

NCG

Report and financial statements

31 July 2017



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Report of the members of the corporation for the year ended 31 July 2017

Operating and financial review

The members present their report and the audited financial statements for the year ended 31 July 2017.

Financial and Operational Highlights

2016/17 was a significant year for NCG as it consolidated and embedded changes following a substantial restructuring of the business at the end of 2015/16 and subsequent growth through Carlisle College joining the Group on 5 April 2017. NCG has continued to build on its excellent reputation both locally and nationally to help unlock the potential of its learners. Key highlights include:

- Becoming the first FE institution in the UK ever to be able to develop and award its own honours and masters degrees. NCG will develop and deliver degrees which are more responsive and meet the skills needs of employers.
- NCG generated a small surplus of £72,000 (2016: deficit of £30,516,000) for the year and Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) including disposal of fixed assets is £9,481,000 (2016: negative £8,780,000).
- NCG ended the year in a very strong cash position with cash and cash equivalent balances of £24,539,000.
- NCG has rationalised its property estate in Newcastle, moving activities onto the main campus to better utilise existing campus facilities and to provide a better learner experience.
- The sale of a freehold property in the centre of Newcastle was completed in September 2016 for £12,500,000, generating a surplus of £7,432,000 which is recognised in the 2016/17 results.
- NCG invested £2,777,000 in fixed assets in the year to support the learner journey and improve infrastructure.
- The Education & Skills Funding Agency (ESFA) have concluded that NCG's underlying financial health grade is Good based on NCG's grades for the immediate past and current years.
- After deducting the defined benefit pension deficit NCG has accumulated reserves of £62,894,000 (2016: £50,819,000). Prior to the pension liability, NCG reserves stand at £89,788,000 (2016: £82,199,000). These accumulated reserves are held to reinvest for the benefit of future learners.
- During the year NCG welcomed Carlisle College into the group. This is a further education college based in Cumbria specialising in delivery of ESFA and European Social Fund (ESF) funding streams.
- Immediately after year end, on 1 August 2017, Lewisham Southwark College joined NCG, bringing a substantial London based dimension to the Group.

Report of the members of the corporation for the year ended 31 July 2017

Legal status

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

NCG (Group) operates through the following colleges and subsidiaries:

- Carlisle College
- Kidderminster College
- Lewisham Southwark College
- Newcastle College
- Newcastle Sixth Form College
- West Lancashire College
- Rathbone Training
- The Intraining Group Limited

NCG (Colleges) are made up of:

Carlisle College (CAR) joined NCG on 5 April 2017. Carlisle College is a Further Education college based in Cumbria. It provides education and training, including vocational based, and delivers higher education programmes.

Kidderminster College (KID) is a Further Education college based in North Worcestershire. The College provides vocational education and training in Wyre Forest and more widely across the Midlands.

Lewisham Southwark College (LSC) joined NCG on 1 August 2017, immediately after the year end. Lewisham Southwark College is a Further Education college based in London, providing a wide range of vocational courses.

Newcastle College (NCL) is a Further Education college based in Newcastle upon Tyne. It comprises several academic schools and substantial provision in Higher Education (HE).

Newcastle Sixth Form College (NSFC) which has been established under its own brand to deliver A Level and GCSE courses.

West Lancashire College (WLC) is a Further Education college based in Skelmersdale, West Lancashire.

The training subsidiaries:

Rathbone Training (Rathbone) is a company limited by guarantee. It is a UK-wide voluntary youth sector organisation providing opportunities for young people to transform their life circumstances by re-engaging with learning, discovering their ability to succeed and achieving progression to further education, training and employment.

The Intraining Group Limited (Intraining) is a wholly owned subsidiary of the Corporation. It operates a wide range of skills and employability programmes across England, Scotland and Wales.

For the purposes of this Report and Financial Statements:

NCG (Group) or NCG – is the consolidation of the colleges and the two subsidiary training companies.

NCG (Colleges) or colleges – is the stand alone NCG Corporation entity which incorporates the colleges only, excluding the two subsidiary training companies.

Report of the members of the corporation for the year ended 31 July 2017

Purpose

NCG's purpose is "unlocking potential through learning".

The implementation of NCG's strategy during the year was led by the Chief Executive. The strategy continues to be reviewed and its relevance challenged on a regular basis.

Public Benefit

NCG Corporation is an exempt charity under Part 3 of the Charities Act 2011 and following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 17.

In setting and reviewing NCG's strategy, 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 purpose, NCG provides identifiable public benefits which is covered throughout the members' report.

Review of 2016/17

Implementation of the operational plan

Following a number of years of reduced public expenditure in relation to the Group's core activity the last year has seen less impact and a few indications that future investment, for example on apprenticeships and the new 'Tech Levels', could increase. That said, the funding rates that the Group receives for the majority of its work remain static and have done so since 2011.

On 5 April 2017, Carlisle College joined with NCG. They had approached NCG sometime earlier to discuss the possibility of partnership or merger arrangements. The Local Area Reviews considered possible partners for a merger and following completion of the process, Carlisle approached NCG for a merger which concluded in April. The College is now operating as a division of NCG and the integration with the wider Group has gone extremely well.

During 2016/17 there have been further significant external changes that have impacted on the environment that NCG operates in. From a contracting and funding perspective, the most significant impact has been the reforms to apprenticeship funding from May 2017. These included the introduction of a government levy for larger employers to fund their employed apprentices, along with a new tariff of funding for the non-levy paying (smaller) employers with a mandatory cash contribution by the employers. The immediate impact of reforms has seen a slow-down in the uptake of apprenticeships – the longer term impact is less clear. Rates for core ESFA funding were maintained, but no inflationary increases were made. These two funding agencies also merged on 1 April 2017 – the impact of this is not yet apparent.

Work Programme income in Intraining has reduced by £5,366,000 between 2015/16 and 2016/17 which is the result of the contract nearing the end of its planned life cycle, new referrals ceased from April 2017.

Report of the members of the corporation for the year ended 31 July 2017

Review of 2016/17 (continued)

Implementation of the operational plan (continued)

Other specific contract changes included:

- The EFA contract for 16-18 provision has increased slightly from the 2015/16 levels. This was as a result of the lagged funding mechanism compensating for the switch to larger programmes two years earlier.
- The protection of the Adult Education Budget (AEB) for the group at £13,536,000.
- Resumption of some ESF income at £2,780,000 contract value, which is significantly lower than historically seen.
- The mid-year addition of the remaining contract value from Carlisle College following the merger in April.
- Volatility on the new Work Based Learning (WBL) 4 contract in Wales and slower than expected recruitment in new contract areas.
- Changes to the funding mechanisms for apprenticeships have resulted in a significant reduction in the number of new apprenticeship starts. Employers paying the new Apprenticeship Levy have been slow to commit spend and starts have also slowed in smaller employers who are required to co-fund apprenticeships.

This continued reduction in income has required the further streamlining of the staffing base in the divisions, in particular the training subsidiaries. A detailed review was also undertaken of central Group costs and savings implemented for 2017/18 onwards.

Learner numbers

NCG is funded for its provision according to the level of learner and customer activity that is generated each year. In respect of Education Funding Agency (EFA) funding, in 2016/17 the colleges, Intraining and Rathbone attracted 10,198 learners aged 16-18 which is around 300 fewer than the previous year. A major reduction in learners in Rathbone and smaller reductions in Newcastle and West Lancashire colleges was partially offset by the inclusion of Carlisle College and higher recruitment in Kidderminster College. The divisions also delivered classroom based training to 7,735 adults through the SFA Adult Education Budget contract, lower than the previous year, due to funding changes and concentration on full time programmes. NCG (Colleges) recruited 3,090 Higher Education learners in 2016/17, slightly higher than the previous year, incorporating 134 Carlisle College students.

The divisions of NCG have delivered training to 16,264 employed apprentices during 2016/17. Intraining has received 1,240 referrals in 2016/17 onto the Work Programme through the prime contracts in Birmingham and North East, Yorkshire and Humber, which was a reduction from the levels seen in 2016/17. This reflects the more buoyant state of the job market, increased intervention activity by the Job Centres and the run-down of the Contract Package Area 18 contract culminating in less clients being referred onto the programme.

In Scotland, Rathbone delivered training to 850 young people on Employability Fund programmes, while Intraining delivered training to 1,466 young people. Rathbone also trained 109 apprentices in Scotland. In Wales, Rathbone delivered traineeship training to 774 young people to prepare them for further education or work and 20 apprenticeships and 561 Adult learners were engaged with the Employment Support Programme.

Report of the members of the corporation for the year ended 31 July 2017

Review of 2016/17 (continued)

Financial objectives and position

The overall NCG surplus reported for the year was £72,000 (2016: £30,516,000 deficit).

Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) of £2,052,000 (2016: negative £7,390,000).

NCG closed the year with cash and short-term investment balances of £24,539,000 (2016: £23,086,000). NCG consistently maintained cash balances or facilities of at least equivalent to 61 days. Going forward the cash position is projected to remain strong and the facilities in place are sufficient to meet immediate cash requirements of the business.

In 2016/17 NCG has achieved a Satisfactory financial health grading as assessed by the ESFA and is expected to improve to Outstanding in 2017/18. The ESFA have concluded that NCG's underlying financial health grade as Good based on NCG's grades for the immediate past and current years.

NCG has accumulated income and expenditure reserves of £56,528,000 (2016: £44,219,000).

Prior to the pension liability, total NCG reserves are £89,788,000 (2016: £82,199,000).

Tangible fixed asset additions during the year amounted to £2,777,000 (2016: £1,895,000). This was split between land and buildings acquired of £1,465,000 (2016: £597,000) and equipment, information technology and motor vehicles purchased of £1,312,000 (2016: £1,298,000). On 3 October 2017, a freehold property with a net book value of £500,000 was sold for £2,100,000. This had been transferred into current assets at 31 July 2017 as it was an asset held for sale at the balance sheet date.

NCG has significant reliance on the ESFA for its principal funding source, largely from recurrent grants. In the year ended 31 July 2017, the ESFA provided 62.2% of NCG's total income (61.1% in 2016).

Performance indicators

NCG is required to complete the annual Finance Record for the Education and Skills Funding Agency (ESFA). NCG was assessed by the ESFA as having a Satisfactory financial health grading for the year 2016/17. The current rating of Satisfactory is considered an acceptable outcome and is expected to increase to Outstanding in the future.

During the year NCG embarked on an ambitious project with the funding agencies to change the way in which performance data is published. This started with the creation of separate contract identifiers for the individual NCG (Colleges) for the first time and the return of ESFA data against these new contracts. This will result in performance data being published at individual division level in due course and will enable the Office for Standards in Education, Children's Services and Skills (OFSTED) to inspect on a similar basis.

NCG is committed to observing the importance of sector measures and indicators and uses the FE Choices data available on the GOV.UK website which looks at measures such as success rates.

Treasury policies and objectives

Treasury management is the management of NCG 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.

Report of the members of the corporation

for the year ended 31 July 2017

Review of 2016/17 (continued)

Treasury policies and objectives (continued)

NCG has a treasury management policy in place. Short-term borrowing for temporary revenue purposes is authorised by the Chief Executive. Such arrangements are restricted by limits in the Financial Memorandum with the SFA. All other borrowing requires the authorisation of the Corporation and complies with the requirements of the Financial Memorandum of the SFA.

Cash flows and Liquidity

Operating cash in the year was a cash outflow of £5,900,000 (2016: cash outflow of £3,869,000)

The size of NCG total borrowing and its approach to interest rates has been calculated to ensure an appropriate cushion between the total cost of servicing debt and the minimum cash balance.

Capital expenditure

NCG invested £2,777,000 in capital expenditure in 2016/17. The principal schemes were:

	£000
Rye Hill Campus estate refurbishments	933
Kidderminster land acquisition	362
Learner management information system	300
IT equipment and infrastructure	276
Routine capital expenditure	906
	<u>2,777</u>

Despite the continued pressure on funding which has been seen in recent years, NCG continues to invest in capital projects to support the learner journey.

Reserves Policy

The College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation, and ensures that there are adequate reserves to support the College's core activities. NCG (Group) does not hold restricted reserves. As at the balance sheet date the Income and Expenditure reserve stands at £56,528,000 (2016: £44,219,000). It is the Corporation's intention to increase reserves over the life of the strategic plan through the generation of annual operating surpluses.

Resources

NCG has various resources that it can deploy in pursuit of its strategic objectives as follows:

Financial

NCG has net current assets of £4,096,000 (2016: £175,000), the increase primarily reflects the cash inflow from the sale of the Sandyford Building in September 2016. There are net pension liabilities of £26,894,000 (2016: £31,380,000) which reflect the current valuation of the defined benefit schemes that NCG operate, and bank loans of £29,691,000 (2016: £24,920,000), the movement on which reflects repayments of £1,650,000 in the year and new loans of £6,421,000 (as a result of merging with Carlisle College).

Report of the members of the corporation for the year ended 31 July 2017

Review of 2016/17 (continued)

People

The group employed 2,121 people (expressed as full time equivalents) in 2016/17 of whom 1,461 are teaching staff. The number of staff includes those delivering training and employability. This represents a reduction from 2015/16 as the organisation has restructured and reduced headcount through a redundancy programme.

Reputation

NCG enjoys a strong reputation both locally and nationally. Maintaining a quality brand is essential for NCG's success in attracting students, customers and managing external relationships.

The most recent OFSTED inspection was in 2015/16, NCG (Colleges) and Intraining were rated Good, which reflected the high quality of our provision.

Post-balance sheet events

1. On 1 August 2017 Lewisham Southwark College (LSC) combined with NCG to further strengthen the Group. LSC has a substantial income of approximately £30 million per annum and will provide NCG with an important presence in the London market. The merger followed the local area review and Lewisham Southwark College brings with it a strong reputation providing significant value to all local stakeholders and not just the learners it engages with.
2. Subsequent to the balance sheet date a freehold property in Skelmersdale was sold in October 2017 for £2,100,000, the profit of which will be recognised in the 2017/18 financial statements. The property has been transferred into current assets as it was an asset for sale at the balance sheet date. The sale of this property is consistent with NCG's strategy of rationalising the property portfolio.

Future performance - 2017/18

Each division has agreed its business plan for the year ahead through NCG's business planning and budget setting processes. The risks associated with this process are managed through Risk Plans, and financial targets are set out in the Budget agreed by the Corporation.

The external landscape for the year ahead will continue to be dictated by the Government's ongoing drive for efficiency in public expenditure. Some respite should be seen to this policy as the Apprenticeship Levy delivers more income for this key area and the new, higher funded, 'Tech Levels' are introduced. We have experienced a slow take up of the new Levy based apprenticeships. The ESFA has confirmed that the take up across the country has been lower than they had hoped so far.

While this is underway there are relatively few changes to funding policy at the start of 2017/18. EFA has strengthened its regulations on subcontracting and there are no significant changes on SFA funded provision. The new ESF contracts will continue to be delivered with income reaching a peak during 2017/18.

In delivering our purpose, the focus of NCG is on meeting the skills needs of individuals and employers in line with government priorities and funding. These needs and priorities define our market and shape the activity of our divisions.

Report of the members of the corporation for the year ended 31 July 2017

Future performance - 2017/18 (continued)

The key focus of each division is detailed below:

Carlisle College

- As lead contract holder, suitably aided by partners, maximise the delivery of the Cumbria countywide ESF Skills Support for the Workforce project
- Maintain or further increase core FE 16-18 recruitment
- Continue to increase apprenticeship delivery with new areas of provision being offered, working with a range of levy and non-levy paying employers
- Ongoing and continuous improvement to the 'learner journey', reviewing current processes and adopting appropriate best practice from group and other colleges
- Continue post-merger integration to participate in and capitalise on the group structure
- Continue to focus on and strengthen collaboration with a range of partners across Cumbria, particularly other FE colleges

Kidderminster College

- Maintain and increase levels of recruitment in the context of challenging demographics and continued competition from other local schools and colleges
- Work with local and regional employers to continue to grow the numbers of apprentices recruited, whilst maintaining and improving levels of successful completion
- Further extend the reach of the very successful MAS Records programme
- Progress the relocation and development of motor vehicle and construction provision through the acquisition of an appropriate site

Newcastle College

- Financial stability combined with improving quality of provision across FE, HE and apprenticeships
- Continued shaping of the curriculum offer to ensure that it is based on reliable local management information and aligned with national, local and regional priorities
- The building of deeper relationships with local partners and employers during the year with a focus on apprenticeship growth and an increase in full cost commercial work

Newcastle Sixth Form College

- Streamline both processes and operational costs across the College
- Ensure that the quality of provision - particularly in terms of retention, pass rates and value-added – continues to improve rapidly in order to surpass the best Sixth Forms in the region
- Further improvements in outcomes for learners this year should help secure the future of the college as this should lead to improved recruitment and improved surplus
- Review and develop the curriculum structure in response to A Level reform
- Review curriculum in response to market forces, quality concerns and GCSE and A Level reform
- Further embed the use of advanced level performance systems to promote positive progress (value added) across all subjects offered at the College
- Continue to increase utilisation of the College building and move the College to a stronger financial base

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Future performance – 2017/18 (continued)

Newcastle Sixth Form College (continued)

- Capitalise on membership of Sixth Form College Association and incorporate best practice from the most successful sixth form colleges around the country
- Maximise the progression of students, internally from Year 12 to Year 13 and externally towards positive outcomes

West Lancashire College

- Expect to meet AEB in 2017/18 with the possibility of exceeding, subject to availability of further allocation.
- Continue to grow links with employers, especially in the key sector areas of logistics, sport and construction. This will improve progression opportunities for learners and support the current growth in apprenticeships and work based qualifications.
- The sale of the Ormskirk site was completed on 3 October 2017.
- The building of the new Construction, Engineering and Logistics Centre is scheduled to complete on 12 December 2017.
- Realise reductions in running costs which have been achieved by vacating the Ormskirk Campus and by the redesign of the curriculum delivery.

Rathbone and Intraining

- Continue to maximise the benefits of shared central resources and a strengthened leadership team that operate across the two training providers
- Continue to invest in employer engagement, with an emphasis on direct sales activity to support apprenticeship growth
- Grow new business through contract wins from high quality bids and tenders
- Maximise youth learner volumes onto study programmes by increased and re-focused engagement activity
- Continue to review the current apprenticeship offer to ensure that it aligns with employer demand in the context of the new funding arrangements

Principal risks and uncertainties - 2017/18

NCG monitors and manages its risks carefully.

NCG is committed to an inclusive approach to the identification and management of risk throughout NCG and that the key risks should be closely monitored and wherever possible mitigating actions taken. The Group has undertaken further work during the year to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect NCG's assets and reputation.

Report of the members of the corporation for the year ended 31 July 2017

Principal risks and uncertainties - 2017/18 (continued)

Additional external risks introduced for 2017/18 as a result of changes in the external environment primarily relate to the following:

- The impact of the decision by UK voters to leave the EU continues to present significant risks to the organisation, some of which are known and there may be others which have yet to emerge.
- Funding for current activity provided by ESF contracts may not be replaced.
- Economic turbulence impacts the sector, for example inflation may outstrip funding increments or pension deficits spiralling.
- Economic conditions may lead to further significant cuts to public funding.
- Restrictions on immigration may result in a more controlled skills policy and loss of flexibility.

The changes to the way apprenticeships are funded were the most significant to this area in a generation. The new levy on employers with annual payroll bills exceeding £3,000,000 is introducing new money into the sector, but it also introduces new risks, which became more apparent at the end of 2016/17:

- The market is fundamentally changed and how employers will use their levy is difficult to predict.
- The Group will have to navigate a very complex system with four different apprenticeship funding mechanisms, with increased risk of error.
- Funding rates for individual pathways and age groups have changed and could result in some areas becoming unprofitable.
- Non-Levy employers have to contribute to the cost of the apprenticeship funding. This appears to be impacting the take-up of new apprenticeships.
- The government is enforcing a 20% minimum commitment to 'off the job' training which many providers are finding challenging to deliver.

Based on our strategy, a comprehensive review of the risks to which NCG is exposed has been undertaken. This identifies systems and procedures, including specific preventable actions which should mitigate any potential impact on NCG. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. Consideration is also given to any risks which may arise as a result of a new area of work being undertaken by NCG. A risk register is maintained at Group level which is reviewed annually by the Audit Committee. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on NCG and the actions being taken to mitigate these risks. The Corporation reviews the risk management policy each year and reviews strategic risks on a rolling basis within each year.

Corporate Social Responsibility

NCG's impact on society and the community arises naturally from operating as a high quality provider of education and training. In addition, NCG also makes a significant contribution to many local and national initiatives as follows:

Carlisle College

Carlisle College continues to be involved with a range of initiatives engaging young people. Carlisle College continues to lead the Cumbria Children's University, a growing initiative to inspire primary school children to engage with learning. Carlisle College also supports the National Citizenship Service, acting as a host venue for the local summer programme.

Report of the members of the corporation for the year ended 31 July 2017

Corporate Social Responsibility (continued)

Carlisle College (continued)

As part of the Carlisle Ambassadors 'Give A Day to the City' campaign students provided assistance to a range of projects to enhance the local area such as parks and gardens and the premises of charitable organisations.

Carlisle College are currently working with a local housing association to commence student involvement in an innovative scheme to build affordable housing, drawing on and developing expertise within the community.

Media students have worked with Cumbria Constabulary on the development of a Snapchat campaign to warn youngsters against the dangers of 'sexting'. This award winning campaign, which has received much coverage, builds on our relationship with Cumbria Constabulary for assisting with youth related issues.

Carlisle College continues to support youth enterprise initiatives locally, hosting local events and is currently working with a range of local organisations to develop a new programme for North Cumbria.

Students as part of their enrichment activities also raise money for a wide range of both local and national causes.

Kidderminster College

Kidderminster College contributes to a wide range of local initiatives, particularly through the district council's Children and Young People's Group and the ReWyre regeneration project. During the year, learners and staff took part in a variety of volunteering activities both locally and further afield, including support for Kemp Hospice and the Worcestershire Breast Unit Haven. Learners on land-based courses worked closely with the Parks department, maintaining local parks and nature reserves and Games Development learners produced a series of educational games for the Kidderminster Weavers' Cottages. Learners from Sports Science worked with blind and visually impaired learners from New College Worcester to develop exercise programmes, and learners from Creative Industries have collaborated with renowned playwright Caroline Jester to produce a community arts project celebrating Frank Freeman's dancing club.

Newcastle College

Newcastle College works closely with a number of charitable organisations. Our staff are encouraged and will be supported to undertake charitable activities. This engagement supports individuals and also benefits our local and wider community, which is central to our organisational values. During the year, there were some great examples of charitable work including sponsoring a prize-giving at the Hearts and Handbags event for local charity, CHUF. We have also worked with Children in Need, British Heart Foundation and Dementia Friends and many others.

Newcastle Sixth Form College

Through its extensive and varied student enrichment programme, Newcastle Sixth Form College has supported the local community through the development of a 'Yes We Can!' disability awareness and fundraising campaign. The student led scheme took £50 of start-up funding and through a range of fundraising events within and outside of college, increased it to £1,354. This money was donated to the Percy Hedley Foundation and which gave the team the Challenge 500 'Thinking Outside the Box' award. The group also organised talks, visits and poster campaigns to raise awareness of a range of disabilities and the contributions that disabled people make to the local community. The enrichment activity, which is running again in 2017/18 with a new charitable focus, has proven to be one of Newcastle Sixth Form College's most popular choices.

Report of the members of the corporation for the year ended 31 July 2017

Corporate Social Responsibility (continued)

West Lancashire College

West Lancashire College continues to be actively represented on and is a key contributor to all of West Lancashire's Local Strategic Partnership's main thematic groups. In the last year the College worked closely with local partners to host a variety of community events including 'Grow Your Own', in partnership with West Lancashire Council for Voluntary Service. The College also hosted a very successful Interactive Careers Fair in conjunction with local and regional employers which was attended by both College students and local school pupils. Students and staff have also engaged with various enterprise activities over the year and raised over £5,000 for local and national charities. The College is working on a project with the Wellbeing Prevention & Early Help Service that has four centres in the area, one of these being in Skelmersdale, and will be hosting an event with them in October to engage young people and adults. Lancashire Police Cadets currently run their programme from the Skelmersdale Campus and The Princes Trust continue to volunteer within the community, in addition to this, some of the student's volunteer at the "Junk Food Café". The College will also be hosting an event in November in conjunction with the Crisis Centre and the Clinical Commissioning Group who are part of the NHS.

Rathbone and Intraining

Intraining and Rathbone Training have a diverse and substantial programme of enrichment activities held throughout the year which provide colleagues and learners with the opportunity to contribute to fundraising and give back to their local community. The annual 'Raise it for Rathbone' fundraising day had a 'double denim' fancy dress theme and other activities included cake sales and sponsored silences to raise money to support these enrichment activities.

As part of the lottery funded Big Music Project, Rathbone learners in Birmingham, Hull, Leicester, Manchester and Newcastle have produced their own music, film footage and creative arts to express their thoughts and feelings on the key issues that impact on their lives such as drugs, alcohol and homelessness. In Edinburgh, Rathbone Learners on the X-Ceed programme have also taken part in the Duke of Edinburgh Programme where they completed four sections including an activity, learning a skill, volunteering and an expedition in order to gain their award.

Learners have also planned and delivered a number of small scale social action projects in their community such as a Creative Response video put together by young people in Manchester following the terrorist attack at the Manchester Arena, supporting volunteers at a local foodbank in Neath and a community garden to promote social interaction in Newcastle.

Rathbone Training learners in England, Scotland and Wales took part in the 'Flourishing from the Margins' research project by the University of Birmingham which highlights the positive impact of character-led teaching and learning in formal and non-formal educational environments.

Both Intraining and Rathbone hosted a number of events during National Apprenticeship week with local employers, attended by new and existing learners as well as presenting special awards to top apprentices and apprentice employers across the UK.

Report of the members of the corporation for the year ended 31 July 2017

Corporate Social Responsibility (continued)

Addressing environmental impact

NCG continues to make environmental performance and sustainable best practice a priority. NCG's Sustainability Policy was reviewed and renewed in early 2015 and is next due for review in 2017.

Kidderminster College has continued to build on its Eco Campus Silver Award, and has put in place initiatives to further promote recycling and reduce waste.

West Lancashire College secured the Eco Campus Silver Award in July 2016. In 2017/18, the College aspires to achieve The Eco Campus Gold award.

NCG is committed to the prevention of pollution and to continuous environmental improvement. Sustainable practices are applied to every aspect of NCG's business.

NCG is subject to the UK Government's Carbon Reduction Commitment Scheme and makes returns to the Department of Environment on its annual energy consumption. This year has seen a small reduction in consumption and our submission has been successfully completed.

Promoting equality and valuing diversity

NCG is committed to ensuring equality of opportunity for all students, clients and employees; we respect and value diversity. As such NCG is committed to meet the requirements of the Equality Act 2010 in relation to the protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

NCG's Equality Strategy is made available under NCG Publication Scheme. NCG is committed to eliminating bias and discrimination from the way it operates. The Group Director, HR and Organisational Development, is responsible for equality and diversity across NCG. Each division has a nominated senior manager who leads on equality and diversity issues and oversees divisional developments in this area.

Employment of disabled persons

NCG considers all applications for employment from disabled persons. Where an existing employee becomes disabled, reasonable effort is made to ensure that employment with NCG continues. NCG's policy is to promote equality in recruitment, training, career development and opportunities for promotion. We endeavour to make arrangements to support students and clients with learning difficulties and disabilities to ensure that they are able to access the full range of services and provision.

Staff, student and customer involvement

We have a Group Communications Team which oversees strategic and incident related communications across NCG. We have established Public Relations or Marketing Officers across the divisions to underpin and promote divisional communication strategies across NCG. NCG's divisions engage with staff through recognised Trade Unions, Staff Forums and a range of informal mechanisms for consulting with and listening to staff.

Students' and customers' views continue to be sought regularly via a variety of evaluation surveys. The Corporation receives an Annual Report summarising feedback and this is supplemented by quarterly updates. Additionally, there are regular and timely Learner Forums across NCG to enhance communications between learners and NCG divisions. Students are encouraged to participate in local community and national activities through the National Union of Students which NCG promotes by supporting, administering and subsidising the Students' Union in Newcastle.

Report of the members of the corporation for the year ended 31 July 2017

Financial Highlights

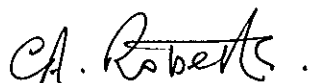
Supplier payment policy and practice

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 2016 to 31 July 2017, NCG paid 81.07 per cent of its invoices within 30 days. NCG incurred £1,616 of interest charges in respect of late payment for this period.

Disclosure of information to the 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 NCG's auditor is 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 NCG auditor is aware of that information.

Approved by order of the members of the Corporation on 5 December 2017 and signed on its behalf by:



C Roberts
(Interim Chair of the Corporation)

5 December 2017

Statement of corporate governance and internal control

The following statement is provided to enable readers of NCG's annual report and accounts to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2016 to 31 July 2017 and up to the date of approval of the annual report and financial statements.

NCG endeavours to conduct its business:

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

NCG is committed to exhibiting best practice in all aspects of corporate governance.

In particular, the Board has sought to follow the UK Corporate Governance Code insofar as it is applicable to the further education sector. NCG has had due regard to the principles of the UK Corporate Governance Code relating to Leadership, Effectiveness, Accountability and Remuneration. The principles relating to shareholders are not applicable because NCG is a statutory corporation and does not have shareholders. In particular, provisions B.6.2, B.7.1, B.7.2, C.1.1, D.2.4 and all provisions in Section E of the Code are not relevant.

In general, the approach has been to follow the relevant provisions of the Code insofar as it is applicable to the further education sector and practical in the NCG context. For example, alternative approaches to a provision within the UK Corporate Governance Code was the appointment of a Vice-Chair to support the Board and to act in the absence of the Chair. The Chief Executive, as Accounting Officer, has formal accountability in relation to Government funding.

NCG Corporation 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.

Statement of corporate governance and internal control

The Corporation

The members who served on the Corporation during the year and up to the date of signature of this report were as listed in the table below. The Corporation met eleven times during the year.

<i>Name</i>	<i>Date of Appointment/ Reappointment</i>	<i>Term</i>	<i>Date of Resignation/ Retirement</i>	<i>Status of Appointment</i>	<i>Committees Served</i>	<i>Attendance at Corporation meetings</i>
Mr L Abernethy	App: May 10 Reapp: Jul 11 Reapp: Jun 15	4 yrs		Vice Chair	Search	10 of 14
Mr J Cuthbert	App: Oct 16	3 yrs		Independent member	Audit	11 of 12
Mr J P Docherty	App: Aug 13			Chief Executive	Search HE Governance	15 of 15
Miss K Francis	App: Jul 17	1 yr		Student member		Appointed July 2017
Prof C MacDonald	App: Jun 14 Reapp: Jun 15	4 yrs		Independent member	Remuneration	16 of 19
Mr N J Martin	App: Mar 00 Reapp: Feb 03 Reapp: Jan 07 Reapp: Dec 10 Reapp: Dec 14	4 yrs	Retired 31 July 2017	Chair	Search	14 of 14
Mr P Michell	App: Jan 04 Reapp: Dec 04 Reapp: Jan 09 Reapp: Jun 13 Reapp: Jul 17	4 yrs 1 yr		Independent member	Audit	13 of 15
Mr N Mills	App: Oct 09 Reapp: Jun 10 Reapp: Jun 14	4 yrs	Resigned June 2017	Independent member	Remuneration Search	6 of 12
Mr C Newton	App: May 13 Reapp: May 14	4 yrs	Resigned May 2017	Independent member	Audit	3 of 11
Mr C Roberts	App: Sep 14 Reapp: Sep 15	4 yrs		Interim Chair from 1 August 2017	Search	12 of 14
Mr M Squires	App: Oct 16	3 yrs		Independent member	Remuneration	10 of 14
Mr J Stoker	App: Jan 16 Reapp: Jun 16	1 yr	Resigned April 2017			5 of 6
Mr M Terry	App: Sep 14 Reapp: Sep 15	4 yrs		Independent member	Search	12 of 14
Mrs A Turner	App: Nov 97 Reapp: Nov 01 Reapp: Oct 05 Reapp: Nov 09 Reapp: Dec 13 Reapp: Mar 14	4 yrs		Independent member	Audit Remuneration HE Governance	14 of 20
Mr J Woodlingfield	App: Jun 16	3 yrs		Staff		11 of 11

Further information about members of the Corporation is available in the Guide to Information on NCG website at <http://www.ncgrp.co.uk/guide-to-information>.

Statement of corporate governance and internal control

The Corporation (continued)

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. The Chief Executive makes proposals on strategy and is responsible for the organisation, direction and management of the institution and leadership of the staff.

The Corporation is provided with regular and timely information on the overall financial performance of NCG, 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. There is a Corporation meeting most months throughout the academic year.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Remuneration, Search, Audit and HE Governance. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the clerk to the Corporation at:

NCG
Rye Hill Campus
Scotswood Road
Newcastle upon Tyne
NE4 7SA

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

All governors are able to take independent professional advice in furtherance of their duties at NCG's expense and have access to the Clerk to the Corporation, who is responsible for advising the Corporation with regard to the operation of its powers, procedural matters, the conduct of its business and matters of governance practice. The appointment, evaluation and removal of the Clerk are matters for the Corporation as a whole.

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

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

There is a clear division of responsibility in that the roles of the Chairman and Chief Executive are separate.

Self-assessment considers the performance of the organisation as well as that of the board. The board undertakes an annual self-assessment of its performance. The Audit Committee has also carried out self-assessment focusing on its activities during the year. The Search Committee considers the contribution of individual members prior to making any recommendation to reappoint.

Statement of corporate governance and internal control

Appointments to the Corporation

Any new appointments to the Corporation are a matter for consideration by the Corporation as a whole.

The Corporation has a Search Committee, consisting of five members of the Corporation, which is responsible for advising on the appointment of all members except staff and student members who are nominated by election.

The Search Committee met on three occasions during the year. The members of the Search Committee were as listed in the following table.

Name	Attendance at Search Committee meetings
Mr L Abernethy	2 of 3
Mr J P Docherty	3 of 3
Mr N J Martin (chair)	3 of 3
Mr C Roberts	3 of 3
Mr M Terry	2 of 3

The Corporation seeks candidates for membership who have the necessary skills to ensure that the Corporation carries out its functions and welcomes opportunities to enhance the diversity of its membership, including in relation to gender.

The Corporation uses the SGOSS (School Governors' One Stop Shop) service to assist with the recruitment of members.

The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation have been appointed for a term of office not exceeding four years. During the year it was decided that future appointments would be for a term of office not exceeding three years. An exception is the Chief Executive who will remain a member for the duration of their service in this role.

Corporation performance

In the Financial Plan produced for the ESFA in July 2017, NCG agreed with the automated calculation of the Financial Health Grade as being Satisfactory for the expected outturn of 2016/17. The financial plan also includes the following two year's financial health, NCG has self-assessed 2017/18 as being Good and 2018/19 as Outstanding which is in line with the automated calculation. This is based on balance sheet strength, maintenance of low gearing and improved operational performance.

The ESFA have confirmed the Good grade for 2017/18 and that the underlying grade for the immediate past and current years is Good. We expect the rating to rise to Outstanding in 2018/19.

Statement of corporate governance and internal control

Remuneration Committee

The Remuneration Committee comprises four members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Chief Executive and other senior post holders and the Clerk to the Corporation.

The Remuneration Committee met formally on four occasions during the year. The members of the Remuneration Committee were as listed in the table below.

Name	Attendance at Remuneration Committee meetings
Prof C MacDonald	4 of 4
Mr N Mills (chair)	4 of 4 (resigned June 2017)
Mr M Squires	4 of 4 (appointed Oct 2016)
Mrs A Turner	4 of 4

A Senior Leadership Incentive Scheme is available to all members of the Executive Board and their direct reports and has been designed to be both transparent and objective. To achieve the maximum available award, a division, or where relevant, NCG, has to be Quality assessed as Ofsted Outstanding and the Financial Surplus must be exceeded by an agreed amount.

The Rewards under the scheme are as follows: Quality assessed as Ofsted Good releases 25% of a maximum individual award, Quality assessed as Ofsted Outstanding releases 50% of a maximum individual award, Financial Surplus achieved releases 25% of a maximum individual award and Financial Surplus exceeded releases 50% of a maximum individual award.

Details of remuneration for the year ended 31 July 2017 are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee comprises four independent members of the Corporation. The Committee meets at least three times a year and provides a forum for reporting by NCG's internal and financial statement auditors, who can have access to the Committee for independent discussion, without the presence of management. The Committee operates in accordance with written terms of reference, approved by the Corporation, which encompass reports from the main funding bodies as they affect NCG's business.

The Committee met four times during the year. There have been two vacancies during the year, one of these vacancies was filled in October 2016 by Mr J Cuthbert who was appointed to the Corporation and as Chair of the Audit Committee, the other remains unfilled. The members of the Audit Committee who served during the year were as listed in the table below.

Name	Attendance at Audit Committee meetings
Mr J Cuthbert (chair)	3 of 3
Mr P Michell	4 of 4
Mr C Newton	2 of 2 (resigned May 2017)
Mrs A Turner	2 of 4

NCG's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

Statement of corporate governance and internal control

Audit Committee (continued)

Management is responsible for the implementation of agreed audit recommendations and internal audit undertake periodic follow-up reviews to ensure such recommendations have been implemented.

The Audit Committee has considered the financial statements auditors' findings in relation to the financial statements.

The Audit Committee assesses the performance of the internal and financial statements auditors annually in relation to quality and value.

The Audit Committee is responsible for advising the Corporation on the appointment or reappointment of auditors. In 2017 the Audit Committee undertook a tendering exercise for the internal and financial statements auditors with formal appointment being made by the NCG Corporation Board in June 2017.

The Audit Committee also advises the Corporation on the remuneration of internal and financial statements auditors.

Internal control

Scope of responsibility

The Corporation is ultimately responsible for NCG'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 Chief Executive, as Accounting Officer, for maintaining a sound system of internal control. This supports the achievement of NCG policies, aims and objectives, while safeguarding the public funds and assets for which the Chief Executive is personally responsible, in accordance with the responsibilities assigned to them in the Financial Memorandum between the Corporation and the Education and Skills Funding Agency. The Chief Executive is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of NCG 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 NCG for the year ended 31 July 2017 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 NCG 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 an adequate formal ongoing process for identifying, evaluating and managing NCG's significant risks that has been in place for the year ended 31 July 2017 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Corporation.

Statement of corporate governance and internal control

Internal control (continued)

The risk and control framework

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

- regular review of all business risks by the Corporation
- quarterly review of non-financial key performance indicators of the business to the Corporation
- 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 procedures
- the adoption of formal project management disciplines, where appropriate.

NCG has an internal audit service. The work of the internal audit service is informed by an analysis of the risks to which NCG is exposed and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are approved by the Corporation on the recommendation of the Audit Committee. At least annually the Corporation is provided with a report on audit activity in NCG, including an opinion on the adequacy and effectiveness of NCG's system of risk management, controls, and governance processes.

The NCG risk management process is audited regularly and is consistently identified as being robust and incorporating best practice.

Review of effectiveness

As Accounting Officer, the Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. The Chief Executive's review of effectiveness of the system of internal control is informed by:

- the work of the internal auditors
- the work of the executive managers within NCG who have responsibility for the development and maintenance of the internal control framework
- comments made by NCG's auditors of the financial statement and regularity assurance

The Chief Executive has been advised on the implications of the result of their 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 Board 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 Board and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and it receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance, not merely reporting by exception. At its December 2017 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2017 by considering documentation from the Audit Committee, financial statements and internal audit, and taking account of events since 31 July 2017.

Statement of corporate governance and internal control

Going concern

After making appropriate enquiries, the Corporation considers that NCG has adequate resources to continue in operational existence for the foreseeable future. The Corporation maintains a strong balance sheet with low gearing and substantial cash reserves. 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 5 December 2017 and signed on its behalf by:



C Roberts
(Interim Chair of the Corporation)



J P Docherty
(Chief Executive)

Statement on 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 financial memorandum in place between NCG Corporation and the ESFA. As part of our consideration we have had due regard to the requirements of the financial memorandum.

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

We confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the ESFA.

Approved by order of the members of the Corporation on 5 December 2017 and signed on its behalf by:



C Roberts
(Interim Chair of the Corporation)



J P Docherty
(Chief Executive)

Statement of 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 Financial Memorandum agreed between the ESFA and the Corporation of NCG, the Corporation, through its Chief Executive, 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 2016 to 2017* issued by the ESFA, and which give a true and fair view of the state of affairs of NCG and the result for that year.

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

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

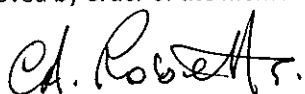
The Corporation is also required to prepare a Members' Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of NCG Corporation.

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

The maintenance and integrity of the Group's websites are the responsibility of the Corporation; 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 websites. 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 Memorandum 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 NCG 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 5 December 2017 and signed on its behalf by:



C Roberts

(Interim Chair of the Corporation)

Independent auditor's report to the members of NCG Corporation

We have audited the financial statements of NCG for the year ended 31 July 2017 which comprise the Group and College Statements of Comprehensive Income, Group and College Statements of Changes in Reserves, Group and College Balance Sheets, Group Statement of Cash Flows and the related notes 1 to 26, 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting standard applicable in the UK".

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the College's affairs as at 31 July 2017 and of the Group's and the College's income and expenditure, gains and losses, changes in reserves and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting standard applicable in the UK"; and
- have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education.

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 below. We are independent of the University in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council'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:

- NCG Corporation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- NCG Corporation have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about NCG'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.

Independent auditor's report (continued)

to the members of NCG Corporation

Other information

The other information comprises the information included in the annual report set out on pages 2 to 24 other than the financial statements and our auditor's report thereon. NCG Corporation is responsible for the other information.

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the revised Joint Audit Code of Practice (Part 1) issued by the Education and Skills Funding Agency

In our opinion, in all material respects:

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

Responsibilities of NCG Corporation

As explained more fully in the fully in the Statement of Responsibilities of the Members of the Corporation set out on page 25, NCG 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 NCG Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, NCG Corporation is responsible for assessing NCG'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 NCG Corporation either intend to liquidate NCG or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report (continued)

to the members of NCG Corporation

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.

This report is made solely to the Corporation of NCG, as a body, in accordance with statutory requirements. Our audit work has been undertaken so that we might state to the charity's trustees 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 NCG and NCG Corporation as a body, for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Ernst & Young LLP

Ernst & Young LLP
Statutory auditor
Newcastle upon Tyne

Date: 8 December 2017

Ernst & Young LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

The maintenance and integrity of NCG's website is the responsibility of NCG Corporation; 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.

Statements of comprehensive income

	Notes	Year ended 31 July 2017		Year ended 31 July 2016	
		NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
INCOME					
Funding body grants	2	85,047	61,695	82,926	57,678
Tuition fees and education contracts	3	21,901	21,761	21,508	21,261
Other grants and contracts	4	17,234	1,069	23,622	1,088
Other income	5	3,358	3,400	3,094	8,523
Investment income	6	117	607	187	540
Total income		127,657	88,532	131,337	89,090
EXPENDITURE					
Staff costs	7	69,366	53,703	77,667	56,846
Fundamental restructuring costs	7	1,765	1,399	5,417	4,265
Other operating expenses	8	50,194	31,796	53,461	34,758
Amortisation	11	-	-	495	-
Depreciation	12	11,833	11,346	13,261	12,116
Interest payable and other finance costs	9	1,856	1,482	2,526	1,955
Total expenditure		135,014	99,726	152,827	109,940
Deficit before other gains and losses		(7,357)	(11,194)	(21,490)	(20,850)
Profit/(Loss) on disposal of assets	12	7,429	7,431	(1,390)	(965)
Impairment of intangible fixed assets	11	-	-	(7,636)	-
Surplus/(Deficit) before tax		72	(3,763)	(30,516)	(21,815)
Taxation	10	-	-	-	-
Surplus/(Deficit) before gift from Carlisle College		72	(3,763)	(30,516)	(21,815)
Net assets of Carlisle College at point of merger with NCG	11	4,216	4,216	-	-
Surplus/(Deficit)		4,288	453	(30,516)	(21,815)
Actuarial gain in respect of pension schemes	22	7,787	3,476	15,775	14,046
Total comprehensive income for the year		12,075	3,929	(14,741)	(7,769)

For the purposes of this Statement:

NCG (Group) – is the consolidation of the colleges and the two subsidiary training companies.

NCG (Colleges) or colleges – is the stand alone NCG Corporation entity which incorporates the colleges only, excluding the two subsidiary training companies.

Statement of changes in reserves

	Income and expenditure account £000	Revaluation reserve £000	Total £000
NCG (Group)			
Balance at 1 August 2015	58,726	6,834	65,560
Deficit from the income and expenditure account	(30,516)	-	(30,516)
Other comprehensive income	15,775	-	15,775
Transfers between revaluation and income and expenditure reserves	234	(234)	-
	<u>(14,507)</u>	<u>(234)</u>	<u>(14,741)</u>
Balance at 31 July 2016	44,219	6,600	50,819
Surplus from the income and expenditure account	72	-	72
Other comprehensive income	12,003	-	12,003
Transfers between revaluation and income and expenditure reserves	234	(234)	-
Total comprehensive income for the year	<u>12,309</u>	<u>(234)</u>	<u>12,075</u>
Balance at 31 July 2017	<u>56,528</u>	<u>6,366</u>	<u>62,894</u>
NCG (Colleges)			
Balance at 1 August 2015	71,381	6,834	78,215
Deficit from the income and expenditure account	(21,815)	-	(21,815)
Other comprehensive income	14,046	-	14,046
Transfers between revaluation and income and expenditure reserves	234	(234)	-
	<u>(7,535)</u>	<u>(234)</u>	<u>(7,769)</u>
Balance at 31 July 2016	63,846	6,600	70,446
Deficit from the income and expenditure account	(3,763)	-	(3,763)
Other comprehensive income	7,692	-	7,692
Transfers between revaluation and income and expenditure reserves	234	(234)	-
Total comprehensive income for the year	<u>4,163</u>	<u>(234)</u>	<u>3,929</u>
Balance at 31 July 2017	<u>68,009</u>	<u>6,366</u>	<u>74,375</u>

For the purposes of this Statement:

NCG (Group) – is the consolidation of the colleges and the two subsidiary training companies.

NCG (Colleges) or colleges – is the stand alone NCG Corporation entity which incorporates the colleges only, excluding the two subsidiary training companies.

Balance sheets as at 31 July

	Notes	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Fixed assets					
Intangible assets and investments	11	-	-	-	-
Tangible assets	12	178,897	178,164	157,098	155,942
		<u>178,897</u>	<u>178,164</u>	<u>157,098</u>	<u>155,942</u>
Current assets					
Stocks	13	610	610	5,222	5,222
Debtors	14	8,867	3,177	8,562	3,681
Cash and cash equivalents		24,539	24,363	23,086	22,366
		<u>34,016</u>	<u>28,150</u>	<u>36,870</u>	<u>31,269</u>
Less: Creditors - amounts falling due within one year	15	29,920	24,782	36,695	28,339
Net current assets		<u>4,096</u>	<u>3,368</u>	<u>175</u>	<u>2,930</u>
Total assets less current liabilities		<u>182,993</u>	<u>181,532</u>	<u>157,273</u>	<u>158,872</u>
Creditors - amounts falling due after more than one year	16	85,551	85,551	68,744	68,640
Provisions					
Defined benefit obligations	22	26,894	15,591	31,380	15,338
Other provisions	18	7,654	6,015	6,330	4,448
		<u>62,894</u>	<u>74,375</u>	<u>50,819</u>	<u>70,446</u>
Total net assets		<u>62,894</u>	<u>74,375</u>	<u>50,819</u>	<u>70,446</u>
Unrestricted reserves					
Revaluation reserve		6,366	6,366	6,600	6,600
Income and expenditure account		56,528	68,009	44,219	63,846
		<u>62,894</u>	<u>74,375</u>	<u>50,819</u>	<u>70,446</u>

For the purposes of this Statement:

NCG (Group) – is the consolidation of the colleges and the two subsidiary training companies.

NCG (Colleges) – is the stand alone NCG Corporation entity which incorporates the colleges only, excluding the two subsidiary training companies

The financial statements were approved by the members of the Corporation and were signed on their behalf by:



C Roberts
(Interim Chair of the Corporation)
5 December 2017



J P Docherty
(Chief Executive)
5 December 2017

Consolidated statement of cash flows

	Notes	2017 £000	2016 £000
Cash flow from operating activities			
Surplus/(deficit) for the year		72	(30,516)
Adjustment for non-cash items			
Amortisation		-	495
Depreciation		11,833	13,261
Deferred capital grants released to income		(4,164)	(1,995)
(Increase)/decrease in stocks		(19)	37
Decrease in debtors		879	1,216
(Decrease)/increase in creditors due in less than 1 year		(9,465)	1,184
(Decrease)/increase in creditors due in more than 1 year		(583)	166
Increase in provisions		568	1,174
Pensions costs less contributions payable		1,556	1,383
Adjustment for investing or financing activities			
Investment income		(117)	(187)
Interest payable		969	887
(Profit)/loss on sale of fixed assets		(7,429)	1,390
Impairment of intangible fixed assets		-	7,636
Net cash flow from operating activities		(5,900)	(3,869)
Cash flows from investing activities			
Proceeds from sale of fixed assets		12,500	-
Investment income		126	181
Capital grants received		282	-
Payments made to acquire fixed assets		(2,492)	(2,445)
		10,416	(2,264)
Acquisitions and disposals			
Net overdraft acquired with subsidiary undertaking		(421)	-
		(421)	-
Cash flows from financing activities			
Interest paid		(959)	(961)
New loans		-	4,200
Repayments of amounts borrowed		(1,642)	(1,352)
Capital element of finance lease repayments		(41)	(41)
		(2,642)	1,846
Increase/(decrease) in cash and cash equivalents in the year	19	1,453	(4,287)
Cash and cash equivalents at beginning of the year		23,086	27,373
Cash and cash equivalents at end of the year		24,539	23,086

Notes to the financial statements

at 31 July 2017

1. Accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2015 to 2016* and in accordance with Financial Reporting Standard 102 – “*The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland*” (FRS102). NCG (Group) is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS102.

The preparation of financial statements in compliance with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying NCG (Group) accounting policies.

Basis of consolidation

The consolidated financial statements include the Group and its subsidiaries, The Intraining Group Limited and Rathbone Training, controlled by the Group (together referred to as “NCG (Group)”). Control is achieved where the NCG (Group) has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS102, the activities of the student union and Discovery Learning Limited have not been consolidated because NCG (Group) does not control those activities. All financial statements are made up to 31 July 2017. The NCG (Colleges) financial statements present information about NCG (Colleges) as a separate entity that includes the five colleges - Carlisle College, Kidderminster College, Newcastle College, Newcastle Sixth Form College and West Lancashire College (together referred to as “NCG (Colleges)”) and excludes the two subsidiary training companies.

Therefore, for the purposes of the notes to the accounts following terminology applies:

NCG (Group) – is the consolidation of the colleges and the two subsidiary training companies.

NCG (Colleges) – is the stand alone NCG Corporation entity which incorporates the colleges only, excluding the two subsidiary training companies.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the use of previous valuations as deemed cost at transition for certain non-current assets.

Going concern

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

NCG (Group) currently has loans outstanding with bankers secured on a combination of fixed and variable interest rates. NCG (Group) forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future. The current liabilities include a number of non-cash related items and NCG (Group) believe it will have more than sufficient cash available to meet the liabilities as they fall due.

Notes to the financial statements

at 31 July 2017

1. Accounting policies (continued)

Going concern (continued)

Accordingly, NCG (Group) has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its financial statements.

Recognition of income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS102. 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 grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the Statement of Comprehensive Income.

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

Grants (including research grants) from non-government sources are recognised in income when NCG (Group) is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS102. Other capital grants are recognised in income when the Group 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.

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

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

NCG (Group) acts as an agent in the collection and payment of learner support funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of NCG (Group) where NCG (Group) is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Notes to the financial statements

at 31 July 2017

1. Accounting policies (continued)

Accounting for post-employment benefits

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

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with NCG (Group) 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.

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

Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

Actuarial gains and losses are recognised immediately in actuarial gains and losses in other comprehensive income.

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 NCG (Group). Any unused benefits are accrued and measured as the additional amount NCG (Group) 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 NCG (Group) 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.

Notes to the financial statements

at 31 July 2017

1. Accounting policies (continued)

Other pension schemes

Staff employed by Intraining are eligible to be members of the Intraining Group Personal Pension Scheme. It is a defined contribution scheme and is independently administered by Heath Lambert.

Rathbone Training also operates two funded defined benefit pension schemes for eligible employees. The first is the London Pension Fund Authority Scheme (LPFA), which up to 1 April 1999 had been the principal scheme. The assets of the scheme are invested and managed independently.

The second is a multi-employer scheme, The Pensions Trust Growth Plan, which closed to new entrants from 31 October 2012. It is a multi-employer defined benefit pension scheme with a deficit funding arrangement in place to identify a liability for this obligation in its accounts. The liability is equal to the net present value of the deficit contributions payable

The current principal scheme for Rathbone Training is a defined contribution pension scheme which is independently administered by Heath Lambert.

Non-current assets - tangible fixed assets

Tangible fixed assets are stated at cost / deemed cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Land and buildings

Freehold buildings are depreciated on a straight line basis over their expected useful lives as follows:

- Building Exterior – 30 Years
- Fabric of the Building – 30 Years
- Building Interior – 20 Years
- Mechanical and Engineering parts e.g. Lifts, Heating – 18 Years
- Structural parts e.g. Building frame, stairs, roof – 60 Years

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 NCG (Group) of between 20 and 60 years. NCG (Group) has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 20 and 60 years.

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.

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.

On adoption of FRS102, NCG (Group) followed the transitional provision to retain the book value of buildings, which were revalued in 1993, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

Land with a book value of £2,102,000 was revalued at 31 August 2014 by Cushman and Wakefield, a firm of Chartered Surveyors, at £5,500,000.

Notes to the financial statements

at 31 July 2017

1. Accounting policies (continued)

Non-current assets - tangible fixed assets (continued)

Leasehold Improvements

Leasehold improvements are capitalised and depreciated over the remaining term of the lease. All are short leasehold.

Assets under construction

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

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to NCG (Group), in which case it is capitalised and depreciated on the relevant basis.

Equipment

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition, except IT equipment which is capitalised regardless of value. Where capitalised, equipment is recorded as a tangible fixed asset at cost.

Capitalised equipment is depreciated on a straight-line basis over its remaining useful economic life as follows:

- | | |
|------------------------------------|---------|
| • technical equipment | 5 years |
| • motor vehicles | 5 years |
| • computer equipment | 4 years |
| • furniture, fixtures and fittings | 5 years |

Where equipment is acquired with the aid of specific grants it is 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.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Comprehensive Income and Expenditure.

Intangible assets and goodwill

On acquisition of a subsidiary, the fair value of the consideration is allocated between the identifiable net tangible and intangible assets and liabilities on a fair value basis, with any excess consideration representing goodwill. Goodwill in respect of subsidiaries is included within intangible fixed assets.

Goodwill arising on acquisitions is capitalised as an asset on the balance sheet. Where goodwill is regarded as having a finite useful economic life it is amortised on a straight line basis over its estimated life, up to a maximum of 20 years. Impairment reviews are carried out at the end of each financial year and at other times if there are indications that the carrying value may not be supportable.

Borrowing costs

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

Notes to the financial statements

at 31 July 2017

1. Accounting policies (continued)

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 1 August 2014 are spread over the minimum lease term. The Group has taken advantage of the transitional exemptions in FRS102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1 August 2014.

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

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

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

Investments in subsidiaries

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

Inventories

Inventories are stated at the lower of their cost and net realisable value, being selling price less costs to complete and sell. Where necessary, provision is made for obsolete, slow-moving and defective items.

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

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

Financial liabilities and equity

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

All loans, investments and short term deposits held by NCG (Group) are classified as basic financial instruments in accordance with FRS102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS102 requires that basic financial instruments are subsequently measured at amortised cost, however NCG (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.

Notes to the financial statements

at 31 July 2017

1. Accounting policies (continued)

Foreign currency translation

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

Taxation

NCG (Colleges) 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, NCG (Colleges) 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.

NCG Group is partially exempt in respect of Value Added Tax, so that it can only recover a minor element 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.

NCG (Group) subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation, with the exception of Rathbone whom is a registered charity and therefore is not liable to corporation tax.

Provisions and contingent liabilities

Provisions are recognised when

- the College has a present legal or constructive obligation as a result of a past event
- it is probable that a transfer of economic benefit will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the statement of comprehensive income in the period it arises.

A contingent liability arises from a past event that gives NCG (Group) a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of NCG (Group). Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but are disclosed in the notes to the financial statements.

Identified areas of provision are as follows:

Dilapidations

Dilapidations are provided for based on a recognised valuation formula over the lifetime of a property's lease and are reviewed regularly.

Restructuring Provision

A restructuring provision is recognised when there is a legal or constructive obligation at the reporting date. The provision made is based on contractual and/or legal requirements.

Notes to the financial statements

at 31 July 2017

1. Accounting policies (continued)

Provisions and contingent liabilities (continued)

Onerous Contracts

An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The provision for onerous contracts is calculated as the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

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 NCG (Group) 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 NCG (Group) 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.

- Defined benefit pension schemes

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 22, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2017. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the financial statements at 31 July 2017

2. Funding body grants

	Year ended 31 July 2017		Year ended 31 July 2016	
	NCG (Group)	NCG (Colleges)	NCG (Group)	NCG (Colleges)
	£000	£000	£000	£000
Recurrent grants				
Education & Skills Funding Agency - adult	11,829	10,458	12,780	11,241
Education & Skills Funding Agency - 16-18	43,672	39,899	45,785	38,361
Education & Skills Funding Agency - apprenticeships	23,143	5,043	20,153	3,961
Higher Education Funding Council England	2,239	2,239	2,213	2,213
Specific grants				
Releases of government capital grants	4,164	4,056	1,995	1,902
	85,047	61,695	82,926	57,678

3. Tuition fees and education contracts

	Year ended 31 July 2017		Year ended 31 July 2016	
	NCG (Group)	NCG (Colleges)	NCG (Group)	NCG (Colleges)
	£000	£000	£000	£000
Apprenticeship fees and contracts	153	153	119	119
Fees for FE loan supported courses	4,257	4,227	2,787	2,782
Fees for HE loan supported courses	14,686	14,686	14,383	14,383
International students fees	1,169	1,169	1,193	1,193
Total tuition fees	20,265	20,235	18,482	18,477
Education contracts	1,636	1,526	3,026	2,784
	21,901	21,761	21,508	21,261

NCG (Group) is committed to enabling potential learners to access education regardless of their personal finances. This has resulted in tuition fees foregone under NCG (Group) own fee waiver policy in the year totalling £2,174,000 (2016: £2,679,000). All courses are given an assumed fee based on guided learner hours, whether or not a fee had been charged to the students, which seeks to reflect the actual fees foregone.

4. Other grants and contracts

	Year ended 31 July 2017		Year ended 31 July 2016	
	NCG (Group)	NCG (Colleges)	NCG (Group)	NCG (Colleges)
	£000	£000	£000	£000
European Commission	1,382	529	2,084	43
Other grants and contracts	15,852	540	21,538	1,045
	17,234	1,069	23,622	1,088

Income from other grants and contracts of £15,852,000 (2016: £21,538,000) includes £5,501,000 (2016: £9,367,000) from Department of Work and Pensions; £2,911,000 (2016: £2,625,000) from Welsh Government; £3,070,000 (2016: £4,279,000) from Skills Development Scotland; £2,442,000 (2016: £3,354,000) subcontracted income; and £358,000 (2016: £480,000) from Big Lottery.

Notes to the financial statements at 31 July 2017

5. Other income

	Year ended 31 July 2017		Year ended 31 July 2016	
	NCG (Group)	NCG (Colleges)	NCG (Group)	NCG (Colleges)
	£000	£000	£000	£000
Catering and residences	1,244	1,244	1,297	1,296
Other income generating activities	250	250	376	376
Group service recharge income	-	-	-	5,432
Intercompany income	-	178	-	166
Miscellaneous income	1,864	1,728	1,421	1,253
	3,358	3,400	3,094	8,523

6. Investment income

	Year ended 31 July 2017		Year ended 31 July 2016	
	NCG (Group)	NCG (Colleges)	NCG (Group)	NCG (Colleges)
	£000	£000	£000	£000
Other interest receivable	117	116	187	185
Intercompany loan interest receivable	-	491	-	355
	117	607	187	540

7. Staff costs

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

	2017 No.	2016 No.
Teaching staff	1,773	1,965
Non teaching staff	348	500
	2,121	2,465

Staff costs for the above persons:

	2017 £000	2016 £000
Wages and salaries	55,879	64,593
Social security costs	5,063	5,205
TPS pension costs	2,942	3,032
LGPS pension costs	4,840	3,998
LPFA pension costs	30	25
Other pension costs	612	814
Payroll sub-total	69,366	77,667
Exceptional restructuring costs	1,765	5,417
Total staff costs	71,131	83,084

Notes to the financial statements

at 31 July 2017

7. Staff costs (continued)

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

Group	Key management personnel		Other staff	
	2017 No.	2016 No.	2017 No.	2016 No.
£60,001 to £70,000	1	1	22	22
£70,001 to £80,000	1	1	6	5
£80,001 to £90,000	-	-	5	6
£90,001 to £100,000	1	1	6	3
£100,001 to £110,000	4	2	1	4
£120,001 to £130,000	2	2	-	-
£130,001 to £140,000	1	2	-	-
£150,001 to £160,000	1	1	-	-
£200,001 to £210,000	1	1	-	-
£230,001 to £240,000	1	1	-	-
	13	12	40	40

These numbers are stated as full year salary equivalents even if service is not for a full year.

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 Executive Team, which comprises the Chief Executive, the Group Director Finance, Estates and IT, the Group Director - Human Resources and Organisational Development, the Group Director - Strategic Partnerships the Principals of Carlisle College, Kidderminster College, Newcastle College, West Lancashire College and Newcastle Sixth Form College, the Managing Director of The Intraining Group Limited and Rathbone Training. Staff costs include compensation paid to key management personnel for loss of office.

	2017 No.	2016 No.
The number of key management personnel holders including the Chief Executive and the Clerk to the Governors (and including those who held office for only part of the year) was:	13	12
	2017	2016
	£000	£000
Key management personnel emoluments are made up as follows:		
Emoluments	1,602	1,495
Pension contributions	159	167
Total emoluments	1,761	1,662

Notes to the financial statements at 31 July 2017

7. Staff costs (continued)

Key Management Personnel (continued)

The above emoluments include amounts payable to the highest paid officer, the Chief Executive, of:

	2017 £000	2016 £000
Salary	227	227
Benefits in Kind	10	10
Bonus	11	11
Pension contributions	33	32
Total emoluments	<u>281</u>	<u>280</u>

Compensation for loss of office paid former key management personnel

	2017 £000	2016 £000
Compensation paid to former post-holder	71	-
Estimated value of other benefits, including provision for pension benefits	-	-
	<u>71</u>	<u>-</u>

The severance payment was approved by NCG (Group) Remuneration Committee.

The Chief Executive's bonus was paid as part of the Senior Leadership Incentive Scheme which is detailed on page 20.

The pension contributions in respect of the Chief Executive and key management personnel relate to employer's contributions to the Teachers' Pension Scheme or the Local Government Superannuation Scheme and are paid at the same rate as for other employees.

The members of the Corporation other than the Chief Executive, an elected staff member, an elected student member in sabbatical office as President of Newcastle College Students Union did not receive any payment from NCG (Group), other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. A payment of £30,000 was made to Ward Hadaway under a consultancy agreement as Mr Martin was the Managing Partner of Ward Hadaway solicitors. The amount related entirely to Mr Martin's services as a non-executive director of Intraining and in no way to his role as a member of NCG Corporation.

It was agreed when he joined NCG (Group) as Chief Executive that Mr J P Docherty's Trusteeship of the Arts Council could continue and that he could retain his earnings from this service; these earnings are £6,400 per annum.

Notes to the financial statements at 31 July 2017

8. Other operating expenses

	Year ended 31 July 2017		Year ended 31 July 2016	
	NCG (Group)	NCG (Colleges)	NCG (Group)	NCG (Colleges)
	£000	£000	£000	£000
Teaching costs	9,376	5,908	10,189	5,805
Teaching and other support costs	17,697	2,853	14,817	1,280
Administration costs*	4,627	8,441	4,378	12,110
Operational costs	4,137	3,441	4,748	3,554
Maintenance costs	6,625	5,857	7,777	5,969
Examination costs	2,573	2,108	2,604	2,168
Catering, residences and conferences costs	462	462	506	506
Rent and lease costs	3,499	1,528	7,211	2,135
Other costs	1,198	1,198	1,231	1,231
	<u>50,194</u>	<u>31,796</u>	<u>53,461</u>	<u>34,758</u>

Other operating expenses include:

	2017 £000	2016 £000
Auditor's remuneration:		
- External audit (including Regularity Audit)**	67	67
- Internal audit	73	61
- Other services provided by the external auditor	11	9
Subcontractor costs	16,685	15,038
Hire of assets under operating leases:		
- Land and buildings	2,806	6,442
- Other	<u>693</u>	<u>769</u>

* Administration costs in NCG (Colleges) includes a bad debt provision release of £21,948,000 and impairment of the capital contribution of £26,912,000 (see note 11), there is no impact on NCG (Group).

** Includes £38,000 in respect of NCG (2016: £38,000) inclusive of VAT

9. Interest payable and other finance costs

	Year ended 31 July 2017		Year ended 31 July 2016	
	NCG (Group)	NCG (Colleges)	NCG (Group)	NCG (Colleges)
	£000	£000	£000	£000
On bank loans	969	969	887	887
Other interest - pensions	823	457	1,564	1,004
Other interest and charges	58	50	75	64
On finance lease	6	6	-	-
	<u>1,856</u>	<u>1,482</u>	<u>2,526</u>	<u>1,955</u>

10. Taxation

One of NCG (Group) subsidiary companies is liable for Corporation Tax on its taxable profits. No taxable profits were made during the year and accordingly there is no tax charge.

The subsidiary company has an unrecognised deferred tax asset of £6,284,000 (2016: £6,462,000), comprising tax losses of £6,017,000 (2016: £6,222,000) and other timing differences of £267,000 (2016: £240,000). The asset has not been recognised as the criteria under FRS102 have not been met.

NCG (Group) was not liable for any corporation tax arising from its activities during the year.

Notes to the financial statements at 31 July 2017

11. Intangible fixed assets and investments

	Goodwill £000
NCG (Group)	
Cost:	
At 1 August 2016 and at 31 July 2017	<u>28,961</u>
Amortisation:	
At 1 August 2016 and at 31 July 2017	<u>28,961</u>
Net book value:	
At 1 August 2016 and at 31 July 2017	<u>-</u>
NCG (Colleges)	£000
Cost:	
At 1 August 2016 and at 31 July 2017	<u>3,289</u>
Amortisation:	
At 1 August 2016 and at 31 July 2017	<u>3,289</u>
Net book value:	
At 1 August 2016 and at 31 July 2017	<u>-</u>

As documented in note 1 accounting policies, goodwill arising on acquisition is subject to an impairment review annually or if there are indications that the carrying value may not be supportable. Goodwill has £nil net book value at 31 July 2017.

The trade, assets and liabilities of Carlisle College was acquired on 5 April 2017 for nil consideration.

Carlisle College fair value table

	<i>Book value</i> £000	<i>Adjustment to fair value</i> £000	<i>Fair value</i> £000
Tangible fixed assets	26,298	4,971	31,269
Stock	46	-	46
Trade and other debtors	1,140	(23)	1,117
Cash at bank and in hand	6	-	6
Creditors: amounts falling due within one year	(3,383)	-	(3,383)
Creditors: amounts falling due after more than one year	(22,347)	-	(22,347)
Pension liability	(1,761)	-	(1,761)
Provisions	(794)	63	(731)
Net assets acquired	<u>(795)</u>	<u>5,011</u>	<u>4,216</u>

This has been treated as a gift from Carlisle College to NCG, following the dissolution of the previous statutory entity. The gift has been recognised in the statement of comprehensive income in accordance with the 2016/17 Accounts Direction Handbook.

The fair value adjustment for Tangible Fixed Assets constituted the difference between the net book value and a valuation of Land and Buildings at the date of acquisition of 5 April 2017. The valuation of £30,718,000 was performed by Lambert Smith Hampton. The valuation was based on depreciated replacement cost.

Trade and other debtors book value has reduced by £23,000 in relation to Trade Debtors that have become irrecoverable at the point of acquisition.

Notes to the financial statements

at 31 July 2017

11. Intangible fixed assets and investments (continued)

The proportion of joint venture reserves that had been held as part of provisions within Carlisle College book values was considered to not constitute a liability at the date of acquisition resulting in an adjustment of £63,000.

In the period ended 31 July 2017, the results of NCG included £4,151,000 of turnover and £150,000 of surplus in relation to Carlisle College.

NCG - investments

NCG Corporation owns 100% of the issued ordinary £1 shares of Newcastle College Construction Limited and TWL Training Limited. It is also the ultimate parent company of The Intraining Group Ltd (issued ordinary £1 shares are owned by Intraining Holdings Ltd). Rathbone Training is a company limited by guarantee and its sole member is NCG Corporation. The principal business activity of the subsidiaries is the provision of vocational training, education and employability skills.

Investment in joint venture

The investment in the joint venture relates to an entity, Cumbria Colleges Limited, in which Carlisle College has an interest on a long-term basis. The entity is jointly controlled with three other venturers under a contractual agreement to promote and develop further education within Cumbria.

The investment, which has been accounted for under the gross equity method shows the College's share of the gross assets (£9,099) less gross liabilities (£9,099) of £nil. The Company is now dormant, and therefore the College's share of the loss for the year of £nil has been consolidated within the Group Income and Expenditure Account for the year as shown below.

	2017 £000
Income	-
Expenses	-
At 31 July	-

Capital contribution

	2017 £000	2016 £000
Capital contribution to Intraining and Rathbone	26,912	-
Impairment of capital contribution	(26,912)	-
	-	-

On the 31 July 2017 NCG (Group) gave a capital contribution to The Intraining Group Limited of £21,693,000 and Rathbone Training of £5,219,000. The contribution has been impaired on the basis that the carrying value of the investment is not supportable.

Notes to the financial statements at 31 July 2017

12. Tangible fixed assets

NCG (Group)	Land and buildings £000	Equipment £000	Total £000
Cost or valuation:			
At 1 August 2016	223,409	15,692	239,101
Additions	1,465	1,312	2,777
Amounts transferred on acquisition	30,718	551	31,269
Disposals	(11)	(16)	(27)
Transfer (to)/from assets held for sale	(1,576)	113	(1,463)
At 31 July 2017	254,005	17,652	271,657
Depreciation:			
At 1 August 2016	71,107	10,896	82,003
Charge for year	9,502	2,331	11,833
Disposals	(8)	(16)	(24)
Transfer (to)/from assets held for sale	(1,115)	63	(1,052)
At 31 July 2017	79,486	13,274	92,760
Net book value at 31 July 2017	174,519	4,378	178,897
Net book value at 1 August 2016	152,302	4,796	157,098

Land and buildings with a net book value of £101,339,000 have been partially financed by grants from the SFA. Should these assets be sold, NCG (Group) would either have to surrender the sale proceeds to the SFA or use the proceeds in accordance with the Financial Memorandum with the SFA.

The net book value of equipment includes an amount of £82,000 (2016: 125,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £41,000 (2016: £41,000).

Notes to the financial statements at 31 July 2017

12. Tangible fixed assets (continued)

NCG (Colleges)	Land and buildings £000	Equipment £000	Total £000
Cost or valuation:			
At 1 August 2016	221,272	12,963	234,235
Additions	1,405	1,305	2,710
Amounts transferred on acquisition	30,718	551	31,269
Disposals	-	(16)	(16)
Transfer (to)/from assets held for sale	(1,576)	113	(1,463)
At 31 July 2017	251,819	14,916	266,735
Depreciation:			
At 1 August 2016	69,736	8,557	78,293
Charge for year	9,243	2,103	11,346
Disposals	-	(16)	(16)
Transfer (to)/from assets held for sale	(1,115)	63	(1,052)
At 31 July 2017	77,864	10,707	88,571
Net book value at 31 July 2017	173,955	4,209	178,164
Net book value at 1 August 2016	151,536	4,406	155,942

Inherited land and buildings were valued at £25,934,000 on 27 August 1993. Of this, £25,859,000 relates to buildings stated at depreciated replacement cost, and £75,000 relates to a building valued at open market value by Storey Sons & Parker, a firm of chartered surveyors.

Other tangible fixed assets inherited from the local education authority at incorporation were capitalised at depreciated cost at incorporation. Should these assets be sold, NCG (Group) would have to use the sale proceeds in accordance with the financial memorandum with the SFA. If inherited land and buildings had not been revalued they would have been included with a net book value of £nil.

Land and buildings with a net book value of £101,399,000 have been partially financed by grants from the SFA. Should these assets be sold, NCG (Group) would either have to surrender the sale proceeds to the SFA or use the proceeds in accordance with the Financial Memorandum with the SFA.

The net book value of equipment includes an amount of £82,000 (2016: 125,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £41,000 (2016: £41,000).

NCG (Group) and NCG (Colleges)

Included in land and buildings are assets at a cost of £211,000 which have not been depreciated as the assets have not yet been brought into use. Freehold land held at a value of £26,314,000 has not been depreciated.

Revaluation reserve

Inherited land and buildings were valued at £25,934,000 on 27 August 1993.

Notes to the financial statements at 31 July 2017

13. Stocks – NCG (Group) and NCG (Colleges)

	2017 £000	2016 £000
Asset held for sale	500	5,177
Stocks	<u>110</u>	<u>45</u>
	<u>610</u>	<u>5,222</u>

14. Debtors

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Amounts falling due within one year:				
Trade debtors	1,312	1,052	1,028	989
Other debtors	2,190	358	900	329
Prepayments and accrued income	2,783	1,291	4,182	1,717
Amounts owed by the ESFA	<u>2,582</u>	<u>476</u>	<u>2,452</u>	<u>646</u>
	<u>8,867</u>	<u>3,177</u>	<u>8,562</u>	<u>3,681</u>

15. Creditors: amounts falling due within one year

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Payments received on account	1,181	1,163	1,143	1,005
Amounts owed to the ESFA	10,790	10,502	15,803	15,276
Trade creditors	638	454	362	153
Payroll creditors	162	54	152	8
Other taxation and social security	843	472	1,714	1,019
Accruals	9,337	5,146	12,100	5,063
Bank loans	1,827	1,827	1,475	1,475
Finance lease creditor	41	41	82	82
Other creditors	1,289	578	812	159
Deferred capital grants	3,812	3,812	3,052	3,048
Amounts due to subsidiary undertakings	-	733	-	1,051
	<u>29,920</u>	<u>24,782</u>	<u>36,695</u>	<u>28,339</u>

16. Creditors: amounts falling due after more than one year

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Bank loans	27,864	27,864	23,445	23,445
Obligations under finance leases	41	41	41	41
Deferred capital grants	<u>57,646</u>	<u>57,646</u>	<u>45,258</u>	<u>45,154</u>
	<u>85,551</u>	<u>85,551</u>	<u>68,744</u>	<u>68,640</u>

Notes to the financial statements

at 31 July 2017

17. Maturity of debt – NCG (Group) and NCG (Colleges)

	2017 £000	2016 £000
In one year or less	1,827	1,475
Between one and two years	9,682	1,464
Between two and five years	8,834	15,196
In five years or more	9,348	6,785
	<u>29,691</u>	<u>24,920</u>

(b) Finance leases

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

	2017 £000	2016 £000
In one year or less	41	82
Between one and two years	41	41
	<u>82</u>	<u>123</u>

Bank loans and overdrafts carry interest at rates between 2.74% and 6.83% for fixed rate loans and between LIBOR +0.32% and LIBOR +1.3% for variable. Loans are repayable by instalments and due to mature between 2018 and 2030.

Finance lease obligations are secured in the assets to which they relate.

18. Provisions

NCG (Group)

	<i>Dilapidations</i> £000	<i>Enhanced pensions</i> £000	<i>Total</i> £000
At 1 August 2016	3,531	2,799	6,330
Amounts transferred on acquisition	-	731	731
Actuarial losses	-	166	166
Benefits paid	-	(213)	(213)
Interest charged to other operating expenses	-	81	81
Charged in the year	981	-	981
Utilised in the year	(348)	-	(348)
Released in the year	(74)	-	(74)
	<u>4,090</u>	<u>3,564</u>	<u>7,654</u>
At 31 July 2017			

Notes to the financial statements at 31 July 2017

18. Provisions (continued)

NCG (Colleges)	<i>Dilapidations</i> £000	<i>Enhanced pensions</i> £000	<i>Total</i> £000
At 1 August 2016	1,649	2,799	4,448
Amounts transferred on acquisition	-	731	731
Actuarial losses	-	166	166
Benefits paid	-	(213)	(213)
Interest charged to other operating expenses	-	81	81
Charged in the year	802	-	802
At 31 July 2017	<u>2,451</u>	<u>3,564</u>	<u>6,015</u>

Dilapidations are provided for on rented properties and the expected settlement for the majority is within the next 6 years.

The enhanced pension provision relates to costs of staff that have already left NCG (Group) employment and commitments for reorganisation costs from which NCG (Group) cannot reasonably withdraw at the balance sheet date. This provision has been recalculated in accordance with SFA guidance.

The principle assumptions for this calculation are:

	<i>2017</i> <i>% per</i> <i>Annum</i>	<i>2016</i> <i>% per</i> <i>Annum</i>
Price Inflation	<u>1.30</u>	<u>1.30</u>
Discount rate	<u>2.30</u>	<u>2.30</u>

19. Cash and cash equivalents

	<i>At 1 August</i> <i>2016</i> £000	<i>Other</i> <i>Cash flows</i> £000	<i>At 31 July</i> <i>2017</i> £000
Short term liquid investments	10,144	1,459	11,603
Cash at bank and in hand	<u>12,942</u>	<u>(6)</u>	<u>12,936</u>
	<u>23,086</u>	<u>1,453</u>	<u>24,539</u>

20. Capital commitments – Group and NCG

	<i>2017</i> £000	<i>2016</i> £000
Commitments contracted for at 31 July	<u>3,381</u>	<u>-</u>

Notes to the financial statements at 31 July 2017

21. Lease obligations

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Future minimum lease payments due:				
Land and buildings				
Not later than one year	2,086	738	1,552	499
Later than one year but not later than five years	2,749	2,380	1,667	1,128
Later than five years	570	570	282	282
	<u>5,405</u>	<u>3,688</u>	<u>3,501</u>	<u>1,909</u>
Other				
Not later than one year	75	48	502	181
Later than one year but not later than five years	71	71	141	114
	<u>146</u>	<u>119</u>	<u>643</u>	<u>295</u>

22. Pension schemes

The Group's employees belong to four principal defined benefit pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS), the Tyne and Wear Pension Fund, for non-teaching staff, Worcestershire County Council Pension Fund (LGPS) for Kidderminster employees and the London Pension Fund Authority Scheme for Rathbone Training employees. The Pensions Trust Growth Plan in Rathbone which is closed to new members is now disclosed as if it were a defined benefit pension scheme, which is a requirement of FRS102.

Staff employed by subsidiaries are eligible to be members of the Intraining and Rathbone Group Personal Pension Scheme. These are defined contribution schemes and are independently administered by insurance companies.

Total staff pension cost for the year

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Teachers' Pension Scheme	2,942	2,942	3,032	3,032
Tyne & Wear LGPS	4,840	4,840	3,998	3,951
London Pension Fund Authority Scheme	30	-	25	-
Other pension schemes	612	2	814	61
	<u>8,424</u>	<u>7,784</u>	<u>7,869</u>	<u>7,044</u>
Total pension cost for the year				

Notes to the financial statements at 31 July 2017

22. Pension schemes (continued)

Amounts recognised in the Statement of comprehensive income

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Tyne & Wear LGPS	3,642	3,642	13,340	13,340
Tyne & Wear LGPS - Intraining	-	-	383	-
Tyne & Wear LGPS - Kidderminster	-	-	869	869
The Pensions Trust Growth Plan	-	-	(42)	-
London Pension Fund Authority Scheme	4,311	-	1,388	-
Enhanced Pension Charge (note 18)	(166)	(166)	(163)	(163)
Actuarial gains recognised	<u>7,787</u>	<u>3,476</u>	<u>15,775</u>	<u>14,046</u>

Pension liability recognised in the balance sheet

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Tyne & Wear LGPS	15,591	15,591	13,360	13,360
Tyne & Wear LGPS - Intraining	-	-	(91)	-
Tyne & Wear LGPS - Kidderminster	-	-	1,978	1,978
The Pensions Trust Growth Plan	141	-	156	-
London Pension Fund Authority Scheme	11,162	-	15,977	-
	<u>26,894</u>	<u>15,591</u>	<u>31,380</u>	<u>15,338</u>

Outstanding contributions at 31 July 2017, included within creditors, were £233,000 (2016: £178,000).

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

Enhanced Pension Provision

The pension charge for the year included an amount in respect of enhanced pension entitlements of staff taking early retirement in earlier years under the reorganisation programme. The calculation of the cost of early retirement provisions charged to the income and expenditure account in the year of retirement is based on the total capital cost of providing enhanced pensions with allowance for future investment returns. Each year, the year-end provision is recalculated using updated actual investment returns and the resulting change in provision is charged or credited to the income and expenditure account.

Details of the movement in the provision are shown in note 18.

Notes to the financial statements

at 31 July 2017

22. Pension schemes (continued)

The 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 members may be employed by various bodies, their retirement and other pension benefits are set out in regulations made under the Superannuation Act 1972 and are paid by public funds provided by Parliament. The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions, along with those made by employers, are credited to the Exchequer under arrangements governed by the above Act. Retirement and other pension benefits are paid by public funds provided by Parliament.

The Teachers' Pensions Regulations 2010 require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pension 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.

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 £191.5 billion, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £176.6 billion giving a notional past service deficit of £14.9 billion;
- 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>

Notes to the financial statements at 31 July 2017

22. Pension schemes (continued)

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 will commence on 1 April 2015.

The pension costs paid to TPS in the year amounted to £2,942,000 (2016: £3,032,000).

FRS102 (28)

Under the definitions set out in FRS102 (28.11), the TPS is a multi-employer pension plan. The NCG (Group) is unable to identify its share of the underlying assets and liabilities of the plan.

Accordingly, NCG (Group) has taken advantage of the exemption in FRS102 and has accounted for its contributions to the scheme as if it were a defined-contribution plan. NCG (Group) has set out above the information available on the plan and the implications for the NCG (Group) in terms of the anticipated contribution rates.

Tyne & Wear Local Government Pension Scheme (LGPS)

The following disclosures relate to the funded liabilities of the Tyne and Wear Pension Scheme (TWPS), an administering authority in the Local Government Pension Scheme (LGPS).

The LGPS is defined benefit pension scheme. Benefits accrued from 1 April 2014 are based on career average revalued earnings (CARE); benefits accrued prior to 2014 are based on final salary.

Regular employer contributions to the Fund for the year ending 31 July 2018 are estimated to be £3,290,000. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

Contribution rates from 1 April 2017 are:

Full-time Equivalent Salary	Contribution rate per year
Up to £13,700	5.50%
£13,701 to £21,400	5.80%
£21,401 to £34,700	6.50%
£34,701 to £43,900	6.80%
£43,901 to £61,300	8.50%
£61,301 to £86,800	9.90%
£86,801 to £102,200	10.50%
£102,201 to £153,300	11.40%
£153,301 or more	12.50%

Notes to the financial statements

at 31 July 2017

22. Pension schemes (continued)

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2017 by a qualified independent actuary

	At 31 July 2017	At 31 July 2016	At 31 July 2015
RPI Inflation	3.05%	2.60%	3.20%
CPI Inflation	1.85%	1.40%	2.10%
Rate of general long-term increase in salaries	1.20%	1.20%	3.60%
Rate of increase for pensions in payment	1.85%	1.40%	2.10%
Rate of revaluation of pension accounts	1.85%	1.40%	2.10%
Discount rate	2.70%	2.60%	3.60%

The current mortality assumptions include sufficient allowance for future changes in mortality rates.

The assumed life expectations on retirement at age 65 are:

	2017 Years	2016 Years
Retiring at 31 July		
Males	21.9	22.1
Females	25.0	23.6
Retiring in 20 years		
Males	23.0	23.3
Females	26.2	25.1

The asset split in the scheme were:

	Asset split at 31 July 2017 %	Asset split at 31 July 2016 %
Equities	66.1	66.3
Property	9.0	10.0
Government Bonds	3.9	3.8
Corporate Bonds	11.5	11.5
Cash	3.9	3.0
Other	5.6	5.4
Total market value	<u>100.0</u>	<u>100.0</u>

Reconciliation of funded status to balance sheet

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Fair value of assets	119,044	119,044	88,260	86,519
Present value of funded defined benefit obligation	<u>(134,635)</u>	<u>(134,635)</u>	<u>(103,507)</u>	<u>(101,857)</u>
Net pension liability	<u>(15,591)</u>	<u>(15,591)</u>	<u>(15,247)</u>	<u>(15,338)</u>

Notes to the financial statements

at 31 July 2017

22. Pension schemes (continued)

Analysis of the amount charged to the Statement of comprehensive income

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Current service cost	4,460	4,460	3,998	3,750
Past service cost	380	380	466	460
Interest cost	376	376	949	840
	<u>5,216</u>	<u>5,216</u>	<u>5,413</u>	<u>5,050</u>

Changes to the present value of liabilities during the year

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Opening defined benefit obligation	103,507	101,857	95,462	93,650
Transfer in from Intraining/Carlisle LGPS	19,831	21,481	9,745	9,745
Current service cost	4,510	4,510	3,998	3,951
Interest cost	2,803	2,803	3,780	3,715
Contributions by participants	1,170	1,170	1,221	1,209
Actuarial losses/(gains) on liabilities*	5,433	5,433	(8,571)	(8,309)
Net benefits paid out**	(2,999)	(2,999)	(2,594)	(2,564)
Past service cost	380	380	466	460
Closing defined benefit obligation	<u>134,635</u>	<u>134,635</u>	<u>103,507</u>	<u>101,857</u>

* Includes changes to the actuarial assumptions

** Consists of net cash flow out of the Fund in respect of the Employer, excluding contributions and any death in service lump sums paid.

Changes to the fair value of assets during the year

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Opening fair value of assets	88,260	86,519	70,199	68,660
Transfer in from Intraining/Carlisle LGPS	18,070	19,811	7,035	7,035
Interest income on assets	2,427	2,427	2,831	2,775
Actuarial gains on assets	9,075	9,075	6,021	5,900
Contributions by the employer	3,041	3,041	3,547	3,504
Contributions by participants	1,170	1,170	1,221	1,209
Net benefits paid out	(2,999)	(2,999)	(2,594)	(2,564)
Closing fair value of assets	<u>119,044</u>	<u>119,044</u>	<u>88,260</u>	<u>86,519</u>

Notes to the financial statements at 31 July 2017

22. Pension schemes (continued)

Actual return on assets

	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000
Interest Income on assets	2,427	2,427	2,831	2,775
Actuarial gains on assets	9,075	9,075	6,021	5,900
Actual return on assets	<u>11,502</u>	<u>11,502</u>	<u>8,852</u>	<u>8,675</u>

History of asset values, present value of liabilities and deficit

NCG (Group)	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Fair value of assets	119,044	88,260	70,199	61,535	58,855
Present value of liabilities	<u>(134,635)</u>	<u>(103,507)</u>	<u>(95,462)</u>	<u>(81,718)</u>	<u>(86,028)</u>
Deficit	<u>(15,591)</u>	<u>(15,247)</u>	<u>(25,263)</u>	<u>(20,183)</u>	<u>(27,173)</u>
NCG (Colleges)	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Fair value of assets	119,044	86,519	68,660	60,250	57,848
Present value of liabilities	<u>(134,635)</u>	<u>(101,857)</u>	<u>(93,650)</u>	<u>(80,240)</u>	<u>(84,697)</u>
Deficit	<u>(15,591)</u>	<u>(15,338)</u>	<u>(24,990)</u>	<u>(19,990)</u>	<u>(26,849)</u>

Defined Contribution Pension Scheme - Intraining

The company operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the group in an independently administered fund. There were £56,000 unpaid contributions outstanding at the year-end (2016: £65,000).

Defined Contribution Pension Scheme - Rathbone

The company operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the group in an independently administered fund. There were £33,000 unpaid contributions outstanding at the year-end (2016: £36,000). The charge for the year was £187,000 (2016: £242,000).

Defined Benefit Pension Scheme LPFA - Rathbone

The Charity also operates a funded defined benefit pension scheme for eligible employees, London Pension Fund Authority Scheme (LPFA), which up to 1 April 1999 had been the principal scheme. The assets of the scheme are invested and managed independently of the finances of the Charity. The pension cost relating to this scheme is calculated on the projected unit method and is assessed with the advice of a qualified actuary. The latest actuarial assessment of this scheme was on 31 July 2017 and was carried out by Barnett Waddingham LLP, an independent actuary and the net liability at that point is estimated at £11,162,000.

Further information in respect of this defined benefit scheme is detailed on the following pages.

Notes to the financial statements

at 31 July 2017

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

The following disclosures relate to the funded liabilities of the London Pension Fund Authority (LPFA), an administering authority in the Local Government Pension Scheme (LGPS). The LGPS is defined benefit pension scheme. Benefits accrued from the 1 April 2014 are based on career average revalued earnings (CARE); benefits accrued prior to 2014 are based on final salary.

Employer contribution rates were fixed at 21.8% from April 2017 onwards.

The financial assumptions used to calculate the results are as follows:

	At 31 July 2017	At 31 July 2016
Discount rate	2.50%	2.35%
Salary increases	1.20%	1.40%
Pension increases	1.85%	1.40%

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

	At 31 July 2017	At 31 July 2016
<i>Retiring at 31 July</i>		
Males	19.8	20.0
Females	23.1	23.3
<i>Retiring in 20 years</i>		
Males	21.0	21.3
Females	24.4	24.7

Principal Actuarial Assumptions

The estimated asset allocation for Rathbone Training as at 31 July 2017 is as follows:

	31 July 2017 %	31 July 2016 %
Equities	61.3	51.5
Target Return Portfolio	20.7	24.3
Commodities	-	0.5
Infrastructure	4.5	7.1
Property	6.5	3.7
Cash	7.0	12.9
	<u>100.0</u>	<u>100.0</u>

Notes to the financial statements at 31 July 2017

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

Net pension liability as at 31 July:

	2017 £000	2016 £000	2015 £000
Present value of the defined benefit obligation	36,164	38,917	41,151
Fair value of Fund assets (bid value)	<u>26,880</u>	<u>24,964</u>	<u>25,751</u>
Deficit	9,284	13,953	15,400
Present value of unfunded obligation	<u>1,878</u>	<u>2,024</u>	<u>2,268</u>
Net defined benefit liability	<u><u>11,162</u></u>	<u><u>15,977</u></u>	<u><u>17,668</u></u>

The amounts recognised in the Statement of Comprehensive Income are:

	2017 £000	2016 £000
Service cost	30	25
Net interest on the defined liability	365	551
Administration expenses	<u>32</u>	<u>39</u>
	<u><u>427</u></u>	<u><u>615</u></u>

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2017 £000	2016 £000
Opening defined benefit obligation	40,941	43,419
Current service cost	30	25
Interest cost	930	1,342
Change in demographic assumptions	(250)	(1,322)
Change in financial assumptions	1,219	589
Experience gain on defined benefit obligation	(2,065)	(129)
Estimated benefits paid net of transfers in	(2,565)	(2,783)
Contributions by Fund participants and other employers	7	5
Unfunded pension payments	<u>(205)</u>	<u>(205)</u>
Closing defined benefit obligation	<u><u>38,042</u></u>	<u><u>40,941</u></u>

Notes to the financial statements

at 31 July 2017

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

Reconciliation of opening and closing balances of the fair value of Fund assets

	2017 £000	2016 £000
Opening fair value of Fund assets	24,964	25,751
Interest on assets	565	791
Return on assets less Interest	3,087	526
Other actuarial gains	128	-
Administration expenses	(32)	(39)
Contributions by employer including unfunded	931	918
Contributions by Fund participants and other employers	7	5
Estimate benefits paid plus unfunded net of transfers in	(2,770)	(2,988)
Closing fair value of Fund assets	<u>26,880</u>	<u>24,964</u>

Sensitivity analysis

	£000	£000	£000
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	37,619	38,042	38,470
Projected service cost	31	32	33
Adjustment to long term salary increase	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	38,046	38,042	38,039
Projected service cost	32	32	32
Adjustment to pension increase and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	38,469	38,042	37,620
Projected service cost	33	32	31
Adjustment to life expectancy assumptions	+ 1 year	None	- 1 year
Present value of total obligation	39,689	38,042	36,465
Projected service cost	33	32	31

Remeasurement of the defined benefit pension liability

	£000	£000
Return on Fund assets in excess of Interest	3,087	526
Other actuarial gains on assets	128	-
Change in financial assumptions	(1,219)	(589)
Change in demographic assumptions	250	1,322
Experience gain on defined benefit obligation	<u>2,065</u>	<u>129</u>
Remeasurement of the defined benefit pension liability	<u>4,311</u>	<u>1,388</u>

Notes to the financial statements at 31 July 2017

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

Projections for the year to 31 July 2018

	2017 £000
Service cost	32
Net Interest on the defined liability	268
Administration expenses	35
	<u>335</u>
Employer contributions	<u>729</u>

The Pension's Trust Growth Plan

The company participates in the scheme, a multi-employer scheme which provides benefits to some 1,300 non-associated participating employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore, it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore, the company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out at 30 September 2014. This valuation showed assets of £793m, liabilities of £970m and a deficit of £177m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme.

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the Series 1 and Series 2 scheme liabilities.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Notes to the financial statements at 31 July 2017

22. Pension schemes (continued)

The Pension's Trust Growth Plan (continued)

Present value of provision	2017 £000	2016 £000
Present value of provision	<u>141</u>	<u>156</u>
Reconciliation of opening and closing provisions	2017 £000	2016 £000
Provision at start of year	156	114
Unwinding of discount factor	1	2
Deficit contributions paid	(16)	(15)
Remeasurements - impact of any change in assumptions	-	6
Remeasurements - amendments to the contribution schedule	<u>-</u>	<u>49</u>
Provision at end of year	<u>141</u>	<u>156</u>
Income and Expenditure Impact	2017 £000	2016 £000
Interest Expense	1	2
Remeasurements- impact of any change in assumptions	-	6
Remeasurements- amendments to the contribution schedule	<u>-</u>	<u>49</u>
Assumptions	2017 % per Annum	2016 % per Annum
Discount rate	<u>1.32</u>	<u>1.25</u>

23. Related party transactions

Due to the nature of NCG (Group) operations and the composition of the Corporation (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

The total expenses paid to or on behalf of the Governors during the year was £1,000; 5 governors (2016: £1,900; 7 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 (2016: £nil).

The Corporation is a Member of Discovery Learning Limited which is set up to provide a free school for pupils aged 14 to 19 specialising in STEM (Science, Technology, Engineering and Mathematics) subjects and is based in Newcastle Upon Tyne.

The building that the school is housed in is built on land which is owned by the Corporation. The building was procured by Discovery Learning Limited and upon completion in August 2014 title of this was transferred from the construction company, to the Corporation. There is no charge to Discovery Learning Limited for the use of these assets.

The maximum balance outstanding during the year was £10,000.

Notes to the financial statements at 31 July 2017

23. Related party transactions (continued)

Payments of £108,000 have been made to Ward Hadaway solicitors for employment advice. Mr Martin, who was a non-executive director of The Intraining Group and the Chair of the Corporation, is also the managing partner of Ward Hadaway. Mr Martin resigned from these positions on 31 July 2017. The purchases were made at normal market prices.

The Acting Principal of Carlisle College during part of the period, S Salkeld, is also a director in Cumbria Colleges Limited in which Carlisle College has an interest. Carlisle College has given a guarantee of £25,000 in the event of Cumbria Colleges Limited entering into insolvent liquidation. During the period no transactions were undertaken between NCG (Group) and Cumbria Colleges Limited. There are no amounts outstanding to NCG (Group) from Cumbria Colleges Limited as at 31 July 2017.

24. Amounts disbursed as agent

	NCG (Group) 2017 £000	NCG (Group) 2016 £000
EFA bursary	1,848	2,401
	<hr/> 1,848	<hr/> 2,401
Disbursed to students	(1,601)	(1,940)
Administration costs	(69)	(58)
	<hr/> (1,670)	<hr/> (1,998)
Balance unspent at 31 July included in creditors	<hr/> 178	<hr/> 403

Funding body grants are available solely for students. In the majority of instances, NCG (Group) only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the income and expenditure account.

25. Contingent liability

Rathbone Training has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Growth Plan Series 3 Pension Fund, based on the financial position of the Plan as at 30 September 2016. As of this date the estimated employer debt for Rathbone Training was £676,996. More information with regards to this pension scheme is within note 22.

26. Events after the reporting period

On 1 August 2017 Lewisham Southwark College combined with NCG to further strengthen the Group. LSC has a substantial income of approximately £30 million per annum and will provide NCG with an important presence in the London market. The merger followed the local area review and Lewisham Southwark College brings with it a strong reputation providing significant value to all local stakeholders and not just the learners it engages with.

Subsequent to the balance sheet date a freehold property in Skelmersdale was sold in October 2017 for £2,100,000 the profit of which will be recognised in the 2017/18 financial statements. The property has been transferred into current assets as it was an asset for sale at the balance sheet date. The sale of this property is consistent with NCG's strategy of rationalising the property portfolio.

Independent auditor's report on regularity

To: The Corporation of NCG and Secretary of State for Education, acting through the Department for Education ('the Department')

In accordance with the terms of our engagement letter dated 5 December 2017 and further to the requirements of the financial memorandum with SFA/funding agreement with EFA 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 NCG during the period 1 August 2016 to 31 July 2017 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 returns, for which the Department has other assurance arrangements in place.

This report is made solely to the corporation of NCG 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 NCG 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 NCG and the Department for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of NCG and the reporting accountant

The corporation of NCG 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 2016 to 31 July 2017 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

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.

Independent auditor's report on regularity

To: The Corporation of NCG and Secretary of State for Education, acting through the Department for Education ('the Department')

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

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

The work undertaken to draw to our conclusion includes:

- a. Read the College's 'Statement on regularity, propriety and compliance with funding body terms and conditions of funding' and compare to our knowledge gained from our audit procedures;
- b. Read the College's self-assessment questionnaire and compared to our knowledge gained from our procedures under our separate appointment as external auditor to the College;
- c. Test a sample of the responses within the self-assessment questionnaire by inspecting relevant documents;
- d. Performed one walk through on each of the processes over income, expenditure, payroll and the financial statements close process to determine if these are operating as documented by management; and
- e. Read the reports of the College's internal audit provider to identify any matters that would indicate that the expenditure and income for the year ended 31 July 2017 had not been applied to purposes intended by Parliament and the financial transactions did not conform to the authorities which govern them.

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 2016 to 31 July 2017 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Ernst & Young LLP

Ernst & Young LLP
Newcastle upon Tyne
8 December 2017