SOUTHAMPTON CITY COLLEGE

Report and Financial Statements for the year ended 31st July 2018

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 2017/18:

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

Board of Governors

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

Professional advisers

Financial statements auditors and reporting accountants:
RSM UK Audit LLP
Highfield Court
Chandlers Ford
Eastleigh
Hampshire
SO53 3TY

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

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

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

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

CONTENTS

Page number

Members' Report

Nature, Objectives And Strategies:

The members present their report and the audited financial statements for the year ended 31st July 2018.

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 following the Machinery of Government changes in July 2016 is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 16.

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

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

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

Our campus is in the centre of Southampton and we have established close links with employers in the city resulting in our students having excellent access to jobs, apprenticeship vacancies and work experience. As well as offering a wide range of career led courses and qualifications for school leavers we also provide apprenticeships, training for businesses, short courses, adult learning and advanced qualifications leading to higher education.

The College has facilities used for teaching of practical skills which are also open to the public, such as the Aspire Restaurant, Kudos Hair and Beauty salons and a gym. We hire our facilities to other organisations where it complements student use.

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

The College sponsors the Inspire Academy Trust which currently runs the Isle of Wight Studio School which opened in September 2014. As the College does not support the Trust for its own benefits, it is no longer classed as a subsidiary and subsequently the results for the Trust are no longer consolidated with the College. In June 2018 it was announced that the Isle of Wight Studio School would close in August 2019 due to being financially unviable. The College will continue to provide back office support to the Trust until it is wound up in the autumn of 2019.

The College had one dormant company, City Hub Events Ltd which was closed and removed from the Companies House register on 26th September 2017.

Implementation of strategic plan

In December 2014 the College adopted a strategic plan for the period 1st August 2015 to 31st July 2020. The Corporation monitors the performance of the College against this plan. The plan is reviewed each year. The College's continuing strategic objectives are to:

- Deliver Outstanding Learning and a Life Enhancing Student Experience;
- Achieve robust financial health;
- Plan and deliver a curriculum which equips students with great work and life skills;
- Provide employers with skilled new workers and support them to improve their employees' skills;
- Develop a college community that is a great place to work; and
- Work collaboratively to ensure the continuation of a strong further education offer for Southampton and surrounding areas.

The College continues to work towards these objectives.

Key Performance Indicators

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

The measures being used to monitor progress and inform the Governing Body are reviewed annually and targets are agreed at the start of each year. The College is committed to observing the importance of sector measures and indicators and uses external benchmarks to help set targets, wherever that data exists, e.g. the FE Choices data available on the GOV.UK website which includes national datasets on employer and learner satisfaction.

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

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

Financial Position and Performance

Financial results

The College generated a deficit before other gains and losses in the year of £585,000 (2016/17 – deficit of £257,000), with total comprehensive income of £1,305,000 (2016/17 - £2,133,000)).

In May 2016 the College implemented a financial recovery plan in response a forecast of a Financial Health rating of Inadequate for that year. The College planned and recovered to Satisfactory Financial Health in 2016/17, and set a plan for 17/18 that would deliver a borderline Satisfactory performance. However the outcome for 2017/18 is Inadequate Financial Health as the result of two significant reductions in income:

- The first was a reduction in Apprenticeship income. The College delivered the same amount of apprenticeship work as in 2016/17 but the ESFA reduction of the funding for Frameworks caused a significant reduction in income. The College's maintenance of the same number of apprenticeship starts as the previous year was a markedly better performance than the national picture, where starts declined by 40%. The College was unable to mitigate the reduction in Framework funding by moving to better funded Standards, as Standards were not ready for delivery at the start of the year for the vast majority of the College's apprenticeships.
- The second issue was that the number of English and Maths adult learners at the College declined in comparison to the previous year, despite significant marketing effort.

This year the College delivered an operating deficit of £285,000 before LGPS accounting adjustments of £300,000 (2016/17 – surplus £152,000; LGPS adjustments £410,000). A prudent approach to income planning coupled with rigorous curriculum planning and expense control contributed to reasonable performance in a challenging environment, delivering an EBITDA of 6.5% as measured by the ESFA, which is close to the sector median. The college's financial challenge is caused by high depreciation and interest costs, following the campus redevelopment program, and a backlog of maintenance due to lack of investment over several years. Income declined by 4% year on year and non-pay costs reduced by 4%. Pay costs were reduced by 1% and are 62% of income per the ESFA calculation. This is significantly lower than the sector median in 2016/17 of 67.5% and reinforces the view that the College operates efficiently and with control, within the bounds of declining income and a large fixed cost base.

The College's financial challenge in achieving good financial health is caused by high depreciation and interest costs, following the historic campus redevelopment program, and also due to a backlog of maintenance due to the lack of cash over several years to keep up with maintenance needs.

The Financial Health rating of the College is 'Inadequate' with a score of 90 (2016/17 – 'Satisfactory' scoring 120).

The College has accumulated reserves of £3,975,000 and cash and short-term investment balances of £448,000. The College wishes to accumulate reserves and cash balances in order to create a contingency fund.

Tangible fixed asset additions during the year amounted to £201,000. This was split between building improvements of £119,000, equipment purchased of £82,000.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2017/18 the FE funding bodies provided 67% of the College's total income.

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

Cash flows and liquidity
At £561,000 the net cash inflow (2016/17 net cash inflow £1,420,000) from operating activities was insufficient to service the debt and cover the capital investment required. As a result the colleges cash reserves are declining and an application for Exceptional Financial Support in 2018/19 has been approved. There was a sizeable increase in the ESFA creditor balance to £919,000.

The size of the College's total borrowing and its approach to interest rates was calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow at the time of the redevelopment program starting in 2009. Following reductions in government funding and consecutive years of reducing student numbers since the debt was taken on, the College has continued to service its debt but at the expense of investment in maintenance of the campus.

Banking
The College holds its day to day banking and a long term loan with Santander bank. An agreed overdraft facility is in place.

Based on this set of accounts the College will breach the debt service cover covenant linked to the long term loan. Santander will test the covenants once signed accounts are received but have given verbal assurance that due to the continuing effort of the corporation to secure a long term financial future via a merger, no action will be taken against the College.

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 surplus of £24,000 (2017: deficit £1,355,000).

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1st November 1998, requires Colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1st August 2017 to 31st July 2018, the College paid 85 per cent of its invoices within 30 days of date of invoice.

People

The College employs 200 people (expressed as full time equivalents), of whom 91 are teaching staff.

Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. However, given the College's intention to merge with Eastleigh College on 14th March 2019 via dissolution of the current legal entity and transfer of all assets and liabilities at carrying value to Eastleigh College, the accounts have been prepared on a basis other than going concern.

Current and Future Development and Performance

Future Development

From June 2016 the College was working on the implementation of the Area Review process recommendation to merge with Solent University. In February 2018 the application to merge was refused by the Department of Education.

Once the Department of Education's decision was communicated, the College undertook a rapid and focused Structure and Prospects Appraisal, with the support of the FE Commissioner team and the ESFA, which concluded in early June 2018. The Board selected Eastleigh College as its merger partner and began work immediately to undertake the merger in March 2019. See pages 11-12 for additional details.

Curriculum developments

In 2016/17 colleagues at City College and Solent University worked collaboratively to map curriculum pathways between the two organisations. This has resulted in the development of new courses at City College that provide direct entry to Solent University undergraduate programmes. Courses starting in 2018/19 include Business and Marketing, Architecture and CAD, Events Management and Computing and IT.

The introduction of Apprentice Standards provides an opportunity for the College to recover income lost by the reduction in funding on Apprentice Frameworks by switching to the new standards for delivery to new starters. However, not all Standards are complete and ready for delivery so the opportunity to switch is not fully available. It will take a period of time before the College is confident that apprentices starting Standards will not be disadvantaged or unable to complete their course.

OFSTED

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

Student outcomes

Achievement rates for young people at City College Southampton improved by 4% when compared to the previous year and are now at 78.4%. For adult students, achievement rates have also improved by just over 4% and at 84.2% they are just below national rates. The performance of apprentices have improved. Overall achievement rates are clearly above national rates; timely achievement is in line with national rates.

Student numbers

In 2017/18 the College has delivered activity that has produced £8.7m in funding body main allocation funding (2016/17 – £9.7m). In this year the College had approximately 4,000 government funded (16-18 and Adult) and 1,400 non-government funded students similar to the previous year.

The school leaver demographic for Southampton shows an increase in July 2018 of 2.7%. Current study programme enrolments for 2018/19 are slightly above the demographic increase, and positive on the prior year. This would be the first increase in student numbers for several years. Due to the lagged funding for 16 – 18 year olds any increase in the allocation will be reflected in the income for the College in 2019/20.

Reputation

The College has a good reputation locally and regionally. Maintaining a quality brand is essential for the College to recruit students, develop apprenticeships and to be accepted as a key partner in the development of skills in Southampton and the Solent.

Principal Risks And Uncertainties:

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

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

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

1 Government funding

The College has considerable reliance on continued government funding through the ESFA and through HEFCE. In 2017/18, 67% of the College's revenue was ultimately publicly funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

This risk is mitigated in a number of ways:

- By ensuring the College is relentless in continuously improving its standards of education and training;
- Maintaining and managing key relationships with the relevant funding bodies;
- Continuously reviewing and updating its curriculum offer to ensure that it meets the needs of students, apprentices and employers; and
- Review tuition fees in line with market trends and inflation.

2 Maintain adequate funding of pension liabilities

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102. The deficit has decreased by 16% from 2016/17 (2016/17 – decreased by 16%) due to changes in the assumptions used by the actuary. The Hampshire LGPS scheme had its tri-annual revaluation in 2016. The impact on the college is an increase in its fixed contributions from £229,000 in 2017/18 to £311,400 in 2018/19 and rising to £333,600 in 2019/20, and in its employer contributions from 13.1% in 2017/18 to 14.4% in 2018/19 rising to 16.9% in 2019/20. The next tri-annual valuation will be in March 2019 which will affect contributions from April 2020.

3 Implementation of the Area Based Review recommendations

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

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

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

As at date of signing these accounts the application was still being negotiated with a decision expected within the next month. If approved and accepted the merger is expected to complete on 14th March 2019. If the proposal is rejected the College will require a standalone application to be approved to ensure it is able to continue operations into 2019/20

4 Failure to maintain the financial viability of the College

The College's current financial health grade for 2017/18 is classified as "Inadequate" as described on page 6. The College has a robust Curriculum Planning process and financial controls in place, however the continuing challenge to the College's financial position remains, particularly with the highly competitive 16-18 year old market and the reduction in apprenticeship funding implemented in 2017/18.

This risk is mitigated in a number of ways:

- Implementing the merger with Eastleigh College
- By rigorous budget setting procedures and sensitivity analysis;
- Regular and open communication with ESFA and Santander;
- Regular in year budget monitoring;
- Robust financial controls;
- Exploring ongoing procurement efficiencies;

STAKEHOLDER RELATIONSHIPS

City College's stakeholders include:

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

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

Equal opportunities

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

Disability Statement

The College seeks to achieve the objectives set down in the Equality Act 2010 which takes into account the Disability Discrimination Act 1995 and the Special Education Needs and Disability Acts 2001 and 2005. Additionally, the College's Single Equality Scheme identifies the actions required to ensure it meets the public sector equality duties.

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

Trade Union Facility Time

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

No of employees who were trade union representatives for this period	2
FTE employee number	2

No of trade union representatives spending the following percentages of their working hours on facility time from 1 April 2017 to March 2018:

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

Total pay bill and facility time costs

Total cost of facility time	£6,192
Total pay bill	£7,633,960
Percentage of total bill spent on facility time	0.08%

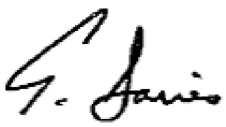
Paid trade union activities

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

Disclosure of information to auditors

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

Approved by order of the members of the Corporation on 10th December 2018 and signed on its behalf by:



Geraint Davies
Chair

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1st August 2017 to 31st July 2018 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
ii. in accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code"); and
iii. having due regard to the UK Corporate Governance Code 2016 insofar as it is applicable to the further education sector.

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

The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015 which it adopted from 1st August 2015. In the opinion of the Members, the Corporation complies with the provisions of the Code and has done so throughout the year ended 31st July 2018.

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

The Corporation

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

	Date of Appointment	Term of office	Date of leaving	Category	Board Attendance in 17/18	Committees served
Mr H Brora (Board VC and Rem. Chair)	23 Nov 2012 23 Nov 2016	4 years 4 years		External	8/10	Audit and Risk Search & Governance Remuneration
Ms C Conroy OBE (A&R Chair)	03 Nov 2015	4 years	31 Dec 2017	External	2/4	Audit & Risk
Ms M Creighton	20 Oct 2016 20 Oct 2017	1 year 3 years	28 Nov 2017	External	1/3	Audit & Risk
Mr G Davies (Chair)	01 Dec 2016 01 Dec 2017	1 year 3 years		External	10/10	Audit & Risk (up to 21 July 2017 Search & Governance Remuneration
Prof F Davis	27 Sep 2017 27 Sep 2018	1 year 3 years		External	8/9	Audit & Risk
Dr J John (S&G Chair & Lead Safeguarding/Prevent Governor)	04 Nov 2014 04 Nov 2018	4 years Up to 4 years		External	10/10	Search & Governance Remuneration Audit & Risk
Mr A May	24 Nov 2012 Gap, then 31 Jan 2017	4 years 4 years		Staff	9/10	Search & Governance
Mr A Riggs	31 May 2016 31 May 2017	1 year 3 years		External	8/10	Audit & Risk
Mr M Simmons	08 Oct 2018	1 year		External	0/0	
Ms S Stannard	01 Aug 2013	Ex-officio		Principal	10/10	Search & Governance
Ms B Ward	01 Jan 2018 Gap, then 13 Sept 2018	7 months 11 months	31 July 2018	Student	5/6	
Mr P Weir (Audit Chair)	03 Oct 2017 03 Oct 2018	1 year 3 years		External	9/9	Audit & Risk
Mr J Childs-Clarke served as an Audit and Risk Co-Opted Committee Member throughout the year. Ms L Garth, was the independent Clerk to the Corporation throughout the year.						

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

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

The Corporation conducts its business through three committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are Audit & Risk, Search & Governance and Remuneration. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at:

Southampton City College, St Mary Street, Southampton,SO14 1AR

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

The Clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address.

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

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

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

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

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

Corporation performance
The Corporation carries out regular self-assessment work. For 2017/18 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 12th November 2018, during a governance conference, the Board considered its own performance in the context of the quality and financial outcomes of the whole College. As a judgement on its performance the Board self-assessed itself as Good, making demonstrable progress since Spring 2018, and with good capacity to achieve further improvements during 2018/19.

Remuneration Committee

The Remuneration Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and Clerk.
Details of remuneration of the Principal and other key management personnel for the year ended 31st July 2018 are set out in note 7 to the financial statements.

Audit & Risk Committee

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

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

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

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

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

Internal control

Scope of responsibility

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

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which the accounting officer is personally responsible, in accordance with the responsibilities assigned to them in the Financial Memorandum between Southampton City College and the funding bodies. The Accounting Office is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Southampton City College for the year ended 31st July 2018 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31st July 2018 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

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

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

In their annual report to the Board, the Internal Auditors gave the opinion that in the areas tested they found suitably designed and effectively operating control and governance arrangements, except for in the areas of income streams and management of training contracts where they gave limited assurance. The income risk to the college identified in these limited assurance areas is under 1% however improved controls will be designed and put into effect.

Review of effectiveness

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

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

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

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

The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Management Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2018 meeting, the Corporation carried out the annual assessment for the year ended 31st July 2018 by considering documentation from the Senior Management Team and Internal Audit, and taking account of events since 31st July 2018.

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

Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. However, given the College's intention to merge with Eastleigh College on 14th March 2019 via dissolution of the current legal entity and transfer of all assets and liabilities at carrying value to Eastleigh College, the accounts have been prepared on a basis other than going concern.

Approved by order of the members of the Corporation on 10th December 2018 and signed on its behalf by:

Geraint Davies	**Sarah Stannard**
Chair	**Accounting Officer**

Statement on Regularity, Propriety and Compliance

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

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

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

Geraint Davies
Chair
10th December 2018

Sarah Stannard
Accounting Officer
10th December 2018

Statement of Responsibilities of the Members of the Corporation

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

The law applicable to charities in England and the terms and conditions of the Financial Memorandum between the Education and Skills Funding Agency and the Corporation of the College, requires the corporation of the college to prepare financial statements and the Operating and Financial Review for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions the annual Accounts Direction issued by the Education and Skills Funding Agency, and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the College, and enable it to ensure that the financial statements are prepared in accordance with the Charities Act 2011 and relevant accounting standards. It is responsible for taking steps in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities

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

Members of the Corporation are responsible for ensuring that funds from the Education and 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 Education and 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 10th December 2018 and signed on its behalf by:

G. Davies

Geraint Davies
Chair

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

Opinion
We have audited the financial statements of Southampton City College (the "College") for the year ended 31 July 2018 which comprise the college statement of comprehensive income, the college balance sheet, the college statement of changes in reserves, the college statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2018 and of the College's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

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

Emphasis of matter – non-going concern basis
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the accounting policies in the financial statements, which indicates that the Governors are moving forward with plans for a combination with Eastleigh College on the 14th March 2019, which would result in the transfer of College's trade, assets and liabilities to Eastleigh College and dissolution of the College entity. Both Colleges have approved this transaction. For this reason, the financial statements have been prepared on a basis other than going concern.

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

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

based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post-16 Audit Code of Practice 2017 to 2018 issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

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

Responsibilities of the Corporation of Southampton City College

As explained more fully in the Statement of the Corporation's Responsibilities set out on pages 22 to 23, the Corporation is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at http://www.frc.org.uk/auditorsresponsibilities this description forms part of our auditor's report.

Use of our report
This report is made solely to the Corporation, as a body, in accordance with the Funding Agreement published by the Education and Skills Funding Agency and our engagement letter dated 3 July 2017. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are engaged to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

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

Statement of Comprehensive Income

	Notes	Year ended 31 July 2018	Year ended 31 July 2017
		£'000	**£'000**
INCOME			
Funding body grants	2	9,070	10,521
Tuition fees and education contracts	3	2,706	2,476
Other grants and contracts	4	275	190
Other income	5	1,229	652
Investment income	6	3	-
Total income		**13,283**	**13,839**
EXPENDITURE			
Staff costs	7	8,153	8,236
Restructuring costs	7	47	86
Other operating expenses	8	3,645	3,813
Depreciation	11	1,512	1,468
Interest and other finance costs	9	613	493
Total expenditure		13,970	14,096
(Deficit) before other gains and losses		**(687)**	**(257)**
Gain on disposal of assets	11	102	-
(Deficit) before tax		**(585)**	**(257)**
Taxation	10	-	-
(Deficit) for the year		**(585)**	**(257)**
Actuarial gain/ (loss) in respect of pensions schemes	22	1,890	2,390
Total Comprehensive Income for the year		**1,305**	**2,133**
Represented by:			
Restricted comprehensive income		**-**	**-**
Unrestricted comprehensive income		**1,305**	**2,133**
		1,305	**2,133**

Balance sheet as at 31st July

	Notes	2018 £'000	2017 £'000
Fixed assets			
Tangible Fixed assets	11	38,978	40,294
Investments		-	-
		38,978	**40,294**
Current assets			
Stocks		6	6
Trade and other receivables	12	932	1,175
Cash and cash equivalents	17	448	687
		1,386	**1,868**
Current Liabilities			
Creditors – amounts falling due within one year	13	(9,149)	(3,804)
Net current liabilities		**(7,763)**	**(1,936)**
Total assets less current liabilities		**31,215**	**38,358**
Creditors – amounts falling due after more than one year	14	(17,456)	(24,324)
Provisions for Liabilities			
Defined benefit obligations	16	(8,470)	(10,050)
Other provisions	16	(1,314)	(1,314)
Total net assets		**3,975**	**2,670**
Unrestricted Reserves			
Income and expenditure account		24	(1,355)
Revaluation reserve		3,951	4,025
Total unrestricted reserves		**3,975**	**2,670**
Total Reserves		**3,975**	**2,670**

The financial statements on pages 26 to 49 were approved and authorised for issue by the Corporation on 10th December 2018 and were signed on its behalf on that date by:

G. Davies

Sarah Stannard

Geraint Davies
Chair

Sarah Stannard
Accounting Officer

Statement of Changes in Reserves

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 31st July 2016	**(3,562)**	**4,099**	**537**
(Deficit) from the income and expenditure account	(257)	-	(257)
Other comprehensive income	2,390	-	2,390
Transfers between revaluation and income and expenditure reserves	74	(74)	-
Total comprehensive income for the year	2,207	(74)	2,133
Balance at 31st July 2017	**(1,355)**	**4,025**	**2,670**
Balance at 31st July 2017	**(1,355)**	**4025**	**2670**
(Deficit) from the income and expenditure account	(585)	-	(585)
Other comprehensive income	1,890	-	1,890
Transfers between revaluation and income and expenditure reserves	74	(74)	-
Total comprehensive income for the year	1,379	(74)	1,305
Balance at 31st July 2018	**24**	**3,951**	**3,975**

Statement of Cash Flows

	Notes	2018 £'000	2017 £'000
Cash flow from operating activities			
(Deficit) for the year		(585)	(257)
Adjustment for non-cash items			
Depreciation		1,512	1,468
Deferred Capital Grants released to income		(668)	(860)
Decrease in stocks		-	11
Decrease in debtors		243	121
Increase in creditors due within one year		(511)	313
Increase/(decrease) in creditors due more than one year		(100)	3
Pensions costs less contributions payable		310	410
Adjustment for investing or financing activities			
Investment income		(3)	-
Interest payable		363	373
Release of Interest paid in Advance provision		-	(160)
Net cash flow from operating activities		**561**	**1,422**
Cash flows from investing activities			
Investment income		3	-
Proceeds from sale of fixed assets		108	-
Payments made to acquire fixed assets		(318)	(437)
		(207)	(437)
Cash flows from financing activities			
Interest paid		(363)	(373)
Repayments of amounts borrowed		(230)	(220)
		(593)	(593)
(Decrease)/ increase in cash and cash equivalents in		**(239)**	**392**
Cash and cash equivalents at beginning of the year	17	687	295
Cash and cash equivalents at end of the year	17	448	687

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 2017 to 2018* and in accordance with Financial Reporting Standard 102 – *"The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland"* (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

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

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

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

Going concern
As set out in the Members' Report, the College is working towards a merger with Eastleigh College, with a merger date of 14th March 2019. An application has been made to the Restructuring Fund to enable the merger to proceed and create a long term financially viable college and a decision on that application is expected in January 2019. If approval to merge is given the current legal entity would be dissolved with all trade, assets and liabilities transferred to Eastleigh College.

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

The College currently has £6.1m of loans outstanding with bankers on terms negotiated in 2009. The terms of the existing agreement are for 25 years with 16 years remaining. The College's forecast based on this set of accounts is that one of the loan covenants will be breached, however Santander has verbally stated it will not take any action on the College as it continues to work towards a merger.

The College has agreed with Santander a £500k ongoing overdraft facility however this is insufficient to cover the expected cashflow shortfall occurring during January, February and March 2019 and an application for Exceptional Financial Support has been approved enabling the College to continue in operation in the short term. If the merger does not proceed the College will need to seek additional long term funding from the ESFA in order to remain in existence in the long term.

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

Revenue Grant Funding

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

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

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

Grants (including research grants) from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met

Capital Grant Funding

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

Other Income

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

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

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

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

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

Teachers' Pension Scheme (TPS)

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

The TPS is a multi-employer scheme and 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.

Hampshire Local Government Pension Scheme (LGPS)

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

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

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

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

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

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Land and buildings

Land and buildings inherited from the local education authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis. Building improvements made since incorporation are included in the balance sheet at cost.

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

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

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred income account within creditors, and are released to the Statement of Comprehensive Income over the expected useful economic life of the related asset on a systematic basis consistent with the depreciation policy. The deferred income is allocated between creditors due within one year and those due after more than one year.

Impairment

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

Assets under construction

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

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged to income in the period it is incurred, unless it increases the future benefits to the College, in which case it is capitalised and depreciated on the relevant basis.

Equipment

Equipment costing less than £1,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost.

Depreciation

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

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

Borrowing costs
Borrowing costs are recognised as expenditure in the period in which they are incurred.

Leased assets
Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives relating to leases signed after 1st August 2014 are spread over the minimum lease term.

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

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

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

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

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

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

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

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

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

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

Taxation

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

The College is partially exempt in respect of Value Added Tax, so that it can only recover around 7% of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature. 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:

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

performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

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

Local Government Pension Scheme
The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 22, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31st March 2016 has been used by the actuary in valuing the pensions liability at 31st July 2018. 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

	2018 £'000	2017 £'000
Recurrent grants		
Education & Skills Funding Agency – Adult	1,346	1,811
Education & Skills Funding Agency – 16-18	6,006	6,162
Education & Skills Funding Agency – Apprentices	912	1,507
Higher Education Funding Council	138	181
Specific grants		
Releases of government capital grants	668	860
Total	**9,070**	**10,521**

3 Tuition fees and education contracts

	2018 £'000	2017 £'000
Adult education fees	479	404
Apprenticeship fees and contracts	362	-
Fees for FE loan supported courses	415	586
Fees for HE loan supported courses	599	640
Total tuition fees	1,854	1,630
Education contracts	852	846
Total	**2,706**	**2,476**

4 Other grants and contracts

	2018 £'000	2017 £'000
European Commission	118	32
Other grants and contracts	157	158
Total	**275**	**190**

5 Other income

	2018 £'000	2017 £'000
Catering and residences	17	15
Lease Income	519	-
Other income generating activities	693	637
Total	**1,229**	**652**

6 Investment income

	2018 £'000	2017 £'000
Other interest receivable	3	-
Total	**3**	**-**

7 Staff costs

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

	2018 No.	2017 No.
Teaching staff	91	95
Non-teaching staff	109	112
	200	**207**

Staff costs for the above persons

	2018 £'000	2017 £'000
Wages and salaries	5,980	6,077
Social security costs	514	522
Other pension costs (including FRS102 adjustments of £60,000 (2017:£130,000))	1,344	1,311
Payroll sub total	**7,838**	**7,910**
Contracted out staffing services	314	326
	8,153	**8,236**
Restructuring costs – Contractual	47	86
Total Staff costs	**8,200**	**8,322**

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Senior Leadership Team which comprises the Principal, Vice Principal Finance & Resources, Vice Principal Curriculum & Quality, Assistant Principal Workforce Skill & Student Experience, Director of People and Estates. Staff costs include compensation paid to key management personnel for loss of office.

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

	2018 No.	2017 No.
The number of key management personnel including the Accounting Officer was:	**5**	**5**

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

	Key management personnel		Other staff	
	2018 No.	**2017 No.**	**2018 No.**	**2017 No.**
£50,001 to £60,000 p.a.	1	1	-	-
£60,001 to £70,000 p.a.	2	2	-	-
£70,001 to £80,000 p.a.	-	-	-	-
£80,001 to £90,000 p.a.	1	1	-	-
£110,001 to £120,000 p.a.	1	1	-	-
	5	**5**	**-**	**-**

Key management personnel emoluments are made up as follows:

	2018 £'000	2017 £'000
Salaries	386	369
Employers NI Contributions	47	45
Benefits in kind	1	1
	434	415
Pension contributions	58	52
Total emoluments	492	467

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

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

	2018 £'000	2017 £'000
Salaries	113	112
Benefits in kind	1	1
	114	113
Pension contributions	17	15

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

8 Other operating expenses

	2018	2017
	£'000	£'000
Teaching costs	633	857
Non-teaching costs	1,775	1,802
Premises costs	1,237	1,154
Total	**3,645**	**3,813**

Other operating expenses include:	**2018**	**2017**
	£'000	**£'000**
Auditors' remuneration:		
Financial statements audit	30	29
Internal audit	20	18
Other services provided by the financial statements auditor	5	21
Other services provided by the internal auditors	-	-
Hire of assets under operating leases	121	158

9 Interest and other finance costs

	2018	2017
	£'000	£'000
On bank loans, overdrafts and other loans:	363	373
Release of Interest paid in Advance provision	-	(160)
	363	213
Pension finance costs (note 22)	250	280
Total	**613**	**493**

10 Taxation

The College is not liable for corporation tax for any activities during the year ending 31st July 2018 nor through the prior year.

11 Tangible fixed assets

	Land and buildings Freehold	Land and buildings Long leasehold	Equipment	Assets in the course of construction	Total
	£'000	£'000	£'000		£'000
Cost or valuation					
As at 1st August 2017	52,231	10	6,393	187	58,821
Additions	14	-	82	105	201
Assets in Construction Transfers	204	-	27	(230)	-
Disposals	(89)	-	-	-	(89)
At 31st July 2018	52,360	10	6,502	62	58,934
Depreciation					
As at 1st August 2017	12,945	10	5,572	-	18,527
Charge for the year	1,181	-	331	-	1,512
Disposals	(83)	-	-	-	(83)
At 31st July 2018	14,043	10	5,903	0	19,956
Net book value at 31st July 2018	**38,317**	**-**	**599**	**62**	**38,978**
Net book value at 31st July 2017	39,286	-	821	187	40,294

Included within Assets in the course of Construction is £59k relating to the implementation of the student records software solution. This is intangible by nature but included in Tangible Fixed Assets on grounds of materiality.

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

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

12 Debtors

	2018	2017
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	660	881
Amounts owed by related entities:		
Inspire Academy Trust	1	1
Prepayments and accrued income	152	206
Amounts owed by the ESFA	119	87
Total	**932**	**1,175**

13 Creditors

	2018	2017
	£'000	£'000
Bank loans and overdrafts	6,099	230
Trade payables	196	132
Payments received in advance	198	742
Other taxation and social security	143	141
Accruals	349	611
Deferred income - government capital grants	668	668
EFA Capital Grant repayment	100	80
Other Creditors	477	470
Amounts owed to the ESFA	919	730
Total	**9,149**	**3,804**

14 Creditors: Amounts falling due after one year

	2018	2017
	£'000	£'000
Bank loans	-	6,100
EFA Capital Grant repayment	400	500
Deferred income - government capital	17,053	17,722
Trust Funds	3	2
Total	**17,456**	**24,324**

15 Borrowings

	2018	2017
Bank loans and overdrafts are repayable as	£'000	£'000
In one year or less	6,099	230
Between one and two years	-	244
Between two and five years	-	823
In five years or more	-	5,033
Total	**6,099**	**6,330**

Bank Covenants
As at 31 July 2018 the College was in breach of one bank covenant for Debt Service Cover ratio with a score of 1.42 against a target of 1.5.

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

Interest rate, end date and security
The College has one bank loan at 5.80 per cent repayable by instalments falling due between 1st August 2018 and 30 April 2034 totalling £6,099,000 which is secured on all of the freehold land and buildings of the College

16 Provisions

	Defined benefit obligations	Enhanced pensions	Total
	£'000	£'000	£'000
At 1 August 2017	10,050	1,314	11,364
Expenditure in the period			
Additions in period	(1,580)	-	(1,580)
At 31st July 2018	**8,470**	**1,314**	**9,784**

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

The enhanced pension provision relates to the cost of staff who have already left the College's employ and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date. This provision has been recalculated in accordance with guidance issued by the funding bodies.
The principal assumptions for this calculation are:

	2018	2017
Price inflation	3.2%	3.1%
Discount rate	2.8%	2.6%

17 Cash and cash equivalents

	At 1st August 2017	Cash flows	Other changes	At 31st July 2018
	£'000	£'000	£'000	£'000
Cash and cash equivalents	687	(239)	-	448
Total	**687**	**(239)**	**-**	**448**

18 Capital and other commitments

	2018	2017
	£'000	£'000
Commitments contracted for at 31st July	42	11

19 Commitments under operating leases

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

	2018	2017
	£'000	£'000
Future minimum lease payments due		
Not later than one year	64	65
Later than one year and not later than five years	65	9
	129	74

20 Contingent liabilities

The College has a contingent liability for £450,000 related to repairing a listed slipway currently leased at the Woolston Marine Skills Centre site. The current lease expires in December 2019 and the lease requires the slipway to be made good. Following discussions the Lessor, Crown Estates, has confirmed the repairs will be required.

21 Events after the reporting period

The College is working with intent to merger with Eastleigh College in early 2019. An application was made to the Transaction Unit for Restructuring Facility funds to enable the merger to take place and meet the Area Based Review recommendation, creating a larger and more financially sustainable college.

As at the date of signing no decision had been made by the Transaction Unit.

22 Defined benefit obligations

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

Total pension cost for the year		**2018**		**2017**
		£000		**£000**
Teachers' Pension Scheme: contributions paid		479		466
Local Government Pension Scheme:				
Contributions paid	690		600	
FRS 102 (28) charge	60		130	
Charge to the Statement of Comprehensive Income		750		730
Enhanced pension charge to Statement of Comprehensive Income		115		115
Total Pension Cost for Year within staff costs		**1,344**		**1,311**

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31st March 2016.

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year

Teachers' Pension Scheme

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

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

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

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

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

The latest actuarial review of the TPS was carried out as at 31 March 2012. 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 (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £191,500 million, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £176,600 million giving a notional past service deficit of £14,900 million;
- an employer cost cap of 10.9% of pensionable pay.
- the assumed real rate of return is 3% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%.

The TPS valuation for 2012 determined an employer rate of 16.48% (including a 0.08% administration fees), which was payable from September 2015. The next valuation of the TPS is currently underway based on March 2017 data, whereupon the employer contribution rate is expected to be reassessed and will be payable from 1 April 2019.

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

The pension costs paid to TPS in the year amounted to £500,000 (2017: £466,000)

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Hampshire Local Authority. The total contributions made for the year ended 31 July 2018 were £860,000, of which employer's contributions totalled £690,000 and employees' contributions totalled £170,000.

The agreed employer contribution rates for future years are 15.6% from April 2018 to April 2019 and 16.9% from April 2019 to April 2020.

For employees, contributions range from 5.5% to 11.4%, depending on salary. Annual fixed contribution rates are 2017/18 £311k, 2018/19 £322k and 2019/20 £334k.

The next scheme revaluation will be undertaken in 2019. The indicative employer contribution rates are 18.1% from April 2020 with a fixed contribution for 2020/21 estimated at £345k.

The current valuation does not reflect the expected increase in benefits and therefore liability as a result of Guaranteed Minimum Pension ('GMP') equalisation between men and women which is required as a result of the removal of the Additional State Pension. Methodologies for a long-term solution are still being investigated by the Government as set out in the published (January 2018) outcome of the Government Consultation 'Indexation and Equalisation of GMP in Public Sector Pensions Schemes' and therefore the expected impact cannot be reliably estimated and consequently no provision/liability has been recognised.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31st March 2016 updated to 31st July 2018 by a qualified independent actuary.

	At 31st July 2018	At 31st July 2017
Rate of increase in salaries	3.60%	3.50%
Future pensions increases	2.10%	2.00%
Discount rate for scheme liabilities	2.80%	2.60%
Inflation assumption (CPI)	2.10%	2.00%

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

	At 31st July 2018	At 31st July 2017
	years	years
Retiring today		
Males	24.1	24.0
Females	27.2	27.0
Retiring in 20 years		
Males	26.2	26.0
Females	29.4	29.3

The College's share of assets in the plan at the balance sheet date were:	**Fair Value at 31st July 2018 £'000**	**Fair Value at 31st July 2017 £'000**
Equity instruments	13,693	12,130
Debt instruments	5,210	5,133
Property	1,507	1,288
Cash	452	595
Other	668	674
Total fair value of plan assets	**21,530**	**19,820**

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

	2018 £'000	**2017 £'000**
Fair value of plan assets	21,530	19,820
Present value of plan liabilities	(30,000)	(29,870)
Net pensions (liability) (Note 19)	**(8,470)**	**(10,050)**

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

	2018 £'000	**2017 £'000**
Amounts included in staff costs		
Current service cost	750	720
Past service cost	-	10
Total	**750**	**730**
Amounts included in investment income		
Interest income	(510)	(430)
Interest expense on Defined Benefit pension obligation	760	710
	250	**280**

Amount recognised in Other Comprehensive Income

Return on pension plan assets	1,520	1,550
Experience losses arising on defined benefit obligations	370	840
Amount recognised in Other Comprehensive Income	**1,890**	**2,390**

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

	2018 £'000	2017 £'000
Net defined benefit (liability)/asset in scheme at 1st August	(10,050)	(12,030)
Movement in year:		
Current service cost	(750)	(720)
Employer contributions	690	600
Past service cost	-	(10)
Net interest on the defined (liability)/asset	(250)	(280)
Actuarial gain or loss	1,890	2,390
Net defined benefit (liability) at 31st July	**(8,470)**	**(10,050)**

Asset and Liability Reconciliation

	2018 £'000	2017 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	29,870	29,760
Current service cost	750	720
Interest cost	760	710
Contributions by Scheme participants	170	160
Experience gains and losses on defined benefit obligations	-	-
Changes in financial assumptions	(370)	(840)
Estimated benefits paid	(1,180)	(650)
Past Service cost	-	10
Defined benefit obligations at end of period	**30,000**	**29,870**
Changes in fair value of plan assets		
Fair value of plan assets at start of period	19,820	17,730
Interest on plan assets	510	430
Return on plan assets	1,520	1,550
Employer contributions	690	600
Contributions by Scheme participants	170	160
Estimated benefits paid	(1,180)	(650)
Fair value of plan assets at end of period	**21,530**	**19,820**

23 Related party transactions

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

During the year £25k (2017: £25k) was charged to, and paid by, Inspire Academy Trust for management and back office services performed on its behalf. At the balance sheet date £7k (2017: £7k) was owed to the college from Inspire Academy Trust.

The total expenses paid to or on behalf of the Governors during the year was £237: 3 governors (2017: £454; 1 governor). 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 (2017: None).

24 Amounts disbursed as agent: Learner support funds

	2018 £'000	2017 £'000
Brought forward from prior year	388	250
Brought forward amounts repaid	(159)	(93)
Funding body grants – bursary support	633	649
Funding body grants – discretionary learner support	286	286
	1148	1,092
Disbursed to students	(733)	(684)
Administration costs	(29)	(20)
Balance unspent as at 31st July, included in creditors	386	388

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

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

Conclusion

We have carried out an engagement, in accordance with the terms of our engagement letter dated 03 July 2017 and further to the requirements of the grant funding agreements and contracts with the Education and Skills Funding Agency (the "ESFA"), to obtain limited assurance about whether the expenditure disbursed and income received by Southampton City College during the period 01 August 2017 to 31 July 2018 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 01 August 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Basis for conclusion

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

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

Responsibilities of Corporation of Southampton City College for regularity

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

Reporting accountant's responsibilities for reporting on regularity

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

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

We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 01 August 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

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

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

Use of our report

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

RSM UK Audit LLP

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