SOUTHAMPTON CITY COLLEGE

Report and Financial Statements for the year ended 31st July 2017

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 2016/17:

Sarah Stannard, Principal and CEO; Accounting Officer
Richard Bryant, Vice Principal Finance & Resources
Alison Kent, Vice Principal Curriculum & Quality
Helen Mason, Assistant Principal Workforce Skills & Student Support
Gemma Limburn, Director People & Estates

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 2017.

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 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 2011 and following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 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 established close links with employers in the city resulting in our students having excellent access to jobs, apprenticeship vacancies and work experience. As well as offering a wide range of career led courses and qualifications for school leavers we also provide apprenticeships, training for businesses, short courses, adult learning and advanced qualifications leading to higher education.

The College has facilities used for teaching of practical skills which are also open to the public, such as the Aspire Restaurant, Kudos Hair and Beauty salons and a gym. We hire our facilities to other organisations where it complements student use.
Throughout the year the College hosts community events on behalf of other organisations, this year included events such as the launch of Black History Month and the Regional SkillBuild competition.

The College sponsors the Inspire Academy Trust which currently runs the Isle of Wight Studio School which opened in September 2014. As the College does not support the Trust for its own benefits, it is no longer classed as a subsidiary and subsequently the results for the Trust are no longer consolidated with the College.
The College had one dormant company, City Hub Events Ltd which was closed and removed from the Companies House register on 26th September 2017.

Implementation of strategic plan

In December 2014 the College adopted a strategic plan for the period 1st August 2015 to 31st July 2020. 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.

Financial objectives

The College's financial objectives are:

- Consistently deliver at least break even performance and generate cash reserves;
- Increase our market share of 16-18 students in Southampton;
- Increase income from apprenticeships and European Social Fund (ESF) projects;
- Increase income from running courses that employers will pay for;
- Effective use of resources;
- Effective MIS that enables us to forecast accurately and manage day to day; and
- Efficient Curriculum planning

Performance Indicators

The College measures its performance against a set of indicators covering the following areas:

- Attraction
- Student experience
- Student success
- Financial
- Staff experience

Within each theme there are a number of Key Performance Indicators with targets agreed with Members of the Corporation each year. Performance against these targets and actual results from previous years is reported at each Board meeting.

The Curriculum Dashboard introduced in 2014/15 has been further improved throughout this year. The dashboard enables the Board to monitor performance for curriculum areas across a number of key indicators at a more detailed level.

The College and the Board has reviewed its monitoring against the indicators suggested by the FE Commissioner in his March 2015 letter to the sector and was content that the Board is monitoring appropriately to ensure that it is clear on the College's performance and areas for improvement.

The College is committed to observing the importance of sector measures and indicators and uses the FE Choices data available on the GOV.UK website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Skills Funding Agency, which produces a financial health rating for the College.

Financial Position

Financial results

The College generated a deficit before other gains and losses in the year of £257,000 (2015/16 - deficit of £948,000), with total comprehensive income of £2,133,000, (2015/16 - £(3,998,000)).

In May 2016 the College implemented a financial recovery plan in response to the forecast of achieving a deficit of £1m and a Financial Health rating of Inadequate in 2015/16. The Board agreed a breakeven budget, pre LGPS accounting adjustments, for 2016/17 that would see the College recover to Satisfactory Financial Health.

This year the College delivered a surplus of £152,000 before LGPS accounting adjustments, the first time since 2009 that a surplus has been achieved, and an improvement of over £1m on 2015/16. A prudent approach to income planning coupled with rigorous curriculum planning and expense control contributed to the improved performance in a challenging environment. Income remained flat year to year while pay costs were reduced by 6% and non-pay costs reduced by 8%.

The Financial Health rating of the College is 'Satisfactory' with a score of 120, an improvement of 60 points from 2015/16. However, this is a marginal rating and the College's finances remain weak.

The College has accumulated reserves of £2,670,000 and cash and short-term investment balances of £687,000. The College wishes to continue to accumulate reserves and cash balances in order to create a contingency fund.

Tangible fixed asset additions during the year amounted to £321,000. This was split between building improvements of £37,000, equipment purchased of £97,000 and assets under construction of £187,000.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2016/17 the FE funding bodies provided 69% of the College's total income.

Treasury policies and objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The College has a separate treasury management policy in place.

Short term borrowing for temporary revenue purposes is authorised by the Accounting Officer. Such arrangements are restricted by limits in the College's Financial Memorandum agreed with the Skills Funding Agency. All other borrowing requires the authorisation of the Corporation.

Cash flows and liquidity

At £1,420,000 the net cash inflow from operating activities was good (2015/16 net cash inflow £11,000), however there was a sizeable increase in the ESFA creditor balance of £393,000. The size of the College's total borrowing and its approach to interest rates has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow. During the year this margin was comfortably exceeded.

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 £1,355,000 (2016: deficit £3,562,000). It is the Corporation's intention to increase reserves over the life of the Strategic Plan, by the generation of annual operating surpluses.

Current and Future Development and Performance

Future Development

In July 2015 the Board agreed to undertake a Structure and Prospects Appraisal with the intent of finding a long-term partner. This decision was then overtaken by the announcement of Area Based Reviews by the Government at the end of the same month. The College was included in the Solent review as part of the Wave 1 of the process, which took place between November 2015 and June 2016. The College explored several options as part of the process and is working on implementing the recommendation of the Area Review, being a merger with Southampton Solent University. The College has been invited to participate in a trial of FE/HE partnerships by the DfE and are working through the approval process.

Curriculum developments

In 2016/2017 colleagues at City College and Solent University have worked collaboratively to map curriculum pathways between the two organisations. This has resulted in the development of 4 new courses at City College that provide direct entry to Solent University undergraduate programmes. Courses planned for new starts in 2018/19 include Business and Marketing, Architecture and CAD, Events Management and Computing and IT. New courses are planned for introduction in 2017/18 include level 2 and 3 Digital Communications and IT, which has been designed in response to local employer need for more creative and IT literate staff.
The College updated the process for Curriculum Planning for 2017/18 to include a more structured review of market analysis and reviewed the final plan with an external specialist who verified the assumptions used. This has given the College the comfort that the planning for 2017/18 has been made on a sound basis.

Apprenticeship delivery moved to report to the VP for Curriculum and Quality in the summer term as activity to support improved timely achievement are directly linked to teaching and learning rather than business generation. A number of quality improvement activities to support objective monitoring of the quality of teaching and learning and responses to apprentice and employer voice have been implemented.

OFSTED

In April 2017 the College was inspected by OFSTED and received a Requires Improvement judgement. The inspectors were clear that the improvement activities already in place were the right actions but were unable to see evidence at the time of their visit showing the impact they were making. In a subsequent Support & Challenge visit the modified improvement plan again supported the view that the actions in place should have an impact and the College continues to work hard to improve its rating to Good at the next inspection due by April 2019.

Student numbers

In 2016/17 the College has delivered activity that has produced £9.7m in funding body main allocation funding (2015/16 - £10.1m).
The school leaver demographic for the city shows a decline in July 2016 of 1.2% from the previous year and a further decline of 3.9% in school leavers in July 2017. The profile starts to show increases in school leavers from July 2019 onwards. Due to the lagged funding for 16 - 18 year olds these movements are reflected in the income for the College a year in arrears.
Including Adult learners, the College had approximately 4,000 grant funded and 1,400 non grant funded students

Student achievements

Achievement rates for 2016/17 were variable and this supports Ofsted's findings of a College that requires improvement. There were improvements for EFA funded learners in nearly all vocational qualifications, GCSE Maths and English, and a 10% improvement in achievement of Functional Skills level English and Maths qualifications. Some areas delivering to adult students continued to perform well overall, but ESOL, Functional Skills English and Maths qualifications and Diplomas had poorer outcomes. Apprentices achievements, both timely and overall have declined, and this is due to a large number of withdrawals whilst apprentices were on programme, most commonly linked to redundancy or quality of delivery.

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 2016 to 31st July 2017, the College paid 60.1 per cent of its invoices within 30 days. Coupled with implementing a new finance system, the finance team had high staff turnover in this role resulting in delayed payments. However, by working and communicating with suppliers over that period, the College incurred no interest charges in respect of late payment for this period.

Resources

The College has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include the main College site campus, with an investment of £48 million into the facilities between 2009 and 2012.

Financial

The College has £2,670,000 of net assets (including £10.05 million pension liability) with long term debt of £6.1 million and short term debt of £230k.

People

The College employs 207 people (expressed as full time equivalents), of whom 95 are teaching staff.

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.

Principal Risks And Uncertainties:

The College has undertaken further work during the year to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect 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 HEFCE. In 2016/17, 69% of the College's revenue was ultimately publicly funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

This risk is mitigated in a number of ways:
- By ensuring the College is 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 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 decreased by 16% from 2015/16 (2015/16 - increased by 40%) due to changes in the assumptions used by the actuary. The Hampshire LGPS scheme had its tri-annual revaluation in 2016. The impact on the college is an increase in its fixed contributions from £229,000 in 2016/17 to £311,400 in 2017/18 and rising to £333,600 in 2019/20, and in its employer contributions from 13.1% in 2016/17 to 14.4% in 2017/18 rising to 16.9% in 2019/20.

3 **Implementation of the Area Based Review recommendations**
The College is currently working with Southampton Solent University on a merger proposal in line with the Area Review recommendation for the organisation's future. The Senior Management Team is engaged in developing the business case and financial model that will be submitted to the Department for Education for approval. We expect a decision to be made late 2017, early 2018, and if approved the target is to complete the merger on 1st August 2018.
If the proposal is approved, the implementation will be a significant activity for the organisation, Board and Senior Management Team. Careful consideration will need to be given to the level of additional support that is required, to ensure that future organisational changes are made effectively whilst the College's day to day operations are managed effectively.

If the proposal is rejected the College will need to explore other options to create a sustainable long term financial future.

4 Failure to maintain the financial viability of the College

The College's current financial health grade for 2016/17 is classified as "Satisfactory" as described above. The improvement from "Inadequate" in 2015/16 is due to improved Curriculum Planning, use of realistic income assumptions in the budget process and delivering cost reductions in line with the Financial Recovery plan. Notwithstanding that, the continuing challenge to the College's financial position remains especially with a significant amount of deferred Long Term Maintenance due of around £1.5m. Funding levels for 16-18 year olds were guaranteed in the November 2015 CSR until 2020, but with the demographic growth showing a significant upturn from 2020, funding levels are at risk as is being seen in the school system. This risk is mitigated in a number of ways:

- By rigorous budget setting procedures and sensitivity analysis;
- Regular in year budget monitoring;
- Robust financial controls;
- Exploring ongoing procurement efficiencies;
- Implementing the merger with Southampton Solent University

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.

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 19th December 2017 and signed on its behalf by:

G. Davies

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 2016 to 31st July 2017 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 2017.

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 16/17	Committees served
Mr H Brora (Board VC and Rem. Chair)	23 Nov 2012 23 Nov 2016	4 years 4 years		External	10/10	Audit and Risk Search & Governance Remuneration
Ms C Conroy OBE (A&R Chair)	03 Nov 2015	4 years		External	6/10	Audit & Risk
Ms M Creighton	20 Oct 2016 20 Oct 2017	1 year 3 years	28 Nov 2017	External	4/7	Audit & Risk
Mr G Davies (Chair from 22 July 2017)	01 Dec 2016 01 Dec 2017	1 year 3 years		External	6/7	Audit & Risk (up to 21 July 2017 Search & Governance Remuneration
Rev Dr J Davies	13 Dec 2010 13 Dec 2014	4 years 4 years	01 Feb 2017	External	3/5	
Prof F Davis	27 Sep 2017	1 year		External	0/0	Audit & Risk
Mr A Haji	12 Dec 2016	8 months	31 Jul 2017	Student	6/7	
Dr J John (S&G Chair and Safeguarding Lead Governor)	04 Nov 2014	4 years		External	9/10	Search & Governance Remuneration Audit & Risk
Ms S Leamore (Chair until 31 Jul 17)	22 Jul 2013	4 years	21 Jul 2017	External	7/10	Remuneration Search & Governance
Mr A May	24 Nov 2012 Gap, then 31 Jan 2017	4 years 4 years	23 Nov 2016	Staff	8/9	Search & Governance
Mr A Riggs	31 May 2016 31 May 2017	1 year 3 years		External	9/10	Audit & Risk
Ms S Stannard	01 Aug 2013	Ex-officio		Principal	10/10	Search & Governance
Mr P Weir	03 Oct 2017	1 year		External	0/0	Audit & Risk
Mr J Childs-Clarke served as an Audit and Risk Co-Opted Committee Member throughout the year. Ms L Garth, was the independent Clerk to the Corporation throughout the year.						

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

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets regularly throughout the year.

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 above address.

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

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

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

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

Appointments to the Corporation

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 2016/17 this work included individual meeting evaluations and annual self-assessment reviews of each Corporation Committee as well as of the Board and it composite Members. On 7th November 2017, 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 Requires Improvement, making demonstrable progress since Spring 2017, and with good capacity to achieve further improvements during 2017/18. The accompanying detailed self-assessment report, including quality improvement actions, was approved at the Board meeting on 19th December 2017.

Remuneration Committee
The Remuneration Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and Clerk.
Details of remuneration of the Principal and other key management personnel for the year ended 31st July 2017 are set out in note 8 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 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 they are personally responsible, in accordance with the responsibilities assigned to them in the Financial Memorandum between Southampton City College and the funding bodies. They are 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 2017 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 2017 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.

Review of effectiveness
As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. Their 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, the reporting accountant for regularity assurance, the appointed funding auditors (for colleges subject to funding audit) 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 Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2017 meeting, the Corporation carried out the annual assessment for the year ended 31st July 2017 by considering documentation from the Senior Management Team and Internal Audit, and taking account of events since 31st July 2017.
Based on the advice of the Audit 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
After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. However, given the College's intention to merge with Southampton Solent University on 1st August 2018, subject to DfE approval, via dissolution of the current legal entity and transfer of all assets and liabilities at carrying value to a new subsidiary of company of the University, the going concern basis has not been adopted in preparing the financial statements.

Operationally, the College undertook a significant cost cutting exercise during the summer of 2016 to ensure it is in a position to deliver better financial performance than in prior years. An agreed overdraft facility from Santander Bank to cover the period of reduced funding in March and April 2018 will allow the College to continue operating during this short timeframe.

Approved by order of the members of the Corporation on 19th December 2017 and signed on its behalf by:

Geraint Davies	**Sarah Stannard**
Chair	**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 financial memorandum. As part of our consideration we have had due regard to the requirements of the financial memorandum.

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

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

Geraint Davies
Chair
19th December 2017

Sarah Stannard
Accounting Officer
19th December 2017

Statement of Responsibilities of the Members of the Corporation

The members of the Southampton City College (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 Financial Memorandum with the ESFA, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the 2015 Statement of Recommended Practice - Accounting for Further and Higher Education and with the College Accounts Direction 2016 to 2017 issued by the ESFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that 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 disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of 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 the ESFA are used only in accordance with the Financial Memorandum with the ESFA and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the ESFA are not put at risk.

Approved by order of the members of the Corporation on 19th December 2017 and signed on its behalf by:

G. Davies

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 2017 which comprise the college statement of comprehensive income, the college balance sheet, the college statement of changes in reserves, the college 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" as set out in our engagement letter dated 4 September 2017.

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2017 and of the College's surplus 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

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the accounting policies in the financial statements, which indicates that the Governors are pressing forward with plans for a combination with Southampton Solent University on or about 1st August 2018, which would result in the transfer of College's trade, assets and liabilities to a new legal entity and dissolution of the College entity. Approval of this transfer by the Department for Education is awaited at the date of this report, but both the College and University have approved this transaction. For this reason, the financial statements have been prepared on a basis other than going concern. No material adjustments arose as a result of ceasing to apply the going concern basis of accounting.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of 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 2016 to 2017 issued by the Department for Education 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 19, 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.

This report is made solely to the Corporation, as a body, in accordance with the Financial Memorandum published by the Skills Funding Agency and our engagement letter dated 4 September 2017. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required under our engagement letter dated 4 September 2017 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

Dated: 22 December 2017

Statement of Comprehensive Income

	Notes	Year ended 31 July 2017 £'000	Restated Year ended 31 July 2016 £'000
INCOME			
Funding body grants	2	10,521	11,001
Tuition fees and education contracts	3	2,476	2,168
Other grants and contracts	4	190	158
Other income	5	652	299
Investment income	6	-	4
Total income		**13,839**	**13,630**
EXPENDITURE			
Staff costs	7	8,236	8,645
Restructuring costs	7	86	62
Other operating expenses	8	3,813	3,879
Depreciation	11	1,468	1,648
Interest and other finance costs	9	493	689
Total expenditure		14,096	14,923
(Deficit) before other gains and losses		**(257)**	**(1,293)**
Gain on disposal of assets	11	-	345
(Deficit) before tax		**(257)**	**(948)**
Taxation	10	-	-
(Deficit) for the year		**(257)**	**(948)**
Unrealised surplus on revaluation of assets		-	-
Actuarial gain/ (loss) in respect of pensions schemes	22	2,390	(3,050)
Total Comprehensive Income for the year		**2,133**	**(3,998)**
Represented by:			
Restricted comprehensive income		-	-
Unrestricted comprehensive income		**2,133**	**(3,998)**
		2,133	**(3,998)**

Statement of Changes in Reserves

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 31st July 2015	**755**	**3,781**	**4,536**
(Deficit) from the income and expenditure account	(948)	-	(958)
Other comprehensive income	(3,050)	-	(3,050)
Transfers between revaluation and income and expenditure reserves	(318)	318	-
Total comprehensive income for the year	(4,306)	318	(3,998)
Balance at 31st July 2016	**(3,562)**	**4,099**	**537**
Balance at 31st July 2016	**(3,562)**	**4,099**	**537**
(Deficit) from the income and expenditure account	(257)	-	(257)
Other comprehensive income	2,390	-	2,390
Transfers between revaluation and income and expenditure reserves	74	(74)	-
Total comprehensive income for the year	2,207	(74)	2,133
Balance at 31st July 2017	**(1,355)**	**4,025**	**2,670**

Balance sheet as at 31st July

	Notes	2017 £'000	2016 £'000
Fixed assets			
Tangible Fixed assets	11	40,294	41,441
Investments		-	-
		40,294	**41,441**
Current assets			
Stocks		6	17
Trade and other receivables	12	1,175	1,296
Cash and cash equivalents	17	687	295
		1,868	**1,608**
Current Liabilities			
Creditors - amounts falling due within one year	13	(3,804)	(4,276)
Net current liabilities		**(1,936)**	**(2,668)**
Total assets less current liabilities		**38,358**	**38,773**
Creditors - amounts falling due after more than one year	14	(24,324)	(24,895)
Provisions for Liabilities			
Defined benefit obligations	16	(10,050)	(12,030)
Other provisions	16	(1,314)	(1,311)
Total net assets		**2,670**	**537**
Unrestricted Reserves			
Income and expenditure account		(1,355)	(3,562)
Revaluation reserve		4,025	4,099
Total unrestricted reserves		**2,670**	**537**
Total Reserves		**2,670**	**537**

The financial statements on pages 24 to 48 were approved and authorised for issue by the Corporation on 19th December 2017 and were signed on its behalf on that date by:

Geraint Davies
Chair

Sarah Stannard
Accounting Officer

Statement of Cash Flows

	Notes	2017 £'000	2016 £'000
Cash flow from operating activities			
Surplus/(Deficit) for the year		(257)	(958)
Adjustment for non-cash items			
Depreciation		1,468	1,648
Deferred Capital Grants released to income		(860)	(885)
(Increase)/decrease in stocks		11	(1)
(Increase)/decrease in debtors		121	(217)
Increase/(decrease) in creditors due within one year		313	83
Increase/(decrease) in provisions		3	(17)
Pensions costs less contributions payable		410	320
Donation from Inspire Academy Trust		-	(455)
Adjustment for investing or financing activities			
Investment income		-	(4)
Interest payable		373	389
Release of Interest paid in Advance provision		(160)	-
EFA Pension Contribution		-	109
Loss on sale of fixed assets			
Net cash flow from operating activities		**1,422**	**12**
Cash flows from investing activities			
Investment income		-	4
Payments made to acquire fixed assets		(437)	(154)
		(437)	(150)
Cash flows from financing activities			
Interest paid			
Interest element of finance lease rental payments		(373)	(389)
New unsecured loans		-	-
Repayments of amounts borrowed		(220)	(204)
Capital element of finance lease rental payments		-	-
		(593)	(593)
Increase / (decrease) in cash and cash equivalents in the year		**392**	**(731)**
Cash and cash equivalents at beginning of the year	17	295	1,026
Cash and cash equivalents at end of the year	17	687	295

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 2016 to 2017* 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 the 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
In accordance with FRS 102, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31st July 2017.

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
As set out in the Members Report, the College is applying to the Department for Education for approval to merge with Southampton Solent University, with a potential merger date of 1st August 2018. If approval is given the current legal entity would be dissolved with all trade, assets and liabilities transferred to a new subsidiary company at carrying value within the University Group, which would be materially the same as the current College organisation.

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

The College currently has £6.3m of loans outstanding with bankers on terms negotiated in 2009. The terms of the existing agreement are for 25 years with 17 years remaining. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for a period of at least 12 months from the date of approval of these financial statements.

The College has agreed with Santander a £750k ongoing overdraft facility that is sufficient to cover the expected cashflow shortfall occurring during February and March 2018 due to reduced funding payments by the ESFA.

While the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future as noted previously the Governors' are committed to pursuing the combination with Southampton Solent University as a result of which the College will dissolve after the transfer of trade, assets and liabilities at carrying value to Southampton Solent University. And therefore the financial statements have been prepared on a basis other than going concern.

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

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

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.

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.

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

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 using the enhanced pension spreadsheet provided by the funding bodies.

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 income and expenditure account over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

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 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
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.

The College only has financial assets (comprising trade debtors, prepayments & accrued income and funding agency debtors) and financial liabilities (comprising trade creditors, accruals, deferred income, finance leases, loans, funding agency creditors and other creditors) of a kind that qualify as basic financial instruments which are recognised at their settlement amount in accordance with Section 11, FRS 102.

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.
The College's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

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.

Agency arrangements
The College acts as an agent in the collection and payment of 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.

Judgements in applying accounting policies and key sources of estimation uncertainty
In preparing these financial statements, management have made the following judgements:

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

Other key sources of estimation uncertainty

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

Local Government Pension Scheme
The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 25, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31st March 2016 has been used by the actuary in valuing the pensions liability at 31st July 2017. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2 Funding body grants	2017	Restated 2016
	£'000	£'000
Recurrent grants		
Education & Skills Funding Agency - Adult	1,811	2,098
Education & Skills Funding Agency - 16-18	6,162	6,357
Education & Skills Funding Agency - Apprentices	1,507	1,604
Higher Education Funding Council	181	57
Specific grants		
Releases of government capital grants	860	885
Total	**10,521**	**11,001**

3 Tuition fees and education contracts	2017	Restated 2016
	£'000	£'000
Adult education fees	404	296
Fees for FE loan supported courses	586	519
Fees for HE loan supported courses	640	506
Total tuition fees	1,630	1,321
Education contracts	846	847
Total	**2,476**	**2,168**

4 Other grants and contracts	2017	Restated 2016
	£'000	£'000
European Commission	32	-
Other grants and contracts	158	158
Total	190	158

The members have assessed the classification of apprenticeship income in the financial statements, and they consider that it is more appropriate in line with the SORP to disclose this income under Funding Body Grant income.

As a result, the comparative information has been amended in line with the change made in the current year. Apprenticeship grant income received from the Education and Skills Funding Agency totalling £1,604,000 has been classified as Recurrent Funding Body Grants. Total Funding Body Grants have increased from £9,397,000 to £11,001,000 and Tuition Fees and Education Contracts have decreased from £3,772,000 to £2,168,000.

5 Other income

	2017 £'000	2016 £'000
Catering and residences	15	19
Other income generating activities	637	280
Total	**652**	**299**

6 Investment income

	2017 £'000	2016 £'000
Other investment income	-	-
Other interest receivable	-	4
Net return on pension scheme (note 22)	-	-
Total	**-**	**4**

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:

	2017	2016
	No.	No.
Teaching staff	95	107
Non-teaching staff	112	120
	207	**227**

Staff costs for the above persons

	2017	2016
	£'000	£'000
Wages and salaries	6,077	6,730
Social security costs	522	455
Other pension costs (including FRS102 adjustments of £130,000 (2016:£10,000))	1,311	1,214
Payroll sub total	**7,910**	**8,399**
Contracted out staffing services	326	246
	8,236	**8,645**
Restructuring costs - Contractual	86	62
Total Staff costs	**8,322**	**8,707**

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, Vice Principal Curriculum & Quality, Assistant Principal Workforce Skill & Student Experience, Director of People and Estates. 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

	2017	2016
	No.	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	
	2017	2016	2017	2016
	No.	No.	No.	No.
£50,001 to £60,000 p.a.	1	2	-	-
£60,001 to £70,000 p.a.	2	1	-	-
£70,001 to £80,000 p.a.	-	1	-	-
£80,001 to £90,000 p.a.	1	-	-	-
£110,001 to £120,000 p.a.	1	1	-	-
	5	5	-	-

Key management personnel emoluments are made up as follows:

	2017	2016
	£'000	£'000
Salaries	369	351
Employers NI Contributions	45	39
Benefits in kind	1	1
	415	391
Pension contributions	52	48
Total emoluments	467	439

There were no amounts due to key management personnel that were waived in the year. Payments of £1,200 were made through salary sacrifice arrangements.

The above emoluments include amounts payable to the Accounting Officer (who is also the highest paid officer) of:

	2017	2016
	£'000	£'000
Salaries	112	112
Employers NI Contributions	14	14
Benefits in kind	1	1
	127	127
Pension contributions	15	15

8 Other operating expenses

	2017	2016
	£'000	£'000
Teaching costs	857	747
Non-teaching costs	1,802	1,735
Premises costs	1,154	1,397
Total	**3,813**	**3,879**

Other operating expenses include:	**2017**	**2016**
	£'000	£'000
Auditors' remuneration:		
Financial statements audit	29	28
Internal audit	18	10
Other services provided by the financial statements auditor	21	-
Other services provided by the internal auditors	-	-
Losses on disposal of non-current assets	-	-
Hire of assets under operating leases	158	153

9 Interest and other finance costs

	2017	2016
	£'000	£'000
On bank loans, overdrafts and other loans:	373	389
Release of Interest paid in Advance provision	(160)	-
	213	389
Pension finance costs (note 22)	280	300
Total	**493**	**689**

10 Taxation

The College is not liable for corporation tax for any activities during the year ending 31st July 2017 nor through the prior year.

11 Tangible fixed assets

	Land and buildings		Equipment	Assets in the course of construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000		£'000
Cost or valuation					
Restated at 1st August 2016	52,194	10	6,285	11	58,500
Additions	37	-	97	187	321
Assets in Construction Transfers			11	(11)	-
Disposals	-	-	-	-	-
At 31st July 2017	52,231	10	6,393	187	58,821
Depreciation					
Restated at 1st August 2016	11,820	9	5,230	-	17,059
Charge for the year	1,125	1	342	-	1,468
Disposals	-	-	-	-	-
At 31st July 2017	12,945	10	5,572	-	18,527
Net book value at 31st July 2017	**39,286**	-	**821**	**187**	**40,294**
Net book value at 31st July 2016	40,374	1	1,055	11	41,441

The asset transfer from IAT to the College in 2015/16 was recorded in the accounts net, and has been grossed up in the accounts this year to correctly reflect the £274k of Cost and Depreciation that was transferred.

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

12 Debtors

	2017	2016
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	881	851
Amounts owed by group undertakings:		
Inspire Academy Trust	1	3
Prepayments and accrued income	206	215
Amounts owed by the Education & Skills Funding Agency	87	227
Total	**1,175**	**1,296**

13 Creditors

	2017	2016
	£'000	£'000
Bank loans and overdrafts	230	211
Trade payables	132	211
Payments received in advance	742	885
Other taxation and social security	141	155
Accruals and deferred income	611	697
Deferred income - government capital grants	668	1,454
EFA Capital Grant repayment	80	-
Other Creditors	470	326
Amounts owed to the Skills Funding Agency/EFA	730	337
Total	**3,804**	**4,276**

14 Creditors: Amounts falling due after one year

	2017	2016
	£'000	£'000
Bank loans	6,100	6,498
EFA Capital Grant repayment	500	
Deferred income - government capital grants	17,722	18,395
Trust Funds	2	2
Total	**24,324**	**24,895**

15 Borrowings

	2017	2016
Bank loans and overdrafts are repayable as follows:	£'000	£'000
In one year or less	230	211
Between one and two years	244	230
Between two and five years	823	777
In five years or more	5,033	5,492
Total	**6,330**	**6,710**

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 2017 and 30 April 2034 totalling £6,33,000, which is secured on all of the freehold land and buildings of the College

16 Provisions

	Defined benefit obligations	Enhanced pensions	Total
	£'000	£'000	£'000
At 1 August 2016	12,030	1,311	13,341
Expenditure in the period			
Additions in period	(1,980)	3	(1,977)
At 31st July 2017	**10,050**	**1,314**	**11,364**

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. This provision has been recalculated in accordance with guidance issued by the funding bodies. The principal assumptions for this calculation are:

	2017	2016
Price inflation	3.1%	2.9%
Discount rate	2.6%	2.4%

17 Cash and cash equivalents

	At 1st August 2016	Cash flows	Other changes	At 31st July 2017
	£'000	£'000	£'000	£'000
Cash and cash equivalents	295	392		687
Overdrafts				
Total	**295**	**392**		**687**

18 Capital and other commitments

	2017	2016
	£'000	£'000
Commitments contracted for at 31st July	11	26

19 Lease obligations

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

	2017	2016
	£'000	£'000
Future minimum lease payments due		
Not later than one year	65	153
Later than one year and not later than five years	9	41
Later than five years	-	-
	74	194

20 Contingent liabilities

There are no Contingent Liabilities

21 Events after the reporting period

City Hub Events limited a dormant 100% owned subsidiary company of the college was closed and removed from the Companies House register on September 26th 2017

The College has made an application to the Department for Education to become a wholly owned subsidiary of Southampton Solent University. If the application is approved the assets and liabilities of the College would transfer at their carrying value to the new subsidiary company on August 1st 2018, therefore the accounts are not prepared on a going concern basis, but no material adjustments are required as a result.

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. All pension schemes are multi-employer defined-benefit plans.

Total pension cost for the year		2017		2016
		£000		£000
Teachers' Pension Scheme: contributions paid		466		479
Local Government Pension Scheme:				
Contributions paid	600		590	
FRS 102 (28) charge	130		20	
Charge to the Statement of Comprehensive Income		730		610
Enhanced pension charge to Statement of Comprehensive Income		115		125
Total Pension Cost for Year within staff costs		**1,311**		**1,214**

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31st March 2016.
There were no outstanding or prepaid contributions at either the beginning or the end of the financial year

Teachers' Pension Scheme

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

The Teachers' Pension Budgeting and Valuation Account

Although members may be employed by various bodies, their retirement and other pension benefits are set out in regulations made under the Superannuation Act 1972 and are paid by public funds provided by Parliament. The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis - these contributions, along with those made by employers, are credited to the Exchequer under arrangements governed by the above Act. The Teachers' Pensions Regulations 2010 require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pension increases). From 1st April 2001, the Account has been credited with a real rate of return, which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Valuation of the Teachers' Pension Scheme

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

- New employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay;
- assumed real rate of return is 3.0% in excess of process and 2.0% in excess of earnings;
- rate of real earnings growth is assumed to be 2.75%;
- assumed nominal rate of return is 5.06%.

The new employer contribution rate for the TPS was implemented in September 2015.
A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:
https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £466,000 (2016: £479,000)

FRS 102 (28)

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.

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 31 July 2017 were £760,000, of which employer's contributions totalled £600,000 and employees' contributions totalled £160,000. The agreed contribution rates for future years are 14.4% April 2017 to April 2018, 15.6% from April 2018 to April 2019 and 16.9% from April 2019 to April 2020. For employees, contributions range from 5.5% to 11.4%, depending on salary.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31st March 2016 updated to 31st July 2017 by a qualified independent actuary.

	At 31st July 2017	**At 31st July 2016**
Rate of increase in salaries	3.50%	3.30%
Future pensions increases	2.00%	1.80%
Discount rate for scheme liabilities	2.60%	2.40%
Inflation assumption (CPI)	2.00%	1.80%

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

	At 31st July 2017	**At 31st July 2016**
	years	years
Retiring today		
Males	24.0	24.6
Females	27.0	26.4
Retiring in 20 years		
Males	26.0	26.7
Females	29.3	28.7

The College's share of assets in the plan at the balance sheet date were:	**Fair Value at 31st July 2017 £'000**	**Fair Value at 31st July 2016 £'000**
Equity instruments	12,130	10,053
Debt instruments	5,133	5,975
Property	1,288	319
Cash	595	922
Other	674	461
Total fair value of plan assets	**19,820**	**17,730**

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

	2017	2016
	£'000	£'000
Fair value of plan assets	19,820	17,730
Present value of plan liabilities	(29,870)	(29,760)
Net pensions (liability)/asset (Note 19)	**(10,050)**	**(12,030)**

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

	2017	2016
	£'000	£'000
Amounts included in staff costs		
Current service cost	720	580
Past service cost	10	30
Total	**730**	**610**
Amounts included in investment income		
Interest income	(430)	(570)
Interest expense on Defined Benefit pension obligation	780	870
	280	**300**
Amount recognised in Other Comprehensive Income		
Return on pension plan assets	1,550	1,410
Experience losses arising on defined benefit obligations	840	(4,460)
Amount recognised in Other Comprehensive Income	**2,390**	**(3,050)**

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

	2017	2016
	£'000	**£'000**
Net defined benefit (liability)/asset in scheme at 1st August	(12,030)	(8,660)
Movement in year:		
Current service cost	(720)	(580)
Employer contributions	600	590
Past service cost	(10)	(30)
Net interest on the defined (liability)/asset	(280)	(300)
Actuarial gain or loss	2,390	(3,050)
Net defined benefit (liability) at 31st July	**(10,050)**	**(12,030)**

Asset and Liability Reconciliation

	2017	2016
	£'000	**£'000**
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	29,760	24,360
Current service cost	720	580
Interest cost	710	870
Contributions by Scheme participants	160	180
Experience gains and losses on defined benefit obligations		
Changes in financial assumptions	(840)	4,460
Estimated benefits paid	(650)	(720)
Past Service cost	10	30
Defined benefit obligations at end of period	**29,870**	**29,760**

Changes in fair value of plan assets

	2017	2016
Fair value of plan assets at start of period	17,730	15,700
Interest on plan assets	430	570
Return on plan assets	1,550	1,410
Employer contributions	600	590
Contributions by Scheme participants	160	180
Estimated benefits paid	(650)	(720)
Fair value of plan assets at end of period	**19,820**	**17,730**

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 at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

During the year £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 £7k (2016: £0.5k) was owed to the college from Inspire Academy Trust.

The total expenses paid to or on behalf of the Governors during the year was £454; 1 governor (2016: £1,371; 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 (2016: None).

24 Amounts disbursed as agent: Learner support funds

	2017 £'000	2016 £'000
Brought forward from prior year	250	256
Brought forward amounts repaid	(93)	(145)
Funding body grants - bursary support	649	660
Funding body grants - discretionary learner support	286	286
	1,092	1,057
Disbursed to students	(684)	(779)
Administration costs	(20)	(28)
Balance unspent as at 31st July, included in creditors	388	250

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 THE DEPARTMENT FOR EDUCATION

Conclusion

We have carried out an engagement, in accordance with the terms of our engagement letter dated 4th September 2017 and further to the requirements of the financial memorandum with Skills Funding Agency, to obtain limited assurance about whether the expenditure disbursed and income received by Southampton City College during the period 1st August 2016 to 31st July 2017 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 1st August 2016 to 31st July 2017 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 2016 to 2017 issued by the Department for Education. 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 Education and Skills Funding Agency 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 financial memorandum 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 Post-16 Audit Code of Practice 2016 to 2017.

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 1st August 2016 to 31st July 2017 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

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 financial memorandum with Skills Funding Agency 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.

This report is made solely to the corporation of Southampton City College and the Secretary of State for Education acting through the Department for Education 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 Department for Education 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 Department for Education for our work, for this report, or for the conclusion we have formed.

RSM UK Audit LLP

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Dated: 22nd December 2017