

Darlington College

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

Darlington College

Professional Advisors

Financial statements and regularity auditor:

Mazars LLP
Salvus House
Aykley Heads
DURHAM
DH1 5TS

Internal auditor:

Audit One
Lanchester Road Hospital
Durham
DL1 5RD

Bankers:

Barclays Bank Plc
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Darlington
DL3 7QW

Solicitors:

Ward Hadaway
Sandgate House
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NE1 3DX

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Members Report and Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES

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

Legal status

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

The Corporation was incorporated as Darlington College of Technology. In January 2006 the Secretary of State granted consent to the Corporation to change the College's name to Darlington College.

Public Benefit

Darlington College is an exempt charity under the Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 8.

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:

- High-quality teaching leading to excellent attainment by our students
- Widening participation and tackling social exclusion
- Excellent destinations for students moving into work, further or higher education
- Strong student support systems leading to high attainment, improved confidence and excellent employability
- Contributing to the local economy, and reducing skills gaps, by maintaining close links with employers, industry and commerce
- Supporting local industries and economic strategy by working closely with partners such as Local Enterprise Partnerships (LEPs) and Combined Authorities

The Strategic Plan

The College has developed a five-year Strategic Plan for 2018-2023 and the Corporation monitors the performance of the College against these targets. Within the overall Strategy, annual delivery plans are reviewed and updated each year.

The College's Mission is to be a centre of excellence for education and skills that supports and inspires people to achieve their aspirations and prepares them for their next steps in life.

In developing the Strategic Plan, the College also refreshed its Values statement following discussions at team briefings where staff talked about what is most important and valued about the College. This feedback led to the following Values being chosen.

Community

It is important to us that the college remains at the heart of our wider community. It is also important to us that we maintain our strong sense of community within the college, valuing our culture of teamwork and respect.

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Members Report and Operating and Financial Review (Continued)

Pride and passion

We all work with pride and passion for our students, celebrating their achievements, and working towards high expectations and continued excellence in everything we do.

Student focus

We are committed to being student-focused, and our ambition is for our students to achieve to the highest level they possibly can. We also put a high value on our reputation as a college with a caring and friendly environment that is second to none.

Inclusion

It is important to us that the College is inclusive, widening opportunities for the future and maximising the potential of all our learners. Our social purpose matters to us.

The Strategic Plan focuses on two core aims:

- Maintaining high quality learning and outcomes for students
- Building a successful, financially sustainable college

It also identifies two key areas for development that underpin the success of the College as a whole:

- Better management information
- Workforce engagement and development

Key achievements against the plan for 2017/18 include:

- Continuing improvements in quality and student outcomes in all areas leading to the College being listed as 1st in Tees Valley, and 5th nationally, for headline achievement rates, for the second year running
- Excellent levels of student and employer satisfaction overall
- Increased apprenticeship delivery as a result of investment in business development
- In Higher Education delivery, a TEF Silver award and successful Quality Review Visit
- A strong financial performance which saw the College maintain its healthy reserve, meet banking covenants and retain a GOOD financial health grade.

Performance indicators

The College is committed to observing the importance of sector measures and indicators and use the FE Choices website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Education and Skills Funding Agency (ESFA). The Finance Record produces a financial health grading. The current financial health grading of the College as measured by the ESFA is 'GOOD'.

FINANCIAL POSITION

The financial results for the year can be summarised as follows:

	2018	2017
	£'000	£'000
Deficit for the year from continuing operations	(573)	(234)
Actuarial gain/(loss) on pensions	1,263	2,393
Adjustment	(25)	
Total comprehensive gain/(loss) for the year	665	2,159

The College's deficit from continuing operations has increased from £234,000 to £573,000. Key factors influencing this deficit are as follows:

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- **College Income** - decreased by £2.4m in 2017/18 to £14.8m (2016/17: £17.2m) principally as a result of the following
 - ESFA funding for study programme learning to 16-18 year olds fell by £0.5m to £7.2m following reduced learner recruitment in this category at a time of declining demographics.
 - The release of capital grants decreased to £0.3m (2016/17: £1.5m as a result of the disposal of the Catterick campus).
 - Last year included insurance claim proceeds of £0.8m for restoration works following the kitchen fire.
- **Staff costs** – were reduced by £0.4m in 2017/18 to £9.7m (2016/17: £10.1m) as a continuation of the headcount reductions implemented following the drop in student numbers and associated funding.
- **Restructuring costs** – in 2017/18 of £0.1m were £0.3m lower than 2016/17 costs.
- **Operating expenditure** – Normal operating expenditure was reduced by £0.7m in 2017/18 again in response to lower income projections.

In addition, the College has recorded an actuarial gain of £1.3m in its financial statements, principally in relation to the College's share of assets and liabilities in the County Durham Local Government Pension Scheme. Over recent years, the Corporation has noted significant volatility in this liability (2016/17 actuarial gain £2.4m), which is calculated by an independent actuary engaged directly by the pension scheme.

The latest full triennial valuation of this scheme was based on the position as at 31 March 2016 and has resulted in increased contribution rates from April 2017.

At present movements in the College's defined benefit pension liabilities are excluded from any covenant calculations regarding the College's borrowings and are similarly excluded from the financial health grading calculations which are monitored by the Education and Skills Funding Agency. Accordingly, there is no immediate risk to the College resulting from the movement in this liability, however the Corporation will continue to monitor the position moving forward.

As at 31 July 2018 consolidated accumulated reserves are £8.9m (2017 £8.2m) and cash balances are £5m (2017: £4.8m).

The College is reliant on the ESFA as its principal source of funding and in 2017/18 these bodies provided 75% (2017: 70.6%) of the College's total income.

The financial statements reflect the operations of Darlington College and its wholly owned subsidiary company, Quadrant (Darlington) Limited, which did not trade during 2017/18 or 2016/17.

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's treasury management policy is embedded within the Financial Regulations, updated and approved by Corporation Board in July 2018.

Short term borrowing for temporary revenue purposes is authorised by the Principal. All other borrowing requires the authorisation of the Corporation Board and shall comply with the requirements of the Financial Memorandum.

The College has not made use of any short term borrowing during 2017/18.

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Cash flows and liquidity

The College is reporting an increase in cash balances of £0.2m, which reflects an inflow from operating activities of £1.2m, net capital expenditure of £0.5m, loan repayments of £0.3m and net debt servicing costs of £0.2m.

The College's operating cash inflow for 2017/18 has been influenced significantly by the following:

- Trade payables reduced by £0.3m across the year from £0.1m at 31 July 2017 to £0.4m at 31 July 2018; and,
- Amounts due to the ESFA decreased by £0.3m from £0.6m at 31 July 2017 to £0.3m at 31 July 2018.

The above movements indicate the extent to which liabilities carried in to 2017/18 from the prior year have influenced operating cash flows in the year.

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 the College's cash reserves.

At the 31st July 2018 the outstanding bank loan was £3.6m but the College also held cash of £5m. The structure of the loan facilities is outlined in note 15.

The Board believes that the College has sufficient cash reserves to allow the College to continue to meet its liabilities as they fall due and continue to invest in the development of the college and its curriculum whilst the financial turnaround plan is implemented.

Reserves Policy

The reserves policy forms part of the College's Financial Regulations, reviewed and updated on an annual basis. The College recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities. The conditions surrounding the management of cash reserves is also set out in the Financial Regulations which covers investment of surpluses and levels of borrowing. As at the balance sheet date the Income and Expenditure reserve stands at £8.9m (2017: £8.2m).

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Financial health

The financial health is graded as Good (2017: Good) and the College has £3.6m of secured loans with Barclays Bank.

Student Numbers

In 2017/18 the College has delivered activity that has produced £10.8m in funding body main allocation funding (2016/17: £11.5m). The College had approximately 4,172 funded and 1,339 non-funded students.

Student Achievements

The achievement rate for 16-18 year old students (all qualifications) in 2017/18 was 83% (2016/17: 83%). The achievement rate for adult students (all qualifications) in 2017/18 was 96% (2016/17: 97%). The achievement rate is defined as the proportion of students that successfully achieve the learning aims to which they are enrolled.

Curriculum Developments

The College continues to review the curriculum offer and to respond to local and regional needs. The College considers a range of factors in developing the curriculum offer including:

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- Local and regional current and future skills/qualification level requirements
- Labour market information (LMI) on new and replacement jobs
- Feedback from employers, students, schools and other stakeholders
- Local/regional industrial plans and economic priorities
- Demographics including equality and diversity indicators (E&D), deprivation, local educational participation and attainment levels
- The social and cultural wellbeing of the local/regional community
- Increased access to/promoting higher level skills
- Improving access to opportunities for all, improving social mobility, tackling exclusion
- Reducing unemployment, especially in young people
- Contributing to economic growth

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 2017 to 31 July 2018, the College paid 81.5 per cent 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 have been no significant post balance sheet events.

Future prospects

The College continues to develop and innovate to address the challenges of maintaining and improving quality and performance, meeting learner number and funding targets, meeting and addressing local economic priorities and securing a healthy and sustainable financial position. The College works with a range of partners to ensure that it continues to operate at the heart of the communities it serves, communities that stretch beyond Darlington into North Yorkshire and Co Durham.

RESOURCES

The College has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include the Haughton Road site, opened in 2006, which provides up to date accommodation suitable for the delivery of teaching and learning in a variety of vocational areas.

Financial

The College has £8.9m of net assets taking account of a £8.7m pension liability (2017: £8.2m including a £9m pension liability) and bank debt of £3.6m (2017: £3.9m).

People

The College employs 419 staff (286 expressed as full time equivalents), of which 181 (114 FTE) are teaching staff. Comparative figures for 2016/17 are 444 staff (311 FTE) of which 186 (128 FTE) were teaching staff.

Unions

The College recognises two unions and has a facilities agreement in place with the University and College Union and Unison. On 31 July 2018 the College reported on Trade Union facility time via the Government cabinet office data notifications service. During the year (1 April 2017 to 31 March 2018) the College

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employed between 430-460 staff, at the 31 March 2018 there were 453 staff employed. There were 3 trade union representatives during this time working on union duties in College. The total cost of this facility time was £13,000 (0.14% of the pay bill). During the year 553 hours of trade union representative time was spent on paid facility time and 11 hours spent on paid trade union activities time. The percentage of the total paid facility time spent on paid union activities was 1.99%.

Reputation

The College has a good reputation locally, regionally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and developing strong external relationships. New initiatives such as distance learning have been trialled in 2017/18 in order to develop this further next year.

PRINCIPAL RISKS AND UNCERTAINTIES

A risk register is maintained at the College level which is reviewed at least annually by the Audit Committee and more frequently where necessary. 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 prioritised using a consistent scoring system.

Based on the strategic plan, the Risk Management Group regularly undertakes comprehensive reviews 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 the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the Risk Management Group will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

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.

- Failure to generate enough income to sustain and grow the current provision
- Failure to react to changes in local and national education policy changes
- Failure to ensure adequate capacity in the workforce and recruit and retain the best employees
- Failure to maintain and improve college governance and leadership
- Failure to enhance and improve the college's reputation and influence both locally and regionally
- Failure to align college delivery to local social, economic and demographic profiling
- Failure to protect students and staff from the risk of harm
- Failure to maintain and improve the College's quality of its provision
- Failure to ensure that Darlington College is a leading Further Education establishment

Mitigating controls and sources of assurance are identified in the Risk Register.

STAKEHOLDER RELATIONSHIPS

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

- Students;
- Education Sector Funding bodies;
- FE Commissioner;
- Staff;
- Local employers (with specific links);
- Sub-contract partners;
- Local Authorities, Combined Authorities, and elected mayor;
- Local Enterprise Partnerships;
- The local community;

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- Teesside University
- Other FE institutions;
- Trade unions; and,
- Professional bodies.

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

Equality

Darlington College is committed to ensuring equality of opportunity for all who learn and work under its banner. The College positively respects and values differences in race, gender, sexuality, sexual orientation, ability, class and age. It strives vigorously to remove conditions which place people at a disadvantage and it actively combats bigotry.

The College's Equality Policy is published on its internet site as a publically accessible document.

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

An Equality and Diversity plan is produced annually, which includes a review of the year ended and actions for the following year. This is monitored by the Executive and Corporation Board.

Disability statement

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

- The College's Haughton Road site is fully accessible. Accessibility audits were completed as part of the development of the sites;
- The College has an Additional Learning Support manager who provides information, advice and arranges support where necessary for students with learning difficulties and disabilities;
- Specialist equipment is available for the use of Students and the College has a range of assistive technology available to support learning;
- The College has an admissions policy for all students. Appeals against a decision not to offer a place are dealt with under the Customer Comments procedure; and
- The College has made a significant investment in the appointment of specialist staff to support students with learning difficulties or disabilities.

DISCLOSURE OF INFORMATION TO AUDITOR

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's 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 11 December 2018 and signed on its behalf by:

P Howarth
Chairman
11 December 2018

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Statement of Corporate Governance and Internal Control

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

The College endeavours to conduct its business:

- In accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- 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
- Having due regard to the UK Corporate Governance Code 2016 in so far as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College has adopted and complied with the Code of Good Governance for English Colleges in all areas other than adoption of a role description for the Chair, which will need to be developed.

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 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.

The Corporation

The members who served the Corporation during the year and up to the date of signature of this report were as listed in the table below:

Name	Date appointed	Term of office	Date resigned	Status	Committees served	Attendance
Ms Val Bailey	Jul 2015	Jul 2019		Independent	A, Q&S	11/13
Mr Rob Barrigan	Oct 2013	Oct 2017	Jul 2018	Independent	FE&E, R, S	12/15
	Oct 2017	Oct 2021				
Ms Julie Davison	Apr 2018	Apr 2022		Staff	Q&S	2/3
Ms Nicky Grace	Apr 2016	Apr 2020		Independent	A	9/10
Mr Wayne Hall	Apr 2014	Apr 2018		Staff Member	Q&S	5/6
Mr Gary Hope	Oct 2013	Oct 2017		Independent	Q&S, SL	13/14
	Oct 2017	Oct 2019				
Mr Pat Howarth (Chair)	Jul 2015	Jul 2019		Independent	R, S, Q&S, SL	20/20
Ms Frances Hoy	Mar 2016	Mar 2020		Independent	A, S, R	14/16
Ms Marguerite Kelly	Dec 2017	Jul 2018		Student	SL	3/5
Mr Calvin Kipling	Sep 2016	Aug 2020		Independent	Q&S	7/10
Dr Colin Price	Jan 2015	Jan 2019		Independent	FE&E	10/11
Miss Kate Robinson	Sep 2017	Jul 2018		Student		1/4
Ms Kate Roe	Aug 2014	Ex officio		Principal	FE&E, Q&S, SL, S	18/22
Mr Eric Walsh	Dec 2017	Dec 2021		Staff	FE&E	4/5

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Statement of Corporate Governance and Internal Control (continued)

The Clerk to the Corporation is Ms Sarah Thompson

Co-opted Members of committees

Name	Date appointed	Term of office	Status	Committees served	Attendance
Mr Lindesay Steel	Jul 2017	Jul 2018	Co-opted	A	3/3
Mr Simon Jones	Apr 2017	Jul 2018	Co-opted	FE&E	2/2
Ms Helen Ellison	Jul 2017	Jul 2018	Co-opted	Q&S	2/3

Key to Committees:

S	Search and Member Development
Q&S	Quality and Standards
A	Audit
R	Remuneration
FE&E	Finance, Estates and Employment
SL	Student Liaison

Subsequent changes to Corporation and Committee membership

Ms Hollie Ball	Appointed as a Corporation member for four year term of office from Aug 2018
Mr Scott Wood	Appointed as a Corporation member for four year term of office from Aug 2018
Ms Helen Ellison	Reappointed as a co-opted Q&S member for one year from Aug 2018
Ms Sue Hewison	Appointed as a co-opted FEE member for one year from Aug 2018
Mr Simon Jones	Reappointed as a co-opted FEE member for one year from Aug 2018
Mr Gareth Devine	Appointed as a Corporation member for four year term of office from October 2018

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 met on seven occasions in 2017/18, with six scheduled meetings and one special meeting.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Finance, Estates and Employment; Remuneration; Audit; Quality and Standards; Student Liaison; and Search and Member Development. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation.

The clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at Darlington College, Central Park, Haughton Road, Darlington.

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.

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Statement of Corporate Governance and Internal Control (continued)

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

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

There is a clear division of responsibility in that the roles of the Chair of the Corporation and Accounting Officer of the College 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 and Member Development Committee comprising three independent Corporation members and the Principal. The Search and Member Development Committee 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.

Remuneration Committee

Throughout the year ending 31 July 2018, the College's Remuneration Committee comprised three independent Corporation members. The committee's responsibilities are to consider the performance of the Accounting Officer, other senior post holders and the Clerk to the Corporation and make recommendations to the Board on the remuneration and benefits of these posts.

Details of remuneration for the year ended 31 July 2018 are set out in note 6 to the financial statements.

Audit Committee

In 2017-18, the Audit Committee comprised three independent Corporation members and an external co-opted member. The Accounting Officer and Corporation Chair are excluded from Audit Committee membership. The Committee operates in accordance with written terms of reference approved by the Corporation. Its purpose is to advise the Corporation on the adequacy and effectiveness of the College's system of internal control and its arrangements for risk management, control and governance processes.

The Audit Committee meets at least termly and provides a forum for reporting by the College's internal and financial statement 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 review 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 recommendations and internal audit undertake periodic follow up reviews to ensure such recommendations have been implemented.

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

Search and Member Development Committee

The Search and Member Development Committee comprises three independent members of the Corporation and the Principal and meets at least three times a year.

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Statement of Corporate Governance and Internal Control (continued)

The main aims of the Committee are to:

- monitor vacancies and potential vacancies on the Corporation Board and to seek and consider potential new members for recommendation to the Board for immediate or future membership having considered carefully their skills, experience and other relevant aspects;
- consider carefully the current skills, experience and previous attendance, performance and commitment of retiring board members who are standing for re-election (including the consideration of other potential board members) and make recommendations to the board as to their re-election;
- oversee advertisements (if any) for new members;
- consider and review the induction requirements for new Corporation members and the training needs of existing members; and,
- monitor the composition of committees and to make or consider appointments in line with its delegated powers.

The Quality and Standards Committee

The Quality and Standards Committee meets at least three times a year with a minimum of five members including the Principal. In 2017-18, the Committee operated with a membership of seven, including one external co-opted member.

The purposes of the Committee are to:

- recommend targets for standards measurement;
- monitor academic performance including punctuality, attendance, retention, achievement and success patterns with a view to making recommendations;
- be responsible for monitoring the outcome of learner's performance;
- monitor and make recommendations regarding quality of provision;
- investigate and monitor customer feedback including Learner Voice and employer responses with a view to making recommendations;
- monitor and make recommendations arising from Equality and Diversity across college reports;
- review the College's Self-Assessment Report;
- and review and monitor the College's Quality Improvement Plan.

The Finance, Estates and Employment Committee

The Finance, Estates and Employment Committee meets at least once a term.

The Committee consists of a minimum of five members and operated with a membership of five, including one co-opted member, during the 2017-18 academic year. The senior staff responsible for finance, funding, HR and estates will normally attend the meeting. The Committee may, with the approval of the Board, appoint sub-groups to deal with specific issues.

The principal responsibilities of the Finance, Estates and Employment Committee are to ensure that the College operates in accordance with the Financial Memorandum between the College and the Education and Skills Funding Agency (ESFA) by ensuring that the College's Financial Regulations and Performance Monitoring Protocols are reconciled through regular reports to the Board.

The Finance, Estates and Employment Committee is also responsible for providing advice and/or recommendations to the Board on:

- Financial policies and controls;
- Financial Regulations;
- Annual estimates of income/expenditure;
- Significant variances on budgets;
- Capital expenditure, approval and monitoring;
- Accommodation strategy;

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Statement of Corporate Governance and Internal Control (continued)

- Relevant taxation issues;
- Assets;
- Solvency/Value for Money;
- Budgets;
- Management Accounts;
- Investment and Borrowing Policies;
- Tuition Fees;
- Health and Safety
- Establishment/Personnel; and,
- Employment Policies (including contracts and procedures).

Student Liaison Committee

The Student Liaison Committee meets not less than once per term. The committee comprises a minimum of three members, including the Principal and student governor.

The aim of the committee is to provide an additional mechanism for the Board to seek and listen to the views of students, and generate action to respond to feedback, compliments and concerns.

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 Financial Memorandum between the College and the funding bodies. She is also responsible for reporting to the Corporation any material weaknesses or break-downs 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 Darlington College for the year ended 31 July 2018 and up to the date of approval of the annual report and financial statements.

Capacity to Handle Risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal on-going process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2018 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

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Statement of Corporate Governance and Internal Control (continued)

The Risk and Control framework

The system of internal control is based on a framework of regular management information, administration 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 Corporation;
- Regular reviews by the Corporation 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; and,
- The adoption of formal project management disciplines, where appropriate.

Darlington College has an internal audit service, which operates in accordance with the requirements of the ESFA's Post 16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. At minimum, annually, 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.

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; and,
- 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 of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Executive Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Executive Team and 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 Executive Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2018 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the Executive Team and internal audit, and taking account of events since 31 July 2018.

Based on the advice of the Audit Committee and the Accounting Officer, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has 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".

Darlington College

Statement of Corporate Governance and Internal Control (continued)

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

The Corporation has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the College's financial memorandum. 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 to the best of its knowledge, the Corporation believes it is able to identify any material irregularity or improper use of funds by the College, or material non-compliance with the Education and Skills Funding Agency's terms and conditions of funding under the College's financial memorandum. We further confirm that any instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the Education and Skills Funding Agency.

Going Concern

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

Approved by order of the members of the Corporation on 11 December 2018 and signed on its behalf by:

P. Howarth

Chairman

11 December 2018

K Roe

Principal

11 December 2018

Darlington College

Statement of the Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the College's Funding Agreement with the ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education and with the College Accounts Direction 2017 to 2018 issued by the ESFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

In preparing the group and parent College 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
- assess the group and parent College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent College or to cease operations, or have no realistic alternative but to do so.

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

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the parent 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 such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for taking steps that are reasonably open to it in order to safeguard the assets of the group 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 expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from the ESFA are used only in accordance with the Financial Agreement with the ESFA and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the group and parent College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the ESFA are not put at risk.

Approved by order of the members of the Corporation on 11 December 2018 and signed on its behalf by:

P. Howarth

Chair

11 December 2018

Darlington College

**Mazars LLP
Salvus House
Aykley Heads
DURHAM
DH1 5TS**

Independent auditor's report to the Members of Darlington College

Opinion

We have audited the financial statements of Darlington College ("the College") for the year ended 31 July 2018 which comprise the Consolidated and College Statement of Comprehensive Income and Expenditure, the Consolidated and College Statement of Changes in Reserves, the Consolidated and College Balance Sheet, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

give a true and fair view of the state of the Group's and the College's affairs as at 31 July 2018 and of the Group's and the College's deficit of income over expenditure for the year then ended; have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The Corporation is responsible for the other information. The other information comprises the information included in the Members' Report and Operating and Financial Review other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the Members of Darlington College (continued)

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

We have nothing to report in this regard.

• **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- the information given in the report of the Members of the Corporation, including the operating and financial review and statement of corporate governance, is inconsistent with the financial statements; and
- we have not received all the information and explanations we require for our audit.

• **Responsibilities of the Members of the Corporation**

As explained more fully in the Statement of the Responsibilities of the Members of the Corporation set out on page 15, the Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the Corporation determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporation is responsible for assessing the group's and the parent College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Corporation intends to liquidate the group or the parent College or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Darlington College

Independent auditor's report to the Members of Darlington College (continued)

Use of the audit report

This report is made solely to the Corporation as a body in accordance with Article 22 of the College's Articles of Government. Our audit work has been undertaken so that we might state to the Corporation those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the Corporation as a body for our audit work, for this report, or for the opinions we have formed.

Mazars LLP

Chartered Accountants and Statutory Auditor

Salvus House

Aykley Heads

Durham

DH1 5TS

12 December 2018

Reporting Accountant's assurance report on regularity (continued)

To: The Corporation of Darlington College and Secretary of State for Education acting through the Department for Education ("the Department")

In accordance with the terms of our engagement letter dated 27 June 2018 and further to the requirements of the funding agreement with the Education and Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest that in all material respects the expenditure disbursed and income received by Darlington College during the period 1 August 2017 to 31 July 2018 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

The framework that has been applied is set out in the Post 16 Audit Code of Practice ("the Code") issued by the Department. 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 the Department has other assurance arrangements in place.

This report is made solely to the Corporation of Darlington College and the Department in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Corporation of Darlington College and the Department 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 Darlington College and the Department for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of Darlington College and the reporting accountant

The Corporation of Darlington College is responsible, under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received 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 Code. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Code issued by the Department. We performed a limited assurance engagement as defined in that framework.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity.

A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Reporting Accountant's assurance report on regularity (continued)

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

The work undertaken to draw to our conclusion includes:

- Reviewed the statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding.
- Reviewed the College's completed self-assessment questionnaire on regularity.
- Read the financial memorandum with the ESFA and the conditions of funding agreement with the ESFA.
- Tested a sample of expenditure disbursed and income received to consider whether they have been applied to purposes intended by Parliament and in accordance with funding agreements where relevant.
- Reviewed all payments to senior post holders on termination of employment or in respect of claims made in the year.
- Reviewed approved policies and procedures operating during the year for each funding stream that has specific terms attached.
- Obtained the policy for personal gifts and/or hospitality.
- Obtained the register of personal interests.
- Obtained the financial regulations/financial procedures.
- Obtained the College's whistleblowing policy.

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 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Signed:

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

12 December 2018

Statement of Comprehensive Income and Expenditure

	Notes	Year ended 31 July		Year ended 31 July	
		2018	2018	2017	2017
		Group	College	Group	College
		£'000	£'000	£'000	£'000
INCOME					
Funding body grants	2	11,070	11,070	12,160	12,160
Tuition fees and education contracts	3	2,481	2,481	2,310	2,310
Other income	4	1,208	1,208	2,744	2,744
Endowment and investment income	5	7	7	3	3
Total income		14,766	14,766	17,217	17,217
EXPENDITURE					
Staff costs	6	9,730	9,730	10,126	10,126
Restructuring costs	6	95	95	369	369
Other operating expenses	7	3,855	3,853	4,584	4,583
Depreciation	10	1,205	1,205	1,056	1,056
Interest and other finance costs	8	454	454	503	503
Total expenditure		15,339	15,337	16,638	16,637
Surplus/(deficit) for the year before other gains/(losses)		(573)	(571)	579	580
Loss on disposal of assets		-	-	(813)	(813)
Deficit for the year		(573)	(571)	(234)	(233)
Actuarial gain/(loss) in respect of pension schemes	21/22	1,263	1,263	2,393	2,393
Total comprehensive Income		690	692	2,159	2,160

Darlington College

Consolidated and College Statement of Changes in Reserves

	Income and Expenditure Account	
	Group £'000	College £'000
Balance at 1st August 2016	6,045	5,993
Deficit from the income and expenditure account	(234)	(233)
Other Comprehensive Income	2,393	2,393
Total comprehensive income	2,159	2,160
Balance at 31 July 2017	8,204	8,153
Deficit from the income and expenditure account	(573)	(571)
Other Comprehensive Income	1,263	1,263
Adjustment	(25)	(25)
Total comprehensive income	665	667
Balance at 31 July 2018	8,869	8,820

Darlington College

Balance sheets at 31 July

	Notes	2018 Group £'000	2018 College £'000	2017 Group £'000	2017 College £'000
Fixed Assets					
Tangible fixed assets	10	28,204	28,204	28,912	28,912
Investments	11	-	25	-	25
		28,204	28,229	28,912	28,937
Current Assets					
Stocks		10	10	6	6
Trade and other receivables	12	438	438	158	158
Cash and cash equivalents	16	5,028	5,028	4,819	4,819
		5,476	5,476	4,983	4,983
Less: Creditors –amounts falling due within one year	13	(2,212)	(2,286)	(1,822)	(1,898)
Net current assets		3,264	3,190	3,161	3,085
Less: Creditors amounts falling due after more than one year	14	(13,920)	(13,920)	(14,482)	(14,482)
Provisions					
Defined benefit obligations	21/22	(8,249)	(8,249)	(8,962)	(8,962)
Other provisions	21	(430)	(430)	(425)	(425)
Total net assets		8,869	8,820	8,204	8,153
Unrestricted reserves					
Income and expenditure account		8,869	8,820	8,204	8,153
Total unrestricted reserves		8,869	8,820	8,204	8,153

The financial statements on pages 21 to 43 were approved and authorised for issue by the Corporation on 11 December 2018 and were signed on its behalf by:

P Howarth

Chair

K Roe

Accounting officer

Darlington College

Consolidated statement of Cash Flows

	Notes	2018 £'000	2017 £'000
Cash flow from operating activities			
Deficit for the year		(573)	(234)
Adjustment re reserves		(25)	
Adjustment for non cash items			
Depreciation	10	1,205	1,056
Depreciation Adjustment	10	(4)	
(Increase)/decrease in stocks		(4)	(1)
(Increase)/decrease in debtors	12	(280)	(29)
Increase/(decrease) in creditors due within one year	13	390	(24)
Increase/(decrease) in creditors due after one year	14	(286)	(1,385)
Increase/(decrease) in provisions	21	(34)	(34)
Pensions costs less contributions payable	22	360	410
		1,347	(7)
Adjustment for investing or financing activities			
Investment income	5	(7)	(3)
Interest payable	8	454	503
Loss on sale of fixed assets		(1)	813
		446	1,313
Net cash flow from operating activities		1,195	1,072
Cash flow from investing activities			
Proceeds from sale of fixed assets		1	1,214
Investment income	5	7	3
Payments made to acquire fixed assets	10	(494)	(838)
		(486)	379
Cash flow from financing activities			
Interest paid	8	(224)	(237)
Repayments of amounts borrowed	15	(276)	(277)
		(500)	(514)
Increase/(decrease) in cash and cash equivalents in the year		209	937
Cash and cash equivalents at the beginning of the year	16	4,819	3,882
Cash and cash equivalents at the end of the year	16	5,028	4,819

Notes to the financial statements at 31 July 2018 (continued)

1 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 2017 to 2018 and in accordance with Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the College's accounting policies.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated financial statements of the group include the financial statements of the College and its subsidiary undertaking Quadrant (Darlington) Limited. Intra-group sales and profits are eliminated fully on consolidation. All financial statements are prepared to 31 July 2018.

Going concern

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

At 31 July 2018 the College currently had £3.607m of loans outstanding with bankers on terms negotiated in 2016. In addition, the College had cash reserves of £5m.

The terms of the existing loan agreement are for 3 years. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

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.

Recognition of income

Revenue grant funding

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

Notes to the financial statements at 31 July 2018 (continued)

grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Capital grant funding

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS 102. Other, non-governmental, capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the Balance Sheet and released to income as conditions are met.

Fee income

Income from tuition fees is stated gross of any expenditure which is not a discount and is recognised in the period for which it is received.

Investment income

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned on a receivable basis.

Agency arrangements

The college acts as an agent in the collection and payment of certain discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Accounting for post-employment benefits

Post-employment benefits to employees of the College are principally provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit plans, which are externally funded.

Teachers' Pension Scheme (TPS)

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method.

The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

Durham Local Government Pension Scheme (LGPS)

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred.

Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme

Darlington College

Notes to the financial statements at 31 July 2018 (continued)

assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

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

Short term Employment benefits

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

Enhanced Pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a college annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the College's income in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Land and buildings

The College's buildings are specialised buildings and therefore it is not appropriate to value them on the basis of open market value. The College's policy is to carry all assets at historic cost. 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.

Freehold land is not depreciated as it is considered to have an infinite useful life. Freehold buildings are depreciated over their expected useful economic life to the College of up to 50 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred income account within creditors, and are released to the income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

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. Capitalised equipment is depreciated on a straight line basis at the following rates:

- PCs and related IT equipment over 4 years, at 25% per annum
- Other equipment over 8 years at 12.5% per annum
- Where assets grouped together and classified as "prior year assets", the depreciation charge has been adjusted to bring the NBV of the group down to zero on a straight line basis by the end of the original depreciation period. The group which will be fully depreciated by 31 July 2019, has been depreciated at

Notes to the financial statements at 31 July 2018 (continued)

13%. All of the remaining assets in this group are depreciated at 20% and will be fully depreciated by 31 July 2021.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income and Expenditure. Any lease premiums or incentives relating to leases signed after 1st August 2014 are spread over the minimum lease term.

Investments in subsidiaries

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of 3 months or less. Bank overdrafts that are repayable on demand and form an integral part of the College's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

All loans, investments and short term deposits held by the Group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minimal amount of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

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

Notes to the financial statements at 31 July 2018 (continued)

Provisions

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.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the group's tangible assets, 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 18, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the financial statements at 31 July 2018 (continued)

2 Funding body grants

	Year ended 31 July 2018		Year ended 31 July 2017	
	Group £'000	College £'000	Group £'000	College £'000
Recurrent Grants				
Education and Skills Funding Agency - 16-18	7,228	7,228	7,696	7,696
Education and Skills Funding Agency - adult	2,179	2,179	2,370	2,370
Education and Skills Funding Agency - apprenticeships	1,405	1,405	1,444	1,444
Specific grants				
Release of government capital grants	258	258	650	650
Total	11,070	11,070	12,160	12,160

3 Tuition fees and education contracts

	Year ended 31 July 2018		Year ended 31 July 2017	
	Group £'000	College £'000	Group £'000	College £'000
Adult education fees	552	552	550	550
Apprenticeship fees and contracts	59	59	3	3
Fees for FE loan supported courses	741	741	805	805
Total tuition fees	1,352	1,352	1,358	1,358
Education contracts	1,129	1,129	952	952
Total	2,481	2,481	2,310	2,310

4 Other income

	Year ended 31 July 2018		Year ended 31 July 2017	
	Group £'000	College £'000	Group £'000	College £'000
Catering and residences	415	415	439	439
Other income generating activities	324	324	323	323
Non-Government capital grants	37	37	825	825
Insurance proceeds – kitchen fire	0	0	759	759
Miscellaneous income	432	432	398	398
Total	1,208	1,208	2,744	2,744

Notes to the financial statements at 31 July 2018 (continued)

5 Investment income

	Year ended 31 July		Year ended 31 July	
	2018	2018	2017	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other interest receivable	7	7	3	3

6 Staff costs Group and College

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

	2018	2017
	No	No
Teaching staff	114	128
Non teaching staff	172	183
	286	311

	2018	2017
	£'000	£'000
Staff costs for the above persons		
Wages and salaries	7,588	7,914
Social security costs	638	661
Other pension costs (note 22)	1,504	1,551
Payroll sub total	9,730	10,126
Restructuring costs - contractual	95	369
	9,825	10,495

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Executive Team which comprises the Principal (Accounting Officer), Deputy Principal, Director of Finance and Corporate Resources and Director of HR, Estates and IT. Staff costs include compensation paid to key management personnel for loss of office.

The increase in head count for key management personnel includes the two interim Director of Finance post holders who were in office prior to the current permanent Director of Finance and Corporate Resources being appointed. Through 2017/18 the annualised Full Time Equivalent (FTE) number of key management personnel equated to 4.50FTE (1.00FTE Principal, 1.00FTE Deputy Principal, 0.92FTE Assistant Principal, 0.67FTE Director of Finance and Corporate Resource, 0.50FTE Director of HR, Estates and IT and 0.45FTE Interim Finance Directors)

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

Notes to the financial statements at 31 July 2018 (continued)

	2018 No.	2017 No.
The number of key management personnel including the Accounting Officer was:	7	5

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

	Key management personnel		Other staff	
	2018 No.	2017 No.	2018 No.	2017 No.
£50,001 to £60,000	1	1	-	-
£60,001 to £70,000	2	2	-	-
£70,001 to £80,000	2	1	-	-
£100,000 to £110,000	1		-	-
£120,000 to £130,000	1	1	-	-
Total	7	5	-	-

Key management personnel compensation is made up as follows:

	2018 £'000	2017 £'000
Salaries – gross of salary sacrifice and waived emoluments	364	363
Employers National Insurance	45	45
	409	408
Pension contributions	59	54
	468	462

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:

	2018 £'000	2017 £'000
Salaries	121	120
Pension contributions	20	17
	141	137

Compensation for loss of office paid to former key management personnel

	2018 £'000	2017 £'000
Compensation paid to a former key management personnel - contractual	30	32

Darlington College

Notes to the financial statements at 31 July 2018 (continued)

The severance payment was approved by the College's Remuneration Committee.

The members of the Corporation other than the Accounting Officer and the staff member did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

7 Other operating expenses

	Year ended 31 July		Year ended 31 July	
	2018	2018	2017	2017
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	348	348	348	348
Non-teaching costs	1,888	1,886	1,980	1,979
Premises costs	928	928	1,202	1,202
Subcontract costs	691	691	1,054	1,054
Total	3,855	3,853	4,584	4,584

Other operating expenses include:

	2018	2017
	£'000	£'000
Auditors' remuneration		
Financial statements audit*	18	22
Internal audit**	17	12
Other services provided by the financial statements auditors	3	3
Hire of assets under operating leases	84	59
Fire damage expenses	-	329

* Includes £18,000 in respect of the College (2017: £22,000)

** Includes £17,000 in respect of the College (2017 £12,000)

8 Interest payable Group and College

	2018	2017
	£'000	£'000
On bank loans and other loans	224	237
Pension finance costs (note 21)	230	266
	454	503

9 Taxation

The members do not believe the College was liable for any corporation tax arising out of its activities during either year.

Darlington College

Notes to the financial statements at 31 July 2018 (continued)

10 Tangible Fixed Assets Group and College

	Freehold land & buildings £'000	Equipment £'000	Total £'000
Cost			
At 1 August 2017	33,701	2,886	36,587
Additions	-	494	494
Disposals	-	(6)	(6)
At 31 July 2018	33,701	3,374	37,075
Depreciation			
At 1 August 2017	6,385	1,290	7,675
Charge for the year	622	583	1,205
Elimination in respect of disposals	-	(5)	(5)
Adjustment	-	(4)	(4)
At 31 July 2018	7,007	1,864	8,871
Net book value at 31 July 2018	26,694	1,510	28,204
Net book value at 31 July 2017	27,316	1,596	28,912

11 Non current investments

	College 2018 £'000	College 2017 £'000
Investment in subsidiary company	25	25

Darlington College owns 100% (2017: 100%) of the ordinary shares of Darlington (Quadrant) Limited, a company which no longer trades and which will be wound up in due course. The company was incorporated in England and its registered address is Darlington College, Central Park, Haughton Road, Darlington, Durham, DL1 1DR

12 Trade and other receivables

	2018 Group £'000	2018 College £'000	2017 Group £'000	2017 College £'000
Amounts falling due within one year:				
Trade receivables	97	97	32	32
Prepayments and accrued income	105	105	84	84
Other debtors	236	236	42	42
Total	438	438	158	158

Darlington College

Notes to the financial statements at 31 July 2018 (continued)

13 Creditors amounts falling due within one year

	2018 Group £'000	2018 College £'000	2017 Group £'000	2017 College £'000
Bank loans and overdrafts	276	276	276	276
Trade payables	172	171	104	104
Amounts owed to subsidiary undertakings	-	75	-	77
Other taxation and social security	297	297	12	12
Accruals and other creditors	851	851	518	517
Deferred income- government capital grants	295	295	305	305
Amounts owed to the ESFA	321	321	607	607
Total	2,212	2,286	1,822	1,898

14 Creditors amounts falling due after one year

	2018 Group £'000	2018 College £'000	2017 Group £'000	2017 College £'000
Bank loans	3,331	3,331	3,607	3,607
Deferred income- government capital grants	10,589	10,589	10,875	10,875
Total	13,920	13,920	14,482	14,482

15 Maturity of debt

Bank loans are repayable as follows:

	2018 Group £'000	2018 College £'000	2017 Group £'000	2017 College £'000
In one year or less	276	276	276	276
Between one and two years	276	276	276	276
Between two and five years	3,055	3,055	3,331	3,331
Total	3,607	3,607	3,883	3,883

£2,860,000 of the loan outstanding at 31 July 2018 is subject to a fixed interest rate of 6.83%, the remaining £747,300 of the loan bears interest at 2% over LIBOR. The loan has a maturity date of 10 May 2021.

16 Cash and cash equivalents

	At 1 August 2017 £'000	Cash flows £'000	At 31 July 2018 £'000
Cash and cash equivalents	4,819	209	5,028

Darlington College

Notes to the financial statements at 31 July 2018 (continued)

17 Capital commitments

	2018 £'000
Commitments contracted for at 31 July	<u>79</u>

18 Lease obligations

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

Future minimum lease payments due	2018 £'000	2017 £'000
Land and buildings		
No later than one year	-	-
Later than one year and not later than five years	-	-
Later than five years	-	-
	<u>-</u>	<u>-</u>
	2018 £'000	2017 £'000
Other		
No later than one year	67	84
Later than one year and not later than five years	84	151
Later than five years	0	0
	<u>151</u>	<u>235</u>
Total Lease payments due	<u>151</u>	<u>235</u>

19 Contingencies

There are no contingencies to disclose

20 Events after the reporting period

There are no events after the reporting period.

Darlington College

Notes to the financial statements at 31 July 2018 (continued)

21 Provisions

	2018	2017
	£'000	£'000
Enhanced pension provision		
At start of period	(425)	(466)
Expenditure in the year	34	34
Movement in year		
Interest on provision	(10)	(16)
Actuarial gain/(loss)	(29)	23
At end of period	<u>(430)</u>	<u>(425)</u>
	2018	2017
	£'000	£'000
Defined benefit obligations		
Deficit in scheme at start of period	(8,962)	(10,672)
Movement in year:		
Current service cost	(850)	(890)
Past service cost	(70)	
Employer contributions	560	480
Net interest on the defined benefit liability	(220)	(250)
Actuarial gain/(loss)	1,310	2,370
Adjustment for unfunded liabilities	(17)	
Net defined benefit liability at end of period	<u>(8,249)</u>	<u>(8,962)</u>
Total pension liability	<u>(8,679)</u>	<u>(9,387)</u>

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. This provision has been recalculated in accordance with guidance issued by the funding bodies.

The principal assumptions for this calculation are:

	2018	2017
		Restated
Price inflation (CPI)	2.1%	1.3%
Discount rate	2.8%	2.3%

Notes to the financial statements at 31 July 2018 (continued)

22 Defined benefit obligations

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

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

	2018		2017
	£'000		£'000
TPS: contributions paid	643		661
LGPS:			
Contributions paid	501	480	
FRS 102 (28) charge	<u>360</u>	<u>410</u>	
Charge to the Statement of Comprehensive Income	861		890
Total pension cost for the year	<u>1,504</u>		<u>1,551</u>

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pensions Regulations 2010, and, from 1 April 2014, by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including academies, in England and Wales that are maintained by local authorities. In addition, teachers in many independent and voluntary-aided schools and teachers and lecturers in some establishments of further and higher education may be eligible for membership. Membership is automatic for full-time teachers and lecturers and, from 1 January 2007, automatic too for teachers and lecturers in part-time employment following appointment or a change of contract. Teachers and lecturers are able to opt out of the TPS.

The Teachers' Pension Budgeting and Valuation Account

Although teachers and lecturers are employed by various bodies, their 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. Retirement and other pension benefits are paid by public funds provided by Parliament.

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

Notes to the financial statements at 31 July 2018 (continued)

Valuation of the Teachers' Pension Scheme

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

- New employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £191,500 million, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £176,600 million, giving a notional past service deficit of £14,900 million;
- an employer cost cap of 10.9% of pensionable pay;
- 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%.

The new employer contribution rate for the TPS was implemented in September 2015. The next valuation of the TPS is currently underway based on April 2016 data, whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.

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

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

Scheme Changes

Following the Hutton report in March 2011 and the subsequent consultations with trade unions and other representative bodies on reform of the TPS, the Department published a Proposed Final Agreement, setting out the design for a reformed TPS to be implemented from 1 April 2015.

The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual rate of 1/57th; and a Normal Pension Age equal to State Pension Age, but with options to enable members to retire earlier or later than their Normal Pension Age. Importantly, pension benefits built up before 1 April 2015 will be fully protected.

In addition, the Proposed Final Agreement includes a Government commitment that those within 10 years of Normal Pension Age on 1 April 2012 will see no change to the age at which they can retire, and no decrease in the amount of pension they receive when they retire. There will also be further transitional protection, tapered over a three and a half year period, for people who would fall up to three and a half years outside of the 10 year protection.

Regulations giving effect to a reformed Teachers' Pension Scheme came into force on 1 April 2014 and the reformed scheme commenced on 1 April 2015.

The pension cost paid to the TPS in the year amounted to £643,000 (2017: £661,000).

Notes to the financial statements at 31 July 2018 (continued)

FRS 102 (28)

Under the definitions set out in FRS 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 plan. The College has set out above the information available on the plan and the implications for the College in terms of the anticipated contribution rates.

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Durham County Council. The total contribution made for the year ended 31 July 2018 was £678,000, of which employer's contributions totalled £501,000 and employees' contributions totalled £177,000. The agreed contribution rates are currently 16.4% for employers and range from 5.5% to 12.5% for employees, depending on salary.

Principal actuarial assumptions

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

	At 31 July	
	2018	2017
Rate of increase in salaries	3.60%	3.50%
Future pensions increases	2.10%	2.00%
Discount rate for scheme liabilities	2.80%	2.60%
Inflation assumption (CPI)	2.10%	2.00%

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	
	2018	2017
	years	years
Retiring today		
Males	23.3	23.2
Females	25.0	24.9
Retiring in 20 years		
Males	25.5	25.4
Females	27.3	27.2

Darlington College

Notes to the financial statements at 31 July 2018 (continued)

22 Defined benefit obligations (continued)

Local Government Pension Scheme (continued)

The College's share of the assets in the plan at the balance sheet date and the expected rates of return were:

	Fair Value at 31 July 2018 £'000	Fair Value at 31 July 2017 £'000
Equities	10,005	9,205
Property	1,514	1,348
Government Bonds	4,931	5,846
Corporate Bonds	2,905	1,613
Cash	1,105	968
Other	-	-
Total fair value of assets	<u>20,460</u>	<u>18,980</u>

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

	2018 £'000	2017 £'000
Fair value of plan assets	20,460	18,980
Present value of plan liabilities	(28,690)	(27,940)
Present value of unfunded liabilities	(20)	(2)
Net pensions liability	<u>(8,250)</u>	<u>(8,962)</u>

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

	2018 £'000	2017 £'000
Amounts included in staff costs		
Current service cost	850	890
Past service cost	70	
	<u>920</u>	<u>890</u>
Amounts included in interest payable		
Net interest cost	<u>220</u>	<u>250</u>
Amounts included in Other Comprehensive Income		
Return on pension plan assets	860	290
Experience losses arising on defined benefit obligations	450	2,080
	<u>1,310</u>	<u>2,370</u>

Darlington College

Notes to the financial statements at 31 July 2018 (continued)

22 Defined benefit obligations (continued)

Local Government Pension Scheme (continued)

Movement in net defined benefit liability during the year

	2018	2017
	£'000	£'000
Deficit in scheme at start of period	(8,962)	(10,672)
Movement in year:		
Current service cost	(850)	(890)
Past service cost	(70)	
Employer contributions	560	480
Net interest on the defined benefit liability	(220)	(250)
Actuarial gain/(loss)	1,310	2,370
Adjustment for unfunded liabilities	(18)	
Net defined benefit liability at end of period	<u>(8,250)</u>	<u>(8,962)</u>

Asset and Liability Reconciliation

	2018	2017
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	27,940	28,710
Movement in year:		
Current service cost	850	890
Past service cost	70	
Interest cost	720	690
Contributions by scheme participants	180	190
Experience (gains)/losses on defined benefit obligations	(450)	(2,080)
Estimated benefits paid	(620)	(460)
Unfunded liabilities	20	
Defined benefit obligations at end of period	<u>28,710</u>	<u>27,940</u>

	2018	2017
	£'000	£'000
Changes in fair value of plan assets		
Fair value of plan assets at start of period	18,980	18,040
Movement in year:		
Interest on plan assets	500	440
Return on plan assets	860	290
Employer contributions	560	480
Contributions by scheme participants	180	190
Estimated benefits paid	(620)	(460)
Fair value of plan assets at end of period	<u>20,460</u>	<u>18,980</u>

Notes to the financial statements at 31 July 2018 (continued)

23 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 £200; 1 governor (2017:£936; 2 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 (2017: None).

24 Amounts disbursed as agents

	2018	2017
	£'000	£'000
Learner support funds		
Funding body grants – hardship support	152	135
Funding body grants – childcare	-	-
Funding body grants – 24+ loans bursary	82	82
Other Funding body grants	79	244
	313	461
Disbursed to students	(302)	(404)
Administration costs	(15)	(18)
Balance unspent at 31 July, included in creditors	(4)	39

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