NCG

Report and financial statements

31 July 2016

Address

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Newcastle upon Tyne
NE4 7SA

Professional advisers

External auditor

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St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Bankers

HSBC Bank plc
City Branch
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Solicitors

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Other professional advisers

Internal auditors:	PricewaterhouseCoopers LLP
Insurance:	Gallagher Heath
Pensions:	Willis Towers Watson

Report of the members of the corporation

for the year ended 31 July 2016

Operating and financial review

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

Financial Highlights

2015/16 was a significant year for NCG. It managed to build on its excellent reputation both locally and nationally and help unlock the potential of its learners. Key highlights include:

- During the year the four colleges and Intraining were subject to Ofsted inspections and all were rated Good, despite a tougher inspection regime, reflecting the high quality of the provision.
- In June 2016, NCG became the first FE institution in the UK ever to be able to develop and award its own honours and masters degrees. This will allow NCG to build on current strengths as a leading vocational HE provider, developing degrees which are more responsive and meet the skills needs of employers.
- In 2015/16, NCG undertook a review of operations. The business was restructured, resulting in a one off non-operational charge of £5,416,000 associated with the cost of redundancies. The reorganisation of the training businesses (Intraining and Rathbone) together with the rationalisation of the college's estate resulted in a further £7,480,000 write down of the value of leases and associated property costs. In addition, the value of Goodwill associated with the acquisition of Rathbone was written down from £7,664,000 to £nil. The latter two actions resulted in £15,144,000 of non-cash impairments, which, together with one off redundancies and other actions, resulted in a £20,560,000 charge to the Statement of Comprehensive Income.
- Despite the restructuring and these one off costs, NCG ended the year in a very strong cash position with cash and cash equivalent balances of £23,086,000.
- During 2015/16 agreement was reached on the sale of a Freehold property in the centre of Newcastle. The decision was taken to conclude the sale in September 2016 for £12,500,000 which will be recognised in the 2016/17 results.
- The SFA has assessed NCG's financial health as satisfactory for 2015/16 and this is expected to improve to outstanding.
- After deducting the defined benefit pension deficit NCG has accumulated reserves of £50,819,000. Prior to the pension liability, NCG reserves stand at £82,199,000. These accumulated reserves are held to reinvest for the benefit of future learners.
- NCG invested £1,895,000 in Fixed Assets in the year to support the learner journey.

Report of the members of the corporation

for the year ended 31 July 2016

Legal status

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

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

NCG (Colleges) are made up of:

Kidderminster College joined NCG on 1 August 2014. Kidderminster College 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.

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

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

For the purposes of this Report and Financial Statements:

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

NCG (Colleges) or colleges – is the consolidation of the colleges only, excluding the two subsidiary training companies.

Report of the members of the corporation

for the year ended 31 July 2016

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, from 1 September 2013, is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 15.

In setting and reviewing NCG's strategy, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirement that all organisations wishing to be recognised as charities must demonstrate, explicitly, that their aims are for the public benefit.

In delivering its purpose, NCG provides identifiable public benefits which is covered throughout the members report.

Review of 2015/16

Implementation of the operational plan

The Government's continued focus on reductions in public expenditure has continued to impact on NCG, particularly through movement from adult skills funding to loan funding.

During 2015/16 there have been further significant external changes that have impacted on the environment that NCG operates in. From a contracting and funding perspective, the ongoing cuts that have impacted income in previous years have continued, driven by the Government's spending reviews and budget tightening. Recent years have seen significant reductions in both EFA and SFA funding, some of which have been straight funding cuts to income whilst maintaining the same level of learner activity. The autumn spending review in 2015 gave a welcome reprieve from further adult cuts.

In particular all ESF contracts completed at the end of 2014/15 with re-procurement being delayed a full year by the contracting agencies until the end of 2015/16. These contracts were worth £18m in income to NCG in 2014/15. Work Programme income in Intraining has reduced by £6.5m between 2014/15 and 2015/16 which is the result of the contract nearing the end of its planned life cycle, new referrals continuing to decline and losing the contract for the North East, Yorkshire and Humber. These have contributed to income delivered reducing to £131.3m compared to £178.4m in 2014/15.

Other specific contract changes included:

- The EFA contract for 16-18 provision has increased slightly from the 2014/15 levels. This was as a result of the lagged funding mechanism compensating for the switch to larger programmes two years earlier.
- There were SFA/EFA in year funding cuts advised early in the year.
- Significant continuing cuts to the non-apprenticeship element of the adult skills budget, including a further 3.9% cut at the start of the academic year, after budgets had been set.
- Volatility on the new Work Based Learning (WBL) 4 contract in Wales and slower than expected recruitment in new contract areas.

Report of the members of the corporation

for the year ended 31 July 2016

Review of 2015/16 (continued)

Implementation of the operational plan (continued)

This significant reduction in income has required the restructuring of the training subsidiaries and Newcastle College to ensure the cost base is appropriately aligned. A detailed review of the business was carried out resulting in a reduction in staffing and premises occupied to establish a lower cost base for the future.

Learner numbers

NCG is funded for its provision according to the level of learner and customer activity that is generated each year. In respect of Education Funding Agency (EFA) funding, in 2015/16 the colleges, Intraining and Rathbone attracted 10,468 learners aged 16-18 which is around 500 fewer than the previous year. The numbers, however, are distorted by decreases in numbers in Intraining as a result of closure of Intraining Skills Centres, with current numbers being made up of traineeships. Slight growth in learner numbers in Newcastle Sixth Form College has mitigated some of the overall decline. The divisions also delivered classroom based training to 14,136 adults through the SFA adult skills contract, broadly the same as the previous year. NCG (Colleges) recruited 2,956 Higher Education learners in 2015/16, around 10% fewer than the previous year.

The divisions of NCG have delivered training to 15,811 employed apprentices during 2015/16. Intraining has received 1,870 referrals in 2015/16 onto the Work Programme through the prime contracts in Birmingham and North East, Yorkshire and Humber, which was a reduction from the levels seen in 2014/15. This reflects the more buoyant state of the job market, increased intervention activity by the Job Centres and the run-down of the CPA18 contract culminating in less clients being referred onto the Programme.

In Scotland, Rathbone delivered training to 1,239 young people on Employability Fund programmes, while Intraining delivered training to 1,301 young people. Rathbone also trained 145 and 339 apprentices in Scotland and Wales respectively. In Wales, Rathbone completed the three year Work Based Learning (WBL) contract in March and commenced delivery on the WBL4 contract, but to a different geographic footprint and funding model. Rathbone also delivered traineeship training to 911 young people in Wales to prepare them for further education or work.

Financial objectives and position

As a result of the significant reduction in income, NCG made a decision to restructure the organisation and incur significant costs in respect of reduced staffing levels, properties occupied and an impairment of the Goodwill that arose on the acquisition of the Rathbone trade and assets.

These three areas has led to substantial one time and largely non cash costs in the Group accounts amounting to nearly £20,560,000 as follows:

	£000
Cost of fundamental restructure	
Staff restructuring	5,416
Provisions for onerous property costs	7,480
Impairment of intangible fixed assets	7,664
	20,560

Report of the members of the corporation

for the year ended 31 July 2016

Review of 2015/16 (continued)

Financial objectives and position (continued)

The overall NCG deficit reported for the year was £30,516,000 (2015 restated: £1,698,000).

Despite the restructuring and these one off costs NCG closed the year with cash and short-term investment balances of £23,086,000 (2015: £27,373,000). NCG consistently maintained cash balances or facilities of at least equivalent to 44 days. Going forward the cash position remains strong and the facilities in place are sufficient to meet immediate cash requirements of the business.

NCG has achieved a satisfactory financial health grading as assessed by the SFA and is expected to improve to outstanding in 2016/17.

NCG has accumulated income and expenditure reserves of £44,219,000 (2015 restated:£58,726,000).

Prior to the pension liability, total NCG reserves are £82,199,000 (2015: £111,324,000).

Tangible fixed asset additions during the year amounted to £1,895,000 (2015: £28,959,000). This was split between land and buildings acquired of £597,000 (2015: £26,212,000) and equipment, information technology and motor vehicles purchased of £1,298,000 (2015: £2,747,000). On 14 September 2016, a freehold property with a net book value of £5,177,000 was sold, this has been transferred into current assets as it was an asset for sale at the balance sheet date.

NCG has significant reliance on the SFA and EFA for its principal funding source, largely from recurrent grants. In the year ended 31 July 2016, the SFA and EFA provided 61.1% of NCG's total income (65.2% in 2015).

Performance indicators

During the year NCG (Colleges) and Intraining were subject to Ofsted inspections and all were rated Good, despite a tougher inspection regime reflecting the high quality of our provision.

NCG is required to complete the annual Finance Record for the Skills Funding Agency. The College is assessed by the Skills Funding Agency as having a Satisfactory financial health grading. The current rating of Satisfactory is considered an acceptable outcome following the restructuring and is expected to increase to Outstanding in the future.

NCG is committed to observing the importance of sector measures and indicators by utilising the FE Choices website (linked to the SFA), which benchmarks FE Colleges by looking at measures such as success rates and learner surveys. During the year NCG embarked on an ambitious project with the funding agencies to change the way in which this performance data is published. This started with the creation of separate contract identifiers for the individual NCG (Colleges) for the first time and the return of SFA data against these new contracts. This will result in performance data being published at individual division level in due course and will enable Ofsted to inspect on a similar basis.

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

Treasury policies and objectives

Treasury management is the management of NCG cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Report of the members of the corporation

for the year ended 31 July 2016

Review of 2015/16 (continued)

Treasury policies and objectives (continued)

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

Cash flows

Operating cash in the year was a cash outflow of £3,869,000 (2015: cash generation of £1,805,000).

Liquidity

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 £1,895,000 in capital expenditure in 2015/16. The principal schemes were:

	£000
Newcastle College Parsons building refurbishment	530
IT equipment and infrastructure	332
Routine capital expenditure	1,033
	1,895

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

Resources

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

Financial

NCG has net current assets of £175,000 (2015 restated: £1,156,000), the decrease primarily reflects cash outflow from operations and capital expenditure. There are net pension liabilities of £31,380,000 (2015 restated: £45,764,000) which reflect the current valuation of the defined benefit schemes that NCG operate, and loans of £24,920,000 (2015: £22,072,000), the movement on which reflects repayments of £1,352,000 in the year and new loans of £4,200,000.

People

The group employed on average 2,465 people (expressed as full time equivalents) in 2015/16 of whom 1,965 are teaching staff. The number of staff includes those delivering training and employability. This represents a reduction from 2014/15 as the organisation has restructured and reduced headcount through a redundancy programme.

Reputation

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

During the year NCG (Colleges) and Intraining were subject to Ofsted inspections and all were rated Good, despite a tougher inspection regime reflecting the high quality of our provision.

Report of the members of the corporation

for the year ended 31 July 2016

Post-balance sheet events

Subsequent to the balance sheet date a freehold property in the centre of Newcastle was sold in September 2016 for £12,500,000 the profit of which will be recognised in the 2016/17 accounts. This was consistent with our strategy of rationalising the property portfolio and consolidating our Newcastle teaching on our main campus.

Future performance - 2016/17

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.

Following a detailed review of the business in 2015/16 the organisation was significantly restructured. This resulted in both reduced headcount of staff and a reduction in the number of premises being used in order to establish a lower cost base for 2016/17.

The external landscape for the year ahead will continue to be dictated by the Government's ongoing drive for efficiency in public expenditure. Further changes to this policy are anticipated as the new Prime Minister and her Ministerial colleagues assert their own agenda. There are also several known changes already on the horizon, including the introduction of the apprenticeship levy in April 2017, the roll out of the Work Programme Successor Programme -- the new Work and Health Programme and the devolution of skills funding to local control in some areas.

While this is underway there are relatively few changes to funding policy at the start of 2016/17. EFA has strengthened its regulations on subcontracting and there are no significant changes on SFA funded provision. The newly tendered ESIF contracts will continue to be awarded and this will require resources to be applied to contract start-ups wherever we are successful.

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

The key objective which was identified from the outcomes of business planning, quality and performance reviews is to generate positive operating Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) of at least £9,000,000 and to meet government priorities and address national and local skills needs.

The key focus of each division is detailed below:

Kidderminster College

- Maintain levels of recruitment in a challenging environment with declining demographics and increased competition locally
- Continue to grow the numbers of Apprentices recruited, whilst maintaining and improving the current very good levels of successful completion
- Effectively embed the new student-facing systems
- Progress the relocation and development of Motor Vehicle and Construction provision through the acquisition of an appropriate site

Newcastle College

- Fully implement the new staffing structure and improve operational delivery and efficiency
- Continue to improve the quality of provision across FE, HE and apprenticeships

Report of the members of the corporation

for the year ended 31 July 2016

Future performance – 2016/17 (continued)

Newcastle College (continued)

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

Newcastle Sixth Form College

- Streamline both processes and operational costs across the College
- Ensure that the quality of provision - particularly in terms of retention, pass rates and value-added – continues to improve rapidly in order to surpass the best Sixth Forms in the region
- Improvements in outcomes for learners this year should help secure the future of the college as this should lead to improved recruitment and improved surplus
- Manage the College through the significant turbulence that will be encountered during the current curriculum reforms and transition back to linear A levels
- Review curriculum in response to market forces, quality concerns and GCSE and A Level reform
- Continue to increase utilisation of the new College building and move the College to a stronger financial base
- Continue to incorporate best practice from the most successful sixth form colleges around the country
- Maximise the progression of students, internally from Year 12 to Year 13 and externally to towards positive outcomes

West Lancashire College

- Refocus the adult curriculum to ensure that an attractive offer is in place that is aligned to professional pathways and maximises use of the available funding streams
- Continue to strengthen the links with employers in order to provide a more employer-focused curriculum, an improved work experience/progression for learners and accelerate the growth of apprenticeships
- Continue to accelerate the improvements in the quality of provision
- Vacate Ormskirk site and relocate the West Lancashire Construction Academy to the main campus in the new Technology Centre
- Realise delivery efficiencies from college services and reductions in running costs

Rathbone and Intraining

- Continue to maximise the benefits of shared central resources and leadership team across the two training providers
- Invest in employer engagement – research, strategy and structure – in particular to support apprenticeship growth
- Grow new business through contract wins from high quality bids and tenders
- Review all central costs and premises to put in place more dynamic solutions
- Continue to review the current offer to ensure that it is cost effective and fit for the future

Report of the members of the corporation

for the year ended 31 July 2016

Principal risks and uncertainties - 2016/17

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.

Additional external risks introduced for 2016/17 as a result of changes in the external environment primarily relate to the following:

The impact of the decision by UK voters to leave the EU introduces a new set of risks for the organisation, some of which are known and others have yet to emerge.

- Funding for current activity provided by ESF contracts may not be replaced.
- Economic turbulence impacts the sector, for example inflation may outstrip funding increments or pension deficits spiralling.
- Economic weakness may lead to further significant cuts to public funding.
- Restrictions on immigration may result in a more controlled skills policy and loss of flexibility.

The changes to the way apprenticeships are funded are the most significant to this area in a generation. The new levy on employers with payroll bills exceeding £3m will introduce new money into the sector, but it also introduces new risks:

- The market is fundamentally changed and how employers will use their levy is difficult to predict.
- The Group will have to navigate a very complex system with four different apprenticeship funding mechanisms, with increased risk of error.
- Costs of administrating the new system are unclear and could become unsustainable.
- Funding rates for individual pathways and age groups are changing and could result in some areas becoming unprofitable.

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

Report of the members of the corporation

for the year ended 31 July 2016

Corporate Social Responsibility

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

Supporting communities/volunteering

Kidderminster College contributes to a wide range of local initiatives, particularly through the district council's Children and Young People's Group and the ReWyre regeneration project. During the year, learners and staff took part in a variety of volunteering activities both locally and further afield, which included a community educational project improving school facilities with the African Adventures Foundation in Kenya, and a project to refurbish bikes for use in Africa. Annual fund raising events included the Race for Life and the Kemp Hospice Santa Run. Learners worked closely with the Parks department, maintaining local parks and nature reserves and, through the Emily Jordan Foundation, produced hanging baskets for the local town centres. Hair and Beauty learners had the opportunity to work on a project with Wolverhampton Art Gallery and the local community, bringing Georgian Fashion to life during the Easter holidays.

In 2015/16 Newcastle College staff members had the opportunity to use one paid day per year to carry out voluntary community work. Staff and learners completed more than 3,300 days of voluntary service. Throughout the year students and staff engaged in various fundraising activities to support local and national charities. A wide range of organisations were supported and more than £23,000 was raised for good causes.

Through its extensive and varied student enrichment programme, Newcastle Sixth Form College has supported a number of pupils at a local primary school through the development of a paired reading scheme. The scheme provides college students interested in pursuing a teaching related career with the opportunity to work with young pupils to improve their confidence and reading skills. The enrichment activity, which is running again in 2016/17, has proven to be one of Newcastle Sixth Form College's most popular enrichment choices.

West Lancashire College continues to be actively represented on and is a key contributor to all of West Lancashire's Local Strategic Partnership's main thematic groups. In the last year the College worked closely with local partners to host a variety of community events including The Pupil Parliament, in partnership with 14-16 West Lancashire Partnership, and Grow your Own, in partnership with West Lancashire Council for Voluntary Service. The College also hosted a very successful Interactive Careers Fair in conjunction with local and regional employers which was attended by both College students and local school pupils. Students and staff have also engaged with various enterprise activities over the year and raised over £4,000 for local and national charities.

Intraining and Rathbone Training have a diverse and substantial programme of enrichment activities held throughout the year which provide colleagues and learners with the opportunity to contribute to fundraising and give back to their local community. Rathbone learners also benefit from corporate volunteering and in year have welcomed Barclays volunteers into their centres to support employability and money skill sessions. BBC volunteers ran workshops with learners in Swansea, Manchester and Birmingham to create a film exploring the history of Rathbone. Colleagues and learners raised over £7K in year for 'Raise it for Rathbone', activities included the three peaks challenge and a colleague and learner 5-aside football tournament with West Lancashire College. Learners and colleagues have also raised money for many local and national charities, including comic relief and cancer research.

Report of the members of the corporation

for the year ended 31 July 2016

Corporate Social Responsibility (continued)

Supporting communities/volunteering (continued)

Learners planned and delivered a number of small scale social action projects in their community around themes such as drugs and homelessness. Projects included learners working with colleagues and local businesses to make 30 shoeboxes to give to a local homeless charity, and making food parcels for their local food bank. Learners campaigned around the issue of legal highs and created a series of videos sharing their experiences and opinions of legal highs which attracted media coverage. A clip from ITV Granada News can be viewed at http://www.itv.com/news/granada/update/2015-05-27/legal-highs-under-threat-after-queens-speech/. Learners were invited to work with Manchester University and Z Arts contributing to creative arts project exploring the issues around immigration which was exhibited to the general public. Intraining teamed up with a mental health charity during mental health week to provide mindfulness workshops for adults in Birmingham. Both organisations hosted a number of events during National Apprenticeship week with local employers, attended by new and existing learners. Rathbone and Intraining sponsored the ERSA 'Youth Employment Award' supporting and celebrating best practice in youth support.

Addressing environmental impact

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

Both Kidderminster College and West Lancashire College secured the Eco Campus Silver Award in July 2016. Each college within the group continues to develop individual work streams to achieve the Silver and Gold Awards.

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

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

Promoting equality and valuing diversity

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

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

Employment of disabled persons

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

Report of the members of the corporation

for the year ended 31 July 2016

Corporate Social Responsibility (continued)

Staff, student and customer involvement

We have a Group Communications Team which oversees strategic and incident related communications across NCG. We have also 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.

Financial Highlights

Implementation of FRS102 and 2015 FE HE SORP

NCG is preparing its financial statements in accordance with FRS102 and 2015 FE HE SORP for the first time which has resulted in restating the figures in the 2014/15 statutory accounts. Details of the first time adoption including new accounting policies is at note 1. A transition statement with details of the applicability of the new standard is at note 26.

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 subject to it being undisputed. During the accounting period 1 August 2015 to 31 July 2016, NCG paid 83.59 per cent of its invoices within 30 days. NCG incurred £1,000 of interest charges in respect of late payment for this period.

Disclosure of information to the auditor

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which NCG's auditor is unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the NCG auditor is aware of that information.

Approved by order of the members of the Corporation on 6 December 2016 and signed on its behalf by:

N J Martin
(Chair of the Corporation)

6 December 2016

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.

NCG endeavours to conduct its business:

i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);

ii. having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector.

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

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

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

NCG Corporation is an exempt charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they have had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements.

Statement of corporate governance and internal control

The Corporation

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

Name	*Date of Appointment/ Reappointment*	*Term*	*Date of Resignation/ Retirement*	*Status of Appointment*	*Committees Served*	*Attendance at Corporation meetings (%)*
Mr L Abernethy	App: May 10 Reapp: Jul 11 Reapp: Jun 15	4 yrs		Vice Chair	West Lancashire College Advisory; Search	70%
Mr L Carr	App: Dec 11 Reapp: Dec 12		May 16	Staff		63%
Mr J Cuthbert	App: Oct 16	3 yrs		Independent member	Audit	Appointed after year end
Mr J P Docherty	App: Aug 13			Chief Executive	Search	100%
Prof C MacDonald	App: Jun 14 Reapp: Jun 15	4 yrs		Independent member	Remuneration	80%
Mr N J Martin	App: Mar 00 Reapp: Feb 03 Reapp: Jan 07 Reapp: Dec 10 Reapp: Dec 14	4 yrs		Chair	Search	90%
Mr P Michell	App: Jan 04 Reapp: Dec 04 Reapp: Jan 09 Reapp: Jun 13	4 yrs		Independent member	Audit; Newcastle College Advisory	100%
Mr N Mills	App: Oct 09 Reapp: Jun 10 Reapp: Jun 14	4 yrs		Independent member	Remuneration Search	60%
Mr C Newton	App: May 13 Reapp: May 14	4 yrs		Independent member	Audit	40%
Mrs C Riley	App: May 13 Reapp: May 14		July 16	Independent member	Remuneration	0%
Mr C Roberts	App: Sep 14 Reapp: Sep 15	4 yrs		Independent member		80%
Mr M Squires	App: Oct 16	3 yrs		Independent member	Remuneration	Appointed after year end
Mr J Stoker	App: Jan 16 Reapp: Jun 16	1 yr				83% (of 6 meetings)
Mr M Terry	App: Sep 14 Reapp: Sep 15	4 yrs		Independent member	Kidderminster College Advisory; Search	100%
Mrs A Turner	App: Nov 97 Reapp: Nov 01 Reapp: Oct 05 Reapp: Nov 09 Reapp: Dec 13 Reapp: Mar 14	4 yrs		Independent member	Audit; Remuneration	60%
Mr J Woodlingfield	App: Jun 16	3 yrs		Staff		100% (of 2 meetings)

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

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, Kidderminster College Advisory, Newcastle College Advisory and West Lancashire College Advisory Committees. The approach to the Advisory Committees is under review and the Newcastle College Advisory Committee did not meet during the year. 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 twice during the year. The members of the Search Committee were as listed in the following table. Mr N Mills left the Committee in November 2015.

Name	Attendance at Search Committee meetings (%)
Mr L Abernethy	50%
Mr J P Docherty	100%
Mr N J Martin (chair)	100%
Mr N Mills	100% (1 meeting before resignation)
Mr C Roberts	100%
Mr M Terry	100%

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

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

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

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

Corporation performance

In the Financial Plan produced for the SFA in July 2016 NCG agreed with the automated calculation of the Financial Health Grade as being satisfactory for the expected outturn of 2015/16. This was based on the continued strength of the balance sheet and low gearing which means that NCG is able to meet their liabilities as they become due. The financial plan also includes the following two year's financial health both of which NCG has self-assessed as being outstanding which is in line with the automated calculation. This is based on balance sheet strength including the sale of the Sandyford property elevating the liquidity of NCG's assets, maintenance of low gearing and improved operational performance.

Statement of corporate governance and internal control

Remuneration Committee

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

The Remuneration Committee met twice 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	100%
Mr N Mills (chair)	100%
Mrs C Riley	100% (1 meeting before resignation)
Mrs A Turner	100%

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 2016 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 SFA as they affect NCG's business.

The Committee met four times during the year. There was a vacancy for one member throughout the year. In October 2016, Mr J Cuthbert was appointed to the Corporation and as Chair of the Audit Committee. 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 P Michell	100%
Mr C Newton	25%
Mrs A Turner	100%

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

Statement of corporate governance and internal control

Audit Committee (continued)

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

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

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

The Audit Committee is responsible for advising the Corporation on the appointment or reappointment of auditors. A tender for financial statements audit services was last conducted in 2014 and a further retender is scheduled for 2017.

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

Internal control

Scope of responsibility

The Corporation is ultimately responsible for NCG's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Corporation has delegated the day-to-day responsibility to the Chief Executive, as Accounting Officer, for maintaining a sound system of internal control. This supports the achievement of NCG policies, aims and objectives, while safeguarding the public funds and assets for which the Chief Executive is personally responsible, in accordance with the responsibilities assigned to them in the Financial Memorandum between the Corporation and the 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 2016 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 2016 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 financial statements auditors

The Chief Executive has been advised on the implications of the result of their review of the effectiveness of the system of internal control by the Audit Committee which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Executive Board receives reports setting out key performance and risk indicators, and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the departments and reinforced by risk awareness training. The Executive Board and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and it receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance, not merely reporting by exception. At its December 2016 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2016 by considering documentation from the Audit Committee, financial statements and internal audit, and taking account of events since 31 July 2016.

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 results for 2015/16 have been impacted by a restructuring of the business and significant non-recurring costs. However, 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 6 December 2016 and signed on its behalf by:

N J Martin (Chair of the Corporation)	J P Docherty (Chief Executive)

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

The Corporation has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agency terms and conditions of funding, under the financial memorandum in place between NCG Corporation and the Skills Funding Agency. As part of our consideration we have had due regard to the requirements of the financial memorandum.

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

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

Approved by order of the members of the Corporation on 6 December 2016 and signed on its behalf by:

N J Martin
(Chair of the Corporation)

J P Docherty
(Chief Executive)

Statement of responsibilities of the members of the Corporation

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

Within the terms and conditions of the Financial Memorandum agreed between the Skills Funding Agency and the Corporation of NCG, the Corporation, through its Chief Executive, is required to prepare financial statements for each financial year in accordance with the *2015 Statement of Recommended Practice – Accounting for Further and Higher Education* and with the *College Accounts Direction 2015 to 2016* issued jointly by the Skills Funding Agency and the Education Funding Agency, and which give a true and fair view of the state of affairs of NCG and the result for that year.

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

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

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

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

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the Skills Funding Agency are used only in accordance with the Financial Memorandum with the Skills Funding Agency 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 Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 6 December 2016 and signed on its behalf by:

N J Martin
(Chair of the Corporation)

Independent auditor's report

to the members of NCG Corporation

We have audited the Group and College financial statements (the "financial statements") of NCG for the year ended 31 July 2016, which comprise the Group Income and Expenditure Account, the Group Statement of Historical Cost Surpluses and Deficits, the Group Statement of Total Recognised Gains and Losses, the Group Balance Sheet, the NCG Balance Sheet, the Group Cash Flow Statement, and the related notes 1 to 26. 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 FRS102 the Financial Reporting Standard applicable for the UK and Republic of Ireland.

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

Respective responsibilities of the members of the Corporation of Newcastle College and Auditor

As described in the Statement of Responsibilities of the Members of the Corporation set out on page 23, the Members of the Corporation are responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Members of the Corporation; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent auditor's report (continued)

to the members of NCG Corporation

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of affairs of NCG (Group) and NCG (Colleges) as at 31 July 2016 and of the deficit of NCG (Group) and NCG (Colleges) income over expenditure 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 FRS102, the Financial Reporting Standard applicable to the UK and Republic of Ireland; and
- have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education.

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

In our opinion:

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

Ernst + Young LLP

Ernst & Young LLP
Statutory auditor
Newcastle upon Tyne

Date: 9 December 2016

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 the governing body; 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 2016		Year ended 31 July 2015	
				Restated	Restated
		NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
INCOME					
Funding body grants	2	84,492	57,721	121,450	67,985
Tuition fees and education contracts	3	21,508	21,261	22,537	21,718
Other grants and contracts	4	22,056	1,045	30,918	1,209
Other income	5	3,094	8,523	3,295	12,180
Investment income	6	187	540	243	560
Total income		131,337	89,090	178,443	103,652
EXPENDITURE					
Staff costs	7	77,667	56,846	93,840	56,094
Fundamental restructuring costs	7	5,417	4,265	2,407	441
Other operating expenses	8	53,461	34,758	68,803	36,228
Amortisation	11	495	-	495	-
Depreciation	12	13,261	12,116	11,895	10,505
Interest payable and other finance costs	9	2,526	1,955	2,452	1,817
Total expenditure		152,827	109,940	179,892	105,085
Deficit before other gains and losses		(21,490)	(20,850)	(1,449)	(1,433)
(Loss)/profit on disposal of assets	12	(1,390)	(965)	(249)	23
Impairment of intangible fixed assets	11	(7,636)	-	-	-
Deficit before tax		(30,516)	(21,815)	(1,698)	(1,410)
Taxation	10	-	-	-	-
Deficit for the year		(30,516)	(21,815)	(1,698)	(1,410)
Net assets of Kidderminster College gifted to NCG		-	-	5,513	5,513
Actuarial gain/(loss) in respect of pension schemes	22	15,775	14,046	(6,100)	(4,287)
Total comprehensive income for the year		(14,741)	(7,769)	(2,285)	(184)

The income and expenditure account is in respect of continuing activities. The figures for the year ended 31 July 2015 have been restated to reflect the adoption of FRS102 and the 2015 FE HE SORP.

For the purposes of this Statement:

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

NCG (Colleges) – is the consolidation of the colleges only, excluding the two subsidiary training companies.

NCG

Statement of changes in reserves

	Income and expenditure account £000	Revaluation reserve £000	Total £000
NCG (Group)			
Restated balance at 1 August 2014	60,777	7,068	67,845
Deficit from the income and expenditure account	(1,698)	-	(1,698)
Other comprehensive income	(587)	-	(587)
Transfers between revaluation and income and expenditure reserves	234	(234)	-
	(2,051)	(234)	(2,285)
Balance at 31 July 2015	58,726	6,834	65,560
Deficit from the income and expenditure account	(30,516)	-	(30,516)
Other comprehensive income	15,775	-	15,775
Transfers between revaluation and income and expenditure reserves	234	(234)	-
Total comprehensive income for the year	(14,507)	(234)	(14,741)
Balance at 31 July 2016	44,219	6,600	50,819
NCG (Colleges)			
Restated balance at 1 August 2014	71,331	7,068	78,399
Deficit from the income and expenditure account	(1,410)	-	(1,410)
Other comprehensive income	1,226	-	1,226
Transfers between revaluation and income and expenditure reserves	234	(234)	-
	50	(234)	(184)
Balance at 31 July 2015	71,381	6,834	78,215
Deficit from the income and expenditure account	(21,815)	-	(21,815)
Other comprehensive income	14,046	-	14,046
Transfers between revaluation and income and expenditure reserves	234	(234)	-
Total comprehensive income for the year	(7,535)	(234)	(7,769)
Balance at 31 July 2016	63,846	6,600	70,446

For the purposes of this Statement:

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

NCG (Colleges) – is the consolidation of the colleges only, excluding the two subsidiary training companies.

Balance sheets as at 31 July

	Notes	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Fixed assets					
Intangible assets	11	-	-	8,131	-
Tangible assets	12	157,098	155,942	175,031	172,363
		157,098	155,942	183,162	172,363
Current assets					
Stocks	13	5,222	5,222	82	82
Debtors	14	8,562	3,681	9,772	3,717
Cash and cash equivalents		23,086	22,366	27,373	25,627
		36,870	31,269	37,227	29,426
Less: Creditors - amounts falling due within one year	15	36,695	28,339	36,071	24,755
Net current assets		175	2,930	1,156	4,671
Total assets less current liabilities		157,273	158,872	184,318	177,034
Creditors - amounts falling due after more than one year	16	68,744	68,640	67,838	67,733
Provisions					
Defined benefit obligations	22	31,380	15,338	45,764	27,709
Other provisions	18	6,330	4,448	5,156	3,377
Total net assets		50,819	70,446	65,560	78,215
Unrestricted reserves					
Revaluation reserve		6,600	6,600	6,834	6,834
Income and expenditure account		44,219	63,846	58,726	71,381
Total unrestricted reserves		50,819	70,446	65,560	78,215

For the purposes of this Statement:

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

NCG (Colleges) – is the consolidation of 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:

N J Martin
(Chair of the Corporation)
6 December 2016

J P Docherty
(Chief Executive)
6 December 2016

NCG

Consolidated statement of cash flows

	Notes	2016 £000	Restated 2015 £000
Cash flow from operating activities			
Deficit for the year		(30,516)	(1,698)
Adjustment for non-cash items			
Amortisation		495	495
Depreciation		13,261	11,895
Deferred capital grants released to income		(1,995)	(3,716)
Decrease in stocks		37	9
Decrease in debtors		1,216	688
Increase/(decrease) in creditors due in less than 1 year		1,184	(7,537)
Increase in creditors due in more than 1 year		166	-
Increase/(decrease) in provisions		1,174	(289)
Pensions costs less contributions payable		1,383	1,147
Adjustment for investing or financing activities			
Investment income		(187)	(255)
Interest payable		887	816
Loss on sale of fixed assets		1,390	250
Impairment of intangible fixed assets		7,636	-
Net cash flow from operating activities		(3,869)	1,805
Cash flows from investing activities			
Disposal of non-current asset investments			
Investment income		181	249
Capital grants received		-	7,909
Payments made to acquire fixed assets		(2,445)	(28,796)
		(2,264)	(20,638)
Acquisitions and disposals			
Net cash acquired with subsidiary undertaking		-	3,569
		-	3,569
Cash flows from financing activities			
Interest paid		(961)	(797)
New loans		4,200	-
Repayments of amounts borrowed		(1,352)	(1,247)
Capital element of finance lease repayments		(41)	-
		1,846	(2,044)
Decrease in cash and cash equivalents in the year	23	(4,287)	(17,308)
Cash and cash equivalents at beginning of the year		27,373	44,681
Cash and cash equivalents at end of the year		23,086	27,373

Notes to the financial statements

at 31 July 2016

1. Accounting policies

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

Basis of preparation

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

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

Basis of consolidation

The consolidated financial statements include the Group and its subsidiaries, The Intraining Group Limited and Rathbone Training, controlled by the Group (together referred to as "NCG (Group)"). Control is achieved where the NCG (Group) has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS102, the activities of the student union and Discovery Learning Limited have not been consolidated because NCG (Group) does not control those activities. All financial statements are made up to 31 July 2016. The NCG (Colleges) financial statements present information about NCG (Colleges) as a separate entity that includes the four colleges Kidderminster College, Newcastle College, Newcastle Sixth Form College and West Lancashire College (together referred to as "NCG (Colleges)") and excludes the two subsidiary training companies.

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

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

NCG (Colleges) – is the consolidation of the colleges only, excluding the two subsidiary training companies.

Transition to the 2015 FE HE SORP

NCG (Group) is preparing its financial statements in accordance with FRS102 for the first time and consequently has applied the first time adoption requirements. Some of the FRS102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, NCG (Group) has amended certain accounting policies to comply with FRS102 and the 2015 FE HE SORP. The trustees have also taken advantage of certain exemptions from the requirements of FRS102 permitted by FRS102 Chapter 35 'Transition to this FRS'.

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of NCG (Group) is provided in note 26.

The 2015 FE HE SORP requires colleges to prepare a single statement of comprehensive income, and not the alternative presentation of a separate income statement and a statement of other comprehensive income. This represents a change in accounting policy from the previous period where separate statements for the Income and Expenditure account and for the Statement of Total Recognised Gains and Losses were presented.

Notes to the financial statements

at 31 July 2016

1. Accounting policies (continued)

Transition to the 2015 FE HE SORP (continued)

The application of first time adoption allows certain exemptions from the full requirements of the FRS102 and the 2015 FE HE SORP in the transition period. The following exemptions have been taken in these financial statements:

The application of first time adoption allows certain exemptions from the full requirements of the FRS102 and the 2015 FE HE SORP in the transition period. The following exemptions have been taken in these financial statements:

- Revaluation as deemed cost – at 1 August 2014, NCG (Group) has retained the carrying values of freehold properties as being deemed cost and measured at fair value
- Fair Value as deemed cost – at 1 August 2014, NCG (Group) has obtained a revaluation of land and this value will be used as the deemed cost for the transition to this FRS102
- Related Party Disclosures between Group Members - Disclosures will be not be given of transactions entered into between members of the group with The Intraining Group Limited as it is wholly owned by NCG (Group)
- Basic Financial Instruments – NCG (Group) only has basic financial instruments which are not designated at fair value in the profit and loss therefore disclosures as detailed in Section 11 paragraphs 11.40 to 11.48 can be excluded from the Financial Statements
- Related Party Disclosures for Key Management Personnel – As per FRS102 Section 1.12 an election has been made to not disclose key management personnel compensation in total
- NCG (Group) has taken advantage of the exemptions provided in FRS102 1.12 and the 2015 FE HE SORP 3.3, and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and NCG (Group) balance sheet discloses cash at both the current and preceding reporting dates.

Basis of accounting

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

Going concern

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

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

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 2016

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 or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation.

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

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 method 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 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.

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 NCG (Group) is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

Notes to the financial statements

at 31 July 2016

1. Accounting policies (continued)

Accounting for post-employment benefits (continued)

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in other recognised gains and losses.

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

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.

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.

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.

Notes to the financial statements

at 31 July 2016

1. Accounting policies (continued)

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

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.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

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

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

Leasehold Improvements

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

Assets under construction

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

Notes to the financial statements

at 31 July 2016

1. Accounting policies (continued)

Non-current assets - tangible fixed assets (continued)

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.

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.

Leased assets

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

Notes to the financial statements

at 31 July 2016

1. Accounting policies (continued)

Leased assets (continued)

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

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

Investments in subsidiaries

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

Inventories

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

Cash and cash equivalents

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

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

Financial liabilities and equity

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

All loans, investments and short term deposits held by NCG (Group) are classified as basic financial instruments in accordance with FRS102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS102 requires that basic financial instruments are subsequently measured at amortised cost, however NCG (Group) has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

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.

Notes to the financial statements

at 31 July 2016

1. Accounting policies (continued)

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 NCG (Group) 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.

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.

Notes to the financial statements

at 31 July 2016

1. Accounting policies (continued)

Agency arrangements

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.

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 26, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the financial statements

at 31 July 2016

2. Funding body grants

	Year ended 31 July 2016		Year ended 31 July 2015	
			Restated	Restated
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Recurrent grants				
Skills Funding Agency	32,660	14,995	39,425	16,063
Education Funding Agency	45,574	38,216	49,180	39,773
Higher Education Funding Council England	2,213	2,213	3,748	3,748
Specific grants				
Skills Funding Agency	2,050	395	25,381	4,818
Releases of government capital grants	1,995	1,902	3,716	3,583
	84,492	57,721	121,450	67,985

3. Tuition fees and education contracts

	Year ended 31 July 2016		Year ended 31 July 2015	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Apprenticeship fees and contracts	119	119	-	-
Fees for FE loan supported courses	2,787	2,782	2,464	2,384
Fees for HE loan supported courses	14,383	14,383	15,527	15,526
International students fees	1,193	1,193	1,566	1,566
Total tuition fees	18,482	18,477	19,557	19,476
Education contracts	3,026	2,784	2,980	2,242
	21,508	21,261	22,537	21,718

The policy of full tuition fees for new entrants and removal of grant funding has led to a reduction in the number of learners applying to study. 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 increasing to £2,679,000 (2015: £2,684,000). All courses are given an assumed fee based on guided learner hours, whether or not a fee had been charged to the students, which seeks to reflect the actual fees foregone.

4. Other grants and contracts

	Year ended 31 July 2016		Year ended 31 July 2015	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
European Commission	518	-	186	3
Other grants and contracts	21,538	1,045	30,732	1,206
	22,056	1,045	30,918	1,209

Income from other grants and contracts of £21,538,000 (2015: £30,732,000) includes £9,367,000 (2015: £14,949,000) from Department of Work and Pensions; £2,625,000 (2015: £4,072,000) from Welsh Government; £4,279,000 (2015: £4,535,000) from Skills Development Scotland; £3,354,000 (2015: £5,359,000); and £480,000 (2015: £633,000) from Big Lottery.

Notes to the financial statements

at 31 July 2016

5. Other income

	Year ended 31 July 2016		Year ended 31 July 2015	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Catering and residences	1,297	1,296	1,229	1,229
Other income generating activities	376	376	403	400
Group service recharge income	-	5,432	-	7,447
Intercompany income	-	166	-	1,886
Miscellaneous income	1,421	1,253	1,663	1,218
	3,094	8,523	3,295	12,180

6. Investment income

	Year ended 31 July 2016		Year ended 31 July 2015	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Other interest receivable	187	185	243	229
Intercompany loan interest receivable	-	355	-	331
Total	187	540	243	560

7. Staff costs

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

	2016 No.	2015 No.
Teaching staff	1,965	2,609
Non teaching staff	500	574
	2,465	3,183

Staff costs for the above persons:	2016 £000	Restated 2015 £000
Wages and salaries	64,593	79,791
Social security costs	5,205	6,355
TPS pension costs	3,032	2,661
LGPS pension costs	3,998	3,679
LPFA pension costs	25	59
Other pension costs	814	1,295
Payroll sub-total	77,667	93,840
Exceptional restructuring costs	5,417	2,407
Total staff costs	83,084	96,247

Notes to the financial statements

at 31 July 2016

7. Staff costs (continued)

The number of staff, including senior post holders, the Clerk to the Governors and the Chief Executive, who received emoluments in the following ranges was:

Group	Senior post holders 2016 No.	Senior post holders 2015 No.	Other staff 2016 No.	Other staff 2015 No.
£60,001 to £70,000	1	1	22	21
£70,001 to £80,000	-	-	6	9
£80,001 to £90,000	-	-	6	9
£90,001 to £100,000	-	-	4	4
£100,001 to £110,000	2	2	4	2
£120,001 to £130,000	2	3	-	-
£130,001 to £140,000	1	-	1	2
£150,001 to £160,000	1	1	-	-
£200,001 to £210,000	1	-	-	-
£220,001 to £230,000	-	1	-	-
£230,001 to £240,000	1	-	-	-
	9	8	43	47

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

Senior post holders' emoluments

Senior post holders are defined as the Chief Executive and holders of the other senior posts whom the Corporation have selected for the purposes of the articles of governance of NCG (Group) relating to the appointment and promotion of staff who are appointed by the Corporation.

	2016 No.	2015 No.
The number of senior post holders including the Chief Executive and the Clerk to the Governors (and including those who held office for only part of the year) was:	9	8

	2016 £000	*2015 £000*
Senior post holders' emoluments are made up as follows:		
Emoluments	1,036	991
Pension contributions	126	127
Total emoluments	1,162	1,118

The above emoluments include amounts payable to the highest paid senior post holder, the Chief Executive, of:

	2016 £000	2015 £000
Salary	227	227
Benefits in Kind	8	-
Bonus	11	-
Pension contributions	32	30
Total emoluments	278	257

Notes to the financial statements

at 31 July 2016

7. Staff costs (continued)

The Chief Executive's bonus was paid as part of the Senior Leadership Incentive Scheme which is detailed on Page 18. Under the published terms of this incentive scheme the Chief Executive was not entitled to any reward for 2014/15.

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

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

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

8. Other operating expenses

	Year ended 31 July 2016		Year ended 31 July 2015	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
Teaching costs	10,189	5,805	14,093	6,210
Teaching and other support costs	15,519	1,597	29,118	1,204
Administration costs	4,379	12,110	3,843	15,345
Operational costs	4,748	3,554	4,881	2,951
Maintenance costs	14,285	7,787	11,626	6,525
Examination costs	2,604	2,168	3,324	2,075
Catering, residences and conferences costs	506	506	509	509
Other costs	1,231	1,231	1,409	1,409
	53,461	34,758	68,803	36,228

Other operating expenses include:	2016 £000	2015 £000
Auditor's remuneration:		
- External audit (including Regularity Audit)*	67	70
- Internal audit	61	74
- Other services provided by the external auditor	9	9
Subcontractor costs	15,038	27,248
Hire of assets under operating leases:		
- Land and buildings	6,442	5,795
- Other	769	839

* Includes £38,000 in respect of NCG (2015: £37,000) inclusive of VAT

Notes to the financial statements

at 31 July 2016

9. Interest payable and other finance costs

	Year ended 31 July 2016		Year ended 31 July 2015	
	NCG (Group) £000	NCG (Colleges) £000	NCG (Group) £000	NCG (Colleges) £000
On bank loans	887	887	816	817
Other interest - pensions	1,564	1,004	1,578	959
Other interest and charges	75	64	58	41
	2,526	1,955	2,452	1,817

10. Taxation

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

The subsidiary company has an unrecognised deferred tax asset of £6,462,000 (2015: £5,702,000), comprising tax losses of £6,222,000 (2015: £5,462,000) and other timing differences of £240,000 (2015: £240,000). The asset has not been recognised as the criteria under FRS102 have not been met.

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

11. Intangible fixed assets and investments

	Goodwill £000
NCG (Group)	
Cost:	
At 1 August 2015 and at 31 July 2016	28,961
Amortisation:	
At 1 August 2015	20,830
Charge for year	495
Impairment	7,636
At 31 July 2016	28,961
Net book value:	
At 31 July 2016	-
At 1 August 2015	8,131

	£000
NCG (Colleges)	
Cost:	
At 1 August 2015 and at 31 July 2016	3,289
Amortisation:	
At 1 August 2015 and at 31 July 2016	3,289
Net book value:	
At 1 August 2015 and at 31 July 2016	-

As documented in note 1 accounting policies, goodwill arising on acquisition is subject to an impairment review annually or if there is are indications that the carrying value may not be supportable. An annual review has taken place at 31 July 2016 to assess the goodwill on acquisition of Rathbone. It was determined at this review that the carrying value was impaired and therefore the full net book value remaining has been written down at this time.

Notes to the financial statements

at 31 July 2016

11. Intangible fixed assets and investments (continued)

NCG - investments

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

12. Tangible fixed assets

NCG (Group)	Land and buildings £000	Equipment £000	Total £000
Cost or valuation:			
At 1 August 2015 (restated)	234,926	18,264	253,190
Additions	597	1,298	1,895
Disposals	(3,156)	(3,609)	(6,765)
Transfer to assets held for sale	(8,958)	(261)	(9,219)
At 31 July 2016	**223,409**	**15,692**	**239,101**
Depreciation:			
At 1 August 2015 (restated)	66,860	11,299	78,159
Charge for year	10,143	3,118	13,261
Disposals	(2,005)	(3,370)	(5,375)
Transfer to assets held for sale	(3,891)	(151)	(4,042)
At 31 July 2016	**71,107**	**10,896**	**82,003**
Net book value at 31 July 2016	**152,302**	**4,796**	**157,098**
Net book value at 1 August 2015 (restated)	168,066	6,965	175,031
Inherited	6,599	-	6,599
Other	98,731	4,147	102,878
Financed by capital grant	46,972	649	47,621
	152,302	4,796	157,098

Land and buildings with a net book value of £76,987,000 have been partially financed by grants from the SFA. Should these assets be sold, NCG (Group) would either have to surrender the sale proceeds to the SFA or use the proceeds in accordance with the Financial Memorandum with the SFA.

The net book value of equipment includes an amount of £125,000 (2015: Nil) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £41,000 (2015: Nil).

Notes to the financial statements

at 31 July 2016

12. Tangible fixed assets (continued)

NCG (Colleges)	Land and buildings £000	Equipment £000	Total £000
Cost or valuation:			
At 1 August 2015 (restated)	232,136	14,024	246,160
Additions	574	1,263	1,837
Disposals	(2,480)	(2,063)	(4,543)
Transfer to assets held for sale	(8,958)	(261)	(9,219)
At 31 July 2016	**221,272**	**12,963**	**234,235**
Depreciation:			
At 1 August 2015 (restated)	65,532	8,265	73,797
Charge for year	9,624	2,492	12,116
Disposals	(1,529)	(2,049)	(3,578)
Transfer to assets held for sale	(3,891)	(151)	(4,042)
At 31 July 2016	**69,736**	**8,557**	**78,293**
Net book value at 31 July 2016	**151,536**	**4,406**	**155,942**
Net book value at 1 August 2015 (restated)	166,604	5,759	172,363
Inherited	6,599	-	6,599
Other	97,965	3,757	101,722
Financed by capital grant	46,972	649	47,621
	151,536	4,406	155,942

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

Land with a book value of £2,102,000 was revalued at 1 August 2014 by Cushman and Wakefield, a firm of Chartered Surveyors, at £5,500,000.

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

Land and buildings with a net book value of £76,987,000 have been partially financed by grants from the SFA. Should these assets be sold, NCG (Group) would either have to surrender the sale proceeds to the SFA or use the proceeds in accordance with the Financial Memorandum with the SFA.

The net book value of equipment includes an amount of £125,000 (2015: Nil) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £41,000 (2015: Nil).

NCG (Group) and NCG (Colleges)

Included in land and buildings are assets at a cost of £371,000 which have not been depreciated as the assets have not yet been brought into use. Freehold land held at a value of £25,849,000 has not been depreciated.

Revaluation reserve

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

Notes to the financial statements

at 31 July 2016

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

	2016 £000	2015 £000
Asset held for sale	5,177	-
Stocks	45	82
	5,222	82

14. Debtors

	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) 2015 £000	NCG (Colleges) 2015 £000
Amounts falling due within one year:				
Trade debtors	1,028	989	2,154	1,835
Other debtors	900	329	431	48
Amounts owed by subsidiary undertakings	-	-	-	360
Prepayments and accrued income	4,182	1,717	3,230	1,156
Amounts owed by the SFA/EFA	2,452	646	3,957	318
	8,562	3,681	9,772	3,717

15. Creditors: amounts falling due within one year

	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Payments received on account	1,143	1,005	3,493	2,755
Amounts owed to the SFA/EFA	15,803	15,276	11,397	10,034
Trade creditors	362	153	831	582
Amounts owed to subsidiary undertakings	-	1,051	-	-
Payroll creditors	152	8	844	694
Other taxation and social security	1,714	1,019	2,113	946
Accruals	12,100	5,063	11,606	5,113
Bank loans	1,475	1,475	1,289	1,289
Finance lease creditor	82	82	-	-
Other creditors	812	159	1,304	186
Deferred capital grants	3,052	3,048	3,194	3,156
	36,695	28,339	36,071	24,755

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

	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Bank loans	23,445	23,445	20,783	20,783
Obligations under finance leases	41	41	-	-
Deferred capital grants	45,258	45,154	47,055	46,950
	68,744	68,640	67,838	67,733

Notes to the financial statements

at 31 July 2016

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

(a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	2016 £000	2015 £000
In one year or less	1,475	1,289
Between one and two years	1,464	1,308
Between two and five years	15,196	16,532
In five years or more	6,785	2,943
	24,920	22,072

(b) Finance leases

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

	2016 £000	2015 £000
In one year or less	82	-
Between one and two years	41	-
	123	-

Bank loans and overdrafts carry interest at rates between 2.79% and 5.46% 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 2017 and 2028.

During the year loan repayments were made of £1,436,000 and a new loan was taken out for £4,200,000 on a rolling five year commitment, initially repayable by 2 November 2020.

18. Provisions

NCG (Group)

	Dilapidations £000	*Enhanced pensions £000*	*Total £000*
At 1 August 2015	2,389	2,767	5,156
Actuarial losses	-	163	163
Benefits paid	-	(195)	(195)
Interest charged to other operating expenses	-	64	64
Charged in the year	2,024	-	2,024
Utilised in the year	(294)	-	(294)
Released in the year	(588)	-	(588)
At 31 July 2016	3,531	2,799	6,330

Notes to the financial statements

at 31 July 2016

18. Provisions (continued)

NCG (Colleges)

	Dilapidations	*Enhanced pensions*	*Total*
	£000	*£000*	*£000*
At 1 August 2015	610	2,767	3,377
Actuarial losses	-	163	163
Benefits paid	-	(195)	(195)
Interest charged to other operating expenses	-	64	64
Charged in the year	1,039	-	1,039
At 31 July 2016	1,649	2,799	4,448

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

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

19. Cash and cash equivalents

	At 1 August 2015	Other Cash flows	At 31 July 2016
	£000	£000	£000
Short term liquid investments	10,074	70	10,144
Cash at bank and in hand	17,299	(4,357)	12,942
	27,373	(4,287)	23,086

20. Capital commitments – Group and NCG

	2016	2015
	£000	£000
Commitments contracted for at 31 July	-	630

21. Lease obligations

	NCG (Group)	NCG (Colleges)	NCG (Group) Restated	NCG (Colleges) Restated
	2016	2016	2015	2015
	£000	£000	£000	£000
Future minimum lease payments due:				
Land and buildings				
Not later than one year	1,552	499	1,855	473
Later than one year but not later than five years	1,667	1,128	2,704	790
Later than five years	282	282	988	263
	3,501	1,909	5,547	1,526
Other				
Not later than one year	502	181	559	192
Later than one year but not later than five years	141	114	645	292
	643	295	1,204	484

Notes to the financial statements

at 31 July 2016

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) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Teachers' Pension Scheme	3,032	3,032	2,661	2,661
Tyne & Wear LGPS	3,998	3,951	3,448	3,340
Worcester County Council LGPS	-	-	231	231
London Pension Fund Authority Scheme	25	-	59	-
Other pension schemes	814	61	1,295	42
Total pension cost for the year	7,869	7,044	7,694	6,274

Amounts recognised in the Statement of comprehensive income

	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Tyne & Wear LGPS	13,340	13,340	(3,804)	(3,804)
Tyne & Wear LGPS - Intraining	383	-	(76)	-
Tyne & Wear LGPS - Kidderminster	869	869	-	-
Worcester County Council LGPS	-	-	(426)	(426)
The Pensions Trust Growth Plan	(42)	-	8	-
London Pension Fund Authority Scheme	1,388	-	(1,745)	-
Enhanced Pension Charge (note 18)	(163)	(163)	(57)	(57)
Actuarial gains/(losses) recognised	15,775	14,046	(6,100)	(4,287)

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

Pension liability/(asset) recognised in the balance sheet

	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Tyne & Wear LGPS	13,360	13,360	24,999	24,999
Tyne & Wear LGPS - Intraining	(91)	-	273	-
Tyne & Wear LGPS - Kidderminster	1,978	1,978	-	-
Worcester County Council LGPS	-	-	2,710	2,710
The Pensions Trust Growth Plan	156	-	114	-
London Pension Fund Authority Scheme	15,977	-	17,668	-
	31,380	15,338	45,764	27,709

Outstanding contributions at 31 July 2016, included within creditors, were £nil (2015: £311,000).

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 2013 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.

The Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

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

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

The Teachers' Pension Budgeting and Valuation Account (continued)

The Teachers' Pensions Regulations 2010 require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pension increases). From 1 April 2001, the Account has been credited with a real rate of return, which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Valuation of the Teachers' Pension Scheme

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

- New employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay.

The new employer contribution rate of 16.48% for the TPS was implemented from September 2015.

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

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

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £3,032,000 (2015: £2,661,000).

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

FRS102 (28)

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

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

Tyne & Wear Local Government Pension Scheme (LGPS)

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

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

Regular employer contributions to the Fund for the year ending 31 July 2017 are estimated to be £3,804,000. 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 2016 are:

Full-time Equivalent Salary	Contribution rate per year
Up to £13,600	5.50%
£13,601 to £21,200	5.80%
£21,201 to £34,400	6.50%
£34,401 to £43,500	6.80%
£43,501 to £60,700	8.50%
£60,701 to £86,000	9.90%
£86,001 to £101,200	10.50%
£101,201 to £151,800	11.40%
£151,801 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 2016 by a qualified independent actuary

	At 31 July 2016	At 31 July 2015	At 31 July 2014
RPI Inflation	2.6%	3.2%	3.2%
CPI Inflation	1.4%	2.1%	2.2%
Rate of general long-term increase in salaries	1.2%	3.6%	3.7%
Rate of increase for pensions in payment	1.4%	2.1%	2.2%
Rate of revaluation of pension accounts	1.4%	2.1%	2.2%
Discount rate	2.6%	3.6%	4.1%

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

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

	2016 Years	2015 Years
Retiring at 31 July		
Males	22.1	23.1
Females	23.6	24.7
Retiring in 20 years		
Males	23.3	25.1
Females	25.1	27.0

The asset split in the scheme were:

	Asset split at 31 July 2016 %	Asset split at 31 July 2015 %
Equities	66.3	65.9
Property	10.0	9.6
Government Bonds	3.8	3.6
Corporate Bonds	11.5	11.6
Cash	3.0	2.8
Other	5.4	6.5
Total market value	100.0	100.0

Reconciliation of funded status to balance sheet

	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Fair value of assets	88,260	86,519	70,199	68,660
Present value of funded defined benefit obligation	(103,507)	(101,857)	(95,462)	(93,650)
Net pension liability	(15,247)	(15,338)	(25,263)	(24,990)

Analysis of the amount charged to the Statement of comprehensive income

	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Current service cost	3,998	3,750	3,448	3,340
Past service cost	466	460	-	-
Interest cost	949	840	766	760
	5,413	5,050	4,214	4,100

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

Changes to the present value of liabilities during the year

	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Opening defined benefit obligation	95,462	93,650	81,711	80,240
Transfer in from Worcestershire LGPS	9,745	9,745	-	-
Current service cost	3,998	3,951	3,448	3,340
Interest cost	3,780	3,715	3,341	3,280
Contributions by participants	1,221	1,209	1,232	1,200
Actuarial (gains)/losses on liabilities*	(8,571)	(8,309)	7,442	7,290
Net benefits paid out**	(2,594)	(2,564)	(1,712)	(1,700)
Past service cost	466	460	-	-
Closing defined benefit obligation	103,507	101,857	95,462	93,650

* 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) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Opening fair value of assets	70,199	68,660	61,537	60,250
Transfer in from Worcestershire LGPS	7,035	7,035	-	-
Interest income on assets	2,831	2,775	2,575	2,520
Actuarial gains on assets	6,021	5,900	3,566	3,490
Contributions by the employer	3,547	3,504	3,001	2,900
Contributions by participants	1,221	1,209	1,232	1,200
Net benefits paid out	(2,594)	(2,564)	(1,712)	(1,700)
Closing fair value of assets	88,260	86,519	70,199	68,660

Actual return on assets

	NCG (Group) 2016 £000	NCG (Colleges) 2016 £000	NCG (Group) Restated 2015 £000	NCG (Colleges) Restated 2015 £000
Interest income on assets	2,831	2,775	2,575	2,520
Actuarial gains on assets	6,021	5,900	3,860	3,784
Actual return on assets	8,852	8,675	6,435	6,304

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

History of asset values, present value of liabilities and deficit

NCG (Group)	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Fair value of assets	88,260	70,199	61,535	58,855	49,288
Present value of liabilities	(103,507)	(95,462)	(81,718)	(86,028)	(79,240)
Deficit	(15,247)	(25,263)	(20,183)	(27,173)	(29,952)

NCG (Colleges)	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Fair value of assets	86,519	68,660	60,250	57,848	49,288
Present value of liabilities	(101,857)	(93,650)	(80,240)	(84,697)	(79,240)
Deficit	(15,338)	(24,990)	(19,990)	(26,849)	(29,952)

Worcestershire County Council Pension fund (LGPS) – Kidderminster College

Prior to 2016 Kidderminster College operated a defined benefit pension scheme for its employees through Worcestershire County Council Pension fund. During the year this was transferred over to the Tyne and Wear Pension Scheme therefore the assumptions and disclosures below are only provided as at 31 July 2015.

Principal Actuarial Assumptions

The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund were:

	At 31 July 2015
RPI Inflation	3.2%
CPI Inflation	2.2%
Rate of general long-term increase in salaries	3.7%
Rate of increase for pensions in payment	2.2%
Discount rate	3.8%

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 2015
Retiring at 31 July	
Males	23.4
Females	25.8
Retiring in 20 years	
Males	25.6
Females	28.1

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

Reconciliation of funded status to balance sheet

	2015 £000
Notional value of Fund assets	7,035
Present value of liabilities	(9,745)
Net pension liability	(2,710)

Analysis of the amount charged to the income statement

	2015 £000
Current service cost	226
Interest cost	367
Curtailments	138
Expected return on assets	(409)
	322

Changes to the present value of liabilities during the year

	2015 £000
Present value of liabilities at 1 August on transfer to NCG	8,561
Current service cost	226
Interest cost	367
Contributions by participants	66
Actuarial loss on liabilities	720
Curtailments	138
Net benefits paid out	(333)
Present value of liabilities at 31 July	9,745

Changes to the fair value of assets during the year

	2015 £000
Fair value of assets at 1 August on transfer to NCG	6,374
Expected return on assets	409
Actuarial gain on assets	157
Contributions by the employer	362
Contributions by the participants	66
Net benefits paid out	(333)
Present value of assets at 31 July	7,035

Notes to the financial statements
at 31 July 2016

22. Pension schemes (continued)

Actual return on assets

	2015 £000
Expected return on assets	409
Actuarial gain on assets	157
Actual return on assets	566

Amount recognised in other comprehensive income in respect of actuarial losses

	2015 £000
Actuarial loss in respect of pension scheme	(426)
Actuarial loss recognised in other comprehensive income	(426)

History of asset values, present value of liabilities and deficit

	2015 £000
Fair value of assets	7,035
Present value of liabilities	(9,745)
Deficit	(2,710)

History of experience gains and losses

	2015 £000
Experience gains on assets	157
Experience gains on liabilities	-

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

Defined Contribution Pension Scheme - Intraining

Intraining operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the group in an independently administered fund. There were £65,000 unpaid contributions outstanding at the year-end (2015: £89,000).

Defined Contribution Pension Scheme - Rathbone

Rathbone operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the group in an independently administered fund. There were £36,000 unpaid contributions outstanding at the year-end (2015: £39,000).

Defined Benefit Pension Scheme LPFA - Rathbone

The Charity also operates a funded defined benefit pension scheme for eligible employees, London Pension Fund Authority Scheme (LPFA), which up to 1 April 1999 had been the principal scheme. The assets of the scheme are invested and managed independently of the finances of the Charity. The pension cost relating to this scheme is calculated on the projected unit method and is assessed with the advice of a qualified actuary. The latest actuarial assessment of this scheme was on 31 July 2016 and was carried out by Barnett Waddingham LLP, an independent actuary and the net liability at that point is estimated at £15,977,000.

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.

Employer contribution rates were fixed at 35.6% from April 2014 onwards.

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

	At 31 July 2016	*At 31 July 2015*
Discount rate	2.4%	3.2%
Salary increases	1.4%	3.9%
Pension increases	1.4%	2.1%

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 2016	*At 31 July 2015*
Retiring at 31 July		
Males	20.0	20.9
Females	23.3	24.4
Retiring in 20 years		
Males	21.3	23.3
Females	24.7	26.7

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

Principal Actuarial Assumptions

The estimated asset allocation for Rathbone Training as at 31 July 2016 is as follows:

	31 July 2016	*Restated 31 July 2015*
	%	*%*
Equities	51.5	44.2
Target Return Portfolio	23.3	18.9
Commodities	0.5	0.5
Infrastructure	7.1	5.4
Property	3.7	3.1
Cash	12.9	27.4
	100.0	100.0

Net pension liability as at 31 July:

	2016	*2015*	*2014*
	£000	*£000*	*£000*
Present value of the defined benefit obligation	38,917	41,151	40,249
Fair value of Fund assets (bid value)	24,964	25,751	26,457
Deficit	13,953	15,400	13,792
Present value of unfunded obligation	2,024	2,268	2,360
Net defined benefit liability	15,977	17,668	16,152

The amounts recognised in the Statement of Comprehensive Income are:

	2016	*Restated 2015*
	£000	*£000*
Service cost	25	59
Net interest on the defined liability	551	612
Administration expenses	39	40
	615	711

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

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

	2016 £000	Restated 2015 £000
Opening defined benefit obligation	43,419	42,609
Current service cost	25	59
Interest cost	1,342	1,609
Change in demographic assumptions	(1,322)	-
Change in financial assumptions	589	1,916
Experience gain on defined benefit obligation	(129)	(16)
Estimated benefits paid net of transfers in	(2,783)	(2,548)
Contributions by Fund participants and other employers	5	14
Unfunded pension payments	(205)	(224)
Closing defined benefit obligation	40,941	43,419

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

	2016 £000	Restated 2015 £000
Opening fair value of Fund assets	25,751	26,457
Interest on assets	791	997
Return on assets less interest	526	155
Administration expenses	(39)	(40)
Contributions by employer including unfunded	918	940
Contributions by Scheme participants and other employers	5	14
Estimate benefits paid plus unfunded net of transfers in	(2,988)	(2,772)
Closing fair value of Fund assets	24,964	25,751

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

Defined Benefit Pension Scheme LPFA – Rathbone (continued)

Sensitivity analysis

	£000	*£000*	*£000*
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	40,463	40,941	41,424
Projected service cost	24	24	24
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	40,944	40,941	40,937
Projected service cost	24	24	24
Adjustment to pension increase and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	41,425	40,941	40,462
Projected service cost	24	24	24
Adjustment to life expectancy assumptions	+ 1 year	None	- 1 year
Present value of total obligation	42,355	40,941	39,574
Projected service cost	25	24	23

Remeasurement of the defined benefit pension liability

	2016	*Restated 2015*
	£000	*£000*
Return on Fund assets in excess of interest	526	155
Change in financial assumptions	(589)	(1,916)
Change in demographic assumptions	1,322	-
Experience gain on defined benefit obligation	129	16
Remeasurement of the defined benefit pension liability	1,388	(1,745)

Projections for the year to 31 July 2017

	£000
Service cost	24
Net interest on the defined liability	364
Administration expenses	37
	425
Employer contributions	715

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

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.

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.

The company must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises.

It is these contributions that have been used to derive the company's balance sheet liability.

Notes to the financial statements

at 31 July 2016

22. Pension schemes (continued)

The Pension's Trust Growth Plan (continued)

Present value of provision	*2016* *£000*	*2015* *£000*
Present value of provision	156	114

Reconciliation of opening and closing provisions	*2016* *£000*	*2015* *£000*
Provision at start of year	114	122
Unwinding of discount factor	2	3
Deficit contributions paid	(15)	(14)
Remeasurements - impact of any change in assumptions	6	3
Remeasurements - amendments to the contribution schedule	49	-
Provision at end of year	156	114

Assumptions	*2016* *% per Annum*	*2015* *% per Annum*
Discount rate	1.25	2.17

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 Corporation may have an interest. All transactions involving organisations in which a member of the Corporation may have an interest are conducted at arm's length and in accordance with NCG (Group) financial regulations and normal procurement procedures.

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

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

The Corporation provides various support services to Discovery Learning Limited resulting in transactions during the year totalling £81,000 with an outstanding balance at 31 July 2016 of £22,000. The maximum balance outstanding during the year was £22,000.

Payments of £6,000 have been made to Ward Hadaway solicitors for employment advice. Mr Martin, who is non-executive director of The Intraining Group and the Chair of the Corporation, is also the managing partner of Ward Hadaway. The purchases were made at normal market prices.

Notes to the financial statements

at 31 July 2016

24. Amounts disbursed as agent

	NCG (Group) 2016 £000	NCG (Group) 2015 £000
SFA discretionary learner support and bursary	2,196	2,099
EFA bursary	2,401	2,550
EFA free school meals	500	787
Other funding body grants	75	289
	5,172	5,725
Disbursed to students	(4,654)	(4,374)
Administration costs	(140)	(111)
Balance unspent at 31 July included in creditors	378	1,240

SFA grants are available solely for students. In the majority of instances, NCG (Group) only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the income and expenditure account. The income and expenditure consolidated in NCG (Group) financial statements relates to the purchase of some equipment from the access fund and the payment of accommodation by NCG on the student's behalf.

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 2015. As of this date the estimated employer debt for Rathbone Training was £578,655. More information with regards to this pension scheme is within note 22.

26. Transition statements

The year ended 31 July 2016 is the first year that NCG (Group) has presented its financial statements under FRS102 and the 2015 FE HE SORP. The following disclosures are required in the year of transition. The last financial statements prepared under previous UK GAAP were for the year ended 31 July 2015 and the date of transition to FRS102 and the 2015 FE HE SORP was therefore 1 August 2014. As a consequence of adopting FRS102 and the 2015 FE HE SORP, a number of accounting policies have changed to comply with those standards.

An explanation of how the transition to FRS102 and the 2015 FE HE SORP has affected NCG (Group) financial position, financial performance and cash flows, is set out below.

Notes to the financial statements

at 31 July 2016

26. Transition statements (continued)

Balance Sheet

	Note	31 July 2015 NCG (Group) £000	31 July 2015 NCG (Colleges) £000	1 August 2014 NCG (Group) £000	1 August 2014 NCG (Colleges) £000
Total reserves under previous SORP		74,147	86,598	76,909	86,416
Holiday pay accrual	a	(316)	(224)	(1,633)	(670)
Additional depreciation arising from component accounting	b	(16,398)	(16,400)	(14,590)	(14,628)
Land revaluation	e	3,398	3,398	3,398	3,398
Recognition of defined benefit pension scheme liability	c	(114)	-	(122)	-
Additional capital grant release in relation to component accounting	b	4,843	4,843	3,883	3,883
Total effect of transition to FRS102 and 2015 FE HE SORP		(8,587)	(8,383)	(9,064)	(8,017)
Total reserves under 2015 FE HE SORP		65,560	78,215	67,845	78,399

Financial Performance

	Note	Year Ended 31 July 2015 NCG (Group) £000	Year Ended 31 July 2015 NCG (Colleges) £000
Surplus for the year after tax under previous SORP		113	679
Decrease in holiday pay accrual	a	1,317	446
Additional depreciation arising from component accounting	b	(1,808)	(1,772)
Additional Capital grant release in relation to component accounting	b	960	960
Movement on pension scheme	c	(169)	(125)
Adjustment to net interest on net defined pension liability	c	(2,111)	(1,598)
Total effect of transition to FRS102 and 2015 FE HE SORP		(1,811)	(2,089)
Deficit for the year after tax under FRS102 and 2015 FE HE SORP		(1,698)	(1,410)
Net assets of Kidderminster College gifted to NCG	d	5,513	5,513
Actuarial loss in respect of pension schemes under old UK GAAP	d	(8,388)	(6,010)
FRS102 impact on actuarial loss in respect of pension schemes	c	2,288	1,723
Total comprehensive income for the year under FRS102 and 2015 FE HE SORP		(2,285)	(184)

Notes to the financial statements

at 31 July 2016

26. Transition statements (continued)

a) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS102 the costs of short-term employee benefits are recognised as a liability and an expense. Prior to 31 July 2015 the annual leave year for West Lancashire College and Kidderminster ran to 31 August each year. The Intraining Group Limited had an annual leave year ending at 31 December each year. Each division had their holiday year brought in line with the Financial Year End by 31 July 2015. An accrual of £1,633,000 was recognised at 1 August 2014 for NCG (Group) and £670,000 for NCG (Colleges). At 31 July 2015 NCG (Group) accrual had reduced to £316,000 (NCG (Colleges) £224,000) reflecting the alignment of the holiday and financial year ends.

b) Tangible fixed assets component accounting

Historically, NCG (Group) has capitalised buildings as one asset and depreciated the whole asset over the life of the building (up to a maximum of 40 years for a new buildings).

In line with FRS102, component accounting of assets recognises that certain elements (or components) of property, plant and equipment may have significantly different useful lives and that an entity should depreciate these components over their respective economic lives. After reviewing industry standards with our Group Property team, we were able to identify five categories of building assets that have different expected lives, and established what the useful economic life should be for each category.

The effect of these changes has been a cumulative increase to depreciation of £14,590,000 for NCG (Group) and £14,628,000 for NCG (Colleges) at 1 August 2014. Where these assets have been funded by capital grants then there has been an additional release of £3,883,000 for both NCG (Group) and NCG (Colleges). During the year to 31 July 2015, the impact of implementation of FRS102 has led to the additional depreciation being £1,808,000 for NCG (Group), £1,772,000 for NCG (Colleges) and the corresponding capital grant release of £960,000 for both NCG (Group) and NCG (Colleges).

The revaluation reserve has also been adjusted in line with component accounting in regards to increased depreciation on inherited assets. The effect of this change is a cumulative increase in the transfer from the Revaluation reserve to Income and expenditure reserve of £4,697,000 at 1 August 2014, and a further increase of £474,000 during the year to 31 July 2016.

c) Defined Benefit Pensions

Local Government Pension Schemes

Under previous UK GAAP, past service costs were recognised in profit and loss on a straight line basis over the period in which the increases in benefit vest. FRS102 requires that all past service costs are recognised immediately.

The net pension finance cost recognised in the Income and Expenditure account for the year ended 31 July 2015 under the previous UK GAAP was the net of the expected return on pension plan assets and the interest on pension liabilities. FRS102 requires the recognition in the Statement of Comprehensive Income, of a net interest cost, calculated by multiplying the net plan obligations by the market yield on high quality corporate bonds (the discount rate applied). The change has had no effect on net assets as the measurement of the net defined benefit plan obligation has not changed. Instead, the decrease in the surplus for the year has been offset by a reduction in the actuarial losses presented within Other Comprehensive Income. Administration costs have also been taken to the income statement as part of the recalculation under FRS102.

Notes to the financial statements

at 31 July 2016

26. Transition statements (continued)

c) Defined Benefit Pensions (continued)

The Pensions Trust

New UK GAAP requires organisations participating in 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. At 1 August 2014 the opening liability was £122,000, the unwinding of the discount factor which is equal to the interest expense in the year of £3,000 has gone through the Statement of Comprehensive Income along with the reversal of the contributions of £14,000. The contributions were previously accounted for through expenditure based on the allowable treatment of the scheme as if it were a defined contribution pension. A change in assumptions of £3,000 has gone through actuarial gains within the Statement of Comprehensive Income.

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

Actuarial gains and losses on the NCG (Group) defined benefit plans were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS102 to be presented within the Statement of Comprehensive Income, as movements in Other Comprehensive Income.

e) Land Revaluation

A revaluation of the main Rye Hill campus which primarily is made up of the land inherited when the Corporation was established, has taken place by a third party surveyor, Cushman and Wakefield. The revaluation as at 1 August 2014 of £5,500,000 has resulted in an increase in the carrying value of Tangible Fixed Assets of £3,398,000.

Independent auditor's report on regularity

to the members of the Corporation of NCG ("the Corporation") and the Skills Funding Agency ("the SFA")

In accordance with the terms of our engagement letter and further to the requirements of the SFA, we have carried out a review to obtain assurance about whether, in all material respects, the expenditure and income of NCG ('the College') for the year ended 31 July 2016 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

This report is made solely to the members of the Corporation and the SFA. Our review work has been undertaken so that we might state to the members of the Corporation and the SFA those matters we are required to state to them 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 members of the Corporation and the SFA, for our review work, for this report, or for the opinion we have formed.

Respective responsibilities of the Members of the Corporation and Auditor

The members of the Corporation are responsible, under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations, for ensuring that expenditure and income are applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework issued by the SFA. We report to you whether, in our opinion, in all material respects, the College's expenditure and income for the year ended 31 July 2016 has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Basis of opinion

We conducted our review in accordance with the Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council. Our review includes examination, on a test basis, of evidence relevant to the regularity and propriety of the College's income and expenditure.

Opinion

In our opinion, in all material respects the expenditure and income for the year ended 31 July 2016 has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Ernst + Young LLP

Ernst & Young LLP
Statutory auditor
Newcastle upon Tyne

Date 9 December 2016

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 Newcastle College's website is the responsibility of the governing body; 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.