

SOUTHAMPTON CITY COLLEGE

Report and Financial Statements for the year ended 31st July 2020



Key Management Personnel, Board of Governors and Professional Advisers

Key Management Personnel

Key management personnel are defined as members of the Senior Leadership Team. The following were members during 2019/20:

- Sarah Stannard, Principal and CEO; Accounting Officer
- Dr Robert Rees, Vice Principal Curriculum & Quality
- Richard Bryant, Vice Principal Finance & Resources (resigned 31st December 2019)
- Jeremy Cook, Vice Principal Finance & Resources (appointed 6th January 2020)

Board of Governors

A full list of Governors is given on page 16 of these financial statements. Ms Lily Garth acted as Clerk to the Corporation throughout the period.

Professional advisers

Financial statements auditors and reporting accountants:

RSM UK Audit LLP
Highfield Court
Chandlers Ford
Eastleigh
Hampshire SO53 3TY

Internal auditors:

BDO LLP
Arcadia House,
Maritime Walk,
Ocean Village,
Southampton SO14 3TL

Bankers:

Santander Corporate & Commercial Banking
Specialist Sectors Group
3rd Floor, 1 Dorset Street,
Southampton, SO15 2DP

Solicitors:

Womble Bond Dickinson (UK) LLP
Oceana House
39-49 Commercial Road
Southampton, SO15 1GA

Rollits LLP
Citadel House
58 High Street
Hull, HU1 1QE

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Members' Report

OBJECTIVES AND STRATEGY:

The governing body present their annual report together with the financial statements and auditor's report for Southampton City College for the year ended 31st July 2020.

Legal Status

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

The Corporation was incorporated as Southampton Technical College. On 23rd February 1995, the Secretary of State granted consent to the Corporation to change the College's name to Southampton City College and the change of name was effective from 1st September 1995.

The College trades under the name City College Southampton as the Corporation believes that this name represents the broader activities of the College within its environment.

MISSION, VISION AND STRATEGY:

Mission: We provide excellent career-led learning which prepares our students to succeed at work and in life.

Vision: City College aspires to be a college which is recognised as:

- Expert in career-focused education and training
- First choice for career-focused education for students, apprentices parents and employers
- A key partner in the development of skills in Southampton and the Solent
- Outstanding in all that we do

Values:

- Learning, is the heart of all we do
- We strive for success
- We aspire for everyone to achieve their full potential
- We share our good ideas with each other
- We treat each other with respect and dignity
- We celebrate our successes

Implementation of Strategic Plan

In December 2014 the College adopted its strategic plan for the period 1st August 2015 to 31st July 2020. The plan is reviewed each year and a new plan for 2020-2023 was approved by the Board on 14th December 2020.

During the 2019/20 year the College's strategic objectives were:

- Deliver outstanding Learning and a life enhancing student experience
- Achieve robust financial health
- Plan and deliver a curriculum which equips students with great work and life skills

- Provide employers with skilled new workers and support them to improve their employees' skills
- Develop a college community that is a great place to work
- Work collaboratively to ensure the continuation of a strong further education offer for Southampton and surrounding areas

RESOURCES:

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

Tangible:

The College has its main campus at St Mary Street, Southampton and a specialist Marine Skills Centre at Hazel Road, Woolston

Financial:

The College has net assets of £12.04m, excluding pension liabilities. This was a positive change from 2018/19's figure of £11.06m and reflects the operating surplus for the year as well as favourable movements in working capital balances.

When pension liabilities are included the College has net liabilities of £6.11m. This is a decline of £5.88m from the 2018/19 figure of £227k net assets. This change was caused by the annual actuarial valuation of the Hampshire County Council LGPS pension scheme which calculated a substantial loss for the period. Annual actuarial valuations can fluctuate significantly from year to year.

People

The College employs 229 people (expressed as full-time equivalents), of whom 124 are teaching staff.

Student numbers

Student numbers on a headcount are as follows:

	2020	2019
16-19	1,045	1,047
Funded adults - Adult Education Budget	1,627	1,880
Higher Education	195	157
Apprentices	605	660
Other	989	1,237
Total	4,461	4,981

Reputation

The College has a good reputation locally and regionally and is recognised by a wide range of stakeholders as an essential provider and contributor to the economic health and development of the city.

The College's good reputation and strong relationships with stakeholders has been maintained (despite the extended period of uncertainty) through active stakeholder relationship management by the College's leaders and managers.

Stakeholders

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

- Students
- Staff
- Local employers
- Local community
- Southampton City Council
- Southampton Chamber of Commerce
- Solent LEP
- Solent colleges and universities
- Trade Unions
- Professional bodies
- Education sector funding bodies
- FE Commissioner
- The Department for Education

The College recognises the importance of these relationships and engages in regular communication with all stakeholders through a number of different channels.

FINANCIAL PERFORMANCE:

Results:

The College set an operating budget surplus for 2019/20 of £985k. The operating outturn for the year was a surplus of £514k before other gains and losses, a substantial improvement on the 2018/19 deficit of £1.65m. This was due to additional funding provided by the ESFA and savings on pay costs during the year. The College did not furlough any staff during the year but was able to operate with fewer staff than planned for and the spring lockdown enabled some savings on non-pay costs.

The outturn for total comprehensive income was negative at (£5.88m) due to the impact of the LGPS pension actuarial loss. The outturn in 2018/19 was also negative at (£4.20m).

The College's Financial Health as calculated on the Education Skills Funding Agency's Financial Health tool was Inadequate with a score of 70. This was in line with the budget year and the same result as in 2018/19.

The College has significant reliance on the education sector's funding bodies for its income, largely from recurrent grants. In 2019/20 FE funding bodies provided 85% of the College's total income (this was 74% in 2018/19).

The College's overall income was £2.62m higher than the previous year. Income for major areas of College income were better.

- 16-18 year old student funding was £170k higher than the previous year at £5.50m (2018/19 £5.33m)
- Adult Education Budget (AEB) courses performed well through the year, and although there was a coronavirus negative impact as not all planned courses started, it was more limited

than for many in the sector. The College delivered 88% of its AEB allocation which was substantially in excess of the ESFA's threshold for recovery of underperformance of 68%

- £3.46m of working capital support provided by the ESFA (2018/19 £770k) including £372k support received to combat digital poverty and to pay coronavirus related costs.

Staff costs, excluding restructuring, increased 0.3% in the year. There was no pay award in the year. Excluding the FRS102 pension charge, total pay costs fell by £312k. The FRS102 charge increased by £394k.

Operating expenses excluding premises costs decreased by 14% due to good control of teaching and non-teaching costs. The planned programme of catch-up maintenance on buildings and IT infrastructure continued.

The College has accumulated deficit reserves of £6,108,000. Cash and short-term investment balances at 31st July 2020 were £1,259,000.

Tangible fixed asset additions during the year amounted to £415,000 for updates to equipment.

Treasury policies and objectives

The College has treasury management arrangements in place to manage cash flows, banking arrangements and the risks associated with those activities. Short term borrowing for temporary revenue purposes within the approved overdraft limit is authorised by the Principal/Chief Executive Officer. All other borrowing requires the authorisation of the Corporation.

Cash flows and liquidity

The size of the College's total borrowing and its approach to interest rates was calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cash flow at the time of the redevelopment program starting in 2009.

Since then changes in government policy (which reduced the funding rate per student and substantially reduced the number of adult students participating in education), and the costs of the extra support needed to enable City College's student cohort to succeed has changed the operating model compared to that used in the initial business case to support the loan.

The net cash inflow from operating activities of £1.75m (2018/19 net cash outflow £118k) includes £3.460m of Emergency Funding from the ESFA. As highlighted in the financial statements for 2018/19, since a merger did not take place the College required additional financial support from the ESFA during 2019/20 to continue its operations. This funding is recognised as Grant Income as the terms of the Grant Agreement create a low probability of conversion to a loan in the future.

Banking

The College holds its day-to-day banking and a long term loan with Santander bank.

The College breached its loan covenants in 2019/20, but, due to the efforts of the Corporation to secure a long term financially viable solution, Santander put in place Reservation of Rights letters which waived its right to take immediate action. This loan has been classified as short term in these financial statements as it was in 2018/19.

Santander remains supportive of the College, as it continues to work on a long-term solution with the support of the Department for Education.

Reserves

The College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation and ensures that there are adequate reserves to support the College's core activities. As at the balance sheet date, the Income and Expenditure account reserve stands at a deficit of £9.91m (2019: deficit £4.10m). The College would aim to clear the deficit balance by completing the work described in the Future Developments section below. The College currently holds no restricted reserves.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1st November 1998, requires Colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1st August 2019 to 31st July 2020, the College paid 65 per cent of its invoices within 30 days of date of invoice. The College incurred no interest charges in respect of late payment for this period.

CURRENT PERFORMANCE AND FUTURE DEVELOPMENT

Key Performance Indicators

The College measures its performance against a holistic set of KPIs which monitor progress in achieving the College's Strategic Objectives. Detailed Financial KPIs are reported in the monthly management accounts.

The measures used to monitor progress and inform the Governing Body are reviewed annually and targets are agreed at the start of each year. The College is committed to observing the importance of sector measures and indicators and uses external benchmarks to help set targets, wherever that data exists. Performance is reported at each Board meeting against these targets and against results from the previous year.

The College completes an annual Finance Record for the Education and Skills Funding Agency (ESFA), which calculates a financial health rating for the College. The ESFA calculate a Finance Dashboard for all English colleges, which compares each college's financial performance on a number of metrics to sector medians and to ESFA targets. This is reviewed by the Board and used to inform financial targets and decision making.

Student Outcomes

This year qualification achievement rates for 16-18 year olds improved by 1.3% compared to the previous year and are now at 82.6%, which is at the overall national average. This is the fifth year of improvement in 16-18 student outcomes.

For adult students overall achievement declined slightly, however this was to be expected due to the impact of the coronavirus pandemic on the completion of qualifications. In practical subjects some students had to return to college over the summer and early autumn to complete teaching and assessments to finish their qualifications. All students who needed to do this were offered the opportunity to do this but not all participated.

OFSTED

In October 2019 the College had an Ofsted Monitoring visit to assess progress since the previous year's full inspection. Three themes for improvement were inspected – two were judged to have made Reasonable Progress, one related to Apprenticeships was judged to have made Insufficient Progress. Since that visit there has been a substantial improvement plan in place for Apprenticeships and Overall Achievement improved by 10% during 2019/20.

Future Developments

It has been the Corporation's view since the spring of 2015 that to ensure the provision of high quality, sustainable further education in Southampton, the community and employers in the city would be best served by City College merging with other educational partners to create a larger, more financially viable and resilient organisation.

Since 2015 the Corporation and Senior Management have been working with the ESFA, the FE Commissioner and partners on achieving this outcome.

- From June 2016 the College was working on the implementation of the Area Review process recommendation to merge with Solent University. In February 2018 the application to merge was refused by the Department of Education.
- The College undertook a rapid and focused Structure and Prospects Appraisal, with the support of the FE Commissioner team and the ESFA, which concluded in early June 2018. The Board selected Eastleigh College as its merger partner, the application by Eastleigh College for funding to support the merger was rejected in February 2019 by the ESFA and Eastleigh College withdrew.
- In the first half 2019 the FE Commissioner held a review of provision in the Southampton travel-to-learn area, involving all colleges with 50 or more 16-18 year old students from the city of Southampton.
- In September 2019 Itchen Sixth Form College began work on a proposal for the merger of City College with Itchen. In September 2020 the Department for Education refused the proposal.

The ESFA continue to support City College in its work to agree and implement a sustainable, long-term solution that will deliver high quality further education to the community and employers of Southampton.

Principal Risks and Uncertainties:

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

A risk register is maintained for the College, which is reviewed monthly by the Senior Management Team and at each Audit & Risk Committee meeting (4 times a year). The Risk Register identifies key risks, likelihood of these occurring, potential impact on the College and actions being taken to mitigate them. Risks are assessed using a consistent scoring system recommended by the College's internal auditors.

Below are the principal risks, from the Risk Register, which would have the most significant adverse impact on the College if they materialised.

Government funding

The College has considerable reliance on continued government funding through the FE funding bodies and the OFS. In 2019/20, 85% of the College's revenue was publicly funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training
- Ensuring the College is focused on priority areas which will continue to benefit from public funding
- Considerable effort is in place on maintaining and managing key relationships with the various funding bodies and agencies
- Other income is generated through direct and indirect contractual arrangements

Failure to maintain the financial viability of the College

The College's current financial health grade for 2019/20 is assessed as "Inadequate" and the College is aware of several issues which could impact on its future:

- the reservation of rights by the College's bankers, Santander, to call in outstanding loan balances at any time
- a decision by the ESFA not to provide further financial support
- uncertainty over its future may severely reduce student recruitment, which would weaken income and/or increase staff turnover, which could increase costs.

This risk is mitigated in a number of ways:

- Close working with the DfE, FE Commissioner, ESFA, City Council, MPs and local education institutions to agree and implement an acceptable long-term solution
- Regular and open communication with ESFA and Santander
- Rigorous budget setting and sensitivity analysis
- Regular in year budget monitoring
- Robust financial controls
- Continuous focus on procurement efficiencies

Failure to mitigate the risks of the Covid-19 pandemic to minimise disruption to teaching, learning and all other aspects of the College's operations

The College is aware that the effect of the pandemic may negatively impact on the College in a number of ways:

- Reduce adult student and apprentice recruitment
- Reduce the quality of the learning experience for students and apprentices
- Increase the risk of a student or member of staff becoming severely ill

Risk mitigation includes:

- Following government advice and, where appropriate, introducing further safety measures
- Effective engagement with AoC and key local organisations such as PHE, NHS, Local Authorities etc.

- Strong and effective work by Health and Safety Committee including valuable input from UCU
- Providing online learning, support and engagement to minimise the impact of the March to June lockdown on the progress of students and apprentices
- An orderly and effective return of staff and students in three phases across the summer
- Thorough risk assessment at each stage of the phased return - agreed by the Health and Safety Committee, Senior Management Team and reviewed by Governors.
- Undertaking student assessments throughout the summer where required by awarding bodies

OTHER INFORMATION:

Public Benefit

Southampton City College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 14.

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

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

- High quality teaching
- Widening participation in education
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce

The campus is located at the centre of Southampton and the College has long-established relationships with employers in the city, resulting in its students having excellent access to work experience, apprenticeships and jobs. City College offers a wide range of career led courses and qualifications for school leavers; adult education courses to improve basic skills; professional and occupational qualifications for adults; apprenticeships for all ages and vocational higher education courses.

The College has facilities used for teaching of practical skills which are also open to the public, such as the Aspire Restaurant and Kudos Hair and Beauty salons. The College hires its facilities, such as the Hub theatre, to other organisations where it complements student use. In normal years the College hosts community events for other city and educational organisations, however this year this was very reduced due to the impact of coronavirus and annual events such as Richard Taunton Sixth Form College's annual musical was cancelled.

The College sponsors the Inspire Academy Trust which ran the Isle of Wight Studio School from its opening in September 2014 until its closure in August 2019. As the College does not support the Trust for its own benefits, it is not classed as a subsidiary and subsequently the results for the Trust are not consolidated with the College. The College will continue to provide back office support to the Trust until it is wound up, this is planned to happen during the 2020/21 academic year.

Equal Opportunities:

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, disability, religion or belief and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. The College's Equality and Diversity Panel works on ensuring that we are positively developing the College in this regard. The College's Equal Opportunities Policy is published on the College's Intranet. An annual Equality and Diversity report is made to the Board.

Disability Statement

The College seeks to achieve the objectives set down in the Equality Act 2010. Additionally, the College's Single Equality Scheme identifies the actions required to ensure it meets the public sector equality duties.

- The College's Single Equality Scheme contains 10 equality objectives and additional action points were added on to ensure the equality considerations of student attendance requirements and the requirement for any special arrangements for the monitoring of looked after children or recent care leavers.
- The admissions policy for all students is described in the College Charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- The College has specialist teachers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities. Training for staff on equalities issues is mandatory.
- Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format. Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Trade Union Facility Time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the College to publish information on facility time arrangements for trade union officials at the College.

No of employees who were trade union representatives for this period	3
FTE employee number	3

Percentage of time	Number of employees
0%	0
1-50%	3
51-99%	0
100%	0

Total pay bill and facility time costs

Total cost of facility time	£15,889
Total pay bill	£6,236,961
Percentage of total bill spent on facility time	0.25%

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time	0%
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Disclosure of information to auditors

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

Approved by order of the members of the Corporation on 29th March 2021 and signed on its behalf by:



Geraint Davies
Chair

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1st August 2019 to 31st July 2020 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. in accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code");

The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015 which it adopted from 1st August 2015. In the opinion of the Members, the Corporation complies with the provisions of the Code and has done so throughout the year ended 31st July 2020.

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

The Corporation

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

	Date of Appointment	Term of office	Date of leaving	Category	Board Attendance in 19/20	Committees served
Mr H Brora (Board VC and Rem. Chair)	23 rd Nov 2012 23 rd Nov 2016 23 rd Nov 2020	4 years 4 years 1 year		External	7/9	Audit & Risk Remuneration
Mr P Colbran	30 th June 2020	1 year		External	1/1	Audit & Risk
Mr G Davies (Chair)	1 st Dec 2016 1 st Dec 2017 1 st Dec 2020	1 year 3 years 4 years		External	8/9	Search & Governance Remuneration
Prof F Davis	27 th Sep 2017 27 th Sep 2018	1 year 3 years	16 th March 2020	External	1/5	Audit & Risk
Ms G Gould	5 th Nov 2019 5 th Nov 2020	1 year 3 years		External	8/8	Search & Governance
Mr D T Hodgson	26 th Jan 2021	<7 months		Student	N/A	
Dr J John (S&G Chair & Lead Safeguarding/Prevent Governor)	4 th Nov 2014 4 th Nov 2018	4 years 4 years		External	7/9	Search & Governance Remuneration
Mr M Keogh	4 th Mar 2021	1 year		Staff	0/0	
Mr NJ Lapage	8 th June 2020	1 year		External	1/1	Audit & Risk
Mr A May	24 th Nov 2012 Gap, then 31 st Jan 2017	4 years 4 years		Staff	7/9	Search & Governance
Ms L Rechert	23 rd Jan 2020	<7 months	31 st July 2020	Student	5/6	
Mr A Riggs	31 st May 2016 31 st May 2017	1 year 3 years	25 th March 2020	External	4/5	Audit & Risk
Mr M Simmons	8 th Oct 2018 8 th Oct 2019	1 year 3 years		External	8/9	Lead Quality Governor
Ms S Stannard	1 st Aug 2013	Ex-officio		Principal	9/9	Search & Governance
Mr P Weir (Audit Chair)	3 rd Oct 2017 3 rd Oct 2018	1 year 3 years		External	8/9	Audit & Risk
Mr J Childs-Clarke served as an Audit and Risk Co-Opted Committee Member throughout the year. Ms L Garth, was the independent Clerk to the Corporation throughout the year.						

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets regularly throughout the year. During the Covid-19 pandemic the Corporation has continued with its meetings via remote methods.

The Corporation conducts its business through three committees. These committees are Audit & Risk, Search & Governance and Remuneration. Each committee has terms of reference, which have been approved by the Corporation and which are publicly available.

Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at: Southampton City College, St Mary Street, Southampton, SO14 1AR

Corporation Board minutes, except those that are deemed confidential, are published on the College website at www.southampton-city.ac.uk

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

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

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

There is a clear division of responsibility in that the roles of the Chair and Principal are separate.

Appointments to the Corporation and the Role of the Search and Governance Committee

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation's Search and Governance Committee advises the Corporation on membership matters including recruitment, development and governance processes. The Corporation appoints its Members for terms of office of up to four years. The Corporation ensures that appropriate training is provided as required.

Corporation performance

The Corporation carries out regular self-assessment work. For 2019/20 this work included annual self-assessment reviews of each Corporation Committee as well as of the Board and its composite Members. On 9th November 2020, during a governance conference, the Board considered its own performance in the context of the quality and financial outcomes of the whole College. As a judgement on its performance the Board self-assessed itself as Good.

Remuneration Committee

Throughout the year ending 31st July 2020 the college's Remuneration Committee comprised three appropriately skilled external members of the Corporation. The Committee's role includes advising and making recommendations to the Board on the remuneration of the Principal who is currently the only Senior Post Holder at the College, and the Clerk to the Corporation. The Committee's Terms of Reference are publicly available and are compatible with the Corporation's voluntary adoption of the AoC Colleges' Senior Post Holder Code.

Details of remuneration of the Principal and other key management personnel for the year ended 31st July 2020 are set out in note 7 to the financial statements.

Audit & Risk Committee

The Audit & Risk Committee operates in accordance with written terms of reference which are compatible with the ESFA's Post 16 Audit Code of Practice and which are approved by the Corporation.

The Audit & Risk Committee meets four times a year and provides a forum for reporting by the College's internal, regularity and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the main FE funding bodies as they affect the College's business.

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

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

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

Internal control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which the accounting officer is personally responsible, in accordance with the responsibilities assigned to them in the Financial Memorandum between Southampton City College and the funding bodies. The Accounting Officer 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 based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Southampton City College for the year ended 31st July 2020 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31st July 2020 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

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

Southampton City College has an internal audit service, which operates in accordance with the requirements of the ESFA's *Post 16 Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit & Risk committee. At minimum, annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Internal audit work for the year was planned. The scheduled audit of apprenticeship provision took place and was reported to the Audit and Risk Committee. Three other pieces of work were postponed as a result of the coronavirus pandemic.

Risks faced by the Corporation

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the College. This process has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board.

The Board has an approved Risk Management Policy in place and the identification and evaluation of key risks that threaten achievement of the College's objectives are carried out under that Policy. Proportional steps are taken to mitigate the identified risks and a register of these risks including detail of the mitigating action taken, is maintained for the College.

The College holds and maintains a Risk Register which incorporates the organisational and financial risks. The Risk Register lists risks and assesses their impact and likelihood as well as reporting actions in place to manage the risk and further actions required.

The Risk Register includes Covid-19. The College's response to the pandemic is regularly reviewed by the Board, Senior Management Team and Health and Safety Committee. The College's Covid-19 Risk Assessment is regularly reviewed and updated as required.

Control Weaknesses Identified

There are no significant internal control weaknesses that have been identified during 2019/20 and up to the date of the signing of the annual report and accounts for the year.

Responsibilities Under Funding Agreements

The Corporation has funding agreements and contracts in place with a number of organisations including the ESFA and the OfS which are signed by the Principal as Accounting Officer. The College's Senior Management Team ensures that the terms and conditions of funding are met. In addition, the College's MIS and Student Records Team review all funding rules and ensure that funding returns are supported by appropriate learner records. Furthermore, the College has a strong financial management control environment and this ensures regularity and propriety in the use of funding.

Statement from the Audit Committee

Having regard to the findings of the Financial Statements/Regularity auditors and other audit and assurance sources, and on the basis of the work of the Committee during the year, it is the conclusion of the Audit & Risk Committee that the College has in place an adequate and effective framework for governance, risk management and control to ensure that the Corporation has fulfilled its statutory responsibility for the effective and efficient use of resources, the solvency of the institution and the safeguarding of its assets, and to manage the achievement of its objectives.

Review of effectiveness

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

- the work of the internal auditors;
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework; and
- comments made by the College's financial statements auditors and reporting accountant for regularity assurance in their management letters and other reports.

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

The Principal and Senior Management Team receive reports setting out key performance and risk indicators and consider possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Senior Management Team and the Audit & Risk Committee also receive regular reports from internal audit and other sources of assurance, which include recommendations for improvement. The Audit & Risk Committee's role in this area is confined to a high-level review of the arrangements for internal control.

The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Management Team and the Audit & Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2020 meeting, the Corporation carried out the annual assessment for the year ended 31st July 2020 by considering documentation from the Senior Management Team and Internal Audit, and taking account of events since 31st July 2020

Based on the advice of the Audit & Risk Committee and the Accounting Officer, the Corporation is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for “*the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets*”.

Going concern

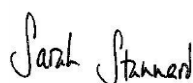
The College has a reasonable expectation that it has adequate resources to continue in operational existence until November 2021. At that point the College would require additional financial assistance from the ESFA. As noted previously the College is working with the ESFA and FE Commissioner to support them, whilst they identify an appropriate merger partner for City College, which is able to make a proposal that will be acceptable to the Department of Education. The ESFA has assured City College that it will continue to support it through this process.

The planned timescale is a merger in January 2022 whereupon Southampton City College would dissolve after the transfer of trade, assets and liabilities at carrying value to another further education organisation. Therefore, the financial statements have been prepared on a basis other than going concern.

Approved by order of the members of the Corporation on 29th March 2021 and signed on its behalf by:



Geraint Davies
Chair



Sarah Stannard
Accounting Officer

Statement on Regularity, Propriety and Compliance

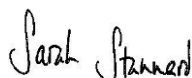
The Corporation has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the college's grant funding agreement and contracts with ESFA. As part of our consideration we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

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

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



Geraint Davies
Chair
29th March 2021



Sarah Stannard
Accounting Officer
29th March 2021

Statement of Responsibilities of the Members of the Corporation

The members of the corporation, who act as trustees for the charitable activities of the College, are required to present audited financial statements for each financial year.

Within the terms and conditions of the college's grant funding agreements and contracts with ESFA, the corporation – through its accounting officer – is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education, ESFA's college accounts direction and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the college and its deficit of expenditure over income for that period.

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

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess whether the corporation is a going concern, noting the key supporting assumptions qualifications or mitigating actions as appropriate
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the College 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 information about the legal and administrative status of the college.

The Corporation is responsible for keeping proper accounting records which are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the College, and enable it to ensure that the financial statements are prepared in accordance with the Charities Act 2011 and relevant accounting standards. It is responsible for taking steps in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities

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

Members of the corporation are responsible for ensuring that 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 ESFA are used only in accordance with ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time by the ESFA or any other public funder.

Members of the corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the corporation are responsible for securing economical, efficient and effective

management of the college's resources and expenditure so that the benefits that should be derived from the application of public funds from ESFA are not put at risk.

Approved by order of the members of the Corporation on 29th March 2021 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'G. Davies', written in a cursive style.

Geraint Davies
Chair

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF SOUTHAMPTON CITY COLLEGE

Opinion

We have audited the financial statements of Southampton City College (the "College") for the year ended 31 July 2020 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in reserves, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2020 and of the College's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

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

Emphasis of matter – non-going concern basis

We draw attention to note 1 of the financial statements which describes the preparation of the financial statements on a non-going concern basis. As described in note 1, the Governors are of the opinion that the College has a reasonable expectation that it has adequate resources to continue in operational existence until November 2021. At that point the College would require additional financial assistance. The College is working with the ESFA and FE Commissioner in order to deliver a long-term solution to the challenges the College faces. The most likely outcome would be a business combination with another further education organisation. As a result of such a business combination the College would be dissolved after the transfer of its trade, assets and liabilities to another further education organisation and the Governors have concluded that it is not appropriate to prepare the financial statements on a going concern basis. There have been no adjustments made to the financial statements as a result of the application of the non-going concern basis of accounting. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the Report and Financial Statements other than the financial statements and our auditor's report thereon. The governors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post-16 Audit Code of Practice 2019 to 2020 issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

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

Responsibilities of the Corporation of Southampton City College

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 24, the Corporation is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Corporation, as a body, in accordance with the Funding Agreement published by the Education and Skills Funding Agency and our engagement letter dated 10 June 2019. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are engaged to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

RSM UK AUDIT LLP

Chartered Accountants

Highfield Court

Tollgate

Chandlers Ford

Hampshire

SO53 3TY

Date: 30 March 2021

Statement of Comprehensive Income

	Notes	Year ended 31 st July 2020 £'000	Year ended 31 st July 2019 £'000
INCOME			
Funding body grants	2	13,304	9,616
Tuition fees and education contracts	3	1,488	1,824
Other grants and contracts	4	157	322
Other income	5	725	1,293
Investment income	6	5	4
Total income		15,679	13,059
EXPENDITURE			
Staff costs	7	8,570	8,544
Restructuring costs	7	94	38
Other operating expenses	8	4,495	4,117
Depreciation	11	1,425	1,395
Interest and other finance costs	9	581	616
Total expenditure		15,165	14,710
Surplus/(Deficit) before other gains and		514	(1,651)
Gain on disposal of assets	11	-	-
Surplus/(Deficit) before tax		514	(1,651)
Taxation	10	-	-
Surplus/(Deficit) for the year		514	(1,651)
Actuarial loss in respect of pension schemes	16,22	(6,395)	(2,551)
Total Comprehensive Income for the year		(5,881)	(4,202)
Represented by:			
Restricted comprehensive income		-	-
Unrestricted comprehensive income		(5,881)	(4,202)
		(5,881)	(4,202)

The statement of comprehensive income is in respect of continuing activities.

Balance sheet as at 31st July

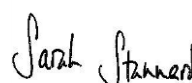
	Notes	2020 £'000	2019 £'000
Fixed assets			
Tangible Fixed assets	11	37,009	38,019
		37,009	38,019
Current assets			
Stocks		7	6
Trade and other receivables	12	385	972
Cash and cash equivalents	17	1,259	505
		1,651	1,483
Current Liabilities			
Creditors – amounts falling due within one year	13	(7,784)	(9,358)
Net current liabilities		(6,133)	(7,875)
Total assets less current liabilities		30,876	30,144
Creditors – amounts falling due after more than one year	14	(17,116)	(17,884)
Provisions for Liabilities			
Defined benefit obligations	16	(18,143)	(11,290)
Other provisions	16	(1,725)	(1,197)
Total net liabilities		(6,108)	(227)
Unrestricted Reserves			
Income and expenditure account		(9,912)	(4,104)
Revaluation reserve		3,804	3,877
Total unrestricted reserves		(6,108)	(227)
Total Reserves		(6,108)	(227)

The financial statements on pages 26 to 49 were approved and authorised for issue by the Corporation on 29th March 2021 and were signed on its behalf on that date by:



Geraint Davies

Chair



Sarah Stannard

Accounting Officer

Statement of Changes in Reserves

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1st August 2018	24	3,951	3,975
(Deficit) from the income and expenditure account	(1,651)	-	(1,651)
Other comprehensive income	(2,551)	-	(2,551)
Transfers between revaluation and income and expenditure reserves	74	(74)	-
Total comprehensive income for the year	(4,128)	(74)	(4,202)
Balance at 31st July 2019	(4,104)	3,877	(227)
Balance at 1st August 2019	(4,104)	3,877	(227)
Surplus/(Deficit) from the income and expenditure account	514	-	514
Other comprehensive income	(6,395)	-	(6,395)
Transfers between revaluation and income and expenditure reserves	73	(73)	-
Total comprehensive income for the year	(5,808)	(73)	(5,881)
Balance at 31st July 2020	(9,912)	3,804	(6,108)

Statement of Cash Flows

	Notes	2020 £'000	2019 £'000
Cash flow from operating activities			
Surplus/(Deficit) for the year		514	(1,651)
Adjustment for non-cash items			
Depreciation		1,425	1,395
Deferred Capital Grants released to income		(668)	(669)
Increase in stock		(1)	-
(Increase)/ decrease in debtors		587	(40)
Increase/ (decrease) in creditors due within one year		(1,315)	450
Increase/(decrease) in creditors due more than one year		(100)	(100)
Increase/ (decrease) in provisions		375	(68)
Pensions costs less contributions payable		611	220
Adjustment for investing or financing activities			
Investment income		(5)	(4)
Interest payable		327	349
Net cash flow from operating activities		1,750	(118)
Cash flows from investing activities			
Investment income		5	4
Proceeds from sale of fixed assets		-	-
Payments made to acquire fixed assets		(415)	(436)
		(410)	(432)
Cash flows from financing activities			
Interest paid		(327)	(349)
Repayments of amounts borrowed		(259)	(244)
New unsecured loans		-	1,200
		(586)	607
Increase in cash and cash equivalents in the year		754	57
Cash and cash equivalents at beginning of the year	17	505	448
Cash and cash equivalents at end of the year	17	1,259	505

Notes to the Accounts

1. Statement of accounting policies and estimation techniques

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

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2019 (the 2019 FE HE SORP), the College Accounts Direction for 2019 to 2020, Regulatory Advice and Accounts Direction issued by the Office for Students and in accordance with Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The college is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

The financial statements are presented in sterling which is also the functional currency of the College. Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise stated.

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.

Basis of consolidation

The College has control over the Inspire Academy Trust by virtue of Trustees serving on both Governing Bodies, however it does not control the Trust to obtain benefits for the College, and as such the results of the Trust are not included in these financial statements.

Going concern

The financial position of the College, its cash flow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The College currently has £5.60m of loans outstanding with Santander on terms negotiated in 2009. The terms of the existing agreement are for 25 years with 14 years remaining. The College has breached covenants over the past twelve months with the bank issuing Reservation of Rights letters enabling it to recall the loan at a future point. It is anticipated that a further Reservation of Rights letter will be issued by Santander on receipt of these financial statements. The bank continues to be supportive and has given no indication of any intention to recall the loan. The College continues to make all loan repayments in full and on time and works closely with stakeholders on its future position. All bank loans are treated as due within one year in these financial statements.

The College made an application to the ESFA for Emergency Funding to provide working capital for 2019/20 and received £3.46m which has been treated as a grant following a review of the terms and conditions of funding.

The College has a reasonable expectation that it has adequate resources to continue in operational existence until November 2021. At that point the College would require additional financial assistance from the ESFA. The College is working with the ESFA and FE Commissioner in order to deliver a long-term solution to the challenges it faces. The most likely outcome is a business

combination with another Further Education provider as this is the only realistic approach to continuing operations on a sustainable basis. As a result Southampton City College would dissolve after the transfer of trade, assets and liabilities at carrying value to another organisation. Therefore it is the Corporation's view that the financial statements should be prepared on a basis other than going concern. There have been no adjustments made to the financial statements as a result of the application of the non-going concern basis of accounting.

Recognition of Income

Revenue Grant Funding

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. 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 funding is not subject to reconciliation and is therefore not subject to contract adjustments.

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

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

Grants (including research grants) from non-government sources are recognised in income when the college 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.

Capital Grant Funding

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS 102. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

Fee Income

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

Investment Income

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

Agency Arrangements

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

Accounting for post-employment benefits

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

Teachers' Pension Scheme (TPS)

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

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

Hampshire Local Government Pension Scheme (LGPS)

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

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

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

Short term Employment benefits

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

Enhanced Pensions

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

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at 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 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and buildings inherited from the local education authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year

calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis. Building improvements made since incorporation are included in the balance sheet at cost.

Freehold land is not depreciated as it is considered to have an infinite useful life.

Freehold buildings are depreciated over their expected useful economic life to the College of between 20 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 20 and 50 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred income account within creditors, and are released to the Statement of Comprehensive Income 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.

Impairment

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.

Assets under construction

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

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to the College, 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. All other equipment is capitalised at cost.

Depreciation

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

- | | |
|------------------------------------|---------------|
| • technical equipment | 5 or 10 years |
| • computer equipment | 3 or 5 years |
| • furniture, fixtures and fittings | 5 or 10 years |

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 1st August 2014 are spread over the minimum lease term.

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

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

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

Inventories

Inventories are stated at the lower of their cost and net realisable value, being selling price less cost 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 the group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the college has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Taxation

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

The College is partially exempt in respect of Value Added Tax, so that it can only recover around 21% 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.

Provisions and contingent liabilities

Provisions are recognised when

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

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

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

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

Judgements in applying accounting policies and key sources of estimation uncertainty

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

- Bank loans have been reclassified as short term due to the covenant breach
- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the College's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

Tangible fixed assets

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Local Government Pension Scheme

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 22, will impact the carrying amount of the pension liability. The actuary has used a roll forward approach which projects results from the latest full actuarial valuation performed at 31st March 2019 to value the pensions liability at 31st July 2020. 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.

2 Funding body grants	2020 £'000	2019 £'000
Recurrent grants		
Education & Skills Funding Agency – Adult	1,928	1,639
Education & Skills Funding Agency – 16-18	5,502	5,332
Education & Skills Funding Agency – Apprentices	1,187	1,062
Office for Students	75	144
Other	484	-
Specific grants		
Education & Skills Funding Agency	3,460	770
Releases of government capital grants	668	669
Total	13,304	9,616

Analysis of OfS income	2020 £'000	2019 £'000
Grant income from the Office for Students	75	144
Fee income for taught awards	425	471
Total	500	615

The disclosures shown above relate only to OfS/Higher Education. The disclosures do not include amounts received from the ESFA for Further Education which are shown in note 2 above. The Office for Students only regulates higher education in colleges. As a result the amounts recorded above relate to courses at Level 4 and above.

3 Tuition fees and education contracts	2020 £'000	2019 £'000
Adult education fees	462	411
Apprenticeship fees and contracts	-	472
Fees for FE loan supported courses	258	311
Fees for HE loan supported courses	425	471
Total tuition fees	1,145	1,665
Education contracts	343	159
Total	1,488	1,824

4 Other grants and contracts	2020 £'000	2019 £'000
European Commission	41	139
Other grants and contracts	116	183
Total	157	322

5 Other income	2020 £'000	2019 £'000
Catering and residences	14	17
Lease Income	508	513
Other income generating activities	203	763
Total	725	1,293

6 Investment income	2020 £'000	2019 £'000
Other interest receivable	5	4
Total	5	4

7 Staff costs

The average number of persons (including key management personnel) employed by the College during the year on an average headcount basis was:

	2020 No.	2019 No.
Teaching staff	164	170
Non-teaching staff	137	141
	301	311

Staff costs for the above persons

	2020 £'000	2019 £'000
Wages and salaries	6,015	6,403
Social security costs	500	535
Other pension costs (including FRS102 charge of £384,000 (2019 credit:£10,000))	1,893	1,254
Payroll sub total	8,408	8,192
Contracted out staffing services	162	352
	8,570	8,544
Restructuring costs – Contractual	94	38
Total Staff costs	8,664	8,582

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Senior

Leadership Team which comprises the Principal, Vice Principal Finance & Resources, and Vice Principal Curriculum & Quality. The current holders of the two Vice Principal posts are engaged on an interim basis and are not employees of the College. The costs of their services are included in Note 8 Other Operating Expenses.

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

	2020 No.	2019 No.
The number of key management personnel employed by the College including the Accounting Officer was:	2	4

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

	Key management personnel		Other staff	
	2020 No.	2019 No.	2020 No.	2019 No.
£35,001 to £40,000	1	1		
£45,001 to £50,000	-	1		
£85,001 to £90,000	-	1	-	-
£110,001 to £115,000	-	1	-	-
£115,001 to £120,000.	1	-	-	-
	2	4	-	-

Key management personnel compensation is made up as follows:

	2020 £'000	2019 £'000 (restated)
Salaries	154	285
Employers NI Contributions	19	35
Benefits in kind	2	2
	175	322
Pension contributions	29	46
Total employed key management personnel compensation	204	468

The above compensation includes amounts payable to the Principal and CEO who is the Accounting Officer and who is also the highest paid member of staff. Their pay and remuneration is as follows:

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	2020	2019
	£'000	£'000
Salaries	116	113
Benefits in kind	1	1
	<u>117</u>	<u>114</u>
Pension contributions	<u>23</u>	<u>18</u>

The Corporation has adopted the Association of Colleges Senior Post Holder Remuneration Code and assesses pay in line with its principles.

The Principal and CEO reports to the Chair of the Corporation, who undertakes an annual review of her performance against the college's overall objectives using both qualitative and quantitative measures of performance.

The remuneration package of the Principal and CEO is subject to annual review by the Remuneration Committee of the Governing Body who use benchmarking information (in particular the Association of Colleges' Senior Pay) survey to provide objective guidance and justification.

Relationship of Principal/CEO pay and remuneration expressed as a multiple of staff pay:

- Principal and CEO's basic salary as a multiple of the median of all staff 4.23
- Principal and CEO's total remuneration as a multiple of the median of all staff 4.27

The Accounting Officer and the Staff Board Member only received remuneration in respect of their roles as Principal and staff member under their respective employment contracts and not in respect of their roles as governors. The other members of the Corporation did not receive any payments from the College in respect of their roles as governors other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

8 Other operating expenses

	2020	2019
	£'000	£'000
Teaching costs	385	399
Non-teaching costs	2,094	2,485
Premises costs	<u>2,016</u>	<u>1,233</u>
Total	<u>4,495</u>	<u>4,117</u>

Other operating expenses include:

	2020	2019
	£'000	£'000
Auditors' remuneration:		
Financial statements audit	31	30
Internal audit	5	17
Other services provided by the financial statements auditor (financial Due Diligence, Teacher Pension's Audit)	2	26
OfS - Expenditure to support successful student outcomes	45	-
OfS – Disability support	2	-
Hire of assets under operating leases	<u>67</u>	<u>64</u>

9 Interest and other finance costs

	2020 £'000	2019 £'000
On bank loans, overdrafts and other loans:	327	349
	<u>327</u>	<u>349</u>
Net interest on defined pension liability (note 22)	229	230
Net interest on enhanced pension liability	25	37
	<u>25</u>	<u>37</u>
Total	<u>581</u>	<u>616</u>

10 Taxation

The College is not liable for corporation tax for any activities during the year ending 31st July 2020 nor through the prior year, because the College's activities are in line with its charitable objectives.

11 Tangible fixed assets

	Land and buildings Freehold	Long leasehold	Equipment	Assets in the course of construction	Total
	£'000	£'000	£'000		£'000
Cost or valuation					
As at 1 st August 2019	51,533	10	3,662	99	55,304
Additions	-	-	383	32	415
Assets in Construction	-	-	131	(131)	-
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
At 31st July 2020	51,533	10	4,176	-	55,719
Depreciation					
As at 1 st August 2019	14,300	10	2,975	-	17,285
Charge for the year	1,052	-	373	-	1,425
Disposals	-	-	-	-	-
At 31st July 2020	15,352	10	3,348	-	18,710
Net book value at 31st July 2020	36,181	-	828	-	37,009
Net book value at 31 st July 2019	37,233	-	687	99	38,019

Assets with zero net book value that were included on the asset register but could not be identified by inspection were written off in the year.

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

Cost	Nil
Aggregate depreciation based on cost	Nil
Net book value based on cost	Nil

12 Debtors

	2020	2019
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	216	630
Prepayments and accrued income	66	193
Amounts owed by the ESFA	103	149
Total	385	972

13 Creditors

	2020	2019
	£'000	£'000
Bank loans and overdrafts	5,596	5,855
Trade payables	76	202
Payments received in advance	119	777
Other taxation and social security	124	131
Accruals	526	585
Deferred income - government capital grants	668	668
ESFA Capital Grant repayment	100	100
Other Creditors	462	488
Amounts owed to the ESFA	113	552
Total	7,784	9,358

14 Creditors: Amounts falling due after more than one year

	2020	2019
	£'000	£'000
Bank loans	-	-
ESFA Funding	1,200	1,200
EFA Capital Grant repayment	200	300
Deferred income - government capital	15,716	16,384
Total	17,116	17,884

15 Borrowings

	2020	2019
	£'000	£'000
Bank loans and overdrafts are repayable as		
In one year or less	5,596	5,855
Between one and two years	-	-
Between two and five years	-	-
In five years or more	-	-
Total	<u>5,596</u>	<u>5,855</u>

Bank Covenants

As at 31st July 2020 the College was in breach of two bank covenants, Debt Service Cover ratio with a score of (2.98) against a target of 1.5, and Interest Cover with a score of (5.42) against a target of 2.

Santander remain supportive of the College in its bid to merge and become financially sustainable in the future and have not taken any action to recall the loan. However, in line with Financial Reporting guidelines the loan is reclassified as due within one year as technically, in accordance with the loan agreement, it is now repayable on demand due to the breach of loan covenant, and there was no debt waiver in place at the year end.

Interest rate, end date and security

The College has one bank loan at 5.80 per cent repayable by instalments falling due between 1st August 2020 and 30th April 2034 totalling £5,596,000 which is secured on all of the freehold land and buildings of the College.

ESFA Funding

The College received £1.2m of funds in the 2018/19 from the ESFA which can be converted to loan at a future date at the discretion of the ESFA. These funds are not interest bearing and are shown as due over one year. As at the date of these accounts there is no repayment schedule in place for this sum.

16 Provisions

	Provision for dilapidations	Defined benefit obligations	Enhanced pensions	Total
	£'000	£'000	£'000	£'000
At 1 August 2019	-	11,290	1,197	12,487
Expenditure in the period	450	611	(75)	986
Actuarial loss	-	6,242	153	6,395
At 31st July 2020	<u>450</u>	<u>18,143</u>	<u>1,275</u>	<u>19,868</u>

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

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The enhanced pension provision relates to the cost of staff who have already left the College's employ and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date.

The principal assumptions for this calculation are:

	2020	2019
Price inflation	3.2%	3.2%
Discount rate	2.1%	2.1%

17 Cash and cash equivalents

	At 1 st August 2019 £'000	Cash flows £'000	Other changes £'000	At 31 st July 2020 £'000
Cash and cash equivalents	505	754	-	1,259
Total	505	754	-	1,259

18 Capital and other commitments

	2020 £'000	2019 £'000
Commitments contracted for at 31 st July	174	223

19 Commitments under operating leases

At 31st July the College had total future minimum lease payments under non-cancellable operating leases as follows:

	2020 £'000	2019 £'000
Future minimum lease payments due		
Not later than one year	11	40
Later than one year and not later than five years	22	32
	33	72

20 Contingent liabilities

The College received £3.46m in Emergency Funding during the year. The terms of this funding are such that the funds could be converted to a loan at some point in the future if specified conditions are not complied with. The College, in agreement with its auditors, has assessed there is a very low probability of not complying with these conditions, therefore this has been treated as Grant Income. The auditors have agreed with this treatment.

21 Events after the reporting period

In the 2018/19 financial statements, the College reported a contingent liability of £450,000 relating to repairing a leased, listed slipway located at the Woolston Marine Skills Centre site. The lease expired in December 2019 with the College remaining in occupation under the existing terms in agreement with the landlord. The tenancy was formally ended by the College in November 2020 and a provision of £450,000 has been made to make the slipway good as required under the terms of the lease (see note 16).

22 Defined benefit obligations

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

Total pension cost for the year	2020	2019
	£000	£000
Teachers' Pension Scheme: contributions paid	722	499
Local Government Pension Scheme:		
Contributions paid	779	750
FRS 102 (28) charge	382	(10)
Charge to the Statement of Comprehensive Income	1,161	740
Enhanced pension charge to Statement of Comprehensive Income	10	15
Total Pension Cost for Year within staff costs	1,893	1,254

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31st March 2016 and of the LGPS 31st March 2019.

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including colleges. Membership is automatic for teachers and lecturers at eligible institutions. Teachers and lecturers are able to opt out of the TPS.

The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions, along with those made by employers, are credited to the Exchequer under arrangements governed by the above Act. Retirement and other pension benefits are paid by public funds provided by Parliament.

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

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

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

The latest actuarial review of the TPS was carried out as at 31st March 2016. The valuation report was published by the Department for Education in April 2019. The valuation reported total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £218 billion, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £198 billion giving a notional past service deficit of £22 billion.

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2019 onwards (compared to 16.48% during 2018/9). The DfE has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2019-20 and 2020-21 academic years. In 2020/21 the College expects to receive £181,000 in respect of this grant.

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

The pension costs paid to TPS in the year amounted to £722,000 (2019: £499,000)

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Hampshire Local Authority. The total contributions made for the year ended 31st July 2020 were £937,000, of which employer's contributions totalled £777,000 and employees' contributions totalled £160,000.

After implementing the 2019 scheme revaluation, the agreed employer contribution rate for 2020/21 is 24.0% and the annual fixed contribution rate is £206k. The next scheme revaluation will be undertaken in 2022.

For employees, contributions range from 5.5% to 11.4%, depending on salary.

The current valuation allows for the increase in benefits and therefore liability as a result of Guaranteed Minimum Pension ('GMP') equalisation between men and women which is required as a result of the removal of the Additional State Pension. Allowance is made for full pension increases to be made on GMPs to individuals reaching State Pension Age after 6th April 2016.

The valuation also allows for the impact of the McCloud case which ruled that the transitional protection for some members of public service schemes implemented when they were reformed constituted age discrimination. Past service costs include £85k in respect of the McCloud liability to which interest costs have been added. Current service costs include a prospective allowance for McCloud liabilities of 0.41% of pensionable pay over the accounting period.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31st March 2019 updated to 31st July 2020 by a qualified independent actuary.

	At 31st July 2020	At 31st July 2019
Rate of increase in salaries	3.30%	3.70%
Future pensions increases	2.30%	2.20%
Discount rate for scheme liabilities	1.40%	2.10%
Inflation assumption (CPI)	2.30%	2.20%

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

	At 31st July 2020 years	At 31st July 2019 years
<i>Retiring today</i>		
Males	23.0	23.1
Females	25.5	25.8
<i>Retiring in 20 years</i>		
Males	24.7	24.7
Females	27.2	27.6

	Fair Value at 31st July 2020 £'000	Fair Value at 31st July 2019 £'000
The College's share of assets in the plan at the balance sheet date were:		
Equity instruments	13,330	13,852
Debt instruments	5,041	4,740
Property	1,478	1,657
Cash	388	437
Other	4,000	2,324
Total fair value of plan assets	<u>24,237</u>	<u>23,010</u>

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

	2020	2019
	£'000	£'000
Fair value of plan assets	24,237	23,010
Present value of plan liabilities	(42,380)	(34,300)
Net pensions (liability) (Note 16)	<u>(18,143)</u>	<u>(11,290)</u>

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

	2020	2019
	£'000	£'000
Amounts included in staff costs		
Current service cost	1,074	740
Past service cost	87	-
Total	<u>1,161</u>	<u>740</u>
Amounts included in investment income		
Interest income	(489)	(600)
Interest expense on Defined Benefit pension obligation	718	830
	<u>229</u>	<u>230</u>

Amount recognised in Other Comprehensive Income

Return on pension plan assets	218	840
Experience losses arising on defined benefit obligations	(6,460)	(3,440)
Amount recognised in Other Comprehensive Income	<u>(6,242)</u>	<u>(2,600)</u>

Movement in net defined benefit (liability)/asset during year

	2020	2019
	£'000	£'000
Net defined benefit liability	(11,290)	(8,470)
Movement in year:		
Current service cost	(1,074)	(740)
Employer contributions	779	750
Past service cost	(87)	-
Net interest on the defined (liability)/asset	(229)	(230)
Actuarial gain or (loss)	(6,242)	(2,600)
Net defined benefit (liability) at 31st July	<u>(18,143)</u>	<u>(11,290)</u>

Asset and Liability Reconciliation

	2020	2019
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	34,300	30,000
Current service cost	1,074	740
Interest cost	718	830
Contributions by Scheme participants	161	170
Experience gains and losses on defined benefit obligations	-	-
Changes in financial assumptions	6,460	3,440
Estimated benefits paid	(420)	(880)
Past Service cost	87	-
Defined benefit obligations at end of period	<u>42,380</u>	<u>34,300</u>
Changes in fair value of plan assets		
Fair value of plan assets at start of period	23,010	21,530
Interest on plan assets	489	600
Return on plan assets	218	840
Employer contributions	779	750
Contributions by Scheme participants	161	170
Estimated benefits paid	(420)	(880)
Fair value of plan assets at end of period	<u>24,237</u>	<u>23,010</u>

23 Related party transactions

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

During the year £17k (2019: £25k) was charged to, and paid by, Inspire Academy Trust for management and back office services performed on its behalf. At the balance sheet date £22 (2019: £182) was owed to the college from Inspire Academy Trust.

The total expenses paid to or on behalf of the Governors during the year was £81; 2 governors (2019: £102; 1 governors). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2019: None).

24 Amounts disbursed as agent: Learner support funds

	2020	2019
	£'000	£'000
Brought forward from prior year	346	386
Brought forward amounts repaid	-	-
Funding body grants – bursary support	444	490
	<u>790</u>	<u>876</u>
Disbursed to students	(442)	(504)
Administration costs	(25)	(26)
	<u>323</u>	<u>346</u>
Balance unspent as at 31 st July, included in creditors		

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

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

Conclusion

We have carried out an engagement, in accordance with the terms of our engagement letter dated 10 June 2019 and further to the requirements of the grant funding agreements and contracts with the Education and Skills Funding Agency (the "ESFA"), to obtain limited assurance about whether the expenditure disbursed and income received by Southampton City College during the period 01 August 2019 to 31 July 2020 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 01 August 2019 to 31 July 2020 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Basis for conclusion

The framework that has been applied is set out in the Post-16 Audit Code of Practice (the "ACoP") issued by the ESFA. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which the ESFA has other assurance arrangements in place.

We are independent of the Southampton City College in accordance with the ethical requirements that are applicable to this engagement and we have fulfilled our ethical requirements in accordance with these requirements. We believe the assurance evidence we have obtained is sufficient to provide a basis for our conclusion.

Responsibilities of Corporation of Southampton City College for regularity

The Corporation of Southampton City College is responsible, under the grant funding agreements and contracts with the ESFA and the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. The corporation of Southampton City College is also responsible for preparing the Governing Body's Statement of Regularity, Propriety and Compliance.

Reporting accountant's responsibilities for reporting on regularity

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the ACoP.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and the procedures performed vary in nature and timing from, and are less in extent than for a reasonable assurance engagement; consequently a limited assurance engagement does not enable us to obtain assurance that we would become aware of all

significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 01 August 2019 to 31 July 2020 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Our work included identification and assessment of the design and operational effectiveness of the controls, policies and procedures that have been implemented to ensure compliance with the framework of authorities including the specific requirements of the grant funding agreements and contracts with the ESFA and high level financial control areas where we identified a material irregularity is likely to arise. We undertook detailed testing, on a sample basis, on the identified areas where a material irregularity is likely to arise where such areas are in respect of controls, policies and procedures that apply to classes of transactions.

This work was integrated with our audit of the financial statements and evidence was also derived from the conduct of that audit to the extent it supports the regularity conclusion.

Use of our report

This report is made solely to the Corporation of Southampton City College and the Secretary of State for Education acting through the ESFA in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the Corporation of Southampton City College and the Secretary of State for Education acting through the ESFA those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation of Southampton City College and the Secretary of State for Education acting through the ESFA for our work, for this report, or for the conclusion we have formed.

RSM UK Audit LLP

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Chartered Accountants

Highfield Court

Tollgate

Chandlers Ford

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SO53 3TG

30 March 2021