

SOUTHAMPTON CITY COLLEGE

**Report and Financial Statements for the
year ended
31st July 2019**



Key Management Personnel, Board of Governors and Professional Advisers

Key Management Personnel

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2018/19:

Sarah Stannard, Principal and CEO; Accounting Officer

Richard Bryant, Vice Principal Finance & Resources

Alison Kent, Vice Principal Curriculum & Quality (resigned 19th August 2018)

Dr Robert Rees, Vice Principal Curriculum & Quality (appointed 19th August 2018)

Helen Mason, Assistant Principal Workforce Skills & Student Support (resigned 5th April 2019)

Gemma Limburn, Director People & Estates (resigned 17th March 2019)

Board of Governors

A full list of Governors is given on page 15 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:

Bond Dickinson 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

Nature, Objectives And Strategies:

The members present their report and the audited financial statements for the year ended 31st July 2019.

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:

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-led education and training
- First choice for students, 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

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 15.

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

Our campus is in the centre of Southampton and we have long-established relationships with employers in the city, resulting in our 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 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. We hire our facilities, such as the Hub theatre, to other organisations where it complements student use.

Throughout the year the College hosts community events for other city and educational organisations, this year included events such as Richard Taunton Sixth Form College's annual musical and an inter-college Hospitality competition.

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 during the 2019/20 academic year.

Implementation of strategic plan

In December 2014 the College adopted a strategic plan for the period 1st August 2015 to 31st July 2020. Given the work the College is undertaking with the Department of Education to implement a long term future for the College, the Board has decided not to extend the Strategic Plan beyond July 2020 at this stage. The Corporation monitors the performance of the College against this plan. The plan is reviewed each year. The College's continuing strategic objectives are to:

- 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; and
- Work collaboratively to ensure the continuation of a strong further education offer for Southampton and surrounding areas.

The College continues to work towards these objectives.

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 each month in the management accounts and Board reports.

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, e.g. the FE Choices data available on the GOV.UK website which includes national datasets on employer and learner satisfaction.

Performance is reported at each Board meeting against these targets and against results from the previous year.

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

Financial Position and Performance

Financial results

The College generated a deficit before other gains and losses in the year of £1,651,000 (2017/18 - deficit of £585,000), with total comprehensive income of £(4,202,000) (2017/18 - £1,305,000).

The outcome for 2018/19 is Inadequate Financial Health with a score of 0 as budgeted (2017/18 - 'Inadequate' scoring 90).

Despite increasing full time student numbers in September 2018, income was £674k lower than the previous year due to the way the College receives lagged funding for these students. As well as decreased income, additional staffing was required to deliver new courses that contributed to the growth in enrolments.

Pay costs increased 6% in the year, a combination of a 1% pay award, LGPS pension contribution increases, a competitive market for teachers in the area and the need to pay higher salaries to attract staff with relevant technical expertise from industry.

Operating expenses increased 7% due to costs incurred in the preparation of the rejected merger with Eastleigh College, and an increased program of critical maintenance that was required in light of cut backs in prior years.

The College has accumulated deficit reserves of £(227,000). Cash and short-term investment balances at 31st July 2019 were £505,000.

Tangible fixed asset additions during the year amounted to £435,000 for equipment updates.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2018/19 the FE funding bodies provided 72% of the College's total income.

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 cashflow at the time of the redevelopment program starting in 2009. Since then reductions in government funding, consecutive years of reducing student numbers and the cost of the extra support needed to be put in place to enable our cohort to succeed has changed the operating model compared to that used in the initial business case when the loan was taken out.

At £116,000 the net cash outflow (2017/18 net cash inflow £561,000) from operating activities was insufficient to service the debt and cover the capital investment required. As highlighted in the financial statements for 2017/18, without a merger taking place the College would require additional financial support from the ESFA during 2018/19.

In total the College requested and received £1.97m of financial support during the year. Of this total, £770k is recognised as Grant Income due to the terms of the funding creating a low probability of conversion to a loan at a future date. The remaining £1.2m is treated as a long term loan as the terms of the funding create more likelihood of this being converted to a loan at a future date.

Banking

The College holds its day to day banking and a long term loan with Santander bank. An agreed overdraft facility was in place throughout the year but withdrawn on 1st August 2019.

The College breached its loan covenants in 2017/18, but, due to the efforts of the Corporation to secure a long term financially viable solution, Santander put in place Reservation of Rights letters waiving their right to take immediate action. However, this loan has been classified as short term in these financial statements.

Santander remain supportive as the College continues to work with the Department for Education on a long term solution.

Reserves

The College has no formal Reserves Policy, but recognises the importance of reserves in the financial stability of an organisation, whilst ensuring that adequate resources are provided for the College's core business. The College currently holds no restricted reserves. As at the balance sheet date, the Income and Expenditure account reserve stands at a deficit of £4,104,000 (2018: surplus £24,000). The College would aim to clear the deficit balance by completing the work described in the Future Developments section on page 8.

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 2018 to 31st July 2019, the College paid 70 per cent of its invoices within 30 days of date of invoice.

People

The College employs 208 people (expressed as full time equivalents), of whom 97 are teaching staff.

Current and Future Development and Performance

Future Development

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 then 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 then 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 spring and summer of 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. A final report and recommendations has yet to be published.

The Corporation continues to work with the ESFA and FE Commissioner to develop and implement a suitable solution.

Reputation

The College has a good reputation locally and regionally. Maintaining a quality brand is essential for the College to recruit students, develop apprenticeships and to be accepted as a key partner in the development of skills in Southampton and the Solent. The College's good reputation and strong relationships with stakeholders has been maintained despite the prolonged uncertainty about its future organisational structure.

Student numbers

In 2018/19 the College has delivered activity that has produced £8.0m in funding body main allocation funding (2017/18 - £8.3m). In this year the College had approximately 4,000 government funded (16-18 and Adult) and 1,400 non-government funded students similar to the previous year.

Current study programme enrolments for 2019/20 are slightly above the demographic increase, and positive on the prior year. This would be the second year of increase in student numbers. This is a good performance, particularly as the sudden end to the merger negotiations with Eastleigh might have been expected to have a negative impact on recruitment in autumn 2019.

Student outcomes

Achievement rates for 16 to 18 year olds improved by 7% compared to the previous year and are now at 84.4%. This is the fourth year of improvement in student outcomes and each qualification type now has outcomes that are at or above the national average.

For adult students overall achievement rates have improved by 3% to 87.3%. Similarly each qualification type is very close to or above the national average.

OFSTED

In December 2018 the College was inspected by OFSTED. Progress was made and Adult courses and Personal Development, Behaviour and Welfare both improved and were graded Good. Overall the College received a Requires Improvement judgement, despite three years of improving outcomes (to the summer of 2018) in a period of significant uncertainty for the College, the inspectors judged that the improvements were not rapid enough. The College continues to work hard to improve its rating to Good.

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

Outlined below is a description of the principal risks that may affect the College. Not all the risks are within the College's control. Other factors besides those listed may also adversely affect the College.

1 Government funding

The College has considerable reliance on continued government funding through the ESFA and through OfS. In 2018/19, 69% of the College's revenue was ultimately publicly funded and this level of requirement is expected to continue. The statement in September 2019 increasing funding in FE by £400m was the first rise in seven years. This is a welcome announcement but fails to address the increase in costs over that time due to inflation and pension contribution rises. 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 relentless in continuously improving its standards of education and training;
- Maintaining and managing key relationships with the relevant funding bodies;
- Continuously reviewing and updating its curriculum offer to ensure that it meets the needs of students, apprentices and employers; and
- Review tuition fees in line with market trends and inflation.

2 Maintain adequate funding of pension liabilities

The Teachers' Pension Scheme was revalued as at March 2016 with the results being published in April 2019. Employer contributions will increase on 1st September 2019 from 16.48% to 23.68%. The DfE is providing additional grant funding to Colleges in 2019/20 and 2020/21 to cover the increase.

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102. The deficit has increased by 33% from 2017/18 (2017/18 - decreased by 16% from 2016/17) due to changes in the assumptions used by the actuary. The Hampshire LGPS scheme had its tri-annual revaluation in 2019. The impact on the college from April 2020 will be an increase in employer's contributions from 16.9% to 24% and a decrease in the fixed contribution from £333,600 to £204,000. The net effect will be an increase in the equivalent total contribution rate from 29.2% to 31.3% from April 2020.

3 Implementation of the Area Based Review recommendations

The College worked through 2016 and 2018 with Solent University to implement the Solent Area Review's recommendation for the College to merge with the University. A final application was submitted to the Department for Education in November 2017, however it was refused as not meeting the Governance or Financial criteria in February 2018.

The College immediately initiated a Structure and Prospects Appraisal process, with the support of the FE Commissioner. After 12 weeks it selected Eastleigh College as its preferred partner for merger in June 2019.

In September 2018 an application to the Transaction Unit (TU) was made for funds from the Restructuring Facility (RF) to enable the merger to proceed and to create a larger, more financially sustainable college for the future.

In February 2019 the application was rejected and Eastleigh College chose not to proceed with the merger.

The FE Commissioner set up a Travel to Learn Review for the Southampton area to review provision and options. A final report and recommendations is unpublished at this point.

The College continues to work with the ESFA, FE Commissioner local stakeholders and other colleges in order to find a solution that is right for the community and employers of the city.

4 Failure to maintain the financial viability of the College

The College's current financial health grade for 2018/19 is classified as "Inadequate" as described on page 6.

Issues are: there is a highly competitive 16-18 year old market in the City and neighbouring areas which has reduced 16-18 income; reduction in apprenticeship funding implemented in 2017/18 continues to negatively affect the College; City College has very high level of students from disadvantaged areas who require higher levels of support than normal to succeed on their courses which is more expensive than in other colleges.

This risk is mitigated in a number of ways:

- Working with the DfE, local stakeholders and other institutions in order to find a solution that is right for the learners of the City
- By rigorous budget setting procedures and sensitivity analysis;
- Regular and open communication with ESFA and Santander;
- Regular in year budget monitoring;
- Robust financial controls;
- Exploring ongoing procurement efficiencies.

STAKEHOLDER RELATIONSHIPS

City College's stakeholders include:

- Students
- Staff
- Local employers
- The local community
- Southampton City Council
- Solent LEP
- Solent colleges and universities
- Trade unions
- Professional bodies
- Education sector funding bodies
- FE Commissioner

The College recognises the importance of these relationships and engages in regular communication with them.

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 to remove conditions which place people at a disadvantage and 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 which takes into account the Disability Discrimination Act 1995 and the Special Education Needs and Disability Acts 2001 and 2005. 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 2018 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	2
FTE employee number	2

Number of trade union representatives spending the following percentages of their working hours on facility time from 1 April 2018 to March 2019:

Percentage of time	Number of employees
0%	0
1-50%	2
51-99%	0
100%	0

Total pay bill and facility time costs

Total cost of facility time	£6,397
Total pay bill	£7,746,373
Percentage of total bill spent on facility time	0.08%

Paid trade union activities

Total number of hours spent on paid facility time	360
Total number of hours spent on paid trade union activities	0
Percentage of total hours spent on paid activities	0%

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 16th December 2019 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 2018 to 31st July 2019 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”); and
- iii. Having due regard to the UK Corporate Governance Code 2016 insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College has adopted and complied with the Code. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

The 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 2019.

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 18/19	Committees served
Mr H Brora (Board VC and Rem. Chair)	23 Nov 2012 23 Nov 2016	4 years 4 years		External	8/11	Audit and Risk Search & Governance Remuneration
Mr G Davies (Chair)	01 Dec 2016 01 Dec 2017	1 year 3 years		External	10/11	Search & Governance Remuneration
Prof F Davis	27 Sep 2017 27 Sep 2018	1 year 3 years		External	2/11	Audit & Risk
Dr J John (S&G Chair & Lead Safeguarding/Preventing Governor)	04 Nov 2014 04 Nov 2018	4 years Up to 4 years		External	7/11	Search & Governance Remuneration Audit & Risk
Mr A May	24 Nov 2012 Gap, then 31 Jan 2017	4 years 4 years		Staff	10/11	Search & Governance
Mr A Riggs	31 May 2016 31 May 2017	1 year 3 years		External	7/11	Audit & Risk
Mr M Simmons	08 Oct 2018 08 Oct 2019	1 year 3 years		External	6/9	Lead Quality Governor
Ms S Stannard	01 Aug 2013	Ex-officio		Principal	11/11	Search & Governance
Ms B Ward	01 Jan 2018 Gap, then 13 Sept 2018	7 months 11 months	31 July 2019	Student	6/10	
Mr P Weir (Audit Chair)	03 Oct 2017 03 Oct 2018	1 year 3 years		External	9/11	Audit & Risk
Ms G Gould	05 Nov 2019	1 year		External	n/a	Search & Governance
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.

The Corporation conducts its business through three committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Audit & Risk, Search & Governance and Remuneration. 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 address on page 15.

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

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 2018/19 this work included individual meeting evaluations and annual self-assessment reviews of each Corporation Committee as well as of the Board and its composite Members. On 11th November 2019, 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, making demonstrable progress since Spring 2018, and with good capacity to achieve further improvements during 2019/20.

Remuneration Committee

The Remuneration Committee did not meet during 2018/19. In respect of time-sensitive items which fell within the Committee's recommendation remit in 2018/19, the Corporation had found it more appropriate to suspend the Committee's work and directly consider those matters itself.

Details of remuneration of the Principal and other key management personnel for the year ended 31st July 2019 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 designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of 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 2019 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 2019 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.

In their annual report to the Board, the Internal Auditors gave the opinion that in the areas tested they found suitably designed and effectively operating control and governance arrangements, except for in the areas of statutory testing where they gave limited assurance. The College addressed the issues highlighted and engaged a specialist Health & Safety company to undertake a comprehensive audit of this area and a detailed action plan is in place to address risks identified from that audit.

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 2019 meeting, the Corporation carried out the annual assessment for the year ended 31st July 2019 by considering documentation from the Senior Management Team and Internal Audit, and taking account of events since 31st July 2019.

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”*.

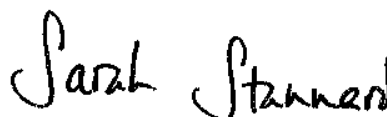
Going concern

The College has a reasonable expectation that it has adequate resources to continue in operational existence until October 2020. At that point the College would require additional financial assistance. As noted previously the College is working with the ESFA and FE Commissioner and the current intention and most likely outcome would be for a merger on 1st August 2020 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 16th December 2019 and signed on its behalf by:



Geraint Davies
Chair



Sarah Stannard
Accounting Officer

Statement on Regularity, Propriety and Compliance

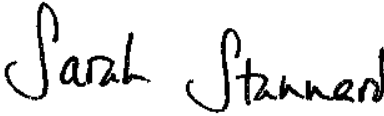
The Corporation has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the college's grant funding agreement and contracts with ESFA. As part of our consideration we 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
16th December 2019



Sarah Stannard
Accounting Officer
16th December 2019

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
- 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. 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 16th December 2019 and signed on its behalf by:



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 2019 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 2019 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 moving forward with a proposal for a merger with another further education organisation from 1 August 2020. As a result of a merger the College would be dissolved after the transfer of its trade, assets and liabilities to a further education organisation and the organisation has concluded that it is no longer 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 2018 to 2019 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 21, 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

Statement of Comprehensive Income

	Notes	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
INCOME			
Funding body grants	2	9,616	9,070
Tuition fees and education contracts	3	1,824	2,706
Other grants and contracts	4	322	275
Other income	5	1,293	1,229
Investment income	6	4	3
Total income		13,059	13,283
EXPENDITURE			
Staff costs	7	8,544	8,153
Restructuring costs	7	38	47
Other operating expenses	8	4,117	3,645
Depreciation	11	1,395	1,512
Interest and other finance costs	9	616	613
Total expenditure		14,710	13,970
(Deficit) before other gains and losses		(1,651)	(687)
Gain on disposal of assets	11	-	102
(Deficit) before tax		(1,651)	(585)
Taxation	10	-	-
(Deficit) for the year		(1,651)	(585)
Actuarial gain/ (loss) in respect of pensions schemes	16,22	(2,551)	1,890
Total Comprehensive Income for the year		(4,202)	1,305
Represented by:			
Restricted comprehensive income		-	-
Unrestricted comprehensive income		(4,202)	1,305
		(4,202)	1,305

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

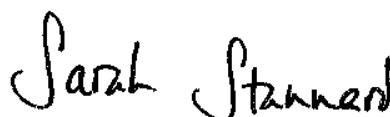
Balance sheet as at 31st July

	Notes	2019 £'000	2018 £'000
Fixed assets			
Tangible Fixed assets	11	38,019	38,978
Investments		-	-
		<u>38,019</u>	<u>38,978</u>
Current assets			
Stocks		6	6
Trade and other receivables	12	972	932
Cash and cash equivalents	17	505	448
		<u>1,483</u>	<u>1,386</u>
Current Liabilities			
Creditors - amounts falling due within one year	13	(9,358)	(9,149)
Net current liabilities		<u>(7,875)</u>	<u>(7,763)</u>
Total assets less current liabilities		30,144	31,215
Creditors - amounts falling due after more than one year	14	(17,884)	(17,456)
Provisions for Liabilities			
Defined benefit obligations	16	(11,290)	(8,470)
Other provisions	16	(1,197)	(1,314)
Total net assets		<u>(227)</u>	<u>3,975</u>
Unrestricted Reserves			
Income and expenditure account		(4,104)	24
Revaluation reserve		3,877	3,951
Total unrestricted reserves		<u>(227)</u>	<u>3,975</u>
Total Reserves		<u>(227)</u>	<u>3,975</u>

The financial statements on pages 24 to 46 were approved and authorised for issue by the Corporation on 16th December 2019 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 £'000	Revaluation reserve £'000	Total £'000
Balance at 1st August 2017	(1,355)	4025	2670
(Deficit) from the income and expenditure account	(585)	-	(585)
Other comprehensive income	1,890	-	1,890
Transfers between revaluation and income and expenditure reserves	74	(74)	-
Total comprehensive income for the year	1,379	(74)	1,305
Balance at 31st July 2018	24	3,951	3,975
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)

Statement of Cash Flows

	Notes	2019 £'000	2018 £'000
Cash flow from operating activities			
(Deficit) for the year		(1,651)	(585)
Adjustment for non-cash items			
Depreciation		1,395	1,512
Deferred Capital Grants released to income		(669)	(668)
(Increase)/ decrease in debtors		(40)	243
Increase/ (decrease) in creditors due within one year		450	(511)
Increase/(decrease) in creditors due more than one year		(100)	(100)
Increase/ (decrease) in provisions		(68)	-
Pensions costs less contributions payable		220	310
Adjustment for investing or financing activities			
Investment income		(4)	(3)
Interest payable		349	363
Net cash flow from operating activities		<u>(118)</u>	<u>561</u>
Cash flows from investing activities			
Investment income		4	3
Proceeds from sale of fixed assets		-	108
Payments made to acquire fixed assets		(436)	(318)
		<u>(432)</u>	<u>(207)</u>
Cash flows from financing activities			
Interest paid		(349)	(363)
Repayments of amounts borrowed		(244)	(230)
New unsecured loans		1,200	-
		<u>607</u>	<u>(593)</u>
Increase / (decrease) in cash and cash equivalents in the year		<u>57</u>	<u>(239)</u>
Cash and cash equivalents at beginning of the year	17	448	687
Cash and cash equivalents at end of the year	17	505	448

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 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2018 to 2019* 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 cashflow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The College currently has £5.86m of loans outstanding with Santander on terms negotiated in 2009. The terms of the existing agreement are for 25 years with 15 years remaining. The College has breached covenants over the past twelve months with the bank issuing Rights of Reservation letters enabling them to recall the loan at a future point. There is no intention by the bank to recall the loan while the College continues to work collaboratively with stakeholders on its future position however, the £500k overdraft facility was withdrawn on 1st August 2019.

The College made an application to the ESFA for Exceptional Financial Support to provide working capital for 2018/19 and received £1.2m which has been treated as a long term loan as the funding can be converted to a loan at a future date.

After the merger with Eastleigh was rejected, an application for funds to enable the Board to approve a budget for 2019/20 was made and approved. In July 2019 the College received an additional £770k of funding from the ESFA. The terms of the legal agreements are such that repayment is assessed as possible but not probable, therefore the funds received have been treated as grant income.

The College has a reasonable expectation that it has adequate resources to continue in operational existence until October 2020. At that point the College would require additional financial assistance. As noted previously the College is working with the ESFA and FE Commissioner and the current intention is to pursue a merger with effect from 1st August 2020. 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.

Revenue Grant Funding

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under achievement for the Adult Education Budget is adjusted for and reflected in the level of recurrent grant recognised in the Statement of Comprehensive Income. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

The recurrent grant from 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.

Other 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 delivered.

Income from other grants and contracts is recognised in the period in which it is delivered.

All other income from short-term commercial activity is credited to the income and expenditure account in the period in which it is invoiced.

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 other recognised 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 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Land and buildings

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 Instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in full in respect of financial instruments.

Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

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.

Southampton City College only has financial assets (Trade debtors, accrued income and ESFA debtors) and financial liabilities (bank loans, trade payables, other creditors, accruals and amounts owed by the ESFA) of a kind that qualify as basic financial instruments which are initially measured at transaction price (including transaction costs) or settlement.

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 7% 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.
- The College has chosen not to have the LGPS liability revalued taking into account the recent GMP and McCloud decisions. Using metrics provided by the pension fund, the College determined the impact would be immaterial and decided not to pay for a revaluation.

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 2016 to value the pensions liability at 31st July 2019. 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	2019	2018
	£'000	£'000
Recurrent grants		
Education & Skills Funding Agency - Adult	1,639	1,346
Education & Skills Funding Agency - 16-18	5,332	6,006
Education & Skills Funding Agency - Apprentices	1,062	912
Office for Students	144	138
Specific grants		
Education & Skills Funding Agency	770	-
Releases of government capital grants	669	668
Total	9,616	9,070
3 Tuition fees and education contracts	2019	2018
	£'000	£'000
Adult education fees	411	479
Apprenticeship fees and contracts	472	362
Fees for FE loan supported courses	311	415
Fees for HE loan supported courses	471	599
Total tuition fees	1,665	1,854
Education contracts	159	852
Total	1,824	2,706
4 Other grants and contracts	2019	2018
	£'000	£'000
European Commission	139	118
Other grants and contracts	183	157
Total	322	275
5 Other income	2019	2018
	£'000	£'000
Catering and residences	17	17
Lease Income	513	519
Other income generating activities	763	693
Total	1,293	1,229

6 Investment income	2019	2018
	£'000	£'000
Other interest receivable	4	3
Total	4	3

7 Staff costs

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

	2019	2018
	No.	No.
Teaching staff	97	91
Non-teaching staff	111	109
	208	200

Staff costs for the above persons

	2019	2018
	£'000	£'000
Wages and salaries	6,403	5,980
Social security costs	535	514
Other pension costs (including FRS102 adjustments of £10,000 (2018:£60,000))	1,254	1,344
Payroll sub total	8,192	7,838
Contracted out staffing services	352	314
	8,544	8,153
Restructuring costs - Contractual	38	47
Total Staff costs	8,582	8,200

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.

During the year the Vice Principal Curriculum & Quality left and was replaced while the Assistant Principal Workforce Skills & Student Experience and Director of People and Estates left and their roles were not backfilled. Staff costs include compensation paid to key management personnel for loss of office.

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

	2019 No.	2018 No.
The number of key management personnel including the Accounting Officer was:	5	5

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

	Key management personnel		Other staff	
	2019 No.	2018 No.	2019 No.	2018 No.
£50,000 to £60,000 p.a.	2	1	-	-
£60,001 to £70,000 p.a.	-	2	-	-
£70,001 to £80,000 p.a.	-	-	-	-
£80,001 to £90,000 p.a.	1	1	-	-
£100,001 to £110,000 p.a.	1	-	-	-
£110,001 to £120,000 p.a.	1	1	-	-
	<u>5</u>	<u>5</u>	<u>-</u>	<u>-</u>

Key management personnel compensation is made up as follows:

	2019 £'000	2018 £'000
Salaries	385	386
Employers NI Contributions	35	47
Benefits in kind	2	1
	<u>422</u>	<u>434</u>
Pension contributions	46	58
Total key management personnel compensation	<u>468</u>	<u>492</u>

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:

	2019 £'000	2018 £'000
Salaries	113	113
Benefits in kind	1	1
	<u>114</u>	<u>114</u>
Pension contributions	<u>18</u>	<u>17</u>

As a result of the cancellation of the merger 4 weeks before the planned date and the announcement of an immediate FE Commissioner travel-to-learn review the Corporation asked the Principal to cancel a summer trip in order to be available to participate fully in the FEC Review. The Corporation deemed it reasonable that it should pay the Principal non-refundable costs (only relating to her) since the cancellation was at their request. The costs were £2,898 and the payment was made in July 2019.

In November 2018, the Corporation noted the proposed introduction of a voluntary Senior Staff Remuneration Code. During 2019/20, the Corporation further intends to consider the principles and reporting requirements of the Senior Staff Remuneration Code.

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 to provide objective guidance.

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

Relationship of Principal/Chief Executive pay and remuneration expressed as a multiple

Principal and CEO's basic salary as a multiple of the median of all staff 4.16

Principal and CEO's total remuneration as a multiple of the median of all staff 4.16

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

8 Other operating expenses

	2019 £'000	2018 £'000
Teaching costs	399	633
Non-teaching costs	2,485	1,775
Premises costs	1,233	1,237
Total	4,117	3,645

Other operating expenses include:

	2019 £'000	2018 £'000
Auditors' remuneration:		
Financial statements audit	30	30
Internal audit	17	20
Other services provided by the financial statements auditor (financial Due Diligence, Teacher Pension's Audit....)	26	5
Hire of assets under operating leases	64	121

9 Interest and other finance costs

	2019 £'000	2018 £'000
On bank loans, overdrafts and other loans:	349	363
	<u>349</u>	<u>363</u>
Net interest on defined pension liability (note 22)	230	250
Net interest on enhanced pension liability	37	-
Total	616	613

10 Taxation

The College is not liable for corporation tax for any activities during the year ending 31st July 2019 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	Land and buildings Long leasehold	Equipment	Assets in the course of construction	Total
	£'000	£'000	£'000		£'000
Cost or valuation					
As at 1 st August 2018	52,360	10	6,502	62	58,934
Additions	-	-	167	269	436
Assets in Construction Transfers	-	-	232	(232)	0
Disposals	(827)	-	(3,239)	-	(4,066)
At 31st July 2019	51,533	10	3,662	99	55,304
Depreciation					
As at 1 st August 2018	14,043	10	5,903	-	19,956
Charge for the year	1,083	-	312	-	1,395
Disposals	(826)	-	(3,240)	-	(4,066)
At 31st July 2019	14,300	10	2,975	-	17,285
Net book value at 31st July 2019	37,233	-	687	99	38,019
Net book value at 31 st July 2018	38,317	-	599	62	38,978

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

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	630	660
Amounts owed by related entities:		
Inspire Academy Trust	-	1
Prepayments and accrued income	193	152
Amounts owed by the ESFA	149	119
Total	<u>972</u>	<u>932</u>

13 Creditors

	2019	2018
	£'000	£'000
Bank loans and overdrafts	5,855	6,099
Trade payables	202	196
Payments received in advance	777	198
Other taxation and social security	131	143
Accruals	585	349
Deferred income - government capital grants	668	668
EFA Capital Grant repayment	100	100
Other Creditors	488	477
Amounts owed to the ESFA	552	919
Total	<u>9,358</u>	<u>9,149</u>

14 Creditors: Amounts falling due after more than one year

	2019	2018
	£'000	£'000
Bank loans	-	-
ESFA Funding	1,200	-
EFA Capital Grant repayment	300	400
Deferred income - government capital	16,384	17,053
Trust Funds	-	3
Total	<u>17,884</u>	<u>17,456</u>

15 Borrowings

	2019	2018
	£'000	£'000
Bank loans and overdrafts are repayable as		
In one year or less	5,855	6,099
Between one and two years	-	-
Between two and five years	-	-
In five years or more	-	-
Total	<u>5,855</u>	<u>6,099</u>

Bank Covenants

As at 31st July 2019 the College was in breach of two bank covenants, Debt Service Cover ratio with a score of (1.39) against a target of 1.5, and Interest Cover with a score of (2.26) 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 2019 and 30 April 2034 totalling £5,855,000 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 year 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.

16 Provisions

	Defined benefit obligations	Enhanced pensions	Total
	£'000	£'000	£'000
At 1 August 2018	8,470	1,314	9,784
Expenditure in the period	2,820	(68)	2,752
Actuarial gain or (loss)		(49)	(49)
At 31st July 2019	11,290	1,197	12,487

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

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

The principal assumptions for this calculation are:

	2019	2018
Price inflation	3.2%	3.2%
Discount rate	2.1%	2.8%

17 Cash and cash equivalents

	At 1 st August 2018	Cash flows	Other changes	At 31 st July 2019
	£'000	£'000	£'000	£'000
Cash and cash equivalents	448	57	-	505
Total	<u>448</u>	<u>57</u>	<u>-</u>	<u>505</u>

18 Capital and other commitments

	2019 £'000	2018 £'000
Commitments contracted for at 31 st July	<u>223</u>	<u>42</u>

19 Commitments under operating leases

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

	2019 £'000	2018 £'000
Future minimum lease payments due		
Not later than one year	40	64
Later than one year and not later than five years	32	65
	<u>72</u>	<u>129</u>

20 Contingent liabilities

The College received £770k 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.

The College has a contingent liability related to repairing a leased, listed slipway located at the Woolston Marine Skills Centre site. The current lease expired in December 2019 with the College remaining in occupation under the existing terms in agreement with the landlord. The lease requires the slipway to be made good at the point in time when the College ceases to be in occupation. A detailed marine survey has been commissioned to determine the full extent of repairs and the costs required to comply with the lease conditions. The current estimate based on a 2015 short survey is £450,000.

21 Events after the reporting period

As disclosed on page 7 Santander withdrew the £500k overdraft facility on 1st August 2019.

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	2019	2018
	£000	£000
Teachers' Pension Scheme: contributions paid	499	479
Local Government Pension Scheme:		
Contributions paid	750	690
FRS 102 (28) charge	<u>(10)</u>	<u>60</u>
Charge to the Statement of Comprehensive Income	740	750
Enhanced pension charge to Statement of Comprehensive Income	15	115
Total Pension Cost for Year within staff costs	<u>1,254</u>	<u>1,344</u>

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 2016.

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 2019/20 the College expects to receive £240,000 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 £499,000 (2018: £479,000)

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 2019 were £920,000, of which employer's contributions totalled £750,000 and employees' contributions totalled £170,000.

The agreed employer contribution rate for 2019/20 is 16.9% and the annual fixed contribution rate is £334k.

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

The next scheme revaluation will be undertaken in 2019. The indicative employer contribution rates are 24% from April 2020 with a fixed contribution for 2020/21 estimated at £204k.

The current valuation does not reflect the expected 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. Methodologies for a long-term solution are still being investigated by the Government as set out in the published (January 2019) outcome of the Government Consultation 'Indexation and Equalisation of GMP in Public Sector Pensions Schemes' and therefore the expected impact cannot be reliably estimated and consequently no provision/liability has been recognised.

There has been no allowance made for the outcome of the McCloud case.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31st March 2016 updated to 31st July 2019 by a qualified independent actuary.

	At 31 st July 2019	At 31 st July 2018
Rate of increase in salaries	3.70%	3.60%
Future pensions increases	2.20%	2.10%
Discount rate for scheme liabilities	2.10%	2.80%
Inflation assumption (CPI)	2.20%	2.10%

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

	At 31 st July 2019 years	At 31 st July 2018 years
<i>Retiring today</i>		
Males	23.1	24.1
Females	25.8	27.2
<i>Retiring in 20 years</i>		
Males	24.7	26.2
Females	27.6	29.4

	Fair Value at 31 st July 2019 £'000	Fair Value at 31 st July 2018 £'000
The College's share of assets in the plan at the balance sheet date were:		
Equity instruments	13,852	13,693
Debt instruments	4,740	5,210
Property	1,657	1,507
Cash	437	452
Other	2,324	668
Total fair value of plan assets	<u>23,010</u>	<u>21,530</u>

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

	2019 £'000	2018 £'000
Fair value of plan assets	23,010	21,530
Present value of plan liabilities	(34,300)	(30,000)
Net pensions (liability) (Note 16)	<u>(11,290)</u>	<u>(8,470)</u>

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

	2019 £'000	2018 £'000
Amounts included in staff costs		
Current service cost	740	750
Past service cost	-	-
Total	<u>740</u>	<u>750</u>

Amounts included in investment income

Interest income	(600)	(510)
Interest expense on Defined Benefit pension obligation	830	760
	<u>230</u>	<u>250</u>

Amount recognised in Other Comprehensive Income

Return on pension plan assets	840	1,520
Experience losses arising on defined benefit obligations	(3,440)	370
Amount recognised in Other Comprehensive Income	(2,600)	1,890

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

	2019	2018
	£'000	£'000
Net defined benefit (liability)/asset in scheme at 1 st August	(8,470)	(10,050)
Movement in year:		
Current service cost	(740)	(750)
Employer contributions	750	690
Past service cost	-	-
Net interest on the defined (liability)/asset	(230)	(250)
Actuarial gain or (loss)	(2,600)	1,890
Net defined benefit (liability) at 31st July	(11,290)	(8,470)

Asset and Liability Reconciliation

	2019	2018
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	30,000	29,870
Current service cost	740	750
Interest cost	830	760
Contributions by Scheme participants	170	170
Experience gains and losses on defined benefit obligations	-	-
Changes in financial assumptions	3,440	(370)
Estimated benefits paid	(880)	(1,180)
Past Service cost	-	-
Defined benefit obligations at end of period	34,300	30,000
Changes in fair value of plan assets		
Fair value of plan assets at start of period	21,530	19,820
Interest on plan assets	600	510
Return on plan assets	840	1,520
Employer contributions	750	690
Contributions by Scheme participants	170	170
Estimated benefits paid	(880)	(1,180)
Fair value of plan assets at end of period	23,010	21,530

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 £25k (2018: £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 £182 (2018: £787) was owed to the college from Inspire Academy Trust.

The total expenses paid to or on behalf of the Governors during the year was £102; 1 governor (2018: £237; 3 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 (2018: None).

24 Amounts disbursed as agent: Learner support funds

	2019 £'000	2018 £'000
		Restated
Brought forward from prior year	386	388
Brought forward amounts repaid	-	-
Funding body grants - bursary support	490	633
	<u>876</u>	<u>1,021</u>
Disbursed to students	(504)	(606)
Administration costs	(26)	(29)
Balance unspent as at 31 st July, included in creditors	<u>346</u>	<u>386</u>

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 2018 to 31 July 2019 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 2018 to 31 July 2019 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 2018 to 31 July 2019 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.

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