# SOUTHAMPTON CITY COLLEGE

# Report and Financial Statements for the year ended 31 July 2016

# 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 2015/16:

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

## Board of Governors

A full list of Governors is given on page 12 - 13 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:
Barclays Bank Plc
Southern Larger Business Team
Wytham Court,
11 West Way,
Oxford
OX2 OJB

Solicitors:
Bond Dickinson LLP
Oceana House
39-49 Commercial Road
Southampton SO15 1GA

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# Members Report

## Nature, Objectives And Strategies:

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

### Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting 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 from 1st September 2013, has been regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 12-13.

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 within 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, during this year such events included the launch of Black History Month and hosting events for So: To Speak, Southampton's first Literary Festival.

The College sponsors the Inspire Academy Trust which currently runs the Isle of Wight Studio School which opened in September 2014. The Trust previously also ran the Inspire Enterprise Academy in Southampton up to its closure, at the end of August 2015, due to lack of enrolments.

### Implementation of strategic plan

In December 2014 the College adopted a strategic plan for the period 1 August 2015 to 31 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
- Curriculum planning detailed and accurate.

### 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 adapted and 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 Group generated a deficit before other gains and losses in the year of £1,284,000 (2014/15 - deficit of £908,000), with total comprehensive income of (£4,354,000), (2014/15 - £(1,535,000)). In March 2016 the College notified the Skills Funding Agency that it was forecasting a financial health grading of Inadequate for 2015/16. The forecast rating of Inadequate was not considered an acceptable outcome by the College Management or the Board and as a result the College has moved quickly to develop a financial recovery plan. Actions were taken through the summer of 15/16 to address cost issues and the Board agreed a breakeven budget for 2016/17 that will see the College recover to Satisfactory Financial Health.

The Group has accumulated reserves of £536,000 and cash and short term investment balances of £465,000. The Group 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 £156,000. This was split between building improvements of £45,000, equipment purchased of £100,000 and assets under construction of £11,000. After the Southampton Studio school closure on 31st August 2015, the College regained control of the building previously transferred to the Inspire Academy Trust. This has been reflected as a transfer of the building back to the College's balance sheet.

The Group has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2015/16 the FE funding bodies provided 64% of the Group's total income.

The College has one active subsidiary company, Inspire Academy Trust. The principal activity of Inspire Academy Trust is the running of a Studio School located in East Cowes, Isle of Wight. The trust previously also operated a Studio School in Southampton which closed operationally in August 2015 due to low enrolments.

### 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 and shall comply with the requirements of the Financial Memorandum.

### Cash flows and liquidity

At £105,000 the net cash outflow from operating activities was poor (2014/15 net cash inflow £1,972,000). 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 (£3,563,000) (2015: surplus £673,000). It is the Corporation's intention to increase reserves over the life of the Strategic Plan, by the generation of annual operating surpluses, however significant changes in the valuation of the LGPS fund more than erode any operating surpluses.

## Current and future development and performance

### Student numbers

In 2015/16 the College has delivered activity that has produced £10.4m in funding body main allocation funding (2014/15 - £12.2m). The school leaver demographic for the city shows a decline in 2014/15 of 2.5% from the previous year and of 1.2% for 2015/16 school leavers. The forecast for leavers in 2016/17 is a decline of 3.9% before the profile starts to show increases year on year until 2024. Due to the lagged funding for 16 - 18 year olds these movements are reflected in the income for the College a year in arrears. The College had approximately 4,000 grant funded and 1,400 non grant funded students

### Student achievements

Success rates for 2015/16 were variable. There were improvements for EFA funded learners in nearly all vocational qualifications and GCSE Maths and English, but a very high number of Functional Skills level English and Maths qualifications taken had poor outcomes. Adult students continued to perform well overall, though again Functional Skills level English and Maths qualifications taken had poorer outcomes. In general Apprentices have continued to perform well, maintaining the previous year's strong improvement, however we have one area that is under performing and is being closely monitored.

### Curriculum developments

In the year the College signed a comprehensive progression agreement with Southampton Solent University, which provides clear progression from almost all of the college's level 3 courses to degrees at SSU. This agreement is one part of SSU and City College working more closely together to try and improve participation in higher education in Southampton, which has been a long standing issue.

New courses were planned for introduction in 2016/17 including Digital Communications, 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 2016/17 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 2016/17 has been made on a sound basis.

### Payment performance
The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires Colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2015 to 31 July 2016, the College paid 96.4 per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

### Events after the end of the reporting period
The College has agreed to sign Heads of Terms prior to entering into a long term lease agreement which will generate significant income for the college over the next 10 years starting from August 2017.

The IAT Trustees have made the decision that the IOW school would be better supported by being transferred to a larger Multi Academy Trust (MAT) and has asked the Regional Schools Commissioner to help find a suitable MAT with local links or provision that can accept the transfer.

### Future Prospects
In July 2015 the Board agreed to undertake a Structure and Prospects Appraisal in 2015/16 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 recommendations of the Area Review.

## 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 Group has £2,160,000 of net assets (including £12.06 million pension liability) and long term debt of £6.49 million.

### People
The Group employs 239 people (expressed as full time equivalents), of whom 114 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 EFA and SFA and through HEFCE. In 2015/16, 64% 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
- Reviewing 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 increased by 40% from 2014/15 due to changes in the assumptions used by the actuary. The Hampshire LGPS scheme is about to have its tri-annual revaluation and has proposed to de-group HE & FE colleges. The impact on the College is uncertain at this time but it is assumed that contribution levels will increase. Given the financial status of the College any increase in contributions could have a major impact on the College finances.

3 Implementation of the Area Based Review recommendations
The College is currently awaiting a government decision on the Area Review recommendation for the organisation's future. Once this decision has been made implementation of either of the recommendations for the College will be a significant activity for the organisation and for the Board and the 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.

## 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 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 2016 and signed on its behalf by:**

**Hanif Brora**
**Vice 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 1 August 2015 to 3[t] July 2016 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 2014 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 full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015 which it adopted from 1 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 31 July 2016.

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 to 31 Jul 16 meetings | Committees served |
|---|---|---|---|---|---|---|
| Dr A Barney (A&R Chair to 05 Oct 2015) | 06 Oct 2003<br>06 Oct 2005<br>06 Oct 2007<br>06 Oct 2011 | 2 years<br>2 years<br>4 years<br>4 years | 5 Oct 2015 | Business<br>Co-opted<br>Co-opted<br>External | 1/1 | Audit and Risk (Chair from August 2011 to 05 Oct 2015) |
| Prof R Blackwell | 18 Jul 2011<br>18 Jul 2015 | 4 years<br>6 months | 31 Dec 2015 | External | 1/3 | |
| Mr H Brora (Board VC and Rem. Chair) | 23 Nov 2012<br>23 Nov 2016 | 4 years<br>4 years | | External | 6/6 | Audit and Risk<br>Search & Governance<br>Remuneration |
| Mr J Chudley | 15 Dec 2015 | 4 years | 05 July 2016 | External | 4/5 | |
| Ms C Conroy OBE (A&R Chair from 16 May 2016) | 03 Nov 2015 | 4 years | | External | 5/7 | Audit & Risk |
| Ms M Creighton | 20 Oct 2016 | 1 year | | External | 0/0 | Audit & Risk |
| Mr G Davies | 01 Dec 2016 | 1 year | | External | 0/0 | Audit & Risk |
| Rev Dr J Davies | 13 Dec 2010<br>13 Dec 2014 | 4 years<br>4 years | | External | 8/9 | |
| Mr M Davis | 03 Nov 2015 | 4 years | 26 April 2016 | External | 2/4 | Search & Governance<br>Remuneration |
| Mr A Haji | 12 Dec 2016 | 8 months | | Student | 0/0 | |
| Dr J John (S&G Chair and Safeguarding Lead Governor) | 04 Nov 2014 | 4 years | | External | 9/9 | Search & Governance<br>Remuneration<br>Audit & Risk |
| Ms S Leamore (Chair from 26 Nov14) | 22 Jul 2013 | 4 years | | External | 9/9 | Remuneration<br>Search & Governance |
| Cllr M Lloyd | 10 Mar 2014 | 4 years | 18 May 2016 | External | 4/6 | |
| Mr A May | 24 Nov 2012 | 4 years | 23 Nov 2016 | Staff | 8/9 | Search & Governance |

| | Date of Appointment | Term of office | Date of leaving | Category | Board Attendance to 31 Jul 16 meetings | Committees served |
|---|---|---|---|---|---|---|
| Ms L Paton | 05 Oct 2015 | 10 months | 30 June 2016 | Student | 4/8 | |
| Mr A Riggs | 31 May 2016 | 1 year | | External | 2/2 | Audit & Risk |
| Mr B Scott | 22 Jul 2013 | 4 years | 31 Dec 2015 | External | 2/3 | Search & Governance Audit & Risk |
| Ms S Stannard | 01 Aug 2013 | Ex-officio | | Principal | 6/6 | Search & Governance |
| Mr P Weir (A&R Chair 06 Oct 2015 - ) | 18 Jun 2012 | 4 years | 25 Mar 2016 | External | 5/5 | Audit and 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 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 Chairman 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.

The Corporation assesses and monitors its ongoing performance and development through meeting evaluations and the through the work of its Committees. In addition there is an annual review of Corporation performance which is discussed at its annual November Governance Conference. On 07 November 2016, the Corporation agreed that its overall performance was Good.

### Corporation performance

The Corporation carries out regular self-assessment work. For 2015-16 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 07 November 2016, during a governance conference, the Board considered its own performance in the context of the quality and financial outcomes of the whole College. The Corporation agreed its own performance for 2015-16 was good with some outstanding features and some areas for improvement. The accompanying detailed self-assessment report, including quality improvement actions, was approved at the Board meeting on 19 December 2016.

### 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 31 July 2016 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 Joint 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 31 July 2016 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 31 July 2016 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 EFA and SFA's *Joint 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 2016 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2016 by considering documentation from the Senior Management Team and Internal Audit, and taking account of events since 31 July 2016.
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. For this reason, it continues to adopt the going concern basis in preparing the financial statements.
The College has undertaken 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 2017 will allow the College to continue operating during this short timeframe.
The College has also agreed to sign Heads of Terms to enter into a long term lease agreement that will generate significant income for the next 10 years from August 2017.

**Approved by order of the members of the Corporation on 19th December 2016 and signed on its behalf by:**

| | |
|---|---|
| Hanif Brora | Sarah Stannard |
| Vice Chair | Accounting Officer |

## Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding

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

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

| | |
|---|---|
| Hanif Brora | Sarah Stannard |
| Vice Chair | Accounting Officer |
| 19th December 2016 | 19th December 2016 |

## 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.

The law applicable to charities in England and the terms and conditions of the Financial Memorandum between the Skills Funding Agency and the Corporation of the College, requires the corporation of the college to prepare financial statements for each financial year in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education Institutions the annual Accounts Direction issued jointly by the Skills Funding Agency and the Education Funding Agency, and applicable United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and which give a true and fair view of the state of affairs of the College and of the College's surplus/deficit of income over expenditure for that period.

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

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

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 [{registered charity the Charities Act 2011, the Charity (Accounts and Reports) Regulations 2008 Charities Act 2011 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 funds from the Skills Funding Agency are used only in accordance with the authorities that govern them as defined by and in accordance with Further & Higher Education Act 1992, subsequent legislation and related regulations and the Financial Memorandum with the Skills Funding Agency and any other conditions that may be prescribed from time to time.

**Approved by order of the members of the Corporation on 19th December 2016 and signed on its behalf by:**

HBrora

Hanif Brora
Vice Chair

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

We have audited the Consolidated and College financial statements (the "financial statements") which comprise the Consolidated and College Statement of Comprehensive Income, the Consolidated and College Balance Sheets, the Consolidated Cash Flow Statement, and the Consolidated and College Statement of Changes in Reserves and the related notes. 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".

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 18 November 2015. 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 18 November 2015 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.

### Respective Responsibilities of the Corporation of Southampton City College and Auditor

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 18, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with the terms of our engagement letter dated 18 November 2015, Joint Audit Code of Practice issued by the Skills Funding Agency and Education Funding Agency and International Standards on Auditing (UK and Ireland). The International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate

### Opinion on financial statements

In our opinion the Financial Statements:

- give a true and fair view of the state of [the Groups' and the College's affairs as at 31 July 2016 and of the Group's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

**Matters on which we are required to report by exception**

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

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

RSM UK Audit LLP

RSM UK AUDIT LLP
Chartered Accountants
Highfield Court
Tollgate
Chandlers Ford
Hampshire
SO53 3TY

Dated: 20/12/16

# Consolidated Statements of Comprehensive Income

| | Notes | Year ended 31 July 2016 | Year ended 31 July 2015 Restated |
|---|---|---|---|
| | | Group | Group |
| | | £'000 | £'000 |
| INCOME | | | |
| Funding body grants | 2 | 10,428 | 12,171 |
| Tuition fees and education contracts | 3 | 3,680 | 3,587 |
| Other grants and contracts | 4 | 158 | 228 |
| Other income | 5 | 512 | 388 |
| Investment income | 6 | 5 | 6 |
| Donations and Endowments | 7 | - | - |
| **Total income** | | 14,783 | 16,380 |
| EXPENDITURE | | | |
| Staff costs | 8 | 9,255 | 9,998 |
| Fundamental restructuring costs | 8 | 63 | 311 |
| Other operating expenses | 9 | 4,155 | 4,305 |
| Depreciation | 12 | 1,791 | 1,978 |
| Interest and other finance costs | 10 | 693 | 696 |
| **Total expenditure** | | 15,957 | 17,288 |
| **(Deficit) before other gains and losses** | | (1,174) | (908) |
| Loss on disposal of assets | 12 | (110) | - |
| **(Deficit) before tax** | | (1,284) | (908) |
| Taxation | 11 | - | - |
| **(Deficit) for the year** | | (1,284) | (908) |
| Unrealised surplus on revaluation of assets | | - | - |
| Actuarial loss in respect of pensions schemes | 25 | (3,070) | (627) |
| **Total Comprehensive Income for the year** | | (4,354) | (1,535) |
| **Represented by:** | | | |
| **Restricted comprehensive income** | | - | - |
| **Unrestricted comprehensive income** | | (4,354) | (1,535) |
| | | (4,354) | (1,535) |
| | | | |
| **Deficit for the year attributable to:** | | | |
| Non-controlling interest | | - | - |
| Group | | (1,174) | (908) |
| | | | |
| **Total Comprehensive Income for the year attributable to:** | | | |
| Non-controlling interest | | - | - |
| Group | | (4,354) | (1,535) |

# Balance sheets as at 31 July

| | Notes | Group | College | Group | College |
|---|---|---|---|---|---|
| | | | | Restated | |
| | | 2016 | 2016 | 2015 | 2015 |
| | | £'000 | £'000 | £'000 | £'000 |
| **Non current assets** | | | | | |
| Tangible Fixed assets | 12 | 45,103 | 41,441 | 46,847 | 41,923 |
| Investments | 13 | - | 2 | - | 2 |
| Pensions asset | 25 | | | | |
| | | 45,103 | 41,443 | 46,847 | 41,925 |
| **Current assets** | | | | | |
| Stocks | | 17 | 17 | 16 | 16 |
| Trade and other receivables | 14 | 1,436 | 1,296 | 1,176 | 1,079 |
| Investments | 15 | - | - | - | - |
| Cash and cash equivalents | 20 | 465 | 295 | 1,326 | 1,026 |
| | | 1,918 | 1,608 | 2,518 | 2,121 |
| **Current Liabilities** | | | | | |
| Creditors - amounts falling due within one year | 16 | (4,635) | (4,276) | (4,300) | (3,582) |
| **Net current liabilities** | | (2,717) | (2,668) | (1,782) | (1,461) |
| **Total assets less current liabilities** | | 42,386 | 38,775 | 45,065 | 40,464 |
| Creditors - amounts falling due after more than one year | 17 | (28,484) | (24,895) | (30,132) | (25,940) |
| **Provisions** | | | | | |
| Defined benefit obligations | 19 | (12,055) | (12,030) | (8,715) | (8,660) |
| Other provisions | 19 | (1,311) | (1,311) | (1,328) | (1,328) |
| **Total net assets** | | 536 | 539 | 4,890 | 4,536 |
| **Unrestricted Reserves** | | | | | |
| Income and expenditure account | | (3,563) | (3,561) | 673 | 755 |
| Revaluation reserve | | 4,099 | 4,099 | 4,217 | 3,781 |
| **Total unrestricted reserves** | | 536 | 539 | 4,890 | 4,536 |
| **Total Reserves** | | 536 | 539 | 4,890 | 4,536 |

The financial statements on pages 21 to 50 were approved and authorised for issue by the Corporation on 19th December 2016 and were signed on its behalf on that date by:

Hanif Brora
**Vice Chair**

Sarah Stannard
**Accounting Officer**

# Consolidated and College Statement of Changes in Reserves

| | Income and expenditure account | Revaluation reserve | Total excluding Non-controlling interest | Non-controlling interest | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Group** | | | | | |
| **Restated Balance at 1st August 2014** | 2,090 | 4,335 | 6,425 | - | 6,425 |
| (Deficit) from the income and expenditure account | (908) | - | (908) | - | (908) |
| Other comprehensive income | (627) | - | (627) | - | (627) |
| Transfers between revaluation and income and expenditure reserves | 118 | (118) | - | - | - |
| | (1,417) | (118) | (1,535) | - | (1,535) |
| **Balance at 31st July 2015** | 673 | 4,217 | 4,890 | - | 4,890 |
| (Deficit) from the income and expenditure account | (1,284) | - | (1,284) | - | (1,284) |
| Other comprehensive income | (3,070) | - | (3,070) | - | (3,070) |
| Transfers between revaluation and income and expenditure reserves | 118 | (118) | - | - | - |
| **Total comprehensive income for the year** | (4,236) | (118) | (4,354) | - | (4,354) |
| **Balance at 31 July 2016** | (3,563) | 4,099 | 536 | - | 536 |

| | Income and expenditure account | Revaluation reserve | Total excluding Non-controlling interest | Non-controlling interest | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **College** | | | | | |
| **Restated Balance at 1st August 2014** | 2,204 | 3,855 | 6,059 | - | 6,059 |
| (Deficit) from the income and expenditure account | (809) | - | (809) | - | (809) |
| Other comprehensive income | (640) | - | (640) | - | (640) |
| Transfers between revaluation and income and expenditure reserves | - | (74) | (74) | - | (74) |
| | (1,449) | (74) | (1,523) | - | (1,523) |
| **Balance at 31st July 2015** | 755 | 3,781 | 4,536 | - | 4,536 |
| (Deficit) from the income and expenditure account | (947) | - | (947) | - | (947) |
| Other comprehensive income | (3,050) | - | (3,050) | - | (3,050) |
| Transfers between revaluation and income and expenditure reserves | (318) | 318 | - | - | - |
| **Total comprehensive income for the year** | (4,315) | 318 | (3,997) | - | (3,997) |
| **Balance at 31 July 2016** | (3,561) | 4,099 | 539 | - | 539 |

# Consolidated Statement of Cash Flows

| | Notes | 2016 | Restated 2015 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Cash flow from operating activities** | | | |
| Surplus/(Deficit) for the year | | (1,284) | (908) |
| **Adjustment for non-cash items** | | | |
| Depreciation | | 1,791 | 1,978 |
| Deferred Capital Grants released to income | | (939) | (1,016) |
| (Increase)/decrease in stocks | | (1) | (1) |
| (Increase)/decrease in debtors | | (260) | 820 |
| Increase/(decrease) in creditors due within one year | | (266) | 419 |
| Increase/(decrease) in provisions | | (17) | 2 |
| Pensions costs less contributions payable | | 321 | 292 |
| Taxation | | | - |
| **Adjustment for investing or financing activities** | | | |
| Investment income | | (5) | (6) |
| Interest payable | | 393 | 392 |
| EFA Pension Contribution | | 52 | |
| Loss on sale of fixed assets | | 110 | |
| **Net cash flow from operating activities** | | (105) | 1,972 |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of fixed assets | | - | |
| Disposal of non-current asset investments | | - | - |
| Investment income | | 5 | 6 |
| Withdrawal of deposits | | | |
| New deposits | | - | - |
| Payments made to acquire fixed assets | | (164) | (380) |
| | | (159) | (374) |
| **Cash flows from financing activities** | | | |
| Interest paid | | (393) | (392) |
| Interest element of finance lease rental payments | | - | - |
| New unsecured loans | | | - |
| Repayments of amounts borrowed | | (204) | (204) |
| Capital element of finance lease rental payments | | - | - |
| | | (597) | (596) |
| | | | |
| Increase / (decrease) in cash and cash equivalents in the year | | (861) | 1,002 |
| | | | |
| Cash and cash equivalents at beginning of the year | 20 | 1,326 | 324 |
| | | | |
| Cash and cash equivalents at end of the year | 20 | 465 | 1,326 |

# 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 2015 to 2016* 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.

### Transition to the 2015 FE HE SORP

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the College has amended certain accounting policies to comply with FRS 102 and the 2015 FE HE SORP. The trustees have also taken advantage of certain exemptions from the requirements of FRS 102 permitted by FRS 102 Chapter 35 'Transition to this FRS'.

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 28.

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

The application of first time adoption allows certain exemptions from the full requirements of the FRS 102 and the 2015 FE HE SORP in the transition period. The following exemptions have been taken in these financial statements:

- Revaluation as deemed cost - at 1st August 2014, the College has retained the carrying values of freehold properties as being deemed cost and measured at fair value
- Lease incentives - the College has continued to recognise the residual benefits associated with lease incentives on the same basis as that applied at the date of transition
- The College has taken advantage of the exemptions provided in FRS 102 1.12 and the 2015 FE HE SORP 3.3, and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and the College balance sheet discloses cash at both the current and preceding reporting dates.

Comparative figures have been restated to reflect the adjustments made, except to the extent that the College has taken advantage of the exemptions to retrospective application of FRS 102 permitted by the FRS 102 Chapter 35 'Transition to this FRS'. Adjustments are recognised directly in reserves at the transition date.

The consolidated financial statements are presented ibn 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

The consolidated financial statements include the College and its dormant subsidiary, City Hub Events Limited and the Inspire Academy Trust, controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with 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 31 July 2016.

### Going concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Members Report. The financial position of the College, its cashflow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The College currently has £6.5m of loans outstanding with bankers on terms negotiated in 2009. The terms of the existing agreement are for 25 years. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

Since the year end the College has entered into negotiations with Santander to provide an increased overdraft facility to be in place during the period of reduced funding payments in February and March 2017.

Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

### Recognition of income

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by 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.

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.

**Accounting for post-employment benefits**

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

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 other recognised gains and losses.

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.

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.

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings as deemed cost but not to adopt a policy of revaluations of these properties in the future.

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

*Subsequent expenditure on existing fixed assets*
Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to 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.

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. The College has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1st August 2014.

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.

Investments

*Investments in subsidiaries*

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

Inventories

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

Cash and cash equivalents

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

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

Financial liabilities and equity

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

All loans, investments and short term deposits held by the Group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the

Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

### Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to income in the period in which they arise.

### 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 group'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 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

## 2 Funding body grants

| | Year ended 31 July 2016 Group £'000 | Year ended 31 July 2015 Group £'000 |
|---|---|---|
| **Recurrent grants** | | |
| Skills Funding Agency | 2,098 | 2,486 |
| Education Funding Agency | 7,328 | 8,519 |
| Higher Education Funding Council | 57 | 58 |
| DFE grant for Studio Schools | 6 | 93 |
| **Specific grants** | | |
| Skills Funding Agency | | |
| Releases of government capital grants | 939 | 1,016 |
| HE grant | | |
| **Total** | 10,428 | 12,171 |

## 3 Tuition fees and education contracts

| | Year ended 31 July 2016 Group £'000 | Year ended 31 July 2015 Group £'000 |
|---|---|---|
| Adult education fees | 204 | 316 |
| Apprenticeship fees and contracts | 1,604 | 1,671 |
| Fees for FE loan supported courses | 519 | 513 |
| Fees for HE loan supported courses | 506 | 371 |
| International students fees | 1 | |
| Total tuition fees | 2,833 | 2,876 |
| Education contracts | 847 | 716 |
| Total | 3,680 | 3,587 |

## 4 Other grants and contracts

| | Year ended 31 July 2016 Group £'000 | Year ended 31 July 2015 Group £'000 |
|---|---|---|
| Erasmus | | |
| UK-based charities | | |
| European Commission | | |
| Other grants and contracts | 158 | 228 |
| Total | 158 | 228 |

## 5 Other income

| | Year ended 31 July 2016 Group £'000 | Year ended 31 July 2015 Group £'000 |
|---|---|---|
| Catering and residences | 19 | 34 |
| Other income generating activities | 492 | 354 |
| Other grant income | | |
| Non-government capital grants | | |
| Miscellaneous income | | |
| Total | 511 | 388 |

## 6 Investment income

| | Year ended 31 July 2016 Group £'000 | Year ended 31 July 2015 Group £'000 |
|---|---|---|
| Other investment income | | - |
| Other interest receivable | 5 | 6 |
| Net return on pension scheme (note 25) | - | - |
| Total | 5 | 6 |

## 7 Donations - College only

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Unrestricted donations | - | - |
| Total | - | - |

8 Staff costs - Group

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

| | 2016 | 2015 |
|---|---|---|
| | No. | No. |
| Teaching staff | 114 | 124 |
| Non-teaching staff | 125 | 135 |
| | 239 | 259 |

**Staff costs for the above persons**

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Wages and salaries | 7,153 | 7,945 |
| Social security costs | 487 | 526 |
| Other pension costs | 1,270 | 1,164 |
| **Payroll sub total** | 8,910 | 9,635 |
| Contracted out staffing services | 345 | 363 |
| | 9,255 | 9,998 |
| Fundamental restructuring costs - Contractual | 63 | 311 |
| - Non contractual | | |
| **Total Staff costs** | 9,318 | 10,309 |

## 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, Assistant 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

| | 2016 | 2015 |
|---|---|---|
| | No. | No. |
| The number of key management personnel including the Accounting Officer was: | 5 | 6 |

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

| | Key management personnel | | Other staff | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | No. | No. | No. | No. |
| £50,001 to £60,000 p.a. | 2 | 3 | - | - |
| £60,001 to £70,000 p.a. | 1 | 1 | - | - |
| £70,001 to £80,000 p.a. | 1 | | - | - |
| £80,001 to £90,000 p.a. | | 1 | - | - |
| £90,001 to £100,000 p.a. | | | - | - |
| £100,001 to £110,000 p.a. | | | - | - |
| £110,001 to £120,000 p.a. | 1 | | - | - |
| £120,001 to £130,000 p.a. | | 1 | - | - |
| | 5 | 6 | - | - |

The figures for 2015 include two key management personnel who were here for part of the year but disclosed above in their full year salary banding.

Key management personnel emoluments are made up as follows:

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Salaries | 352 | 411 |
| Employers NI Contributions | 39 | 39 |
| Benefits in kind | - | - |
| | 391 | 450 |
| Pension contributions | 48 | 47 |
| **Total emoluments** | 439 | 497 |

There were no amounts due to key management personnel that were waived in the year, nor any salary sacrifice arrangements in place.

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

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Salaries | 112 | 121 |
| Employers NI Contributions | 14 | 15 |
| Benefits in kind | 1 | 1 |
| | 127 | 137 |
| Pension contributions | 15 | 16 |

## 9 Other operating expenses

| | 2016 Group £'000 | 2015 Group £'000 |
|---|---|---|
| Teaching costs | 861 | 824 |
| Non-teaching costs | 1,875 | 2,037 |
| Premises costs | 1,419 | 1,444 |
| **Total** | **4,155** | **4,305** |

| **Other operating expenses include:** | **2016** £'000 | **2015** £'000 |
|---|---|---|
| Auditors' remuneration: | | |
| Financial statements audit - Group | 30 | 35 |
| Financial statements audit - College | 24 | 19 |
| Internal audit | 8 | 14 |
| Other services provided by the financial statements auditor | - | - |
| Other services provided by the internal auditors | - | - |
| Losses on disposal of non-current assets | - | - |
| Hire of assets under operating leases | 153 | 111 |

## 10 Interest and other finance costs - Group

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| On bank loans, overdrafts and other loans: | 393 | 392 |
| | 393 | 392 |
| On finance leases | - | - |
| Pension finance costs (note 25) | 300 | 304 |
| Total | 693 | 696 |

## 11 Taxation - Group only

The College is not liable for corporation tax for any activities during the year ending 31 July 2016 nor through the prior year.

12 Tangible fixed assets (Group)

| | Land and buildings | | Equipment | Assets in the course of construction | Total |
|---|---|---|---|---|---|
| | Freehold | Long leasehold | | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or valuation** | | | | | |
| At 1 August 2015 | 54,516 | 978 | 6,683 | 25 | 62,202 |
| Additions | 45 | - | 100 | 11 | 156 |
| Assets in Construction Transfers | 25 | - | - | (25) | - |
| Disposals | | | (190) | | (190) |
| **At 31 July 2016** | **55,586** | **978** | **6,594** | **11** | **62,168** |
| **Depreciation** | | | | | |
| At 1 August 2015 | 10,367 | 28 | 4,960 | - | 15,355 |
| Charge for the year | 1,256 | 20 | 515 | - | 1,791 |
| Disposals | | | (81) | | (81) |
| **At 31 July 2016** | **11,623** | **48** | **5,394** | - | **17,065** |
| **Net book value at 31 July 2016** | **42,962** | **930** | **1,200** | **11** | **45,103** |
| Net book value at 31 July 2015 | 44,149 | 950 | 1,723 | 25 | 46,847 |

Tangible fixed assets (College only)

| | Land and buildings | | Equipment | Assets in the course construction | Total |
|---|---|---|---|---|---|
| | Freehold | Long leasehold | | | |
| | £'000 | £'000 | £'000 | | £'000 |
| **Cost or valuation** | | | | | |
| At 1 August 2015 | 50,801 | 10 | 6,182 | 22 | 57,015 |
| Additions | 47 | - | 103 | 11 | 161 |
| Assets in Construction Transfers | 22 | - | - | (22) | - |
| Asset transfer between group companies | 1,050 | - | 190 | - | 1,240 |
| Disposals | | | (190) | | (190) |
| **At 31 July 2016** | **51,920** | **10** | **6,285** | **11** | **58,226** |
| **Depreciation** | | | | | |
| At 1 August 2015 | 10,287 | 9 | 4,796 | - | 15,092 |
| Charge for the year | 1,214 | - | 434 | - | 1,648 |
| In respect of transfer between group companies | 45 | - | 81 | - | 126 |
| Disposals | | | (81) | | (81) |
| **At 31 July 2016** | **11,546** | **9** | **5,230** | - | **16,785** |
| **Net book value at 31 July 2016** | **40,374** | **1** | **1,055** | **11** | **41,441** |
| Net book value at 31 July 2015 | 40,514 | 1 | 1,387 | 22 | 41,923 |

Inherited land and buildings were valued at depreciated replacement cost on incorporation. The College has taken the transitional provision under FRS 102 section 35 to elect to continue to use this valuation as deemed cost.

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

| | £'000 |
|---|---|
| Cost | Nil |
| Aggregate depreciation based on cost | Nil |
| **Net book value based on cost** | Nil |

## 13 Non-current investments

| | College 2016 £'000 | College 2015 £'000 |
|---|---|---|
| Investments in subsidiary companies | 2 | 2 |
| **Total** | 2 | 2 |

The College owns 100 per cent of the issued ordinary £1 shares of City Hub Events Limited, a company incorporated in England and Wales, which was made dormant in August 2014.

The College has control over the Inspire Academy Trust, a company incorporated in England and Wales and limited by guarantee, and therefore the results of the Trust are included in these consolidated financial statements. This charitable company's financial results have been incorporated into the results of the College at the year end. The Trust has a year end of August 2016 and therefore the results of the period ending 31 July for the Trust have been consolidated into the Group financial statements.

## 14 Debtors

| | Group 2016 £'000 | College 2016 £'000 | Group 2015 £'000 | College 2015 £'000 |
|---|---|---|---|---|
| Amounts falling due within one year: | | | | |
| Trade receivables | 858 | 851 | 680 | 677 |
| Amounts owed by group undertakings: | | | | |
| Subsidiary undertakings | | 3 | - | 10 |
| Prepayments and accrued income | 263 | 215 | 300 | 272 |
| Other Debtors | | - | 9 | - |
| Amounts owed by the Skills Funding Agency | 315 | 227 | 187 | 120 |
| **Total** | 1,436 | 1,296 | 1,176 | 1,079 |

## 15 Current investments

The College does not hold any current investments

## 16 Creditors: amounts falling due within one year

| | Group 2016 £'000 | College 2016 £'000 | Group 2015 £'000 | College 2015 £'000 |
|---|---|---|---|---|
| Bank loans and overdrafts | 211 | 211 | 205 | 205 |
| Obligations under finance leases | | | | |
| Trade payables | 211 | 211 | 288 | 288 |
| Payments received in advance | 884 | 885 | 441 | 441 |
| Other taxation and social security | 168 | 155 | 194 | 181 |
| Accruals and deferred income | 717 | 697 | 692 | 663 |
| Deferred income - government capital grants | 1,679 | 1,454 | 1,078 | 843 |
| Other Creditors | 334 | 326 | 470 | 478 |
| Amounts owed to the Skills Funding Agency/EFA | 431 | 337 | 932 | 483 |
| Total | 4,635 | 4,276 | 4,300 | 3,582 |

## 17 Creditors: amounts falling due after one year

| | Group 2016 £'000 | College 2016 £'000 | Group 2015 £'000 | College 2015 £'000 |
|---|---|---|---|---|
| Bank loans | 6,498 | 6,498 | 6,708 | 6,708 |
| Deferred income - government capital grants | 21,984 | 18,395 | 23,422 | 19,230 |
| Trust Funds | 2 | 2 | 2 | 2 |
| Total | 28,484 | 24,895 | 30,132 | 25,940 |

## 18 Maturity of debt

### (a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

| | Group 2016 £'000 | College 2016 £'000 | Group 2015 £'000 | College 2015 £'000 |
|---|---|---|---|---|
| In one year or less | 211 | 211 | 205 | 205 |
| Between one and two years | 230 | 230 | 218 | 218 |
| Between two and five years | 777 | 777 | 733 | 733 |
| In five years or more | 5,492 | 5,492 | 5,757 | 5,757 |
| Total | 6,710 | 6,710 | 6,913 | 6,913 |

Bank loans and overdrafts at 5.83 per cent repayable by instalments falling due between 1 August 2015 and 31 July 2034 totalling £6,653,837, are secured on the freehold land and buildings of the College.

## 19 Provisions

| | Group | | College | |
|---|---|---|---|---|
| | Defined benefit obligations | Enhanced pensions | Defined benefit obligations | Enhanced pensions |
| | £'000 | £'000 | £'000 | £'000 |
| At 1 August 2015 | 8,715 | 1,328 | 8,660 | 1,328 |
| Expenditure in the period | | | | |
| Additions in period | 3,340 | (17) | 3,370 | (17) |
| At 31 July 2016 | 12,055 | 1,311 | 12,030 | 1,311 |

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 25.

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:

| | 2016 | 2015 |
|---|---|---|
| Price inflation | 1.3% | 1.7% |
| Discount rate | 2.3% | 3.5% |

## 20 Cash and cash equivalents

| | At 1 August 2015 | Cash flows | Other changes | At 31 July 2016 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Cash and cash equivalents | 1,326 | (861) | | 465 |
| Overdrafts | | | | |
| Total | 1,326 | (861) | | 465 |

## 21 Capital and other commitments

| | Group and College | |
|---|---|---|
| | 2016 | 2015 |
| | £'000 | £'000 |
| Commitments contracted for at 31 July | 26 | 180 |

## 22 Lease obligations

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

| | Group and College | |
|---|---|---|
| | 2016 | 2015 |
| | £'000 | £'000 |
| Future minimum lease payments due | | |
| | | |
| Other | | |
| Not later than one year | 153 | 130 |
| Later than one year and not later than five years | 41 | 110 |
| Later than five years | | |
| | 194 | 240 |

## 23 Contingent liabilities

Following the closure of the Southampton Studio school, upon signature of the Deed of Termination relating to the lease of the building to the EFA, the building reverts to College ownership and the College as sponsor will be liable to repay an element of the capital grants received to set up the school. This figure could be up to £622,000 dependant on the date of signing of the Deed of Termination. This is included within the Deferred Capital Grants balance of £1,679,000.

## 24 Events after the reporting period

The College has agreed to sign Heads of Terms to enter into a long term lease agreement which will generate significant income for the college over the next 10 years from August 2017.

The IAT Trustees have made the decision that the IOW school would be better supported by being transferred to a larger Multi Academy Trust (MAT) and has asked the Regional Schools Commissioner to help find a suitable MAT with local links or provision that can accept the transfer.

## 25 Defined benefit obligations

The College and Inspire Academy Trust's employees belong to three 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) and Isle of Wight Local Government Pension Scheme (LGPS) for non-teaching staff, which are managed by Hampshire Pension Fund and Isle of Wight Pension Fund respectively. All pension schemes are multi-employer defined-benefit plans.

| **Total pension cost for the year** | | **2016** | | **2015** |
|---|---|---|---|---|
| | | **£000** | | **£000** |
| Teachers' Pension Scheme: contributions paid | | 646 | | 619 |
| Local Government Pension Scheme: | | | | |
| Contributions paid | 603 | | 630 | |
| FRS 102 (28) charge | 22 | | (85) | |
| Charge to the Statement of Comprehensive Income | | 625 | | 545 |
| Enhanced pension charge to Statement of Comprehensive Income | | | | |
| **Total Pension Cost for Year within staff costs** | | **1,271** | | **1,164** |

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 31 March 2013.
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 1 April 2014, by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including academies, in England and Wales that are maintained by local authorities. In addition, teachers in many independent and voluntary-aided schools and teachers and lecturers in some establishments of further and higher education may be eligible for membership. Membership is automatic for full-time teachers and lecturers and, from 1 January 2007, automatic too for teachers and lecturers in part-time employment following appointment or a change of contract. Teachers and lecturers are able to opt out of the TPS.

### The Teachers' Pension Budgeting and Valuation Account

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

**Valuation of the Teachers' Pension Scheme**

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

- New employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay;
- 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 1 April 2015.
The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual rate of 1/57th; and a Normal Pension Age equal to State Pension Age, but with options to enable members to retire earlier or later than their Normal Pension Age. Importantly, pension benefits built up before 1 April 2015 will be fully protected.
In addition, the Proposed Final Agreement includes a Government commitment that those within 10 years of Normal Pension Age on 1 April 2012 will see no change to the age at which they can retire, and no decrease in the amount of pension they receive when they retire. There will also be further transitional protection, tapered over a three and a half year period, for people who would fall up to three and a half years outside of the 10 year protection.
Regulations giving effect to a reformed Teachers' Pension Scheme came into force on 1 April 2014 and the reformed scheme commenced on 1 April 2015.
The pension costs paid to TPS in the year amounted to £646,000 (2015: £604,000)

***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 are funded defined-benefit plans, with the assets held in separate funds administered by Hampshire Local Authority and Isle of Wight Local Authority. The total contributions made for the year ended 31 July 2016 were £786,000, of which employer's contributions totalled £603,000 and employees' contributions totalled £183,000. The agreed contribution rates for future years are 17.3% for employers and range from 5.5% to 7.5% for employees, depending on salary.

**Principal Actuarial Assumptions**

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2016 by a qualified independent actuary.

| | At 31 July 2016 | At 31 July 2015 |
|---|---|---|
| Rate of increase in salaries | 3.30% | 3.60% |
| Future pensions increases | 1.80% | 2.10% |
| Discount rate for scheme liabilities | 2.40% | 3.60% |
| Inflation assumption (CPI) | 1.80% | 2.10% |
| Commutation of pensions to lump sums | 50% | 70% |

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

| | At 31 July 2016 years | At 31 July 2015 years |
|---|---|---|
| *Retiring today* | | |
| Males | 24.6 | 24.5 |
| Females | 26.4 | 26.3 |
| *Retiring in 20 years* | | |
| Males | 26.7 | 26.6 |
| Females | 28.7 | 28.6 |

The College's share of the assets in the plan at the balance sheet date and the expected rates of return were:

| | Long-term rate of return expected at 31 July 2016 | Fair Value at 31 July 2016 £'000 | Long-term rate of return expected at 31 July 2015 | Fair Value at 31 July 2015 £'000 |
|---|---|---|---|---|
| Equity instruments | | 10,079 | 7% | 9,089 |
| Debt instruments | | 5,986 | 2.5% | 4,346 |
| Property | | 321 | 6.2% | 1,294 |
| Cash | | 1,383 | 1% | 1,074 |
| **Total fair value of plan assets** | | **17,769** | | **15,803** |
| Weighted average expected long term rate of return | | 5.8% | | 5.5% |
| Actual return on plan assets | | (1,186) | | (642) |

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

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Fair value of plan assets | 17,769 | 15,803 |
| Present value of plan liabilities | (29,824) | (24,518) |
| Net pensions (liability)/asset (Note 19) | (12,055) | (8,715) |

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

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| **Amounts included in staff costs** | | |
| Current service cost | 595 | 565 |
| Past service cost | 30 | 80 |
| Total | 625 | 645 |
| **Amounts included in investment income** | | |
| Net interest income | 570 | 580 |
| | 570 | 580 |
| **Amount recognised in Other Comprehensive Income** | | |
| Return on pension plan assets | 1,414 | 991 |
| Experience losses arising on defined benefit obligations | (4,484) | (1,618) |
| Amount recognised in Other Comprehensive Income | (3,070) | (627) |

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

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Net defined benefit (liability)/asset in scheme at 1 August | (8,715) | (7,796) |
| Movement in year: | | |
| Current service cost | (595) | (565) |
| Employer contributions | 603 | 657 |
| EFA Contribution | 52 | - |
| Past service cost | (30) | (80) |
| Net interest on the defined (liability)/asset | (300) | (304) |
| Actuarial gain or loss | (3,070) | (627) |
| **Net defined benefit (liability)/asset at 31 July** | **(12,055)** | **(8,715)** |

**Asset and Liability Reconciliation**

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| **Changes in the present value of defined benefit obligations** | | |
| Defined benefit obligations at start of period | 24,518 | 22,000 |
| Current service cost | 595 | 565 |
| Interest cost | 871 | 885 |
| Contributions by Scheme participants | 183 | 190 |
| Experience gains and losses on defined benefit obligations | | |
| Changes in financial assumptions | 4,484 | 1,618 |
| Estimated benefits paid | (720) | (820) |
| Past Service cost | 30 | 80 |
| Curtailments and settlements | (137) | |
| Defined benefit obligations at end of period | **29,824** | **24,518** |

**Changes in fair value of plan assets**

| | 2016 | 2015 |
|---|---|---|
| Fair value of plan assets at start of period | 15,803 | 14,204 |
| Interest on plan assets | 571 | 581 |
| Return on plan assets | 1,414 | 991 |
| Employer contributions | 603 | 657 |
| Contributions by Scheme participants | 183 | 190 |
| Estimated benefits paid | (720) | (820) |
| Curtailments and settlements | (85) | - |
| Fair value of plan assets at end of period | **17,769** | **15,803** |

## 26 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.

The total expenses paid to or on behalf of the Governors during the year was £1,371; 3 governors (2015: £1,286; 2 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 (2015: None).

## 27 Amounts disbursed as agent
### Learner support funds

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Brought forward from prior year | 256 | 101 |
| Brought forward amounts repaid | (145) | - |
| Funding body grants - bursary support | 660 | 617 |
| Funding body grants - discretionary learner support | 286 | 359 |
| Funding body grants - residential bursaries | - | - |
| Other Funding body grants | - | - |
| Interest earned | - | - |
| | 1,057 | 1,077 |
| Disbursed to students | (779) | (667) |
| Administration costs | (28) | (33) |
| Amounts consolidated into financial statements | - | (121) |
| Balance unspent as at 31 July, included in creditors | 250 | 256 |

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.

## 28 Transition to FRS 102 and the 2015 FE HE SORP

The year ended 31st July 2016 is the first year that the College has presented its financial statements under FRS 102 and the 2015 FE HE SORP. The following disclosures are required in the year of transition. The last financial statements prepared under previous UK GAAP were for the year ended 31st July 2015 and the date of transition to FRS 102 and the 2015 FE HE SORP was therefore 1st August 2014. As a consequence of adopting FRS 102 and the 2015 FE HE SORP, a number of accounting policies have changed to comply with those standards.

An explanation of how the transition to FRS 102 and the 2015 FE HE SORP has affected the College's financial position, financial performance and cash flows, is set out below.

| | Note | 1st August 2014 | | 31st July 2015 | |
|---|---|---|---|---|---|
| | | Group | College | Group | College |
| | | £'000 | £'000 | £'000 | £'000 |
| Financial Position | | | | | |
| Total reserves under previous SORP | | 8,393 | 6,411 | 5,195 | 4,858 |
| Employee leave accrual | (a) | (325) | (325) | (325) | (325) |
| Changes to measurement of actuarial loss | (b) | - | - | 283 | 263 |
| Changes to measurement of net finance cost on defined benefit plans | (c) | - | - | (263) | (260) |
| Total effect of transition to FRS 102 and 2015 FE HE SORP | | (325) | (325) | (305) | (322) |
| Total reserves under 2015 FE HE SORP | | 8,068 | 6,086 | 4,890 | 4,536 |

| | Note | Year ended 31st July 2015 | |
|---|---|---|---|
| | | Group | College |
| | | £'000 | £'000 |
| Financial performance | | | |
| Deficit for the year after tax under previous SORP | | (644) | (550) |
| Pensions provision - actuarial loss | | (627) | (640) |
| Changes to measurement of net finance cost on defined benefit plans | (c) | (263) | (259) |
| Total effect of transition to FRS 102 and 2015 FE HE SORP | | (890) | (899) |
| Total comprehensive income for the year under 2015 FE HE SORP | | (1,534) | (1,449) |

a) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 13.1 unused leave for teaching staff and 5.8 unused leave for non-teaching staff. In addition, certain non-teaching employees are entitled to carry forward up to 2 days of any unused holiday entitlement at the end of the leave year at their managers' discretion. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £375,000 was recognised at 1 August 2014, and at 31 August 2015. Following a review in 2015/16, there has been an immaterial movement on this provision and therefore there has been no charge to Comprehensive Income in the year ended 31 July 2016.

b) Change in recognition of defined benefit plan finance costs

The net pension finance cost recognised in the Income and Expenditure account for the year ended 31st July 2015 under the previous UK GAAP was the net of the expected return on pension plan assets and the interest on pension liabilities. FRS 102 requires the recognition in the Statement of Comprehensive Income, of a net interest cost, calculated by multiplying the net plan obligations by the market yield on high quality corporate bonds (the discount rate applied). The change has had no effect on net assets as the measurement of the net defined benefit plan obligation has not changed. Instead, the decrease in the surplus for the year has been mirrored by a reduction in the actuarial losses presented within Other Comprehensive Income.

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

Actuarial gains and losses on the College's defined benefit plans were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS 102 to be presented within the Statement of Comprehensive Income, as movements in Other 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 SKILLS FUNDING AGENCY

In accordance with the terms of our engagement letter dated 18 November 2015 and supplementary letter dated 30 November 2016 ('engagement letter') and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether the expenditure disbursed and income received by Southampton City College during the period 1 August 2015 to 31 July 2016 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

The framework that has been applied is set out in the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which the Skills Funding Agency has other assurance arrangements in place.

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

### Respective responsibilities of Southampton City College and the reporting accountant

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.

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 Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

### Approach

We conducted our engagement in accordance with the Joint Audit Code of Practice issued jointly by Skills Funding Agency and Education Funding Agency. We performed a limited assurance engagement as defined in that framework and our engagement letter.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement includes examination, on a test basis, of evidence relevant to the regularity of the college's income and expenditure.

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 high level financial control areas where we identified areas where a material irregularity is likely to arise. We undertook detailed testing, based on our identification of the 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 on the financial statements to the extent evidence from the conduct of that audit supports the regularity conclusion.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

RSM UK Audit LLP

RSM UK AUDIT LLP
Chartered Accountants
Address

20/12/16