NCG

Report and financial statements

31 July 2018

Address

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

Professional advisers

External auditor

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Bankers

HSBC Bank plc
City Branch
110 Grey Street
Newcastle upon Tyne
NE1 6JG

Solicitors

NCG has a framework of legal advisors for routine business:

Property & construction	Employment & pensions	Governance & student affairs	Corporate & commercial
DWF LLP Scott Place 2 Hardman Street Manchester M3 3AA	Ward Hadaway LLP Sandgate House 102 Quayside Newcastle Upon Tyne NE1 3DX	Eversheds Central Square South Orchard Street Newcastle Upon Tyne NE1 3XX	Muckle 32 Gallowgate Newcastle Upon Tyne NE1 4BF

Other professional advisers

Internal auditors:	PricewaterhouseCoopers LLP
Insurance:	Arthur J. Gallagher
Pensions:	Willis Towers Watson

Report of the members of the corporation

for the year ended 31 July 2018

Operating and financial review

The members present their annual report together with the financial statements and auditor's report for NCG (Group) for the year ended 31 July 2018.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting 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. 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.

Report of the members of the corporation

for the year ended 31 July 2018

Operating and financial review (continued)

Legal status (continued)

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.

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 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 16.

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.

Business review

Operational review

2018 has been a transformational year for NCG. Carlisle College is now fully embedded into the group and Lewisham Southwark College has had its first year of operation since the merger on 1 August 2017. The full benefits of the Carlisle merger are now being realised and the potential for growth and greater efficiencies within Lewisham Southwark College are evident, and opportunities for further impact continue to be identified.

During the year, NCG underwent parallel Ofsted inspections of the Colleges and Intraining, both resulting in a Grade 3 "Requires Improvement" outcome. While a very disappointing result for NCG, the findings have been acknowledged and a rigorous improvement action plan has been agreed with the board to improve the position.

Year-end outcomes for 16-18 study programmes have already seen improvement, while programmes for adult learners and those with high needs were recognised by Ofsted as 'Good'. Further focus is required through the coming year to address:

- Outcomes for 16-18 year olds in Newcastle Sixth Form College, Newcastle College and Rathbone Training.
- The quality of apprenticeship provision where outcomes are still inconsistent across the colleges and at Intraining.
- The quality of teaching, learning and assessment, which is being addressed through the 'Great Place to Teach' initiative.

Report of the members of the corporation

for the year ended 31 July 2018

Business review (continued)

Operational review (continued)

The quality of the Higher Education provision has continued to improve. The National Student Survey results were strong, with overall satisfaction of 85% - a growth of 10 percentage points from 74% in 2017 and above the National Average of 83%.

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.

Overall, financial performance has been extremely challenging. In recent years, the main impact on income from the Group's core activities has been as a result of reduction in public expenditure within the sector. During 2018, there was less of an impact, although all funding rates continued to remain static, which in effect is a real terms reduction as a result of inflation.

The main impact on performance came from a reduction in apprenticeship income as a result of the funding changes at the end of 2016/17. These have led to a sector-wide reduction in apprenticeship starts of around 40% year on year and this has been replicated inside NCG. The main changes which took place in May 2017 were 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. Although the immediate impact of reforms has seen a slow-down in the uptake of apprenticeships – this should improve in the longer term and not all areas of the business have seen their activity levels drop.

While overall apprenticeship learner numbers are down across the group compared to previous years, Carlisle College has bucked this trend by delivering growth in apprenticeship recruitment. The businesses have responded to the challenges seen in the market following the introduction of the changes to the apprenticeship regime and have re-focused on providing higher quality and value programmes to support the needs of learners and employers. Development of the digital apprenticeship offer has been a success in 2018 with further growth planned in this area and plans to replicate this model across wider sectors are underway. There were some early signs of recovery late in the year but these were very modest and apprenticeship recruitment remains an issue across the sector in 2019.

There remain indications that future investment, for example on the new 'Tech Levels', will increase; the first sign of this has been the award of grants for work placement capacity building starting from August 2018. Caution remains however, as the Treasury is still seeking savings from unprotected budgets ahead of the next spending review and FE funding levels remain at risk. Rates for core ESFA funding were maintained, but once again, no inflationary increases were made.

Work Programme income in Intraining has reduced by £1,947,000 between 2016/17 and 2017/18 which is the result of the contract nearing the end of its planned life cycle, new referrals ceased from 31 March 2017.

HE recruitment within Newcastle College has significantly exceeded budget expectations, and retention has also been strong. It is anticipated that this will continue into 2019 with other parts of the Group leveraging the strength of knowledge and experience in this area. Specific areas of growth are planned within Lewisham, Southwark and West Lancashire Colleges.

The Group Services restructure, which took place towards the end of 2017, has realised savings of £1.0m in 2018.

Report of the members of the corporation

for the year ended 31 July 2018

Business review (continued)

Operational review (continued)

Other specific contract changes included:

- The ESFA contract for 16-18 provision has increased from the 2016/17 levels. This was a result of the merger with Lewisham Southwark College and full year impact of the merger with Carlisle College. This remains the largest 16-18 contract in the country at £64,236,091.
- The protected Adult Education Budget (AEB) for the Group almost doubled in size to £26,480,721 following the two mergers, with Lewisham Southwark College bringing in a particularly high level of adult funding.
- The merger with Carlisle College resulted in a significant increase in ESF to £10,499,477 across the life of the contract; the income benefit in 2017/18 was £4,500,000. The ESF contracts were also extended by a year through to March 2019.
- Volatility on the new Work Based Learning (WBL) 4 contract in Wales and slower than expected recruitment in new contract areas.

Learner numbers

The table below summarises learner numbers by contract across the group.

NCG (Group)	2018	2017
16-18 classroom learners	12,458	10,198
Classroom based adult learners	15,591	7,735
Apprentices (all ages)	12,587	16,264
HE students	2,743	3,090
Work Programme referrals	-	1,240
Learners in Scotland	958	959
Learners in Wales	1,431	1,355

Financial review

- NCG generated a deficit of £7,179,000 (restated 2017: surplus of £165,000) for the year.
- Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) is £3,447,000, representing 2% of turnover in 2018 (2017: £2,144,000).
- NCG reported turnover in the year of £158,234,000 (restated 2017: £127,750,000), the group has significant reliance on the ESFA for its principal funding source, largely from recurrent grants. The ESFA provided 67% of total income (2017: 67%)
- NCG ended the year in a very strong cash position with cash and cash equivalent balances of £25,797,000 (2017: £24,539,000). The group has cash forecasts that demonstrate cash reserves and facilities are in place and are sufficient to meet the immediate cash requirements of the business.
- The sale of property and land in West Lancashire completed in late 2017 for £2,589,000 generated an overall surplus of £2,009,000 which is recognised in the 2017/18 results.
- After deducting the defined benefit pension deficit NCG has accumulated reserves of £151,591,000 (restated 2017: £67,454,000). Prior to the pension liability, NCG reserves stand at £185,043,000 (restated 2017: £94,348,000). These accumulated reserves are held to reinvest for the benefit of future learners.

Report of the members of the corporation

for the year ended 31 July 2018

Business review (continued)

Financial review (continued)

- In the Financial Plan produced for the ESFA in July 2018, NCG agreed with the automated calculation of the Financial Health Grade as Satisfactory for the expected outturn of 2017/18. The financial plan also includes the following two-year's financial health; NCG has self-assessed 2018/19 as being satisfactory and 2019/20 as Good, which is in line with the automated calculation. This is based on balance sheet strength, maintenance of low gearing and improved operational performance.

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.

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

Cash flows and Liquidity

Cash generated from operating activities amounted to £4,306,000 (2017: cash outflow of £5,900,000).

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 £4,224,000 in capital expenditure in 2017/18. The principal schemes were:

	£000
West Lancashire College Construction Academy	2,313
Rye Hill Campus improvements	559
Group Services move	176
Westmorland building works	80
IT equipment and infrastructure	774
Routine capital expenditure	322
	4,224

Despite the continued pressure on funding which has been experienced 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.

Report of the members of the corporation

for the year ended 31 July 2018

People

NCG's purpose, to unlock potential through learning, is not just about what the Group does, but also about how it does it. NCG values were defined with help from over 2000 colleagues and learners across NCG, and they are:

- Valuing our people
- Being open and honest
- Ownership

Values underpin the culture and beliefs of the organisation and foster a sense of pride in working for NCG. The values set the standard of how colleagues should behave towards each other and help NCG make the right decisions based on those shared values.

The group employed 2,399 people (expressed as full time equivalents) in 2017/18 of whom 1,958 are teaching staff. The number of teaching staff includes those delivering training and employability. This represents an increase from 2016/17 as a result of the merger with Lewisham Southwark College.

In November 2018, NCG will launch its sixth annual Great Place to Work Survey across the Group. The best workplaces understand those factors that are truly valued by their people, and the Great Place to Work survey allows the Group and Board to hear the voice of our people.

This is an important event in the NCG calendar. NCG is fully committed to improving the way colleagues work together and the Great Place to Work Survey offers everyone the chance to share their thoughts about what it is like to work at NCG, what we get right and where improvement can be made.

There was a very strong response in 2017, with 80% of colleagues completing the survey. This ensured the results offered truly valuable insights into colleagues' views about the organisation and about some of the positive changes needed and a number of improvements have been implemented following the results of the previous years' surveys. Equally high levels of engagement in the survey are expected this year.

Post-balance sheet events

1. In October 2018, the Chief Executive and Accounting Office Joe Docherty resigned from NCG.

Report of the members of the corporation

for the year ended 31 July 2018

Outlook

The key focus of NCG for 2019 and beyond includes:

- Improving quality and outcomes for learners including improving future Ofsted inspection results from "Requires Improvement" to "Good" and then "Outstanding". There is significant progress already underway in this area including:
    - Expansion of NCG's quality team.
    - Launch of the "Great Place to Teach" Programme including 12 principles of teaching learning and assessment.
    - The Group has recently been awarded funds from the Strategic Colleges Improvement Fund which will be utilised along with NCG match funding for:
        - Consulting on quality improvement.
        - Delivery of MI to drive quality improvement.
        - Working with "outstanding" strategic partner education providers to improve teaching, learning and assessment.
        - Provision of excellent continual professional development for our teaching staff.
- Driving recruitment and retention of learners.
- Improving colleague engagement.
- Improving the Group's financial position from "satisfactory" to "good".
- Bidding for funding opportunities in the Colleges and the training providers.
- Review of the property portfolio to improve utilisation of assets and develop new learning resources.
- Development and expansion of curriculum including preparing for T levels and developing higher education programmes and digital teaching resources.
- Managing the split of Lewisham and Southwark Colleges and developing programmes for each of these now individual colleges.

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. The recent announcement in the Budget to reduce the employer contribution to apprenticeship training costs from 10% to 5% is expected to make a positive impact on apprenticeship volumes. There are relatively few changes to funding policy at the start of 2019. ESFA has strengthened its regulations on subcontracting.

For 2020, a proportion of the adult education contract will be split across 7, devolved authorities with funding for the rest of England provided by the ESFA. We are currently considering the impact of this.

Report of the members of the corporation

for the year ended 31 July 2018

Principal risks and uncertainties

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.

Market and political risks

Risk description and impact	Mitigation of risk
Learner Recruitment Risk of the Group failing to achieve its learner recruitment targets.	Significant work is undertaken within each of the divisions to achieve the recruitment targets. Registrations are regularly reported to senior teams and to local College Boards. In addition, a regular review is undertaken to challenge the appropriateness of the current curriculum offering, refreshing it as needed.
Brexit There is a risk that the Group is adversely affected by the UK's negotiations around leaving the European Union. While the Group is UK based, it receives significant European Social Fund income and any UK economic downturn may affect the Government's ability to fund education. There are additional sensitivities around any impact of changes to immigration policy, particularly for the Group's London operations.	The UK Government has indicated that current European funding will be replicated post leaving the EU. The Group carefully monitors availability of funding streams and takes action accordingly.
Political change Risk that the Group fails to influence and / or respond to political change.	Senior staff from across the Group interact regularly with politicians and other individuals within the political sphere. Government policy is monitored and reported across the business with an executive focus being applied for more strategic changes.

Report of the members of the corporation

for the year ended 31 July 2018

Principal risks and uncertainties (continued)

Operational risks

Risk description and impact	Mitigation of risk
Major incident There is the risk that the Group is involved in a major incident such as a health and safety incident, an act of terrorism, a major safeguarding issue, the loss of one or more locations, significant data breach or loss of IT.	The Group is currently reviewing its approach to Business Continuity Planning, which will lead to a refresh of its existing recovery plans. This, along with continued investment into IT and operational infrastructure, will allow continued confidence in our recovery arrangements. The Group employs a PR agency to aid communications should a major incident occur and there is business interruption insurance in place for all locations.
Customer Expectations Risk that the Group fails to deliver a product that meets or exceeds the expectations of its customers.	Regular customer satisfaction surveys are undertaken and reported across management and to the governors. Where areas of weakness are identified formal work plans are established to address. Students and staff representatives are appointed to Corporation and to College Boards to provide an opportunity for the voice of our students and staff to be heard.
Quality and performance of our education and training Risk that the Group fails to establish and maintain an appropriate level of education and training which is delivered at expected quality and performance levels.	Significant work is undertaken by a dedicated Quality team overseen by the Executive Director – Quality. Regular reporting of performance data is undertaken for audiences ranging from academic colleges to members of Corporation Board. A 'Great Place to Teach' initiative has also been recently introduced.
Property Infrastructure Risk that the Group fails to maintain and develop its infrastructure in line with regulatory requirements and customer expectations. Risk of damage or loss of property.	Detailed property infrastructure plans are currently being developed to provide a future focus around the group's property infrastructure. This work will ensure infrastructure is fit for purpose, maximises returns and relates to future academic and operational need. The group maintains adequate insurance for all property within the estate.
Staffing Risk that the Group fails to attract and retain appropriate staff.	Management and Governors monitor staffing trends taking steps to address any identified weakness. A biannual survey is undertaken to collect the views of staff with the results being used as the basis for establishing future priorities. Formal policies regarding the wellbeing of staff are established and embedded across the business.
Stakeholders / Partners Risk the Group fail to maximise the benefit of stakeholders / partners.	Senior staff from across the Group are involved with regional and national bodies. These include funders and politicians through to strategic partners. This allows access to opportunities to be identified and maximised, supporting the success of NCG.
Culture Risk the Group fails to establish / maintain an appropriate culture.	The Group has clearly established and publicised values that form the basis of NCG operating culture. Whilst the look and feel of the divisions may vary all are based on these core Group values.

Report of the members of the corporation

for the year ended 31 July 2018

Principal risks and uncertainties (continued)

Financial risks

Risk description and impact	Mitigation of risk
Liquidity Risk that the Group and the Company cannot fulfil its obligations as they fall due.	A large proportion of the Group's cash flows are very predictable due to the fixed nature of costs and income. Management maintain regular cash flow forecasts and bank covenant forecasts to assess the level of liquidity risk. The group has significant levels of cash and excess property assets that could be realised should a liquidity risk be identified.
Credit Risk that debtors are not recoverable.	A significant proportion of the Group's income is recovered from the ESFA, the Office for Students and the Student Loan Company who are not considered a credit risk. Amounts due from individual learners and companies are regularly monitored with a standard credit process followed. Learners are not permitted to continue with their learning after a period of time where their fees have not been paid.
Interest Rate Risk that interest rate increases create additional funding costs to the Group.	44% the Group's long-term borrowing is on fixed rate terms – leaving a manageable 56% on floating rates. Management model the effect of increasing interest rates as part of cash flow forecasting when assessing liquidity risks.

Compliance risks

Risk description and impact	Mitigation of risk
External Compliance and Validation Risk that the Group fails to reach the standards required for external compliance and suffers reputational and / or financial damage as a result.	Responsibilities for external compliance are clearly assigned across the Group. Requirements are subject to regular in-house checking and our approach to each is supported by written guidance. Sector experts are used to advise on policy and approach.

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 that 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.

Report of the members of the corporation

for the year ended 31 July 2018

Corporate Social Responsibility

Community

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:

- Engaging learners and colleagues with volunteering and participation in projects for national and local charities and public benefit organisations.
- All divisions actively represent the division in key local strategic groups and partnerships.
- Promoting healthy living to learners, colleagues and the local community.
- Sponsoring local and national projects and events.
- Promoting diversity, tolerance, and acceptance of different beliefs.
- Utilising creative and performance learners to benefit the local community.
- Collaborating with other educational organisations to promote learning and improve skills in the local community.
- Running fundraising events for the benefit of charities and good causes.
- Use of college facilities by local groups and societies.

Addressing environmental impact

NCG continues to make environmental performance and sustainable best practice a priority. NCG's Sustainability Policy was reviewed and renewed in February 2018.

Newcastle College, Newcastle Sixth Form College, West Lancashire College and Kidderminster College have secured Eco Campus Silver Awards. Carlisle College has achieved Eco Campus Bronze level status and, along with Lewisham Southwark College, is due to be audited in October 2018.

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 an increase in consumption due to the expansion of the Group with the mergers with Carlisle College and Lewisham Southwark College.

Report of the members of the corporation

for the year ended 31 July 2018

Corporate Social Responsibility

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.

The NCG Equality Strategy 2014-18 sets out our equality aims, specific equality objectives and roles and responsibilities. This is our second report on our progress in relation to the Equality Strategy. This progress builds on progress made under the previous NCG Single Equality Scheme 2010-14. In September 2015, the Equality Strategy was updated to take account of the Prevent Duty.

The Equality Strategy was reviewed in March 2018 and now states our expectation that our colleagues will challenge extremist ideas. NCG is committed to eliminating bias and discrimination from the way it operates. The Chief Operating Officer 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. NCG has also used the "Great Place to Work" survey to gather and share employee perceptions about the workplace including equality and diversity. The findings are used locally to inspire improvement.

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 that 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.

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 2017 to 31 July 2018, NCG paid 85.27 per cent of its invoices within 30 days. NCG incurred £886 of interest charges in respect of late payment for this period (2017: £1,616; 81%).

Report of the members of the corporation

for the year ended 31 July 2018

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 4 December 2018 and signed on its behalf by:

Peter R. Lauener

Peter Lauener
(Chair of the Corporation)

4 December 2018

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 2017 to 31 July 2018 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 ten times during the year.

Name	Date of Appointment/ Reappointment	Term	Date of Resignation/ Retirement	Status of Appointment	Committees Served	Attendance at Corporation & Committee meetings
Mr J Cuthbert	App: Oct 16	3 yrs		Independent member	Audit	13 of 14
Mr J P Docherty	App: Aug 13		10 October 2018	Chief Executive	Search HE Governance	16 of 16
Miss K Francis	App: Jul 17	1 yr	30 June 2018	Student member		8 of 9
Prof C MacDonald	App: Jun 14 Reapp: Jun 15	4 yrs		Independent member	Remuneration HE Governance (Chair)	12 of 15
Mr P Lauener	App: Mar 18	4 yrs		Independent member - Chair of Corporation	Search	5 of 5
Mr P Michell	App: Jan 04 Reapp: Dec 04 Reapp: Jan 09 Reapp: Jun 13 Reapp: Jul 17 Reapp: Jun 18	4 yrs 1 yr 6 mths		Independent member	Audit	13 of 14
Mr L Reilly	App: Jul 18	1 yr		Student member	HE Governance	3 of 3
Mr C Roberts	App: Sep 14 Reapp: Sep 15	4 yrs		Independent member and Interim Chair of Corporation from 1 August 2017 to 1 March 2018	Search	10 of 12
Mr M Squires	App: Oct 16	3 yrs		Independent member	Remuneration	9 of 11
Mr M Terry	App: Sep 14 Reapp: Sep 15	4 yrs	Retired 10 July 2018	Independent member	Search	11 of 12
Mrs A Turner	App: Nov 97 Reapp: Nov 01 Reapp: Oct 05 Reapp: Nov 09 Reapp: Dec 13 Reapp: Mar 14 Reapp: Jun18	4 yrs 6 mths		Independent member	Audit Remuneration HE Governance	18 of 19
Mr J Woodlingfield	App: Jun 16	3 yrs		Staff		10 of 10

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

Name	Attendance at Search Committee meetings
Mr P Lauener	1 of 2
Mr J P Docherty	2 of 2
Mr C Roberts	2 of 2
Mr M Terry	2 of 2 (retired July 2018)
1 x vacancy	

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.

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 on one occasion 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	1 of 1
Mr M Squires	1 of 1
Mrs A Turner	1 of 1
1 x vacancy	

Statement of corporate governance and internal control

Remuneration Committee (continued)

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 2018 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 has been one vacancy during the year. 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)	4 of 4
Mr P Michell	4 of 4
Mrs A Turner	3 of 4
1 x vacancy	

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.

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.

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

Statement of corporate governance and internal control

HE Governance Committee

The HE Governance comprises of two independent members of the Corporation, a student member and an independent Co-opted Member. The Committee meets at least four times a year and provides a forum to consider and challenge assurance that the academic governance of Higher Education provision is effective, receive and comment on assurance and audit reports relating to Higher Education processes and functions and closely monitor the strategic development of Higher Education provision across the group. The HE Governance Committee met on four occasions during the academic period. The members that served on the committee during 2017/18 are listed in the table below.

Name	Attendance at HE Governance Committee meetings
Prof C MacDonald (chair)	4 of 4
Mrs A Turner	4 of 4
Mr J Docherty	4 of 4
Mr L Reilly	2 of 2
Prof A Houston	1 of 2

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 2018 and up to the date of approval of the annual report and financial statements.

Capacity to handle risk

The Corporation has reviewed the key risks to which 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 2018 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 that 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 2018 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2018 by considering documentation from the Audit Committee, financial statements and internal audit, and taking account of events since 31 July 2018.

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 4 December 2018 and signed on its behalf by:

Peter R. Lauener
Peter Lauener
(Chair of the Corporation)

C Payne
Chris Payne
(Interim Chief Executive)

Statement on regularity, propriety and compliance with Funding body terms and conditions of funding

The corporation has considered its responsibility to notify ESFA of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the college's grant funding agreements and contracts with ESFA. As part of our consideration we have had due regard to the requirements of grant funding agreements and contracts with ESFA.

We confirm on behalf of the corporation that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the college, or material non-compliance with the terms and conditions of funding, under the college's grant funding agreements and contracts with ESFA.

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 ESFA.

Approved by order of the members of the Corporation on 4 December 2018 and signed on its behalf by:

Peter R. Lauener

Peter Lauener
(Chair of the Corporation)

Chris Payne
(Interim 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 and an operating and financial review for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education,* ESFA's college accounts direction and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of NCG and the surplus / deficit of income over expenditure for that period.

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

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare financial statements on the going concern basis unless it is inappropriate to assume that 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 including the Further and Higher Education Act 1992 and Charities Act 2011, and relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard 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 ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place 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 4 December 2018 and signed on its behalf by:

Peter R. Lauener

Peter Lauener

(Chair of the Corporation)

Independent auditor's report

to the members of NCG Corporation

Opinion

We have audited the financial statements of NCG for the year ended 31 July 2018, 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 27, 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 2018 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 NCG Corporation 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 23 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 oth erwise 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 fin ancial 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 Post 16 Audit Code of Practice 2017-18

We have nothing to report in respect of the following matters in relation to which the Post-16 Audit Code of Practice 2017-2018 requires us to report to you if, In our opinion:

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

Responsibilities of NCG Corporation

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 24, 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.

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.

Use of our report

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 Governor's 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.

Ernst & Young LLP

Ernst & Young LLP
Statutory auditor
Newcastle upon Tyne

Newcastle upon Tyne
10 December 2018

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 2018		Year ended 31 July 2017	
				Restated	Restated
		NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
INCOME					
Funding body grants	2	114,162	93,371	85,140	61,788
Tuition fees and education contracts	3	26,898	26,485	21,901	21,761
Other grants and contracts	4	13,315	4,613	17,234	1,069
Other income	5	3,745	3,135	3,358	3,400
Investment income	6	114	114	117	607
Total income		**158,234**	**127,718**	**127,750**	**88,625**
EXPENDITURE					
Staff costs	7	90,217	75,143	69,366	53,703
Restructuring costs	7	1,656	777	1,765	1,399
Other operating expenses	8	58,122	42,630	50,194	31,796
Depreciation	12	14,987	14,675	11,833	11,346
Interest payable and other finance costs	9	2,281	2,017	1,856	1,482
Total expenditure		**167,263**	**135,242**	**135,014**	**99,726**
Deficit before other gains and losses		**(9,029)**	**(7,524)**	**(7,264)**	**(11,101)**
Profit on disposal of assets	12	1,850	1,850	7,429	7,431
Impairment of intangible fixed assets	11	-	-	-	-
(Deficit)/Surplus before tax		**(7,179)**	**(5,674)**	**165**	**(3,670)**
Taxation	10	-	-	-	-
(Deficit)/Surplus before gift from merged colleges		**(7,179)**	**(5,674)**	**165**	**(3,670)**
Net assets of merged colleges at point of merger with NCG	11	76,069	76,069	4,216	4,216
Surplus		**68,890**	**70,395**	**4,381**	**546**
Actuarial gain in respect of pension schemes	22	15,247	13,236	7,787	3,476
Total comprehensive income for the year		**84,137**	**83,631**	**12,168**	**4,022**

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.

The figures for year ended 31 July 2017 have been restated to reflect a prior year adjustment. See note 27 for details.

Non-GAAP disclosure	Year ended 31 July 2018		Year ended 31 July 2017	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Deficit before other gains and losses	(9,029)	(7,524)	(7,264)	(11,101)
Less Capital grant release income	(4,678)	(4,678)	(4,164)	(4,056)
Investment income	(114)	(114)	(117)	(607)
Add Depreciation	14,987	14,675	11,833	11,346
Interest payable and other finance costs	2,281	2,017	1,856	1,482
EBITDA	3,447	4,376	2,144	(2,936)

Statement of changes in reserves

	Income and expenditure account £000	Revaluation reserve £000	Total £000
NCG (Group)			
Restated balance at 1 August 2016	48,686	6,600	55,286
Deficit from the income and expenditure account	165	-	165
Other comprehensive income	12,003	-	12,003
Transfers between revaluation and income and expenditure reserves	234	(234)	-
	12,402	(234)	12,168
Balance at 31 July 2017	61,088	6,366	67,454
Surplus from the income and expenditure account	(7,179)	-	(7,179)
Other comprehensive income	91,316	-	91,316
Transfers between revaluation and income and expenditure reserves	322	(322)	-
Total comprehensive income for the year	84,459	(322)	84,137
Balance at 31 July 2018	145,547	6,044	151,591
NCG (Colleges)			
Restated balance at 1 August 2016	68,313	6,600	74,913
Deficit from the income and expenditure account	(3,670)	-	(3,670)
Other comprehensive income	7,692	-	7,692
Transfers between revaluation and income and expenditure reserves	234	(234)	-
	4,256	(234)	4,022
Balance at 31 July 2017	72,569	6,366	78,935
Deficit from the income and expenditure account	(5,674)	-	(5,674)
Other comprehensive income	89,305	-	89,305
Transfers between revaluation and income and expenditure reserves	322	(322)	-
Total comprehensive income for the year	83,953	(322)	83,631
Balance at 31 July 2018	156,522	6,044	162,566

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) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) Restated 2017 £000	NCG (Colleges) Restated 2017 £000
Fixed assets					
Intangible assets and investments	11	-	-	-	-
Tangible assets	12	281,640	281,159	178,897	178,164
		281,640	**281,159**	**178,897**	**178,164**
Current assets					
Stocks	13	136	136	610	610
Debtors	14	9,833	6,308	8,867	3,177
Cash and cash equivalents	19	25,797	25,380	24,539	24,363
		35,766	**31,824**	**34,016**	**28,150**
Less: Creditors - amounts falling due within one year	15	33,732	28,757	25,360	20,222
Net current (liabilities)/assets		**2,034**	**3,067**	**8,656**	**7,928**
Total assets less current liabilities		**283,674**	**284,226**	**187,553**	**186,092**
Creditors - amounts falling due after more than one year	16	90,272	90,272	85,551	85,551
Provisions					
Defined benefit obligations	22	33,452	24,874	26,894	15,591
Other provisions	18	8,359	6,514	7,654	6,015
Total net assets		**151,591**	**162,566**	**67,454**	**78,935**
Unrestricted reserves					
Revaluation reserve		6,044	6,044	6,366	6,366
Income and expenditure account		145,547	156,522	61,088	72,569
Total unrestricted reserves		**151,591**	**162,566**	**67,454**	**78,935**

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:

Peter R. Lauener

Peter Lauener
(Chair of the Corporation)
4 December 2018

Chris Payne
(Interim Chief Executive)
4 December 2018

Consolidated statement of cash flows

	Notes	2018	2017 Restated
		£000	£000
Cash flow from operating activities			
(Deficit)/surplus for the year		(7,179)	165
Adjustment for non-cash items			
Depreciation		14,987	11,833
Deferred capital grants released to income		(4,678)	(4,164)
Increase in stocks		(16)	(19)
Decrease in debtors		275	879
Increase/(decrease) in creditors due in less than 1 year		1,223	(9,558)
Decrease in creditors due in more than 1 year		(583)	(583)
(Decrease)/Increase in provisions		(728)	568
Pensions costs less contributions payable		1,908	1,556
Adjustment for investing or financing activities			
Investment income		(114)	(117)
Interest payable		1,061	969
Profit on sale of fixed assets		(1,850)	(7,429)
Net cash flow from operating activities		4,306	(5,900)
Cash flows from investing activities			
Proceeds from sale of fixed assets		2,564	12,500
Investment income		115	126
Capital grants received		413	282
Payments made to acquire fixed assets		(5,605)	(2,492)
		(2,513)	10,416
Acquisitions and disposals			
Net cash/(overdraft) acquired with subsidiary undertaking		2,453	(421)
		2,453	(421)
Cash flows from financing activities			
Interest paid		(1,095)	(959)
Repayments of amounts borrowed		(1,852)	(1,642)
Capital element of finance lease repayments		(41)	(41)
		(2,988)	(2,642)
Increase in cash and cash equivalents in the year	19	1,258	1,453
Cash and cash equivalents at beginning of the year		24,539	23,086
Cash and cash equivalents at end of the year		25,797	24,539

Notes to the financial statements

at 31 July 2018

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 2017 to 2018* 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 2018. The NCG (Colleges) financial statements present information about NCG (Colleges) as a separate entity that includes the six colleges - Carlisle College, Kidderminster College, Lewisham Southwark 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.

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.

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.

Notes to the financial statements

at 31 July 2018

1. Accounting policies (continued)

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 Office for Students (OfS) 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.

Where NCG (Group) subcontracts part of their income contracts to other organisations, the income is recognised in full against the appropriate categorisation as part of income, the amounts that are earned by the subcontractor is classified as expenditure and is included within Other Operating Expenses in the Statement of Other Comprehensive Income.

Notes to the financial statements

at 31 July 2018

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/ deficit 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. Where NCG (Group) is a member of more than one fund in the LGPS then each fund will be treated separately for valuation and disclosure purposes.

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 2018

1. Accounting policies (continued)

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Group to terminate an employee's employment before their normal retirement date or an employee's decision to accept voluntary redundancy. These benefits are charged on an accruals basis to the Statement of Comprehensive Income at the earlier of when the Group can no longer withdraw the offer of those benefits or when the Group recognises costs for a restructuring.

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.

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.

Notes to the financial statements

at 31 July 2018

1. Accounting policies (continued)

Non-current assets - tangible fixed assets (continued)

Leasehold Improvements

Leasehold improvements are capitalised and depreciated over the lower of the remaining term of the lease or the expected useful life as per freehold buildings. 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 2018

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.

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 2018

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 2018

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 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the financial statements

at 31 July 2018

2. Funding body grants

	Year ended 31 July 2018		Year ended 31 July 2017	
			Restated	Restated
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Recurrent grants				
Education & Skills Funding Agency - adult	25,947	22,855	11,829	10,458
Education & Skills Funding Agency - 16-18	61,524	56,626	43,147	39,374
Education & Skills Funding Agency - apprenticeships	19,672	6,871	23,143	5,043
Office for Students	2,341	2,341	2,857	2,857
Specific grants				
Releases of government capital grants	4,678	4,678	4,164	4,056
	114,162	93,371	85,140	61,788

3. Tuition fees and education contracts

	Year ended 31 July 2018		Year ended 31 July 2017	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Adult education fees	1,018	1,018	-	-
Apprenticeship fees and contracts	395	332	153	153
Fees for FE loan supported courses	3,204	3,204	4,257	4,227
Fees for HE loan supported courses	15,482	15,482	14,686	14,686
International students fees	1,149	1,149	1,169	1,169
Total tuition fees	21,248	21,185	20,265	20,235
Education contracts	5,650	5,300	1,636	1,526
	26,898	26,485	21,901	21,761

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 £2,442,000 (2017: £2,174,000). 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.

Notes to the financial statements

at 31 July 2018

4. Other grants and contracts

	Year ended 31 July 2018		Year ended 31 July 2017	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
European Commission	4,519	4,103	1,382	529
Other grants and contracts	8,796	510	15,852	540
	13,315	4,613	17,234	1,069

Other grants and contracts is made up of:

	Year ended 31 July 2018		Year ended 31 July 2017	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Department for Work and Pensions	2,045	-	5,501	-
Welsh Government	1,800	-	2,911	-
Skills Development Scotland	2,900	-	3,070	-
Big Lottery	111	-	358	-
Subcontracted income	1,696	-	2,442	-
Other	244	510	1,570	540
	8,796	510	15,852	540

5. Other income

	Year ended 31 July 2018		Year ended 31 July 2017	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Catering and residences	933	933	1,244	1,244
Other income generating activities	469	238	250	250
Intercompany income	-	14	-	178
Miscellaneous income	2,343	1,950	1,864	1,728
	3,745	3,135	3,358	3,400

6. Investment income

	Year ended 31 July 2018		Year ended 31 July 2017	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Other interest receivable	114	114	117	116
Intercompany loan interest receivable	-	-	-	491
	114	114	117	607

Notes to the financial statements

at 31 July 2018

7. Staff costs

The average number of persons (including key management personnel) employed by the group during the year, expressed as full time equivalents, is shown below. The increase in staff numbers is due to the merger with Lewisham Southwark College.

Group	2018 No.	2017 No.
Teaching staff	1,958	1,773
Non teaching staff	441	348
	2,399	2,121

Staff costs for the above persons:

	2018 £000	2017 £000
Wages and salaries	73,043	55,879
Social security costs	6,292	5,063
TPS pension costs	4,148	2,942
LGPS pension costs (TWPF)	5,047	4,840
LGPS pension costs (LPFA)	1,116	30
Other pension costs	571	612
Payroll sub-total	**90,217**	**69,366**
Exceptional restructuring costs	1,656	1,765
Total staff costs	**91,873**	**71,131**

Key Management Personnel and Higher Paid Staff

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 higher paid staff	
	2018 No.	2017 No.	2018 No.	2017 No.
£60,000 and under	2	-	-	-
£60,001 to £70,000	-	1	23	22
£70,001 to £80,000	-	1	10	6
£80,001 to £90,000	-	-	4	5
£90,001 to £100,000	3	1	5	6
£100,001 to £110,000	4	4	2	1
£110,001 to £120,000	1	-	-	-
£120,001 to £130,000	1	2	-	-
£130,001 to £140,000	-	1	-	-
£140,001 to £150,000	1	-	-	-
£150,001 to £160,000	2	1	-	-
£200,001 to £210,000	1	1	-	-
£230,001 to £240,000	1	1	-	-
	16	13	44	40

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

Notes to the financial statements

at 31 July 2018

7. Staff costs (continued)

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/ Interim Chief Financial Officer, 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, Lewisham and Southwark College and Newcastle Sixth Form College, and the Managing and Finance Directors of The Intraining Group Limited and Rathbone Training.

Key Management Personnel staff costs include compensation paid loss of office.

Group	2018	2017
	No.	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:	16	13

	2018	2017
	£000	£000
Key management personnel emoluments are made up as follows:		Restated
Emoluments	1,653	1,360
Pension contributions	225	158
Total emoluments	1,878	1,518

There were no amounts due to key management personnel that were waived in the year, nor any salary sacrifice arrangements in place. Emoluments do not include Employers National Insurance or compensation for loss of office. The comparatives figures for 2017 have been restated to exclude Employers National Insurance and compensation for loss of office.

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

	2018	2017
	£000	£000
Salary	227	227
Benefits in Kind	10	10
Bonus	-	11
Pension contributions	41	33
Total emoluments	278	281

Notes to the financial statements

at 31 July 2018

7. Staff costs (continued)

Key Management Personnel (continued)

Compensation for loss of office paid to former key management personnel and higher paid staff

Group	2018	2017
		Restated
	£000	£000
Compensation paid to key management personnel		
Contractual compensation	8	2
Non-contractual compensation	33	16
Estimated value of other benefits, including provision for pension benefits	62	-
	103	18

Group	2018	2017
	£000	£000
Compensation paid to staff earning in excess of £60,000 per annum		
Contractual compensation	51	19
Non-contractual compensation	68	30
	119	49

The key management personnel table above has been restated to show the split between contractual and non-contractual compensation. An additional table shows the compensation paid to staff that earn over £60,000 per annum. Both tables exclude any payments in lieu of notice.

The number of people to whom compensation has been paid in 2018 was 10 (2017: 7).

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.

One governor has received payments from one of the NCG subsidiaries, the Intraining Group Limited during the year of £15,000 (2017: £nil). The Chief Executive, an elected staff member, and an elected student member in sabbatical office as President of Newcastle College Students Union also received payments; however, this was not to remunerate them for acting as a governor. The remaining governors who served during the year did not received any form of payment from NCG (Group) other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

In 2017, 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. Mr Martin resigned from his position on 31 July 2017.

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 2018

8. Other operating expenses

	Year ended 31 July 2018		Year ended 31 July 2017	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Teaching costs	12,668	9,501	9,376	5,908
Teaching and other support costs	17,853	6,322	17,697	2,853
Administration costs	6,068	5,129	4,627	3,477
Operational costs	5,541	4,968	4,137	3,441
Maintenance costs	7,574	6,765	6,625	5,857
Examination costs	3,192	2,953	2,573	2,108
Rent and lease costs	2,932	1,148	3,499	1,528
Catering, residences and conferences costs	320	320	462	462
Other costs	1,974	1,974	1,198	1,198
Impairment of capital contribution	-	-	-	26,912
Bad debt provision release	-	-	-	(21,948)
Contribution to Intraining and Rathbone	-	3,550	-	-
	58,122	42,630	50,194	31,796

Other operating expenses include:

Group	2018 £000	2017 £000
Auditor's remuneration:		
- External audit (including Regularity Audit)*	67	67
- Other services provided by the external auditor	22	11
Subcontractor costs	14,023	16,685
Hire of assets under operating leases:		
- Land and buildings	2,210	2,806
- Other	640	693

* Includes £38,000 in respect of NCG (2017: £38,000) inclusive of VAT

9. Interest payable and other finance costs

	Year ended 31 July 2018		Year ended 31 July 2017	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
On bank loans	1,061	1,061	969	969
Other interest - pensions	1,137	882	823	457
Other interest and charges	83	74	58	50
On finance lease	-	-	6	6
	2,281	2,017	1,856	1,482

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 at 17% of £5,890,000 (2017: £6,284,000), comprising tax losses of £5,667,000 (2017: £6,017,000) and other timing differences of £223,000 (2017: £267,000). 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 2018

11. Intangible fixed assets and investments

NCG (Group)	Goodwill £000
Cost:	
At 1 August 2017 and at 31 July 2018	28,961
Amortisation:	
At 1 August 2017 and at 31 July 2018	28,961
Net book value:	
At 1 August 2017 and at 31 July 2018	-

NCG (Colleges)	Goodwill £000
Cost:	
At 1 August 2017 and at 31 July 2018	3,289
Amortisation:	
At 1 August 2017 and at 31 July 2018	3,289
Net book value:	
At 1 August 2017 and at 31 July 2018	-

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 2018.

The trade, assets and liabilities of Lewisham Southwark College was acquired on 1 August 2017 for nil consideration.

Lewisham Southwark College fair value table

	Notes	*Book value £000*	*Adjustment to fair value £000*	*Fair value £000*
Tangible fixed assets	1	54,939	58,742	113,681
Stock		10	-	10
Trade and other debtors		817	-	817
Cash at bank and in hand		2,454	-	2,454
Creditors: amounts falling due within one year	2	(6,980)	(50)	(7,030)
Creditors: amounts falling due after more than one year		(12,594)	-	(12,594)
Pension liability	3	(37,851)	17,972	(19,879)
Provisions		(1,390)	-	(1,390)
Net assets acquired		(595)	76,664	76,069

The fair value of the assets and liabilities have been treated as a gift from Lewisham Southwark College to NCG (Group), following the dissolution of the previous statutory entity. The gift has been recognised in the statement of comprehensive income in accordance with the guidance given in the College Accounts Direction Handbook 2017/18 produced by the AOC.

1. 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 1 August 2017. The valuation of £113,140,000 was performed by Sanderson Weatherall LLP. The valuation was based on an investment basis.

Notes to the financial statements

at 31 July 2018

11. Intangible fixed assets and investments (continued)

Lewisham Southwark College fair value table (continued)

2. Other creditors book value has increased by £50,000 in relation to grant funding balances that had been over recognised, offset by over accrued purchase order commitments.

3. The fair value adjustment for Pension Liability was a revaluation of the LPFA defined pension scheme using entity specific assumptions rather than the generic ones that were provided by the actuary. The assumptions are as follows:

	Original Assumptions At 31 July 2017	Revised Assumptions At 31 July 2017
Discount rate	2.70%	2.65%
RPI Inflation	3.60%	3.05%
CPI Inflation	2.70%	1.85%
Rate of general long-term increase in salaries	4.20%	1.20%
Rate of increase for pensions in payment	2.70%	1.85%
Rate of revaluation of pension accounts	2.70%	1.85%

The level of the pension liability in the opening balance sheet is now sitting at £19,879,000, which is a reduction of £17,972,000 from the book value held in Lewisham Southwark closing Statutory Accounts.

In the period ended 31 July 2018, the results of NCG included £26,591,000 of turnover and £3,889,000 of deficit in relation to Lewisham Southwark College.

NCG – investments

	2018 £	2017 £
Investments in subsidiary companies	8	8
	8	8

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.

The Corporation has the following dormant companies:

Intraining (ESD) Ltd
Intraining (NTP) Ltd
Intraining (Quantica) Ltd
Intraining Holdings Ltd
NCG Select Ltd
Newcastle College Construction Ltd
TWL Training Ltd

Notes to the financial statements

at 31 July 2018

11. Intangible fixed assets and investments (continued)

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.

	2018 £000	2017 £000
Income	-	-
Expenses	-	-
At 31 July	-	-

Contributions to The Intraining Group Limited and RathboneTraining

	2018 £000	2017 £000
Capital contribution to Intraining and Rathbone	-	26,912
Income contribution to Intraining and Rathbone	3,550	-
Impairment of capital contribution	-	(26,912)
Contribution to Intraining and Rathbone expenditure	(3,550)	-
	-	-

During 2018, NCG (Group) gave an income contribution The Intraining Group Limited of £1,000,000 and Rathbone Training of £2,550,000. This was to cover working capital requirements for the year and resulted in strengthening their financial position.

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 was impaired on the basis that the carrying value of the investment is not supportable.

Notes to the financial statements

at 31 July 2018

12. Tangible fixed assets

NCG (Group)	Land and buildings £000	Plant and equipment £000	Total £000
Cost or valuation:			
At 1 August 2017	254,005	17,652	271,657
Additions	3,336	888	4,224
Amounts transferred on acquisition	113,140	541	113,681
Disposals	(180)	(326)	(506)
At 31 July 2018	**370,301**	**18,755**	**389,056**
Depreciation:			
At 1 August 2017	79,486	13,274	92,760
Charge for year	12,717	2,270	14,987
Disposals	(138)	(193)	(331)
At 31 July 2018	**92,065**	**15,351**	**107,416**
Net book value at 31 July 2018	**278,236**	**3,404**	**281,640**
Net book value at 1 August 2017	174,519	4,378	178,897

Land and buildings with a net book value of £144,072,000 have been partially financed by grants from the ESFA. Should these assets be sold, NCG (Group) would either have to surrender the sale proceeds to the ESFA or use the proceeds in accordance with the Financial Memorandum with the ESFA.

The net book value of equipment includes an amount of £41,000 (2017: £82,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £41,000 (2017: £41,000).

Notes to the financial statements

at 31 July 2018

12. Tangible fixed assets (continued)

NCG (Colleges)	Land and buildings £000	Plant and equipment £000	Total £000
Cost or valuation:			
At 1 August 2017	251,819	14,916	266,735
Additions	3,292	830	4,122
Amounts transferred on acquisition	113,140	541	113,681
Disposals	-	(326)	(326)
At 31 July 2018	368,251	15,961	384,212
Depreciation:			
At 1 August 2017	77,864	10,707	88,571
Charge for year	12,535	2,140	14,675
Disposals	-	(193)	(193)
At 31 July 2018	90,399	12,654	103,053
Net book value at 31 July 2018	277,852	3,307	281,159
Net book value at 1 August 2017	173,955	4,209	178,164

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 ESFA. 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 £144,072,000 have been partially financed by grants from the ESFA. Should these assets be sold, NCG (Group) would either have to surrender the sale proceeds to the ESFA or use the proceeds in accordance with the Financial Memorandum with the ESFA.

The net book value of equipment includes an amount of £41,000 (2017: £82,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £41,000 (2017: £41,000).

NCG (Group) and NCG (Colleges)

Included in land and buildings are assets at a cost of £80,000 which have not been depreciated as the assets have not yet been brought into use. Freehold land held at a value of £65,906,000 has not been depreciated.

The amounts that have been transferred on acquisition relate to Lewisham Southwark College land, buildings and equipment, which have been included at fair value into the accounts of NCG (Group)

Revaluation reserve

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

Notes to the financial statements

at 31 July 2018

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

	2018 £000	2017 £000
Asset held for sale	-	500
Stocks	136	110
	136	610

14. Debtors

	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Amounts falling due within one year:				
Trade debtors	2,799	2,559	1,312	1,052
Other debtors	408	214	2,190	358
Amounts owed by subsidiary undertakings	-	22	-	-
Prepayments and accrued income	2,024	1,057	2,783	1,291
Amounts owed by the ESFA	4,602	2,456	2,582	476
	9,833	6,308	8,867	3,177

15. Creditors: amounts falling due within one year

	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) Restated 2017 £000	NCG (Colleges) Restated 2017 £000
Payments received on account	280	408	1,180	1,162
Amounts owed to the ESFA	7,618	7,390	6,231	5,943
Trade creditors	855	748	638	454
Payroll creditors	1,085	975	162	54
Other taxation and social security	2,073	1,499	843	472
Accruals	12,451	8,729	9,337	5,146
Bank loans	2,179	2,179	1,827	1,827
Finance lease creditor	41	41	41	41
Other creditors	1,506	902	1,289	578
Deferred capital grants	5,644	5,644	3,812	3,812
Amounts due to subsidiary undertakings	-	242	-	733
	33,732	28,757	25,360	20,222

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

	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Bank loans	25,660	25,660	27,864	27,864
Obligations under finance leases	-	-	41	41
Deferred capital grants	64,612	64,612	57,646	57,646
	90,272	90,272	85,551	85,551

Notes to the financial statements

at 31 July 2018

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

	2018	2017
	£000	£000
In one year or less	2,179	1,827
Between one and two years	3,201	1,894
Between two and five years	14,837	16,621
In five years or more	7,622	9,352
	27,839	29,694

(b) Finance leases

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

	2018	2017
	£000	£000
In one year or less	41	41
Between one and two years	-	41
	41	82

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 on the assets to which they relate.

18. Provisions

NCG (Group)	Dilapidations	Enhanced pensions	Total
	£000	£000	£000
At 1 August 2017	4,090	3,564	7,654
Amounts transferred on acquisition	-	1,390	1,390
Benefits paid	-	(364)	(364)
Charged in the year	354	-	354
Utilised in the year	(591)	-	(591)
Released in the year	(84)	-	(84)
At 31 July 2018	3,769	4,590	8,359

Notes to the financial statements

at 31 July 2018

18. Provisions (continued)

NCG (Colleges)	Dilapidations £000	Enhanced pensions £000	Total £000
At 1 August 2017	2,451	3,564	6,015
Amounts transferred on acquisition	-	1,390	1,390
Benefits paid	-	(364)	(364)
Charged in the year	32	-	32
Utilised in the year	(420)	-	(420)
Released in the year	(139)	-	(139)
At 31 July 2018	1,924	4,590	6,514

Dilapidations are provided for on rented properties and the expected settlement for the majority is within the next 4 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 not been recalculated in accordance with Association of Colleges guidance, the reason for which is that the factors affecting the provision including discount rates have not changed significantly enough to justify an annual revaluation.

19. Cash and cash equivalents

	At 1 August 2017 £000	Other Cash flows £000	At 31 July 2018 £000
Short term liquid investments	11,603	227	11,830
Cash at bank and in hand	12,936	1,031	13,967
	24,539	1,258	25,797

20. Capital commitments – Group and NCG

	2018 £000	2017 £000
Commitments contracted for at 31 July	-	3,381

Notes to the financial statements

at 31 July 2018

21. Lease obligations

	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Future minimum lease payments due:				
Land and buildings				
Not later than one year	1,104	493	2,086	738
Later than one year but not later than five years	1,414	1,251	2,749	2,380
Later than five years	365	365	570	570
	2,883	2,109	5,405	3,688
Other				
Not later than one year	402	402	75	48
Later than one year but not later than five years	1,052	1,052	71	71
	1,454	1,454	146	119

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) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Teachers' Pension Scheme	4,148	4,148	2,942	2,942
Tyne & Wear LGPS	5,047	5,040	3,998	3,951
London Pension Fund Authority Scheme	1,116	1,085	25	-
Other pension schemes	571	-	612	61
Total pension cost for the year	10,882	10,273	7,577	6,954

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

Amounts recognised in the Statement of comprehensive income

	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Tyne & Wear LGPS	9,459	9,459	3,642	3,642
Tyne & Wear LGPS - Intraining	364	-	-	-
London Pension Fund Authority Scheme	5,424	3,777	4,311	-
Enhanced Pension Charge (note 18)	-	-	(166)	(166)
Actuarial gains recognised	15,247	13,236	7,787	3,476

Pension liability recognised in the balance sheet

	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Tyne & Wear LGPS	8,102	8,102	15,591	15,591
Tyne & Wear LGPS - Intraining	(467)	-	-	-
The Pensions Trust Growth Plan	125	-	141	-
London Pension Fund Authority Scheme	25,692	16,772	11,162	-
	33,452	24,874	26,894	15,591

Outstanding contributions at 31 July 2018, included within creditors, were £1,319,000 (2017: £233,000).

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 2018

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 2014. These regulations apply to teachers in schools and other educational establishments, including colleges. Membership is automatic for teachers and lecturers at eligible institutions. Teachers and lecturers are able to opt out of the TPS.

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.

Under the definitions set out in FRS102 (28.11), the TPS is a multi-employer pension plan. 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.

The valuation of the TPS is carried out in line with regulations made under the Public Service Pension Act 2013. Valuations credit the teachers' pension account with a real rate of return assuming funds are invested in notional investments that produce that real rate of return.

The latest actuarial review of the TPS was carried out as at 31 March 2012. 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 at some point in 2019.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website.

The pension costs paid to TPS in the year amounted to £4,148,000 (2017: £2,942,000).

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

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 £3,830,000. 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 2018 are:

Full-time Equivalent Salary	Contribution rate per year
Up to £14,100	5.50%
£14,101 to £22,000	5.80%
£22,001 to £35,700	6.50%
£35,701 to £45,200	6.80%
£45,201 to £63,100	8.50%
£63,101 to £89,400	9.90%
£89,401 to £105,200	10.50%
£105,201 to £157,800	11.40%
£157,801 or more	12.50%

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2018 by a qualified independent actuary

	At 31 July 2018	At 31 July 2017	At 31 July 2016
RPI Inflation	3.05%	3.05%	2.60%
CPI Inflation	1.85%	1.85%	1.40%
Rate of general long-term increase in salaries	1.20%	1.20%	1.20%
Rate of increase for pensions in payment	1.85%	1.85%	1.40%
Rate of increase to deferred pensions	0.00%	0.00%	0.00%
Rate of revaluation of pension accounts	1.85%	1.85%	1.40%
Discount rate	2.75%	2.70%	2.60%

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

	2018 Years	2017 Years
Retiring at 31 July		
Males	21.8	21.9
Females	22.8	25.0
Retiring in 20 years		
Males	24.9	23.0
Females	26.1	26.2

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

The asset split in the scheme were:

	Asset split at 31 July 2018 %	Asset split at 31 July 2017 %
Equities	67.3	66.1
Property	8.6	9.0
Government Bonds	4.0	3.9
Corporate Bonds	11.4	11.5
Cash	2.1	3.9
Other	6.6	5.6
Total market value	100.0	100.0

Reconciliation of funded status to balance sheet

	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Fair value of assets	131,474	130,080	119,044	119,044
Present value of funded defined benefit obligation	(139,017)	(138,090)	(134,635)	(134,635)
Net pension liability	(7,543)	(8,010)	(15,591)	(15,591)

Analysis of the amount charged to the Statement of comprehensive income

	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Current service cost	5,048	5,040	4,460	4,460
Past service cost	90	90	380	380
Interest cost	356	370	376	376
Expected return on assets	-	-	-	-
	5,494	5,500	5,216	5,216

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

Changes to the present value of liabilities during the year

	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Opening defined benefit obligation	134,635	134,635	103,507	101,857
Transfer in from Intraining/Carlisle LGPS	-	(1,650)	19,831	21,481
Current service cost	5,048	5,040	4,510	4,510
Interest cost	3,622	3,556	2,803	2,803
Contributions by participants	1,261	1,260	1,170	1,170
Actuarial losses/(gains) on liabilities*	(1,831)	(1,087)	5,433	5,433
Net benefits paid out**	(3,718)	(3,664)	(2,999)	(2,999)
Past service cost	-	-	380	380
Closing defined benefit obligation	139,017	138,090	134,635	134,635

* 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) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Opening fair value of assets	119,044	119,044	88,260	86,519
Transfer in from Intraining/Carlisle LGPS	-	(1,741)	18,070	19,811
Interest income on assets	3,266	3,186	2,427	2,427
Actuarial gains on assets	7,992	8,372	9,075	9,075
Contributions by the employer	3,629	3,623	3,041	3,041
Contributions by participants	1,261	1,260	1,170	1,170
Net benefits paid out	(3,718)	(3,664)	(2,999)	(2,999)
Closing fair value of assets	131,474	130,080	119,044	119,044

Actual return on assets

	NCG (Group) 2018 £000	NCG (Colleges) 2018 £000	NCG (Group) 2017 £000	NCG (Colleges) 2017 £000
Interest income on assets	3,266	3,186	2,427	2,427
Actuarial gains on assets	7,992	8,372	9,075	9,075
Actual return on assets	11,258	11,558	11,502	11,502

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

History of asset values, present value of liabilities and deficit

NCG (Group)	2018	2017	2016	2015	2014
	£000	£000	£000	£000	£000
Fair value of assets	131,474	119,044	88,260	70,199	61,535
Present value of liabilities	(139,017)	(134,635)	(103,507)	(95,462)	(81,718)
Deficit	(7,543)	(15,591)	(15,247)	(25,263)	(20,183)

NCG (Colleges)	2018	2017	2016	2015	2014
	£000	£000	£000	£000	£000
Fair value of assets	131,821	119,044	86,519	68,660	60,250
Present value of liabilities	(138,090)	(134,635)	(101,857)	(93,650)	(80,240)
Deficit	(6,269)	(15,591)	(15,338)	(24,990)	(19,990)

Defined Contribution Pension Scheme - Intraining

The Intraining Group Limited operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. There were £44,000 unpaid contributions outstanding at the year-end (2017: £56,000).

Defined Contribution Pension Scheme - Rathbone

Rathbone Training operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the charity in an independently administered fund. There were £31,000 unpaid contributions outstanding at the year-end (2017: £33,000). The charge for the year was £212,000 (2017: £187,000).

Defined Benefit Pension Scheme LPFA

NCG (Group) participates in the London Pension Fund Authority Local Government Pension Scheme (LGPS) under two different employers, Rathbone Training and NCG (formerly Lewisham Southwark College). The assets of the scheme are invested and managed independently of the finances of NCG (Group). The pension cost relating to the schemes are calculated separately on the projected unit method and are assessed with the advice of a qualified actuary. The latest actuarial assessment of this scheme was on 31 July 2018 and was carried out by Barnett Waddingham LLP, an independent actuary and the net liability at that point is estimated at £8,920,000 for Rathbone Training and £16,772,000 for NCG.

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

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.

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – NCG (formerly Lewisham Southwark College)

Employer contribution rates were fixed at 13.40% from April 2017 onwards.

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

	At 31 July 2018
Discount rate	2.65%
Salary increases	1.20%
Pension increases	1.85%

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 2018
Retiring at 31 July	
Males	20.3
Females	23.4
Retiring in 20 years	
Males	21.5
Females	24.7

Principal Actuarial Assumptions

The estimated asset allocation for NCG as at 31 July 2018 is as follows:

	31 July 2018 %
Equities	60.6
Target Return Portfolio	22.1
Infrastructure	5.0
Property	7.7
Cash	4.6
	100.0

Net pension liability as at 31 July:

	2018 £000
Present value of the defined benefit obligation	38,917
Fair value of Fund assets (bid value)	24,964
Deficit	13,953
Present value of unfunded obligation	2,024
Net defined benefit liability	15,977

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – NCG (continued)

The amounts recognised in the Statement of Comprehensive Income are:

	2018
	£000
Service cost	1,085
Net interest on the defined liability	512
Administration expenses	74
	1,671

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

	2018
	£000
Opening defined benefit obligation	77,147
Current service cost	1,085
Interest cost	2,021
Change in demographic assumptions	(377)
Change in financial assumptions	(1,462)
Experience gain on defined benefit obligation	-
Estimated benefits paid net of transfers in	(2,058)
Past service costs, including curtailments	129
Contributions by Fund participants and other employers	265
Unfunded pension payments	(12)
Closing defined benefit obligation	76,738

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

	2018
	£000
Opening fair value of Fund assets	57,268
Interest on assets	1,509
Return on assets less interest	1,938
Other actuarial gains	-
Administration expenses	(74)
Contributions by employer including unfunded	1,130
Contributions by Fund participants and other employers	265
Estimate benefits paid plus unfunded net of transfers in	(2,070)
Closing fair value of Fund assets	59,966

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – NCG (continued)

Sensitivity analysis

	£000	*£000*	*£000*
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	75,348	76,738	78,155
Projected service cost	1,021	1,046	1,072
Adjustment to long term salary increase	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	76,812	76,738	76,665
Projected service cost	1,047	1,046	1,045
Adjustment to pension increase and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	78,092	76,738	75,407
Projected service cost	1,072	1,046	1,021
Adjustment to life expectancy assumptions	+ 1 year	None	- 1 year
Present value of total obligation	79,629	76,738	73,954
Projected service cost	1,079	1,046	10,147

Remeasurement of the defined benefit pension liability

	2018 *£000*
Return on Fund assets in excess of interest	1,938
Other actuarial gains on assets	-
Change in financial assumptions	1,462
Change in demographic assumptions	377
Experience gain on defined benefit obligation	-
Remeasurement of the defined benefit pension liability	3,777

Projections for the year to 31 July 2018

	£000
Service cost	1,046
Net interest on the defined liability	447
Administration expenses	78
	1,571
Employer contributions	1,086

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone

Employer contribution rates were fixed at 21.76% from April 2017 onwards.

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

	At 31 July 2018	*At 31 July 2017*
Discount rate	2.65%	2.50%
Salary increases	1.20%	1.20%
Pension increases	1.85%	1.85%

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 2018	*At 31 July 2017*
Retiring at 31 July		
Males	19.7	19.8
Females	23.0	23.1
Retiring in 20 years		
Males	20.9	21.0
Females	24.3	24.4

Principal Actuarial Assumptions

The estimated asset allocation for Rathbone Training as at 31 July 2018 is as follows:

	31 July 2018 %	*31 July 2017 %*
Equities	60.6	61.3
Target Return Portfolio	22.1	20.7
Infrastructure	5.0	4.5
Property	7.7	6.5
Cash	4.6	7.0
	100.0	100.0

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

Net pension liability as at 31 July:

	2018	*2017*	*2016*
	£000	*£000*	*£000*
Present value of the defined benefit obligation	33,863	36,164	38,917
Fair value of Fund assets (bid value)	26,636	26,880	24,964
Deficit	7,227	9,284	13,953
Present value of unfunded obligation	1,693	1,878	2,024
Net defined benefit liability	8,920	11,162	15,977

The amounts recognised in the Statement of Comprehensive Income are:

	2018	*2017*
	£000	*£000*
Service cost	31	30
Net interest on the defined liability	267	365
Administration expenses	35	32
	333	427

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

	2018	*2017*
	£000	*£000*
Opening defined benefit obligation	38,042	40,941
Current service cost	31	30
Interest cost	917	930
Change in demographic assumptions	(137)	(250)
Change in financial assumptions	(583)	1,219
Experience gain on defined benefit obligation	-	(2,065)
Estimated benefits paid net of transfers in	(2,515)	(2,565)
Contributions by Fund participants and other employers	6	7
Unfunded pension payments	(205)	(205)
Closing defined benefit obligation	35,556	38,042

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

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

	2018	*2017*
	£000	*£000*
Opening fair value of Fund assets	26,880	24,964
Interest on assets	650	565
Return on assets less interest	925	3,087
Other actuarial gains	-	128
Administration expenses	(35)	(32)
Contributions by employer including unfunded	930	931
Contributions by Fund participants and other employers	6	7
Estimate benefits paid plus unfunded net of transfers in	(2,720)	(2,770)
Closing fair value of Fund assets	26,636	26,880

Sensitivity analysis

	£000	*£000*	*£000*
Adjustment to discount rate	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	35,162	35,556	35,956
Projected service cost	29	30	31
Adjustment to long term salary increase	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	35,559	35,556	35,554
Projected service cost	30	30	31
Adjustment to pension increase and deferred revaluation	+ 0.1%	0.0%	- 0.1%
Present value of total obligation	35,957	35,556	35,160
Projected service cost	30	30	30
Adjustment to life expectancy assumptions	+ 1 year	None	- 1 year
Present value of total obligation	37,101	35,556	34,077
Projected service cost	31	30	29

Remeasurement of the defined benefit pension liability

	2018	*2017*
	£000	*£000*
Return on Fund assets in excess of interest	925	3,087
Other actuarial gains on assets	-	128
Change in financial assumptions	583	(1,219)
Change in demographic assumptions	137	250
Experience gain on defined benefit obligation	-	2,065
Remeasurement of the defined benefit pension liability	1,645	4,311

Notes to the financial statements

at 31 July 2018

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

Projections for the year to 31 July 2018

	£000
Service cost	30
Net interest on the defined liability	224
Administration expenses	35
	289
Employer contributions	745

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.

Unless a concession has been agreed with the Trustee, the term to 30 September 2025 applies.

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 2018

22. Pension schemes (continued)

The Pension's Trust Growth Plan (continued)

Present value of provision	*2018*	*2017*
	£000	*£000*
Present value of provision	125	141

Reconciliation of opening and closing provisions	*2018*	*2017*
	£000	*£000*
Provision at start of year	141	156
Unwinding of discount factor	2	1
Deficit contributions paid	(16)	(16)
Remeasurements - impact of any change in assumptions	(2)	-
Provision at end of year	125	141

Income and Expenditure Impact	*2018*	*2017*
	£000	*£000*
Interest expense	2	1
Remeasurements - impact of any change in assumptions	(2)	-

Assumptions	*2018*	*2017*
	% per Annum	*% per Annum*
Discount rate	1.72	1.32

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 £12,000; six governors (2017: £16,000; five 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.

One governor has received payments from one of the NCG subsidiaries, the Intraining Group Limited during the year £15,000 (2017: £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 school closed on 31 August 2018.

During the year, the school occupied a building that was 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 was no charge to Discovery Learning Limited for the use of these assets.

The Corporation also provided services to Discovery Learning Limited including catering and facilities support. The maximum balance outstanding during the year was £5,000.

Notes to the financial statements

at 31 July 2018

23. Related party transactions (continued)

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 2018.

On 1 May 2018, Peter Lauener became the chair of the Construction Industry Training Board (CITB); NCG delivers training to CITB's learners. At 31 July 2018, £146,000 was due to NCG from CITB, with transactions during the year totaling £736,000.

He also held the position of interim CEO of the Student Loans Company (SLC) until a permanent replacement was found. He stepped down on the 17 September 2018. SLC provides loans to eligible learners to fund their studies with NCG and the money to settle the fees is received directly from the SLC. At 31 July 2018, £339,000 was due to NCG from SLC, with transactions during the year totalling £16,916,000.

24. Amounts disbursed as agent

	NCG (Group) 2018 £000	NCG (Group) 2017 £000
ESFA 16-19 bursary	2,487	1,848
ESFA 16-19 Vulnerable bursary	390	198
SFA Advanced Learner Loans bursary	1,445	771
Other funding body grants	498	448
	4,820	3,265
Disbursed to students	(3,317)	(2,724)
Administration costs	(114)	(21)
Balance unspent at 31 July included in creditors	1,389	520

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 Statement of Comprehensive Income.

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 £560,000. More information concerning this pension scheme is within note 22.

26. Events after the reporting period

In October 2018, the Chief Executive and Accounting Officer, Joe Docherty, resigned from NCG.

Notes to the financial statements

at 31 July 2018

27. Prior year adjustment

In previous years, ESFA 16-19 funding has been accounted for based on actual student numbers in year. This has meant that when student numbers are lower than those used by the ESFA to calculate the funding provided in year, the College has deferred a portion of the income to reflect the fact that student numbers were lower than expected.

During 2017/18, a detailed review of the terms of the ESFA 16-19 funding has taken place and it has been identified that even where student numbers are lower than those used to calculate the funding, all ESFA 16-19 funding should be recognised in full in the year it is received.

Per FRS102, it is therefore necessary to adjust the prior year financial statements to reflect the impact of recognising this income in full in the year it was received.

A further review also identified the recognition of grant income that had been clawed back by HEFCE relating to previous periods, which has also been adjusted.

	31 July 2017		1 August 2016	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Funding Body Grants	93	93	-	-
Total income	**93**	**93**	**-**	**-**
(Deficit)/Surplus before tax	**93**	**93**	**-**	**-**

Impact on the Balance Sheet (Increase/(Decrease))

	31 July 2017		1 August 2016	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Creditors - amounts falling due within one year	(4,560)	(4,560)	(4,467)	(4,467)
Total liabilities	**(4,560)**	**(4,560)**	**(4,467)**	**(4,467)**
Adjustment to opening balance	4,467	4,467	4,467	4,467
Surplus from the income and expenditure account	93	93	-	-
Increase in unrestricted reserves	**4,560**	**4,560**	**4,467**	**4,467**

Glossary

Acronym	Meaning
ESFA	Education and Skills Funding Agency
HE	Higher Education
ESF	European Social Fund
WBL	Work Based Learning
AEB	Adult Education Budget
EBITDA	Earnings before Interest, Taxation, Depreciation and Amortisation
MI	Management Information
Ofsted	Office for Standards in Education, Children's Services and Skills
SGOSS	School Governors' One Stop Shop
HEFCE	Higher Education Funding Council for England
LGPS	Local Government Pension Scheme
LPFA	London Pension Fund Authority
TWPF	Tyne and Wear Pension Fund
CARE	Career Average Related Earnings
TPS	Teachers' Pension Scheme
LIBOR	London Inter Bank Offered Rate
VAT	Value Added Tax
SORP	Statement of Recommended Practice
AOC	Association of Colleges
OfS	Office for Students

Independent auditor's report on regularity

to the Corporation of NCG and the Secretary of State for Education, acting through the Department for Education and Skills Funding Agency ('the ESFA')

In accordance with the terms of our engagement letter dated 5 December 2017 and further to the requirements and conditions of funding in the ESFA's grant funding agreements and contracts 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 2017 to 31 July 2018 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

This report is made solely to the corporation of NCG and the ESFA 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 ESFA 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 ESFA 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 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

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

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 NCG'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 NCG'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 NCG's internal audit provider to identify any matters that would indicate that the expenditure and income for the year ended 31 July 2018 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 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Ernst & Young LLP

Ernst & Young LLP
Newcastle upon Tyne
10 December 2018