

The work of Bishop Auckland College will be guided and informed by core values and beliefs and these will shape the organisation's culture:

- Be fully committed to the success of students.
- Only the very highest standards are good enough
- Engage proactively with local and regional stakeholders and be accountable to them for our performance.
- Provide safeguarding and equality of opportunity in all aspects of our work, valuing the richness of ideas that diversity brings.
- Innovation and enterprise will be at the heart of everything we do.
- Decisions and actions will be guided by our commitment to environmental sustainability.
- College reputation is a valuable asset and we each have a responsibility to promote the College with pride and enthusiasm.

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Members' Report (continued)

Public Benefit

Bishop Auckland College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 18 and 19.

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.

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

- Providing a broad range of learning to maximise the skills and knowledge of students so that they become economically active citizens.
- Supporting individuals and communities facing disadvantage or deprivation into learning and /or employment.
- Contributing to the local economy as a major employer and consumer of services and provider of skills training.
- Valuing the educational aims of all students equally and seeking to raise the aspirations of students and staff so that each may make the maximum contribution to the community.
- Engaging with local employers to meet the needs of businesses and non commercial partners.
- Promoting and enabling active citizenship and democratic engagement.
- Public benefit is derived by Bishop Auckland College through meeting its strategic objectives.

Implementation of Strategic Plan

In July 2013 the College adopted a Strategic Plan for the period 1 August 2013 to 31 July 2016. This strategic plan includes property and financial plans. The Corporation monitors the performance of the College against these plans. The plans are reviewed and updated each year. The College's continuing strategic objectives are to:

- Ensure that courses and services are designed to place the College at the leading edge of social and economic development across South Durham.
- Provide outstanding vocational learning that engages and inspires.
- Ensure Student performance outcomes will be amongst the best for FE colleges in the region and nationally.
- Prepare young people and adults for social and economic success.
- Develop a reputation for exceptional standards.
- Operate as an efficient and sustainable business, constantly innovating to enhance skills, improve value for money and achieve excellence in learning and business operations.

Members' Report (continued)

The strategic objectives detailed in the 2013-16 plan have been extended for the 2016-17 year with a revised 3 year plan to be devised following the completion of Area Review in February 2017. It is anticipated the focus will be broadly similar with an additional focus on achieving an outstanding grade at the next Ofsted inspection.

The 6 Pillars of Performance

The 2013-2016 Strategic Plan, includes the key headline targets or '6 Pillars of Performance'. These are reviewed annually to provide a series of key performance indicators for the College.

Key Performance Indicators 2015/16

1. Meet recruitment targets for all sectors of College provision, as agreed through a market-led business planning and budget building process.
2. Achieve outstanding/good judgments for each set of Learning Area observations in the Learning Area Review QA process.
3. Achieve top decile performance for each qualification type and all types of provision, including 16-18, adults and apprenticeships.
4. Achieve positive destinations target of 90% for students on full-time and substantial part-time programmes across College and within Learning Areas, and 30% job outcomes for students on substantial programmes for unemployed adults, including mandated programmes.
5. Achieve overall satisfaction rating of 95% for all stakeholder groups (students, employers, parents) and all Learning Areas
6. Meet contribution targets for all sectors of College provision-mean 55%

Good progress was made against these challenging targets with KPIs 4, 5 and 6 being fully met. KPIs 1, 2 and 3 partially met but with good progress being made throughout the year.

The College is committed to observing the importance of sector measures and indicators 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 Skills Funding Agency/Education Funding Agency ("EFA"). The College is assessed by the Skills Funding Agency/Education Funding Agency as having a "Good" financial health grading. The current rating of Good is considered an acceptable outcome.

The College is committed to achieving an overall contribution rate of 55%. The College outturn position suggests that this target was met with a contribution rate of 59% achieved.

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Members' Report (continued).

Financial objectives

A series of performance indicators have been agreed to monitor the successful implementation of the policies:

- Achieve annual income and recruitment targets
- Return a minimum of 3% surplus on income year on year
- Ensure covenants are not breached
- Ensure staffing expenditure excluding partnership income is no more than 61% of annual turnover
- Remain solvent with a minimum net current ratio of 1.5

In addition, key measures of financial stability and viability set by the FE Commissioner have been used throughout the year to inform decision making and monitor progress.

- | | |
|----------------------------|--|
| • Borrowing <40% turnover | X (52% 15/16, below 40% in 18/19) |
| • Staffing < 60-64% income | ✓ |
| • Space utilisation >66% | X (achievable with Spennymoor site as free school) |
| • Ofsted Good | ✓ |
| • SEN Quality Good | ✓ |
| • Average class size >16 | X (13.7 in 15/16, planned 18 in 16/17) |
| • 3-5% surplus | X (1.1% deficit 15/16 but planned to be achieved in 17/18) |

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Members' Report (continued).

FINANCIAL POSITION

Financial results

The Group has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2015/16 the FE funding bodies provided 70% of the Group's total income, (2014/15– 75%).

The College has a subsidiary company, SW Durham Training Limited. The principal activity of SW Durham Training Limited is the provision of training of employees on behalf of employers. In the current year, the subsidiary suffered a deficit of £132k.

The Group generated an operating deficit in the year of £138k (2014/15 – deficit of £798k as restated) including LGPS adjustment totalling £180k and one off restructuring costs of £38k. Adjusted for these items the College made an operating surplus of £80k.

The Group has accumulated reserves excluding pension and revaluation reserve of £2,215k and cash balances of £1,064k. The College Group wishes to continue to accumulate reserves and cash balances in order to create a contingency fund.

Group tangible fixed asset additions during the year amounted to £279k. This was split between buildings and equipment. The Group took the decision to commission a revaluation of its land on a one off basis; this has had the effect of increasing the land value on the Balance Sheet by £1.28m.

Total expenditure was £14.8m compared with £15.2m in the prior year. Total staffing costs as a percentage of income totalled 55% compared with 54% in the prior year.

Treasury policies and objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of the risks 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 invests its cash balances into the overnight markets which offer a fixed interest return. The investment account balance as at 31 July 2016 was £1.05m.

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Members' Report (continued)

Cash flows

At £903k (2014/15 £621k), operating cash inflow increased from the year before. After capital expenditure of £279k, the repayment of debt of £525k and net interest payments of £345k; cash balances decreased by £61k.

Liquidity

The size of the College's total borrowing and its approach to interest rates has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cash flow over the longer term. During the year this margin was exceeded.

Reserves Policy

The College has produced a Reserves Policy which will be reviewed annually by the Board. The Board will also review the level of reserves available and how these align with strategic plans; a target will be set for the value of reserves to be held at any one time. Reserves are that part of the College's Balance Sheet reserves which have unrestricted use. At 31 July 2016 this amounted to £2.21m. Cash reserves amounted to £1.06m together with current investments of £1.05m.

A balance of reserves is required to ensure that the College has funds in place to cover day to day expenditure that in the short term may not be covered due to differing phasing of receipts. A balance is also required should there be a shortfall in receipts in any one year for example due to lower than expected enrolment, an unexpected reduction in funding per student, unexpected urgent capital expenditure, or a significant delay in the receipt of funding. The College has a strategic priority of achieving a 3% surplus year on year in order to increase the level of reserves to fund improvements and investment in facilities. Use of the reserves is approved by the Board.

Consolidated Financial Statements for the year ended 31 July 2016



Members' Report (continued)

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers

In 2015/16 the Group has delivered activity that has produced £6,805k in funding body main allocation funding (2014/15 – £8,317k). Student numbers are shown in the table below.

Student Type	BAC	SWDT	Group Total
16-18	688	77	765
19+ Classroom	3,012	594	3,606
Traineeships	25	0	25
16-18 Apprentices	204	71	275
19+ Apprentices	707	20	727
HE	177	0	177
14-16	103	0	103

Student achievements

Headline achievement rates for 2015-16 for classroom provision in the College were high at 86.9% (all ages combined). This was a slight dip from the previous year's high of 89.2%, however the general trend remains one of improvement over five years from 80.5% in the year 2011-12. Achievement rates for apprentices (all ages) were high at 75.3%.

Headline achievement for SWDT for classroom provision was improved and good at 86.9% for all ages combined, (80% 2014/15). Achievement rates for Apprentices (all ages) at SWDT were 75.4% and require improvement, (82% 2014/15); however 16-18 apprenticeship achievement rate is good at 82.6%.

Curriculum developments

The College understands well the importance of aligning its curriculum with local business and learners needs. It is also cognisant of the fact that as a small college it is not economically viable to offer every subject area. Programmes are well aligned with local labour markets and 70% of delivery is in the major employment sectors; care, retail, sport, administration, maths and English. Engineering is the sole focus of the College's wholly owned subsidiary, South West Durham Training, (SWDT), another key area of employment. There has been growth in the recently introduced area of plumbing and areas of the College realigned to improve progression for students to apprenticeships; particularly in business, hair and beauty. There is a particular strength in preparing students for the next stage in their lives through effective work experience and careers guidance; 92% of full time students at the College took part in a worthwhile work placement.

Many of our students have low levels of prior educational achievement; only 34.5% of 16-18 year olds joined the College with GCSE grade C or above in maths and 21.9% with English. This is less than half the national rate. Consequently the greater proportion of the College's work is at levels 1 and 2.

Consolidated Financial Statements for the year ended 31 July 2016



Members' Report (continued)

Investment has been made in the premises at SWDT to extend the facilities to enable growth in commercial activity with a new plumbing and gas centre and also an additional fork lift truck bay. A particular focus is placed on strengthening the College's contribution to the social and economic development agenda in South Durham. Collaborative work with key partners remains the vehicle for this, to ensure coherence in the response to the North East Local Enterprise Partnership (NELEP) and Durham County Council agendas, and to ensure that public funds are deployed effectively and efficiently

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 per cent. During the accounting period 1 August 2015 to 31 July 2016, the College paid 96% of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Events after the end of the reporting period

There were no significant post balance sheet events.

Future prospects

With regard to the College premises and the aim of deriving good value from public funds, delivery of most classroom learning was consolidated at the Woodhouse Lane campus in September 2015 to reduce running costs. At the same time notice was given on the Crook Learning Centre, with adult employability provision consolidated in Bishop Auckland and Newton Aycliffe. The other main delivery location is the SWDT premises again at Newton Aycliffe.

Premises costs will be further reduced in 2016/17 with delivery at the Newton Aycliffe Learning Centre relocated to the SWDT premises; notice has been given on the Learning Centre. A future significant development is the proposed opening of an alternative provision free school at the Spennymoor campus. The bid is currently with DfE, the outcome is awaited; there is strong support for the free school from local authorities and the Durham secondary schools. Should the opening of the school be approved, the Durham Gateway Academy will form part of the College group and be consolidated into the accounts.

The College aims to increase contribution through a combination of continuing efficiency schemes across the college sites and through increasing income. The College aims to reduce dependency on the funding bodies by increasing commercial activity, apprenticeship and HE activity. The Area Based Review process will conclude in February; financial plans submitted reflect the developments stated above. The preferred option for the College under the Area Review process is that it continues as stand alone whilst collaborating with other local colleges to achieve cost efficiencies and respond to apprenticeship reform through specialisation at higher levels.

Going concern

It is considered appropriate to adopt the going concern basis of accounting in preparing these financial statements, on the basis that the College Group has the ability to continue to operate for

Members' Report (continued)

a significantly longer period than the statutory twelve months from the date of approval. The College Group regularly reviews its Risk Register and takes steps to mitigate against any strategic threats. The risk management process was internally audited in May 2016 and found to be satisfactory; good practice points highlighted included that the College's risk register has

clearly defined and appropriate risk owners and that the system for monitoring actions taken to mitigate risk is robust and effective. The Risk Register is monitored by the Audit Committee.

The College Group believes it will be able to continue in operation and meet its liabilities taking account of the current position and principal risks; the 5 year financial plan evidences resilience and a continually improving financial position. The plan has been tested at a range of sensitivities for resilience and found to be affordable. The College Group will be in wave 5 of the area review process commencing September 2016. Financial plans have been developed with the criteria of the review in mind; these closely mirror the financial strategic objectives of the College.

RESOURCES:

The College has various resources that it can deploy in pursuit of its strategic objectives.

Tangible resources include the main college site, a £30.5m redevelopment with phase 1 (£17.5m) opened in June 2007 with the remaining new facilities completed during Autumn 2009. A further £8.5m investment was made in purpose built facilities at Spennymoor for technology provision, apprenticeships and adult programmes. The SWDT premises include the CORE facility equipped with industry standard resources. The currently empty Spennymoor site will be the location of the Durham Gateway Academy, the proposed alternative provision free school.

Financial

The Group has £4.01m of net liabilities (including £8.6m pension liability) and creditors falling due after more than one year of £34.5m, including Lennartz balances due after one year of £541k and deferred grants which have been reclassified as liabilities in accordance with FRS102.

People

The Group employs 250 people (expressed as full time equivalents), of whom 135 are teaching staff.

Reputation

The College Group has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and external relationships. The College was graded Good by Ofsted in April 2016 for the fourth consecutive time and SWDT was graded Outstanding in 2014.

Members' Report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES:

The College has further refined its system of internal control throughout the year, including financial, operational and risk management which is designed to protect the College's assets and reputation.

Based on the strategic plan, senior leaders undertake a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and reviewed regularly throughout the year to measure whether further actions are required and how effective those taken have been. In addition, during the regular reviews, senior managers will also consider any additional risks which may emerge as the year progresses.

A risk register is maintained at the College level which is reviewed termly by the Audit Committee. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are scored using a consistent matrix system.

Outlined below is a description of the principal risk factors 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.

- Reduced intake of students at entry, level 1 and level 2 as a result of improving GCSE grades in local schools and reduced demographics.
- Reduced intake of direct entry level 3 students due to lack of understanding of vocational education.
- Reduced recruitment in apprenticeships due to changed funding methodology.
- Low achievement in maths for full and part time learners.
- Declining income in short, medium and long term due to government policy and demographic factors.
- Failure to achieve financial plans and accurately monitor and control income and expenditure.
- College breaches financial covenant of the commercial mortgage.
- Major failure of, or by a partner or subsidiaries with which the College has a significant financial relationship.
- Lack of investment within aspects of IT including software and hardware resulting in inadequate IT systems.

Members' Report (continued)

1. Government funding

The College has considerable reliance on continued government funding through the further education sector funding bodies and through HEFCE. In 2015/16, 75% of the College's revenue was ultimately public funded and this level of requirement is expected to continue. 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:

- FE Loans will extend to 19+ learners
- Further adult funding reductions due to the proposed devolution bid
- The lagged numbers funding system for EFA volumes which means under / over performance is recovered / funded in the following year
- The introduction of the employer levy for apprenticeships and the move away from directly funding providers for apprenticeship delivery

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
- Remaining open to emerging opportunities to broaden the portfolio of activity
- Maintaining and improving relationships with key employers

2. Tuition fee policy

Ministers have confirmed that the fee assumption remains at 50% in 2016/17. In line with the majority of other colleges, Bishop Auckland College and SWDT will seek to increase tuition fees in accordance with the fee assumptions. The price elasticity of adult learning for the College group is not yet fully understood. The risk for the College is that demand falls off as fees increased. 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.

Members' Report (continued)

3. Maintain adequate funding of pension liabilities

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102.

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, Bishop Auckland College and SWDT have many stakeholders. These include:

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

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

Equal opportunities

The College is committed to equality of opportunity that is intended to be an integral part of College life. We respect and value positively differences in all characteristics including; age, disability, gender reassignment, gender identity, marriage or civil partnership, pregnancy or maternity related, race, religion or belief, gender and sexual orientation.

The College's Equality Policy permeates every aspect of college life and supports the College's commitment to eliminate any form of discrimination, harassment and victimisation, to advance equality of opportunity for all, to foster good relations across and between the protected characteristics and to develop an awareness of equality and diversity issues amongst all staff, students, customers, partners and stakeholders. The College publishes its Equality Policy on the staff intranet as well as the College's website along with the College's annual report on Equality and Diversity.

The College's annual Equality and Diversity report covers the College's activities, data and achievements which ensure compliance with all relevant equality legislation including the Equality Act 2010 and the Public Sector Equality Duty. The College undertakes equality impact assessments on all policies and procedures.

Members' Report (continued)

The College is a 'Positive about Disabled' employer and is 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 is currently working towards becoming a 'Disability Confident' employer.

100% of staff at the College have received training in equality and diversity (90% of who hold a minimum of a Level 2 qualification in equality and diversity). The College also holds the Equality Standard Gold Award through Equality North East which is reviewed every three years to ensure continuous improvement.

Disability 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 specialist student support staff who provide information, advice and arrange support where necessary for students with disabilities.
- c) There is a list of specialist equipment 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 specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
- f) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
- g) Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

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Members' Report (continued)

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.

Approved by order of the members of the Corporation on 19 December 2016 and signed on its behalf by:

A handwritten signature in black ink, appearing to read "P. Petty".

**P Petty
Chair**

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. The statement covers the period from 1 August 2015 to 31 July 2016 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/Board 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.

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 account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015; the Governing Body formally adopted the initial Code during 2012. In the opinion of the Governors, the College complies with the provisions of the current AoC Code and it has complied, or can provide explanation of the reason for not complying, throughout the year ended 31 July 2016.

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.

Consolidated Financial Statements for the year ended 31 July 2016



STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (CONTINUED)

The Corporation

The members (who are also trustees) who served on the Corporation during the year and up to the date of signature of this report were as listed in the table below.

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Board of Corporation % Attendance
Neville Baldry	19.01.09 19.01.13 (R)	4 years		Independent member	<ul style="list-style-type: none"> Chair of Audit Search & Governance Remuneration 	86
Rachelle Cooley	11.07.15	4 years	19.10.15	Student Member	-	0
Natalie Davison-Terranova	01.01.13	n/a		Principal	<ul style="list-style-type: none"> Search & Governance 	100
Andy Dunn	06.11.14	n/a		South West Durham Training	-	71
Jackie Gent	13.07.15	4 years	14.02.16	Community member	-	67
Adam Gibbon	19.09.16	4 years		Community member	-	100
Paul Gillis	05.12.11	4 years	04.12.15	Community member	-	50
Tony Hood	18.07.16	4 years		Independent member	-	100
James Jarvie	22.02.16	4 years (if remains student)		Student Member	-	75
Neil McMillan	19.09.11	4 years	14.12.15	Independent member	-	67
Beatrice Ollerenshaw	12.05.08 12.05.12 (R)	4 years	12.05.16	Independent member	-	80
Simon Owens	10.05.10 12.05.14 (R)	4 years		Independent member	<ul style="list-style-type: none"> Audit 	71
Andrew Palmer	16.07.10 16.07.14 (R)	4 years		Independent member	<ul style="list-style-type: none"> Audit 	71

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Statement of Corporate Governance and Internal Control (continued)

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served	Corporation Attendance
Pamela Petty	15.07.13	4 years		Independent member	<ul style="list-style-type: none"> • Chair of Corporation • Chair Search & Governance • Chair Remuneration 	100
Margaret Pletts	02.05.13	4 years		Staff member	-	86
Steve Rose	06.11.14	n/a	03.02.16	South West Durham Training	-	67
Jane Ruffer	10.09.12	4 years		Community member	<ul style="list-style-type: none"> • Search & Governance • Remuneration 	100
Joanne Walton	10.12.12	4 years		Staff member	-	43
John D Banks, acted as Clerk to the Corporation throughout the period.					Overall	78

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 at least each term.

The Corporation reviewed its governance arrangements and decided to move to a streamlined Committee structure, commencing in 2014. The revised structure is set out in Table 2, below:

Consolidated Financial Statements for the year ended 31 July 2016



Statement of Corporate Governance and Internal Control (continued)

Table 2 – Current Governance Structure of the Corporation

Meeting	Planned frequency
Board of the Corporation	At least once each term, 7 meetings per year three of which to include workshop activities
Audit Committee	At least 3 meetings per year one in each term timed to coincide with significant finance business
Search & Governance Committee	At least once each term, 3 meetings per year usually set for the afternoon preceding an evening Board meeting
Remuneration, Appeals and Special Committees	As required by the business of the Corporation
Appointment Panel	As necessary

Subsequently the Board has taken the opportunity presented by the Education Training Foundation to access consultancy to support its assessment of governance arrangements and Board effectiveness. While both consultants were positive regarding these matters, suggestions were made to make further development and these are being adopted incrementally.

In order to build on the above, the College independently commissioned a further consultation coupled with Board workshop activity which confirmed the thrust of the previous consultancies.

The Corporation retains and has used the flexibility to call additional meetings of the Board or its Committees as required. An Annual Meeting Planner has been implemented which sets out core content for each Board meeting. It is structured to take into account the predictable business for that time of year and to ensure that the central elements of each of the defunct Committees is now brought to the attention of the Board as a whole.

This structure ensures that the Corporation is provided with regular and timely information on performance in terms of:

- Teaching, Learning and Assessment
- Finance
- Strategic Plan development
- Key Performance Indicators progress against Operating Plan
- Funding targets
- Capital expenditure proposals
- Quality
- Risk Assessment
- Personnel
- Health and Safety
- Environmental issues
- Operating environment matters (employment market, stakeholder engagement and user views)

Statement of Corporate Governance and Internal Control (continued)

Up until the revision of the governance structure, the Corporation conducted its business through a number of Committees. Each Committee had terms of reference, which were approved by the Corporation. The Terms of Reference of the continuing Committees, Search & Governance, Audit, Remuneration, Appeals & Special Committees and the Appointments Panel were revised to take into account those matters previously considered by the defunct Committees.

Full minutes of all meetings except those deemed to be confidential by the Corporation are available on the College's website or available from the Clerk to the Corporation at:

Mr John D Banks - Clerk to the Corporation
Bishop Auckland College
Woodhouse Lane
Bishop Auckland
DL14 6JZ

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

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

Formal agendas, papers and reports are supplied to governors in a timely manner, prior to Board meetings. Briefings are also provided on an ad hoc basis. Board members are encouraged and supported to make use of the briefing facilities, webinars and other training available through the Association of Colleges and other appropriate sources.

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.

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.

Statement of Corporate Governance and Internal Control (continued)

Corporation performance

The Corporation carried out a self-assessment of its performance which was approved at the 19th December 2016 Board meeting. The self-assessment used was the AoC pro-forma provided in the JACOP 2016. All requirements were deemed to have been met.

Remuneration committee

Throughout the year ending 31 July 2016 the College's Remuneration Committee comprised three members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders.

Details of remuneration for the year ended 31 July 2016 are set out in note 7 to the financial statements.

Audit committee

The Audit Committee comprises three 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 on a termly basis 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 both audit and non-audit work as well as reporting at least annually to the Corporation.

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 she is personally responsible, in accordance with the responsibilities assigned to her in the

Statement of Corporate Governance and Internal Control (continued)

financial agreement between Bishop Auckland College and the funding bodies. She 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 on-going 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 Bishop Auckland College for the year ended 31 July 2016 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 on-going process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2016 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts
- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- the adoption of formal project management disciplines, where appropriate.

Bishop Auckland College has an internal audit service, which operates in accordance with the requirements of EFA and SFA's Joint 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, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Statement of Corporate Governance and Internal Control (continued)

The College analysed the risks to which it was exposed and a programme of assurance was agreed with the Audit Committee. The Committee was provided with regular reports on this assurance activity in the College which included

Assignment	Opinion rating
Work based learning	Good
Subcontracting assurance on behalf of SFA	Assurance given – 3 low recommendations
Strategic and Curriculum planning	Good
Learner recruitment	Good
Learner number systems	Good
Payroll	Good
Risk Management	Satisfactory

The overall opinion of the internal auditors was: **“In our opinion the College has adequate and effective risk management, control and governance processes to manage the achievement of its objectives. We are also satisfied that, based on the work completed, management has implemented adequate arrangements in respect of economy, efficiency and effectiveness.”**

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. Her 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, the appointed funding auditors (for colleges subject to funding audit) in their management letters and other reports.

The Accounting Officer has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work

Consolidated Financial Statements for the year ended 31 July 2016



Statement of Corporate Governance and Internal Control (continued)

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 November 2016 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2016 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2016.

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.

The College submitted a five year plan to the funding bodies in July 2016 which detailed an improving picture of surplus and financial health. The plan has been accepted and a 'Good' financial health rating moderated. The Financial Plan was tested to 5% sensitivity in income with no reduction in associated expenditure and continues to meet financial health guidelines. Income was planned being cognisant of demographic trends, apprenticeship reforms and proposed devolution of the Adult Skills Budget. The plan was tested with and without income from the proposed Alternative Provision Free School and was found to be robust. Increases in LGPS pension costs were estimated to increase by 5%. Any underperformance in income terms would be reflected in expenditure; the plan is therefore prudent in approach

Approved by order of the members of the Corporation on 19 December 2016 and signed on its behalf by:

P Petty
Chair

Handwritten signature of P. Petty in black ink.

N Davison-Terranova
Principal

Handwritten signature of N. Davison-Terranova in black ink.

Consolidated Financial Statements for the year ended 31 July 2016



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 Skills Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agency terms and conditions of funding, under the financial memorandum in place between the College and the Skills Funding Agency. As part of its consideration the Corporation has had due regard to the requirements of the financial memorandum.

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

We further 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 Skills Funding Agency

A handwritten signature in black ink, appearing to read "P. Petty".

P Petty
Chair

A handwritten signature in black ink, appearing to read "N. Davison-Terranova".

N Davison-Terranova
Principal

19 December 2016

Consolidated Financial Statements for the year ended 31 July 2016



Statement of Responsibilities of the Members of the Corporation

The members of the Corporation 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 Skills Funding Agency and the Corporation of the College, requires the corporation of the college to prepare financial statements for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions the annual Accounts Direction issued jointly by the Skills Funding Agency and the Education Funding Agency, and applicable United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and which give a true and fair view of the state of affairs of the College and of the College's surplus/deficit of income over expenditure for that period.

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

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable 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 which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

Members of the Corporation are responsible for ensuring that funds from the Skills Funding Agency and Education 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 Skills Funding Agency and the Education Funding Agency and any other conditions that may be prescribed from time to time.

Approved by order of the members of the Corporation on 19 December 2016 and signed on its behalf by:

**P Petty
Chair**

A handwritten signature in black ink, appearing to read "P. Petty".

Consolidated Financial Statements for the year ended 31 July 2016



INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF BISHOP AUCKLAND COLLEGE

We have audited the College financial statements ("the financial statements") set out on pages 30 to 66. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) as set out in our engagement letter dated 14 December 2015.

This report is made solely to the Corporation, as a body, in accordance with the Financial Memorandum published by the Education Funding Agency and our engagement letter dated 14 December 2015. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required under our engagement letter dated 14 December 2015 to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Corporation of Bishop Auckland College and Auditor

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 27, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with the terms of our engagement letter and Joint Audit Code of Practice issued by the Skills Funding Agency and Education Funding Agency and International Standards on Auditing (UK and Ireland). The International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the College's affairs as at 31 July 2016 and of the Group'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.

Consolidated Financial Statements for the year ended 31 July 2016



INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF BISHOP AUCKLAND COLLEGE (CONTINUED)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations required for our audit

RSM UK Audit LLP

RSM UK AUDIT LLP
Chartered Accountants
1 St James' Gate
Newcastle upon Tyne
NE1 4AD
20 December 2016

Consolidated Financial Statements for the year ended 31 July 2016



CONSOLIDATED AND COLLEGE STATEMENTS OF COMPREHENSIVE INCOME

	Notes	2016		2015	
		Group £'000	College £'000	Group £'000	College £'000
INCOME					
Funding body grants	2	9,210	8,127	10,978	9,649
Tuition fees and education contracts	3	1,986	1,286	1,371	1,133
Other income	4	1,114	1,078	1,559	1,278
Investment income	5	16	10	14	11
Total income		12,326	10,501	13,922	12,071
EXPENDITURE					
Staff costs	6	7,406	6,555	7,494	6,879
Restructuring costs	6	38	38	158	158
Other exceptional costs	8	-	-	475	475
Other operating expenses	8	3,004	2,449	4,609	3,884
Depreciation	12	1,476	1,166	1,516	1,291
Interest and other finance costs	9	532	532	503	503
Total expenditure		12,456	10,740	14,755	13,190
Deficit before other gains and losses		(130)	(239)	(833)	(1,119)
Loss on disposal of assets		(11)	(13)	-	-
Gain on investments		1	-	13	-
Transfer from endowment funds		-	-	22	22
Deficit before tax		(140)	(252)	(798)	(1,097)
Taxation		-	-	-	-
Deficit for the year		(140)	(252)	(798)	(1,097)
Unrealised surplus on revaluation of assets		-	-	-	-
Actuarial loss in respect of pensions schemes	22	(2,955)	(2,955)	(1,172)	(1,172)
Total Comprehensive Income for the year		(3,095)	(3,207)	(1,970)	(2,269)

Consolidated Financial Statements for the year ended 31 July 2016



Consolidated and College Statement of Changes in Reserves

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Group			
Restated Balance at 1 August 2014	(1,338)	2,393	1,055
Deficit from the income and expenditure account	(798)	-	(798)
Other comprehensive income		-	-
Actuarial loss	(1,172)	-	(1,172)
	<hr/>		
	(1,970)	-	(1,970)
Balance at 31 July 2015	<hr/>		
	(3,308)	2,393	(915)
Deficit from the income and expenditure account	(140)	-	(140)
Other comprehensive income	-	-	-
Actuarial loss	(2,955)	-	(2,955)
Total comprehensive income for year	<hr/>		
	(3,095)	-	(3,095)
Balance at 31 July 2016	<hr/>		
	(6,403)	2,393	(4,010)

Consolidated Financial Statements for the year ended 31 July 2016



Consolidated and College Statement of Changes in Reserves (continued)

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
College			
Restated Balance at 1 August 2014	(1,338)	2,242	904
Deficit from the income and expenditure account	(1,097)	-	(1,097)
Other comprehensive income	-	-	-
Actuarial loss	(1,172)	-	(1,172)
	(2,269)	-	(2,269)
Balance at 31 July 2015	(3,607)	2,242	(1,365)
Surplus/(deficit) from the income and expenditure account	(252)	-	(252)
Other comprehensive income	-	-	-
Actuarial loss	(2,955)	-	(2,955)
Total comprehensive income for year	(3,207)	-	(3,207)
Balance at 31 July 2016	(6,814)	2,242	(4,572)

Consolidated Financial Statements for the year ended 31 July 2016



Consolidated balance sheets as at 31 July

	Note	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Fixed assets					
Tangible assets	12	39,160	35,820	40,376	36,714
Negative goodwill	11	(537)	-	(716)	-
Investments	13	178	-	179	-
Total fixed assets		38,801	35,820	39,839	36,714
Current assets					
Debtors	14	647	428	952	753
Investments	15	1,050	1,050	1,500	1,500
Cash at bank and in hand		1,064	579	677	333
Total current assets		2,761	2,057	3,129	2,586
Less: Creditors – amounts falling due within one year	16	(2,458)	(2,195)	(3,226)	(2,934)
Net current assets		303	(138)	(97)	(348)
Total assets less current liabilities		39,104	35,682	39,742	36,366
Less: Creditors – amounts falling due after more than one year	17	(34,496)	(31,636)	(35,346)	(32,420)
Provision for liabilities	20	(8,618)	(8,618)	(5,311)	(5,311)
NET LIABILITIES		(4,010)	(4,572)	(915)	(1,365)
Unrestricted reserves					
Income and expenditure account		(6,403)	(6,814)	(3,308)	(3,607)
Revaluation reserve		2,393	2,242	2,393	2,242
TOTAL UNRESTRICTED RESERVES		(4,010)	(4,572)	(915)	(1,365)

The financial statements on pages 30 to 66 were approved and authorised for issue by the Corporation on 19 December 2016 and were signed on its behalf on that date by:

P Petty
Chair

N Davison-Terranova
Principal / Chief Executive

Consolidated Financial Statements for the year ended 31 July 2016



CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2016 £'000	Restated 2015 £'000
Cash flow from operating activities			
Surplus/(Deficit) for the year		(140)	(798)
Adjustment for non-cash items			
Depreciation		1,476	1,517
Release of negative goodwill		(179)	(306)
(Increase)/decrease in debtors		305	(483)
Increase/(decrease) in creditors due within one year		(534)	921
Increase/(decrease) in creditors due after one year		(696)	(685)
Pensions costs less contributions payable		352	265
Capital grants		(53)	(96)
Investment income		(16)	(54)
Interest payable		345	355
Gain/loss on investments		(1)	(13)
Loss on sale of fixed assets		12	-
Net cash flow from operating activities		<u>871</u>	<u>623</u>
Cash flows from investing activities			
Cash on acquisition of subsidiary		-	141
Proceeds from sale of fixed assets		9	-
Disposal of investments		22	101
Purchase of investments		(20)	(100)
Investment income		16	54
Capital grants received		53	96
Payments made to acquire fixed assets		(279)	(554)
		<u>(199)</u>	<u>(262)</u>
Cash flows from financing activities			
Interest paid		(345)	(355)
Repayments of amounts borrowed		(495)	(553)
New loans		105	-
		<u>(735)</u>	<u>(908)</u>
Decrease in cash and cash equivalents	21	<u>(63)</u>	<u>(547)</u>

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements

1. Accounting policies

Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

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 2015 to 2016* 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.

Transition to the 2015 FE HE SORP

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the College has amended certain accounting policies to comply with FRS 102 and the 2015 FE HE SORP. The trustees have also taken advantage of certain exemptions from the requirements of FRS 102 permitted by FRS 102 Chapter 35 ‘Transition to this FRS’. An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 30.

The 2015 FE HE SORP requires colleges to prepare a single statement of comprehensive income, and not the alternative presentation of a separate income statement and a statement of other comprehensive income. This represents a change in accounting policy from the previous period where separate statements for the Income and Expenditure account and for the Statement of Total Recognised Gains and Losses were presented. The application of first time adoption allows certain exemptions from the full requirements of the FRS 102 and the 2015 FE HE SORP in the transition period. The following exemptions have been taken in these financial statements:

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

1. Accounting policies (continued)

The College has taken advantage of the exemptions provided in FRS 102 1.12 and the 2015 FE HE SORP 3.3, and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and the College balance sheet discloses cash at both the current and preceding reporting dates.

Lease incentives – the College has continued to recognise the residual benefits associated with lease incentives on the same basis as that applied at the date of transition.

Basis of consolidation

The consolidated financial statements include the College and its subsidiary SW Durham Training, 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. In accordance with FRS 102, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2016.

Going concern

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

The College currently has £6.4m of loans outstanding with Barclays Bank plc. Both loans are secured by a fixed and floating charge on College assets. The terms of the existing agreement are for up to another 20 years. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility during the 2016/17 financial year.

Accordingly 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.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

1. Accounting policies (continued)

Recognition of income

Funding body income represents the funding allocations attributable to the current financial year and is credited direct to the income and expenditure account. Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under achievement of the Adult Skills 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 at the end of November following the year ends.

16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments; the income recognised is the allocation for the year.

Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Income from tuition fees is recognised in the period for which it is received and includes all fees payable by students or their sponsors, for example the National Health Service.

Income from grants, contracts and other services rendered is included to the extent the conditions of the funding have been met or the extent of the completion of the contract or service concerned.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. Income from restricted purpose endowment funds not expended in accordance with the restrictions of the endowment in the period is transferred from the income and expenditure account to accumulated income within endowment funds.

Post retirement benefits

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes, which are externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPS) and the assets are held separately from those of the college. The TPS is an unfunded scheme and contributions are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by the Government Actuary on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 22, 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 scheme and the contributions recognised as they are paid each year.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

1. Accounting policies (continued)

The LGPS is a funded scheme and the assets are held separately from those of the college in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to 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 gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the income and expenditure account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The expected return on assets and the interest cost are shown as a net finance amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised 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 on-going 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 on-going pension of a former member of staff is charged in full to the college's income and expenditure account 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.

Intangible fixed assets

Negative Goodwill

Negative goodwill represents the excess of fair value over the cost of the identifiable net assets of the acquired subsidiary at the date of acquisition. Negative goodwill is to be amortised over the period of benefit and is to be reviewed annually for impairment.

Tangible fixed assets

Land and buildings

Land and buildings inherited from the Local Education Authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

1. Accounting policies (continued)

expenditure account reserve on an annual basis. Building improvements made since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold and Leasehold buildings are depreciated over their expected useful economic life to the College of 50 years. If the duration of the lease is shorted then this determines the period of depreciation. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of 50 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account, and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy. Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

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. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the income and expenditure account.

On adoption of FRS 102, the College followed the transitional provision to revalue the book value of land and buildings, which were revalued in 2014, but not to adopt a policy of revaluations of these properties in the future.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Asset capacity increases.
- Substantial improvement in the quality of output or reduction in operating costs.
- Significant extension of the asset's life beyond that conferred by repairs and maintenance.

Buildings owned by third parties

Where the College enjoys the use of an asset which it does not own and for which no rental or a nominal rental is paid, if practicable, a value is attributed to this benefit and capitalised, with a corresponding credit to deferred capital grants which are subsequently released to the income and expenditure account over the useful economic life of the asset at the same rate as the depreciation charge on the related asset(s).

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

1. Accounting policies (continued)

Equipment

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the local education authority is included in the balance sheet at valuation.

Inherited equipment has been depreciated on a straight-line basis over its remaining useful economic life to the College of between one and three years from incorporation and is now fully depreciated. All other equipment is depreciated over its useful economic life as follows:

- Accommodation improvements – 10 years on a straight-line basis
- motor vehicles – 5 years on a straight-line basis
- computer equipment – 5 years on a straight-line basis
- furniture, fixtures and fittings – 5 years on a straight-line basis.

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

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Investments

Listed investments held as fixed assets are stated at market value. Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

1. Accounting policies (continued)

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.

Consolidation

The consolidated financial statements include the college and its subsidiary, SW Durham Training Limited. Intra-group sales and balances are eliminated fully on consolidation. All financial statements are made up to 31 July 2016

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 Chapter 3 Part 11 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 a minor element of 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.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

1. Accounting policies (continued)

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities.

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 account and are shown separately in Note 28, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Discretionary Support Fund applications and payments.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether 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.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

1. Accounting policies (continued)

- 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 22, 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 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. 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.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

2 FUNDING BODY GRANTS

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Recurrent grants				
Skills Funding Agency recurrent grant	1,971	1,971	3,122	3,110
Education Funding Agency recurrent grant	4,834	4,257	5,196	4,924
Specific grants				
Skills Funding Agency non recurrent grants	1,826	1,320	2,060	1,015
Releases of deferred capital grants	579	579	600	600
Total	9,210	8,127	10,978	9,649

3 TUITION FEES AND EDUCATION CONTRACTS

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Tuition fees	545	545	129	129
Education contracts	741	741	1,004	1,004
Course fees	700	-	238	-
Total	1,986	1,286	1,371	1,133

Tuition fees funded by bursaries

Included within the above amounts are tuition fees funded by bursaries of £28k (2014/15 £23k).

4 OTHER INCOME

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Other Grants	394	394	232	232
Catering Operations	12	12	17	17
Releases from Deferred Capital Grants	176	111	162	114
Nursery Operations	178	178	206	206
Other Income	175	383	636	709
Released from Negative Goodwill	179	-	306	-
Total	1,114	1,078	1,559	1,278

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

5 INVESTMENT INCOME	Group	College	Group	College
	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
Interest receivable	10	10	11	11
Dividends	6	-	3	-
Total	16	10	14	11

6 STAFF COSTS AND KEY MANAGEMENT PERSONNEL

The average number of persons (including senior post-holders) employed by the College during the year, expressed as full-time equivalents was:

	2016	2015
	No.	No.
Teaching staff	135	158
Non teaching staff	115	115
	250	273

Staff costs for the above persons

	2016	2015
	£'000	£'000
Wages and salaries	6,053	6,276
Social security costs	406	355
Pension costs (including LGPS adjustments of £180,000 (2015 £130,000))	947	863
Payroll sub total	7,406	7,494
Contracted out staffing services	62	68
Restructuring costs – contractual	33	158
non contractual	5	-
Total Staff costs	7,506	7,720

7 SENIOR POST-HOLDERS' EMOLUMENTS

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Leadership Team which comprises the Principal, the Directors of the College and the senior management of SW Durham Training Limited.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

7 SENIOR POST-HOLDERS' EMOLUMENTS (CONTINUED)

	2016 No.	2015 No.
The number of key management personnel including the Accounting Officer was:	8	11

The number of key management personnel and other staff who received annual emoluments, excluding pension contributions but including benefits in kind, in the following ranges was:

	Key management personnel		Other staff	
	2016 No.	2015 No.	2016 No.	2015 No.
£60,001 to £70,000 p.a.	-	-	-	-
£70,001 to £80,000 p.a.	-	-	-	-
£80,001 to £90,000 p.a.	-	-	-	-
£90,001 to £100,000 p.a.	1	1	-	-
	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>

Key management personnel compensation is made up as follows:

	2016 £'000	2015 £'000
Salaries	348	344
Employers National Insurance	37	35
Benefits in kind	-	-
	<u>385</u>	<u>379</u>
Pension contributions	51	45
Total key management personnel compensation	<u>436</u>	<u>424</u>

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

The above compensation includes amounts payable to the Accounting Officer (who is also the highest paid officer) of:

	2016 £'000	2015 £'000
Salaries	98	97
Benefits in kind	-	-
	<u>98</u>	<u>97</u>
Pension contributions	<u>16</u>	<u>11</u>

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

8 OTHER OPERATING EXPENSES

	2016 Group £'000	2016 College £'000	2015 Group £'000	2015 College £'000
Teaching costs	708	455	1,617	1,391
Non teaching costs	1,341	1,156	1,945	1,594
Premises costs	955	838	1,047	899
Total	3,004	2,449	4,609	3,884

In addition in the prior year there was an exceptional bad debt provision of £475k in relation to an amount due which was considered doubtful by the corporation to be received

Other operating expenses include:

	2016 £'000	2015 £'000
Auditors' remuneration:		
Financial Statements Auditors	16	16
Internal Auditor	12	15
Hire of plant and machinery – operating leases	49	66
Loss on disposal of fixed assets	11	-
Payments to partners for sub-contracted provision	283	355

9 INTEREST AND OTHER FINANCE COSTS

	2016 £'000	2015 £'000
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in more than five years	345	355
	345	355
Net pension finance costs (note 22)	180	140
Interest on enhanced pension provisions	7	8
Total	532	503

10 TAXATION

The members do not believe the college was liable for corporation tax arising out of its activities.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

11 INTANGIBLE FIXED ASSETS – GROUP

	Negative Goodwill
	£'000
Cost	
At 1 August 2015	(1,022)
Additions	-
At 31 July 2016	<u>(1,022)</u>
Amortisation	
At 1 August 2015	306
Amortisation for the period	179
At 31 July 2016	<u>485</u>
Net book value	
At 31 July 2016	<u>(537)</u>
At 31 July 2015	<u>(716)</u>

Negative goodwill represents the fair value of the assets of SW Durham Training Ltd as at the acquisition in October 2014 adjusted to be consistent with the Statement of Recommended Practice Accounting for Further and Higher Education.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

12 TANGIBLE FIXED ASSETS – GROUP

	Land and buildings		Plant, Machinery, Fixtures & Equipment	Total
	Freehold	Long leasehold		
	£'000	£'000		
Cost or valuation			£'000	£'000
At 1 August 2015	47,026	185	8,056	55,267
Additions	128	-	151	279
Reclassification	(11)	-	-	(11)
Disposals	-	-	(22)	(22)
At 31 July 2016	47,143	185	8,185	55,513
Depreciation				
At 1 August 2015	8,350	185	6,356	14,891
Charge for the year	1,074	-	402	1,476
Elimination in respect of disposals	-	-	(14)	(14)
At 31 July 2016	9,424	185	6,744	16,353
Net book value at 31 July 2016	37,719	-	1,441	39,160
Net book value at 31 July 2015	38,676	-	1,700	40,376

No depreciation has been charged on revalued freehold land

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

12 TANGIBLE FIXED ASSETS - COLLEGE

	Land and buildings		Plant, Machinery, Fixtures & Equipment	Total
	Freehold	Long leasehold		
	£'000	£'000		
Cost or valuation			£'000	£'000
At 1 August 2015	42,211	185	3,938	46,334
Additions	128	-	144	272
Disposals	-	-	-	-
At 31 July 2016	42,339	185	4,082	46,606
Depreciation				
At 1 August 2015	5,981	185	3,454	9,620
Charge for the year	926	-	240	1,166
Elimination in respect of disposals	-	-	-	-
At 31 July 2016	6,907	185	3,694	10,786
Net book value at 31 July 2016	35,432	-	388	35,820
Net book value at 31 July 2015	36,230	-	484	36,714

As stated in the policy note, the College carries inherited assets which had an inherited valuation of £1.110m and which were revalued at 31 July 2014. Inherited land and buildings were valued in 1994 for the purpose of the financial statements at depreciated replacement cost by the 'District Valuer and Valuation Officer' in accordance with the RICS statement of Asset Valuation Practice and Guidance notes. The historic cost of these assets is nil. This land was revalued as at 31 July 2014 at £2.182m

Group land with a net book value of £2.393m has been funded from local education authority sources. Land and buildings have been partly financed by exchequer funds, through for example the receipt of capital grants. Should these assets be sold, the College would either have to surrender the sale proceeds or use them in accordance with the financial memorandum with the Skills Funding Agency.

Included within group freehold land and buildings is land valued at £2.393m which is not depreciated.

If fixed assets had not been revalued before being deemed as cost on transition they would have been included at the following historical cost amounts:

	£'000
Cost	53,120
Aggregate depreciation based on cost	(16,353)
Net book value based on cost	36,767

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

13 FIXED ASSET INVESTMENTS - GROUP

	Listed investments	Cash & settlements pending	Totals
	£'000	£'000	£'000
MARKET VALUE			
At 1 August 2015	177	2	179
Additions	7	-	7
Disposals	(7)	(2)	(9)
Revaluation	1	-	1
At 31 July 2016	178	-	178
NET BOOK VALUE			
At 31 July 2016	178	-	178
At 31 July 2015	177	2	179

There were no investment assets outside the UK.

The listed investments were represented by:	2016 £	2015 £
Fixed interest securities	30	29
Equity shares	9	12
Investment trusts and unit trusts	139	136
	178	177

All of the above investments are held by the subsidiary, S.W. Durham Training Ltd.
The historical cost of listed investments at 31 July 2016 was £154k (2015: £149k)

FIXED ASSET INVESTMENTS – COLLEGE

The college became the sole member of S.W. Durham Training Limited, a company limited by guarantee, on 9 October 2014.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

14 DEBTORS

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Amounts falling due within one year:				
Trade debtors	163	79	181	281
Prepayments and accrued income	484	128	771	472
Amounts owed by subsidiaries	-	221	-	-
Total	647	428	952	753

15 CURRENT INVESTMENTS

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Short term deposits	1,050	1,050	1,500	1,500
Total	1,050	1,050	1,500	1,500

Deposits are held with banks and building societies operating in the London market and licensed by the Financial Conduct Authority with more than three months maturity at the balance sheet date. The interest rates for these deposits are fixed for the duration of the deposit at time of placement.

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2016 £'000	College 2016 £'000	Group 2015 £'000	College 2015 £'000
Bank loans and overdrafts	257	257	244	244
Other loan	30	30	-	-
Lennartz VAT	36	36	315	315
Payments received in advance	326	217	556	424
Trade creditors	96	85	335	457
Other creditors	7	7	90	47
Other taxation and social security	43	37	238	220
Accruals	414	342	663	427
Amounts owed to Funding Bodies	530	530	31	31
Amounts owed to subsidiaries	-	-	-	80
Deferred grants	719	654	754	689
Total	2,458	2,195	3,226	2,934

The college is a member of a VAT group with its subsidiary S W Durham Training Limited

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

17 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group	College	Group	College
	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
Bank loans	6,125	6,125	6,382	6,382
Lennartz VAT	541	541	513	513
Lease Rent received in advance	209	209	238	238
Amounts owed to SFA	668	668	668	668
Other loan	75	75	-	-
Deferred grants	26,878	24,018	27,545	24,619
Total	34,496	31,636	35,346	32,420

18 MATURITY OF DEBT

Bank loans and overdrafts are repayable as follows:

	Group	College	Group	College
	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
In one year or less	257	257	240	240
Between one and two years	271	271	252	252
Between two and five years	869	869	818	818
In five years or more	4,985	4,985	5,316	5,316
Total	6,382	6,382	6,626	6,626

A loan for £350,000 secured on the buildings in South Durham Way Newton Aycliffe and repayable in monthly instalments between 1 April 2002 and 31 March 2022 was taken out March 2002 at Base Rate plus 1.5%.

A 25 year fixed term commercial mortgage secured on freehold land and buildings at Woodhouse Lane Bishop Auckland and South Durham Way Newton Aycliffe commenced on 31 July 2008 with repayments of interest and capital on a quarterly basis. The interest rate is fixed at 5.3% for the full term of the loan.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

19 CONTINGENT LIABILITY

European Social Fund

The College has been in receipt of significant income from the European Social Fund (ESF) in previous years. The College took all reasonable steps to ensure it complied with the terms attaching to the receipt of all ESF income. However the College recognises that this is a complex area and there is risk that some funding could become repayable as a result of a possible inspection by the funding provider or the ESF Verification and Audit Section. It is not possible to estimate the value or timing of any such repayments.

20 PROVISIONS

	Group and College		Total
	Defined benefit obligations	Enhanced pensions	
	£'000	£'000	£'000
At 1 August 2015	5,050	261	5,311
Expenditure in the period	360	(8)	352
Additions in period	2,940	15	2,955
At 31 July 2016	8,350	268	8,618

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 22.

The enhanced pension provision relates to the cost of staff who have already left the College's employ and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date. This provision has been recalculated in accordance with guidance issued by the funding bodies.

21 ANALYSIS OF CASH AND CASH EQUIVALENTS

	At 1 August 2015	Cash flows	Other changes	At 31 July 2016
	£'000	£'000	£'000	£'000
Cash in hand and at bank	677	387	-	1,064
Investments	1,500	(450)	-	1,050
Total	2,177	(63)	-	2,114

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

22 DEFINED BENEFIT OBLIGATIONS

The College's employees belong to two principal pension schemes: the Teachers' Pensions Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by Durham County Council. Both are defined-benefit schemes.

Total pension cost for the year	2016	2015
	£000	£000
Teachers' Pensions Scheme: contributions	375	359
Local Government Pension Scheme:		
Contributions paid	392	374
LGPS charge	180	130
Charge to the Income and Expenditure Account (staff costs)	572	504
Total Pension Cost for Year	947	863

Included above are pension contributions paid by SW Durham Training of £1k (2015: £nil).

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2004 and of the LGPS 31 March 2013.

Contributions amounting to £Nil (2015 £41,000) were payable to the scheme at 31 July 2016 and are included within creditors.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

22 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

Teachers' Pension Scheme

The Teachers' Pensions Scheme ("TPS") is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 2010. Retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pensions Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001 to 31 March 2011, the Account has been credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Valuation of the Teachers' Pensions Scheme

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the 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. Many of these were being discussed in the context of the design for a reformed TPS, and as set out in the Proposed Final Agreement, and scheme valuations had been suspended since the last valuation in 2004.

The contribution rate paid into the TPS is assessed in two parts. First, a standard contribution rate ("SCR") is determined. This is the contribution, expressed as a percentage of the salaries of teachers and lecturers in service or entering service during the period over which the contribution rate applies, which if it were paid over the entire active service of these teachers and lecturers would broadly defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigation, it is found that accumulated liabilities of the Account for benefits to past and present teachers, are not fully covered by standard contributions to be paid in future and by the notional fund built up from past contributions. The total contribution rate payable is the sum of the SCR and the supplementary contribution rate.

Valuations of the TPS are now required under the Public Service Pensions Act 2013 every 4 years and are required to be carried out in accordance with the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 published by HM Treasury.

Notes to the Consolidated Financial statements (continued)

22 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

An actuarial valuation of the TPS in accordance with these Directions was published in June 2014 assessing the TPS as at 31 March 2012. The GA's report revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £191,500 million. The notional value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £176,600 million. The assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%.

Employer and employee contribution rates

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the SCR was assessed at 19.75%, and the supplementary contribution rate was assessed to be 0.75% (to balance assets and liabilities as required by the regulations within 15 years). This resulted in a total contribution rate of 20.5%, which translated into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement also introduced – effective for the first time for the 2008 valuation – a 14% cap on employer contributions payable.

From 1 April 2014 to 31 March 2015, the employee contribution rate was between 6.4% and 12.4%. Thereafter members will be expected to pay an average contribution rate of 9.6%.

The TPS valuation for 2012 determined an employer rate of 16.4% from 1 September 2015 and an employer cost of cap of 10.9%. The employer contribution rate will be payable until the next valuation as at 31 March 2016 whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.

The pension costs paid to TPS in the year amounted to £375k (2015: £359k).

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Durham County Council, Local Authority. The total contribution made for the year ended 31 July 2016 was £430k of which employer's contributions totalled £310k and employees' contributions totalled £130k. The agreed contribution rates for future years are 17.3% for employers and range from 5.5% to 7.5% for employees, depending on salary.

FRS102

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

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

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

22 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

Enhanced Pensions – Teachers

The College has the liability for the enhanced element of teachers' pensions who have been granted voluntary early retirement. The College administers the payment of the enhanced element of the pensions direct to the retired teacher. The College financial statements include the initial and continuing costs of the enhancement under FRS 102, and prior to this year under FRS17, and up until 2005-06 under SSAP 24.

Analysis of the amount charged to income and expenditure account (Teachers)

	Year Ended July 2016 £'000	Year Ended July 2015 £'000
Service cost	-	-
Negative past service cost	-	-
Total operating gain	-	-

Analysis of pension finance (costs)

Expected return on pension scheme assets	-	-
Interest on pension liabilities	(7)	(8)
Pension finance costs	(7)	(8)

Amounts recognised in the statement of comprehensive income

Actual return less expected return on pension scheme assets	-	-
Experience gains and losses arising on the scheme liabilities	-	-
Change in financial and demographic assumptions underlying the scheme liabilities	(15)	(2)
Actuarial gain (loss) recognised in SOCI	(15)	(2)

Movement in surplus during year

Deficit in scheme at 1 August	(201)	(204)
Current service credit	15	13
Net (interest) on assets	(7)	(8)
Actuarial (loss) or gain	(15)	(2)
Deficit in scheme at 31 July	(208)	(201)

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

22 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2016 by a qualified independent actuary:

	At 31 July 2016	At 31 July 2015
Discount rate	2.4%	3.6%
RPI inflation	2.9%	3.2%
CPI inflation	1.8%	2.1%
Pension increases	1.8%	2.1%
Pension accounts revaluation rate	1.8%	2.1%
Salary increases	3.3%	3.6%

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

	At 31 July 2016	At 31 July 2015
<i>Males</i>		
Member aged 65 at accounting date	22.7	22.6
Member aged 45 at accounting date	24.9	24.8
<i>Females</i>		
Member aged 65 at accounting date	25.2	25.1
Member aged 45 at accounting date	27.5	27.4

The College's share of the assets and liabilities in the scheme and the expected rates of return were:

	Fair Value at 31 July 2016 £'000	Fair Value at 31 July 2015 £'000
Equities	6,157	5,919
Property	1,111	740
Government bond	4,631	3,649
Corporate bonds	1,268	1,104
Cash	1,083	940
Other	-	188
	14,250	12,540

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

22 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

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

	2016 £'000	2015 £'000
Current service cost	490	460
Net interest cost	180	140
Total	670	600

Movements in the present value of defined benefit obligations were as follows:

	2016 £'000	2015 £'000
Liabilities at start of period	17,590	15,380
Current service cost	490	460
Interest expense on defined benefit obligation	630	620
Contributions by participants	130	140
Actuarial (gain) / loss on liabilities	4,120	1,460
Net benefits paid out	(360)	(470)
Liabilities at end of period	22,600	17,590

Movements in the fair value of college's share of scheme assets:

	2016 £'000	2015 £,000
Assets at start of period	12,540	11,770
Interest income on assets	450	480
Remeasurement gains/losses on assets	1,180	290
Contributions to the employer	310	330
Contributions by participants	130	140
Benefits paid	(360)	(470)
Assets at end of period	14,250	12,540

The estimated value of employer contributions for the year ended 31 July 2017 is £300k.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

22 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

Actual Return on Assets

	2016	2015
	£'000	£'000
Interest income on assets	450	480
Gain/loss on assets	1,180	290
	<u>1,630</u>	<u>770</u>

23 CAPITAL COMMITMENTS

	2016	2015
	£'000	£'000
Commitments contracted for at 31 July	<u>-</u>	<u>-</u>

24 LEASE OBLIGATIONS

At 31 July the Group had annual commitments under non-cancellable operating leases as follows:

	2016	2015
	£'000	£'000
Plant and Equipment:		
Expiring within one year	155	34
Expiring within two and five years inclusive	46	63
Expiring in over five years	-	-
	<u>201</u>	<u>97</u>

25 ENDOWMENT ASSETS

	2016	2015
	£'000	£'000
Balance as at 01 August	-	22
Release to Income and Expenditure to match depreciation	-	(22)
Balance as at 31 July	<u>-</u>	<u>-</u>

The endowment fund has now been fully utilised.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

26 RELATED PARTY TRANSACTIONS

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 £1,984; 19 governors (2015: £217; 19 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2015: None).

Transactions with the funding bodies and HEFCE are detailed in notes 2, 15, and 16.

During the year the college paid fees of £7,100 (2015: £nil) to Clive Owen LLP, a company in which Governor Neville Baldry is a partner.

27 AMOUNTS DISPERSED AS GRANT

SFA – Adult Discretionary Support	2016 £'000	2015 £'000
19+ hardship support	2	194
20+ childcare	-	236
DLS	279	-
24+ loans	109	-
Residential Access Fund	-	-
Other Funding body grants	-	37
Interest earned	-	-
	390	467
Disbursed to students	(371)	(444)
Staffing	-	-
Administration costs	(19)	(23)
Audit fees	-	-
Amount consolidated in financial statements	-	-
Balance unspent as at 31 July, included in creditors	-	-

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

28 AMOUNTS DISPERSED AS GRANT

EFA – 16-19 Bursary Funds

	2016 £'000	2015 £'000
Discretionary bursaries	168	143
Bursaries	30	53
Interest earned	-	-
	198	196
Disbursed to students	(190)	(191)
Staffing	-	-
Administration costs	(8)	(8)
Audit fees	-	-
Amount consolidated in financial statements	-	-
Balance overspent as at 31 July	-	(3)

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 income and expenditure account. The income and expenditure consolidated in the College's financial statements relates to the purchase of some equipment from the access fund and the payment of accommodation by the College on the student's behalf.

29 FINANCIAL INSTRUMENTS

Financial instruments measured at fair value through the statement of comprehensive income include fixed asset investments in listed equity shares, investment trusts and other securities of £178k (2015: £179k).

Financial assets measured at amortised cost comprise trade debtors of £163k (2015: £181k).

Financial liabilities measured at amortised costs comprise bank loans, other loans and trade creditors totalling £6.508m (2015: £6.961m).

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

30 TRANSITION TO FRS102 AND THE FURTHER AND HIGHER EDUCATION SORP

The year ended 31 July 2016 is the first year that the College has presented its financial statements under FRS 102 and the 2015 FE HE SORP. The following disclosures are required in the year of transition. The last financial statements prepared under previous UK GAAP were for the year ended 31 July 2015 and the date of transition to FRS 102 and the 2015 FE HE SORP was therefore 1 August 2014. As a consequence of adopting FRS 102 and the 2015 FE HE SORP, a number of accounting policies have changed to comply with those standards. An explanation of how the transition to FRS 102 and the 2015 FE HE SORP has affected the College's financial position, financial performance and cash flows, is set out below.

	Note	1 August 2014		31 July 2015	
		Group £'000	College £'000	Group £'000	College £'000
Financial Position					
Total funds under previous SORP		25,962	25,962	26,292	23,003
Deferred capital grants	(a)	(25,926)	(25,926)	(28,298)	(25,308)
Expendable endowment	(b)	(22)	(22)	-	-
Employee leave accrual	(c)	(242)	(242)	(194)	(194)
Revaluation of land	(d)	1,283	1,132	1,283	1,132
Total effect of transition to FRS 102 and 2015 FE HE SORP		(24,907)	(25,058)	(27,209)	(24,370)
Total reserves under 2015 FE HE SORP		1,055	904	(917)	(1,367)

		Year ended 31 July 2015	
		Group £'000	College £'000
Financial performance			
Surplus for the year after tax under previous SORP		(648)	(947)
Opening holiday pay accrual	(c)	244	244
Closing holiday pay accrual	(c)	(194)	(194)
Reclassification of pension	(e)	(200)	(200)
Actuarial loss on pension scheme	(f)	(1,172)	(1,172)
Total effect of transition to FRS 102 and 2015 FE HE SORP		(1,322)	(1,322)
Total comprehensive income for the year under 2015 FE HE SORP		(1,970)	(2,269)

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

30 TRANSITION TO FRS102 AND THE FURTHER AND HIGHER EDUCATION SORP (CONTINUED)

a) Non-government grants accounted for under performance model

The College has previously been in receipt of certain capital grants from sources other than those classified as "government" under FRS 102 and the 2015 FE HE SORP. Under the previous UK GAAP and 2007 SORP, these were able to be capitalised and amortised over the remaining useful economic life of the relevant fixed assets. This accounting treatment is no longer available for non-government grants and the grants have therefore been accounted for under the performance model and treated as if they had been credited to Comprehensive Income immediately that the performance conditions had been met. A corresponding adjustment has been made to the income recognised in the 2015 results that related to the annual amortisation of the capital grants involved.

b) Expendable endowment

The expendable endowment has been reclassified in accordance with FRS102.

c) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 15 days unused leave for teaching staff but no unused leave for non-teaching staff due to their greater flexibility in taking leave during the year. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £244k was recognised at 1 August 2014, and £194k at 31 July 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £50k has been charged to Comprehensive Income in the year ended 31 July 2015.

d) Revaluation of land

Freehold land was revalued as at 31 July 2014 and therefore the book value of land within tangible fixed assets has been revalued in the financial statements at deemed cost.

e) Change in recognition of defined benefit plan finance costs

The net pension finance cost recognised in the Income and Expenditure account for the year ended 31st July 2015 under the previous UK GAAP was the net of the expected return on pension plan assets and the interest on pension liabilities. FRS 102 requires the recognition in the Statement of Comprehensive Income, of a net interest cost, calculated by multiplying the net plan obligations by the market yield on high quality corporate bonds (the discount rate applied). The change has had no effect on net assets as the measurement of the net defined benefit plan obligation has not changed. Instead, the decrease in the surplus for the year has been mirrored by a reduction in the actuarial losses presented within Other Comprehensive Income.

Consolidated Financial Statements for the year ended 31 July 2016



Notes to the Consolidated Financial statements (continued)

30 TRANSITION TO FRS102 AND THE FURTHER AND HIGHER EDUCATION SORP (CONTINUED)

f) Presentation of actuarial gains and losses within Total Comprehensive Income

Actuarial gains and losses on the College's defined benefit plans were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS 102 to be presented within the Statement of Comprehensive Income, as movements in Other Comprehensive Income.

Consolidated Financial Statements for the year ended 31 July 2016



INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF BISHOP AUCKLAND COLLEGE AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH THE SKILLS FUNDING AGENCY

In accordance with the terms of our engagement letter dated 5 October 2015 and supplementary letter dated 19 December 2016 ('engagement letter') and further to the requirements of the financial memorandum with the Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether the expenditure disbursed and income received by Bishop Auckland College during the period 1 August 2015 to 31 July 2016 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. 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 Skills Funding Agency has other assurance arrangements in place.

This report is made solely to the corporation of Bishop Auckland College and the Secretary of State for Education acting through the Skills Funding Agency in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of Bishop Auckland College and the Secretary of State for Education acting through the Skills Funding Agency 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 Bishop Auckland College and the Secretary of State for Education acting through the Skills Funding Agency for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of Bishop Auckland College and the reporting accountant

The corporation of Bishop Auckland College is responsible, under the SFA 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.

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Consolidated Financial Statements for the year ended 31 July 2016



INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF BISHOP AUCKLAND COLLEGE AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH THE SKILLS FUNDING AGENCY (CONTINUED)

Approach

We conducted our engagement in accordance with the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. We performed a limited assurance engagement as defined in that framework and our engagement letter.

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

Our engagement includes examination, on a test basis, of evidence relevant to the regularity of the college's income and expenditure.

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 high level financial control areas where we identified areas where a material irregularity is likely to arise. We undertook detailed testing, based on our identification of the 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 on the financial statements to the extent evidence from the conduct of that audit supports the regularity conclusion.

Conclusion

In the course of our work nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

RSM UK AUDIT LLP *RSM UK Audit LLP*
Chartered Accountants
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NE1 4AD
10 December 2016