



SOUTHAMPTON CITY COLLEGE

**Report and Financial Statements for the
year ended 31 July 2015**

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Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES

The Members of the Corporation present their report and the audited financial statements for the year ended 31 July 2015.

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. The change of name was effective from 1st September 1995 and the Corporation believes that this name represents the broader activities of the College within its environment.

Strategic Approach

Governors agreed a new Strategic Plan for 2015 to 2020 which includes revised statements on the Mission, Vision and Values.

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

Objectives

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

PUBLIC BENEFIT

As an exempt charity the College must demonstrate that it has due regard to the Charity Southampton City College is an exempt charity under the Part 3 of the Charities Act 2011 and from 1st September 2013, is regulated by the Secretary of State for Business, Innovation and Skills as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 14.

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

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

- High quality teaching
- Widening participation
- 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 sponsors the Inspire Academy Trust which currently runs the Isle of Wight Studio School which opened in September 2014 and which also previously ran the Inspire Enterprise Academy in Southampton up to its closure due to lack of enrolments at the end of August 2015. The College has facilities used within the curriculum which are also open to the public, such as the Aspire Restaurant, Kudos Hair and Beauty salon and a gym. We hire our facilities to other organisations where it does not impact on curriculum use. Examples include use of our Hub Theatre and making our car parking available for the public on Southampton FC match days.

Throughout the year the College hosts community events on behalf of other organisations, during this year such events included the launch of Black History Month, and a St George's Day celebration.

COLLEGE PERFORMANCE INDICATORS

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

- Attraction
- Student experience

- Student success
- Financial
- Staff experience

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

During 2014/15 a Curriculum Dashboard was also introduced, which enables the Board to monitor performance for a curriculum area across a number of key indicators at a more detailed level.

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

FINANCIAL POSITION

Summary - Financial results

The consolidated accounts include Southampton City College and Inspire Academy Trust (IAT) and overall they report a deficit in the year of £644k (2013/14 £438k.)

The table below separates the performance of each organisation within the Group.

	Consolidated £'000	College £'000	IAT £'000
Income			
Funding body grants	13,838	12,463	1,375
Tuition fees and education contracts	1,921	1,903	18
Other grants and contracts	616	559	57
Endowment and investment income	6	5	1
Total income	16,381	14,930	1,451
Expenditure			
Staff costs	9,998	9,144	854
Exceptional restructuring costs	311	309	2
Other operating expenses	4,305	3,842	463
Depreciation	1,978	1,761	217
Interest and other finance costs	433	433	0
Total expenditure	17,025	15,489	1,536
Deficit	(644)	(559)	(85)

Income

The College earns the majority of its grant income from three funding bodies; Education Funding Agency (EFA), Skills Funding Agency (SFA) and the Higher Education Funding Agency (HEFCE). Note 2 to the accounts shows the income per funding body. In the year we achieved our 16 - 18 Apprenticeship income but we did not achieve all of our Adult Skills Budget allocation.

The next largest source of income is tuition fees paid by students, or their sponsors, including the Students Loan Company.

Staff Costs

Staff costs represent 60% (2013/14 60%) of total expenditure. Towards the end of the financial year, the College carried out a staff restructuring exercise which was necessary in order to reduce costs and achieve a balanced budget for 2015/16. The cost of the restructuring is reflected within *Exceptional restructuring costs*.

Non Staff Costs

The College has recently invested £48m in upgrading its estate and as a consequence has a higher depreciation and interest payable cost than colleges of a similar size to ours.

Treasury policies and objectives

Treasury management is the management of the College's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The College has a treasury management policy in place.

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

Cash flows and liquidity

Despite the operating deficit, the College continues to generate cash. In 2014/15 it generated £1.7m (2013/14 £1m) from operating activities.

The size of the College's total borrowing and its approach to interest rates has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow. During the year this margin was comfortably exceeded.

Pension Liability/Reserve

The Balance Sheet continues to reflect the College's portion of the deficit on the Hampshire County Council Pension Scheme based on the number of non-teaching staff members of that scheme. The Teachers' Pension Scheme is a defined benefit scheme meaning it is not possible to calculate the College's portion of any deficit and so no provision is made.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

In 2014/15 the College has delivered activity that has produced £12.7m in funding body main allocation funding (2013/14 - £12.9m).

Student achievements

Success rates for 2014/15 were variable. There were improvements for EFA funded learners in larger vocational qualifications, but a very high number of English and Maths qualifications taken had poor outcomes. Adult students continued to perform well overall, but it was a difficult year for ESOL qualifications, with lower results than in previous years. Apprentices have continued to perform well, maintaining the previous year's strong improvement.

Curriculum developments

The College has started the process of curriculum planning for 2015/16 earlier in the cycle than previous years to ensure the courses on offer are informed by the market and attractive to students.

Payment performance

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

RESOURCES:

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

Tangible resources include the main College site campus, with an investment of £48 million into the facilities since 2009.

Financial

The College has £30m of net assets after taking account of a £8.7m pension liability and long term debt of £6.7m.

People

The College employs 259 people (expressed as full time equivalents), of whom 124 are teaching staff.

Reputation

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and external relationships.

PRINCIPAL RISKS AND UNCERTAINTIES

The College continues to develop and embed systems of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation.

The College has a Risk Management Policy and maintains a Risk Register which is reviewed at monthly management meetings and at each meeting of the Audit & Risk Committee.

The Risk Register includes 16 risks and those with a high net risk on the current register (reviewed by Audit & Risk Committee on 23rd November 2015) are:

- Changes in government policy which negatively affect college funding
- Poor student outcomes results in poor inspection result by external agency
- Major utility or IT infrastructure failure stops college operating

The College adopts the following key principles in its approach to managing risk:

- The management of risk is integral to the day-to-day management of the College and is held as a central feature of good management practice by committees and managers at all levels of the College
- The Board of Governors has responsibility for overseeing risk management within the College as a whole
- The Audit & Risk Committee is responsible for reviewing the effectiveness of the College's internal control arrangements
- The approach adopted in addressing risks is an open one, receptive to input from Governors and staff at all levels.

STAKEHOLDER RELATIONSHIPS

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

- Students;
- Education sector funding bodies;
- FE Commissioner
- Staff;
- Local employers;
- Local authorities;
- Government Offices/ LEPs;

- The local community;
- Other FE institutions;
- Trade unions;
- Professional bodies

The College recognises the importance of these relationships and engages in regular communication with them through the College Internet site and by meetings.

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.

The College has committed to Southampton's "Health and Well Being Charter" and this has been assessed in Autumn 2015.

Disability Statement

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

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

Approved by order of the members of the Corporation on 14th December 2015 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'Sue Leamore', written over a horizontal line.

Sue Leamore
Chair

PROFESSIONAL ADVISERS DURING 2014/15

Financial statement and regularity auditors:

RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP)

Highfield Court

Chandlers Ford

Eastleigh

Hampshire

SO53 3TY

Internal auditors:

BDO LLP

Arcadia House,

Maritime Walk,

Ocean Village,

Southampton SO14 3TL

Bankers:

Barclays Bank Plc

Southern Larger Business Team

Wytham Court,

11 West Way,

Oxford

OX2 OJB

Solicitors:

Bond Dickinson LLP

Oceana House

39-49 Commercial Road

Southampton SO15 2UF

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 and how the principles supporting those structures have been applied.

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 English Colleges' Foundation Code of Governance ("the Foundation Code"); and
- iii. having due regard to the UK Corporate Governance Code ("the Code") insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance. In addition to its compliance with and adoption of the Foundation Code, the Corporation has reported on its governance arrangements by drawing upon wider best practice available, including those aspects of the UK Corporate Governance Code it considers to be relevant to the further education sector.

The Corporation 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, the Corporation has taken account of The English Colleges' Foundation Code of Governance issued by the Association of Colleges in December 2011 and its Audit and Accountability Annex issued in March 2013. In the opinion of the Members, the Corporation complies with (and in many respects exceeds) all the provisions of the Foundation Code and it has done so throughout the year ended 31 July 2015. From 1st August 2015, the Corporation adopted the new Code of Good Governance for English FE Colleges.

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 are as listed in the following table.

	Appointment Dates	Terms of Office	Leaving Dates	Category	Board Attendance to 31 July 2015	Committees Served
Dr A Barney	06 Oct 2003 06 Oct 2005 06 Oct 2007 06 Oct 2011	2 years 2 years 4 years 4 years	5 Oct 2015	Business Co-opted Co-opted External	6/9	Audit and Risk (Chair from August 2011 to 05 Oct 2015)
Prof R Blackwell	18 Jul 2011 18 Jul 2015	4 years 6 months		External	9/9	
Mr H Brora (Vice Chair)	23 Nov 2012	4 years		External	8/9	Audit and Risk Search & Governance
Ms C Conroy OBE	03 Nov 2015	4 years		External	0/0	Audit & Risk
Rev Dr J Davies	13 Dec 2010 13 Dec 2014	4 years 4 years		External	9/9	
Mr M Davis	03 Nov 2015	4 years		External	0/0	Search & Governance
Mr M Hobby	07 Feb 2011	4 years	8 Sep 2014	External	0/0	Remuneration Remuneration Search & Governance
Dr J John	19 Oct 2009 04 Nov 2014	4 years 4 years	18 Oct 2013	External	7/7	Search & Governance Remuneration
Ms S Leamore (Chair from 26 Nov14)	22 Jul 2013	4 years		External	8/9	Search & Governance
Cllr M Lloyd	10 March 2014	4 years		External	5/9	
Mr A May	24 Nov 2012	4 years		Staff	9/9	Search & Governance
Ms L Paton	05 Oct 2015	10 months		Student	0/0	
Mr A Pitcher OBE (Chair to 12 Nov14)	06 Feb 2007 06 Feb 2011	4 years 4 years	5 Feb 2015	Co-Opted External	1/5	Remuneration Search & Governance
Mr B Scott	22 Jul 2013	4 years		External	8/9	Search & Governance
Ms S Stannard	01 Aug 2013	Ex-officio		Principal	9/9	Search & Governance
Mr R Sutton	17 March 2015	18 months	16 May 2015	Student	1/1	
Mr P Thomson	12 May 2014	4 years	12 March 2015	External	2/4	Audit and Risk
Mr P Weir	18 Jun 2012	4 years		External	8/9	Audit and Risk (Chair from 06 Oct 2015)

Ms L Garth was 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 that have been approved by the Corporation.

These Committees are Audit and Risk, Search and Governance, and Remuneration. 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 minutes are published on the College website (www.southampton-city.ac.uk).

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

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

Formal agendas, papers and reports are supplied to Corporation Members in a timely manner, prior to Corporation meetings. Briefings are also 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.

Corporation Appointments and Development

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.

Remuneration Committee

The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and the Clerk. Details of remuneration for the Principal during the year ended 31st July 2015 are set out in note 7 to the financial statements.

Audit and Risk Committee

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

Through an agreed plan of monitoring and reporting, the College's internal auditors assist managers, the Audit and Risk Committee and the Corporation to assess the effectiveness of the systems of internal control, risk management and governance.

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 and Risk Committee also advises the Corporation on the appointment of internal, regularity and financial statements auditors and their remuneration for both audit and non-audit work.

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 she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum between Southampton City College and funding bodies. She 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 2015 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 2015 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 Corporation;
- regular reviews by the Corporation 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 operated in accordance with the requirements of the FE *Joint Audit Code of Practice* from 1st August 2014. 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 and Risk Committee. At minimum annually, the Head of Internal Audit (HIA) provides the Corporation with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

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

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

Following the Principal's review, she has been advised on its implications by the Audit and Risk Committee, which oversees the work of the internal auditor. A plan to address any weaknesses and to ensure continuous improvement is in place. No material control weaknesses were reported in the external audit management letter, which was reported to the Audit and Risk Committee.

The Principal and Senior Management receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Principal, senior management team and the Audit and Risk Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit and 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 and Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2015 meeting, the Corporation carried out the annual assessment for the year ended 31st July 2015 by considering documentation from the senior management team, internal audit and the Audit and Risk Committee, and taking account of events since 31st July 2015.

Based on the advice of the Audit and Risk Committee and the Principal, 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"*.

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

The Corporation has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agency terms and conditions of funding, under the financial memorandum in place between the College and the Skills Funding Agency.

As part of its consideration the Corporation has had due regard to the requirements of the financial memorandum. We confirm, on behalf of the Corporation, that to the best of its knowledge, the Corporation believes it is able to identify any material irregular or improper use of funds by the College, or material non-compliance with the Skills Funding Agency's terms and conditions of funding under the College's financial memorandum. We further confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the Skills Funding Agency.

Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on 14th December 2015 and signed on its behalf by:



Sue Leamore
Chair



Sarah Stannard
Accounting Officer

Statement of Responsibilities of the Members of the Corporation

The members of the Corporation are required to present audited financial statements for each financial year.

Within the terms and conditions of the Financial Memorandum agreed between the Skills Funding Agency and the Corporation of the College, the Corporation, through its Accounting Officer, is required to prepare financial statements for each financial year in accordance with the 2007 *Statement of Recommended Practice - Accounting for Further and Higher Education Institutions* and with the Accounts Direction for 2014 to 2015 financial statements issued jointly by the Skills Funding Agency and the EFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

The Corporation is also required to prepare an Operating and Financial Review which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the Skills Funding Agency are used only in accordance with the Financial Memorandum with the Skills Funding Agency and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management

controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure to ensure that the benefits that should be derived from the application of public funds provided by the Skills Funding Agency are not put at risk.

Approved by order of the members of the Corporation on 14th December 2015 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'Sue Leamore', written over a horizontal line.

Sue Leamore
Chair

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

We have audited the Group and College financial statements ("the Financial Statements") set out on pages 22 to 50. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) as set out in our engagement letter dated 1 April 2014.

This report is made solely to the Corporation, as a body, in accordance with the Financial Memorandum published by the Skills Funding Agency and our engagement letter dated 1 April 2014. Our audit work has been undertaken so that we might state to the Corporation, as a body, those matters we are required under our engagement letter dated 1 April 2014 to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Corporation of Southampton City College and Auditor

As explained more fully in the Statement of the Corporation's Responsibilities set out on pages 18 to 19, the Corporation is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with the terms of our engagement letter dated 1 April 2014, Joint Audit Code of Practice issued by the Skills Funding Agency and Education Funding Agency and International Standards on Auditing (UK and Ireland). The International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Groups' and the College's affairs as at 31 July 2015 and of the Group's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Matters on which we are required to report by exception

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

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

RSM UK Audit LLP

RSM UK AUDIT LLP (formerly Baker Tilly UK Audit LLP)

Chartered Accountants

Highfield Court

Tollgate

Chandlers Ford

Eastleigh

Hampshire

SO53 3TY

Date: *21/12/15*

Southampton City College
Consolidated Income and Expenditure Account

	Notes	2015 £'000	2014 £'000
INCOME			
Funding body grants	2	13,838	14,051
Tuition fees and education contracts	3	1,921	2,036
Other grants & contracts	4	616	1,024
Endowment and investment income	5	6	3
Total income		16,381	17,114
EXPENDITURE			
Staff costs	6	9,998	10,328
Exceptional restructuring costs	6	311	224
Other operating expenses	8	4,305	4,397
Depreciation	12	1,978	1,909
Interest and other finance costs	9	433	694
Total expenditure		17,025	17,552
		(644)	(438)
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and exceptional items but before tax			
Taxation	10	-	-
		(644)	(438)
Deficit on continuing operations after depreciation of assets at valuation exceptional items and tax			
	11	-	-
Surplus/(Deficit) for the year transferred from accumulated income in endowment funds			
Deficit for the year retained within general reserves		(644)	(438)

The income and expenditure account is in respect of continuing activities.

Southampton City College

Consolidated Statement of Historical Cost Surpluses and Deficits

	Notes	2015 £'000	2014 £'000
Deficit on continuing operations before taxation		(644)	(438)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	20	118	74
		<u>(526)</u>	<u>(364)</u>
Historical cost deficit for the year before taxation		<u>(526)</u>	<u>(364)</u>
Historical cost deficit for the year after taxation		<u>(526)</u>	<u>(364)</u>


Consolidated Statement of Total Recognised Gains and Losses


	Notes	2015 £'000	2014 £'000
Deficit on continuing operations after depreciation of assets at valuation and disposals of assets and tax		(644)	(438)
Actuarial (loss)/gain in respect of pension scheme	29	(910)	833
Donation from local authority			1,624
Total recognised (losses)/ gains since last report		<u>(1,554)</u>	<u>2,019</u>
Reconciliation			
Opening reserves and endowments		8,393	6,374
Total recognised (losses)/gains for the year		<u>(1,554)</u>	<u>2,019</u>
Closing reserves and endowments		<u>6,839</u>	<u>8,393</u>

Southampton City College
Balance sheets as at 31 July

	Notes	Group	College	Group	College
		2015 £'000	2015 £'000	2014 £'000	2014 £'000
Fixed assets					
Tangible assets	12	46,847	41,923	47,182	43,411
Investments	13	-	-	-	-
Total fixed assets		46,847	41,923	47,182	43,411
Current assets					
Stocks		16	16	15	15
Debtors	14	1,176	1,079	1,839	1,605
Cash at bank and in hand		1,326	1,026	324	126
Total current assets		2,518	2,121	2,178	1,746
Less: Creditors – amounts falling due within one year	15	(2,897)	(2,415)	(2,540)	(1,848)
Net current liabilities		(379)	(294)	(362)	(102)
Total assets less current liabilities		46,468	41,629	46,819	43,309
Less: Creditors – amounts falling due after more than one year	16	6,710	6,710	6,914	6,914
Less: Provisions for liabilities	18	1,328	1,328	1,326	1,326
Net assets excluding pension liability		38,430	33,591	38,579	35,068
Net pension liability	29	(8,715)	(8,660)	(7,796)	(7,740)
NET ASSETS INCLUDING PENSION LIABILITY		29,715	24,931	30,783	27,328
Deferred capital grants	19	22,876	20,073	22,390	20,917
Reserves					
Income and expenditure account excluding pension reserve	21	9,713	9,736	10,230	10,295
Pension reserve	21	(8,715)	(8,660)	(7,796)	(7,740)
Income and expenditure account including pension reserve	21	998	1,076	2,434	2,555
Revaluation reserve	20	5,841	3,782	5,959	3,856
Total reserves		6,839	4,858	8,393	6,411
TOTAL FUNDS		29,715	24,931	30,783	27,328

The financial statements on pages 22 to 50 were approved by the Corporation on 14 December 2015 and were signed on its behalf on that date by:


Sue Leamore
Chair


Sarah Stannard
Principal

Southampton City College
Consolidated Cash Flow Statement

	Notes	2015 £'000	2014 £'000
Cash inflow from operating activities	22	1,722	1,041
Returns on investments and servicing of finance	23	(386)	(492)
Capital expenditure and financial investment	24	(141)	(578)
Financing	25	(193)	(157)
		<hr/>	<hr/>
Increase / (decrease) in cash in the year	26	<u>1,002</u>	<u>(186)</u>
Reconciliation of net cash flow to movement in			
Increase / (decrease) in cash in the period		1,002	(186)
Cash inflow from new secured loan	26	<u>193</u>	<u>157</u>
Movement in net funds in the period		1,195	(29)
Net funds at 1 August		(6,784)	(6,755)
		<hr/>	<hr/>
Net funds at 31 July		<u>(5,589)</u>	<u>(6,784)</u>

Notes to the Accounts

1. Accounting policies

Statement of accounting policies

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 2007* (the SORP), the Accounts Direction for 2014/15 financial statements published jointly by the SFA and EFA and in accordance with applicable Accounting Standards.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets and in accordance with applicable United Kingdom Accounting Standards.

Going concern

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

The College currently has £6.9m of loans outstanding with bankers on terms negotiated in 2009 with expiry in 2034. Additionally there is a £0.5m overdraft facility available for unconditional drawdown which is secured by a fixed and floating charge on College assets. The terms of the existing overdraft facility agreement are renewed annually as required. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

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

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries; City Hub Events Limited and Inspire Academy Trust. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with Financial Reporting Standard (FRS) 2, the activities of the student union have not been consolidated

Notes to the Accounts (Continued)

as the College does not control those activities. All financial statements are made up to 31 July 2015.

Recognition of income

Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments; the income recognised in the allocation for the year.

Non-recurrent grants received from the funding bodies or other bodies in respect of the acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Income from tuition fees is recognised in the period for which it is received and includes all fees payable by students or their sponsors, for example Southampton City Council.

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Post retirement benefits

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes, which are externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPS) (until April 2016) and the assets held separately from those of the college. The TPS is an unfunded scheme and contributions 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 the Government Actuary on the basis of quadrennial valuations using a prospective benefit method. As stated in Note 29, 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, therefore, is treated as a defined contribution scheme and the contributions recognised as they are paid each year.

Notes to the Accounts (Continued)

The LGPS is a funded scheme and the assets are held separately from those of the college in separate trustee administered funds. Pension scheme are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to 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 gains and losses on settlement and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the income and expenditure account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The expected return on assets and the interest cost are shown as a net finance amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

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 and expenditure account 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.

Tangible fixed assets*Land and buildings*

Land and buildings inherited from the local education authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis. Building improvements made since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold and leasehold 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 capital grant account, and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

Notes to the Accounts (Continued)

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. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the income and expenditure account.

On adoption of FRS 15, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

Assets under construction

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July 2015. 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 it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Market value of the fixed asset has subsequently improved
- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the asset's life beyond that conferred by repairs and maintenance

Equipment

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the local education authority is included in the balance sheet at valuation.

Inherited equipment has been depreciated on a straight-line basis over its remaining useful economic life to the College of between one and three years from incorporation and is now fully depreciated. All other equipment is depreciated over its useful economic life as follows:

- building improvements - 5 or 10 years on a straight-line basis
- technical equipment - 5 or 10 years on a straight-line basis
- computer equipment - 3 years on a straight-line basis
- furniture, fixtures and fittings - 5 or 10 years on a straight-line basis

Notes to the Accounts (Continued)

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Investments

Investments in subsidiary companies are held at cost less any provision for diminution in value.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Foreign currency translation

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

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 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 a minor element of 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.

City Hub Events Ltd is subject to corporation tax and VAT in the same way as any commercial organisation and Inspire Academy Trust is an exempt charity regulated by the Education Funding Agency and is therefore not subject to corporation tax and is not registered for VAT.

Notes to the Accounts (Continued)**Liquid resources**

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities.

Provisions

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.

Agency arrangements

The College acts as an agent in the collection and payment of Learner Support Funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 35, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

Southampton City College
Notes to the Accounts (continued)

2 Funding body grants

	2015	2014
	£'000	£'000
Main funding bodies recurrent grant	11,001	11,258
HEFCE recurrent grant	58	49
Main funding body non recurrent grants	1,670	1,574
Release of deferred capital grants (note 19)	1,016	895
DFE grant for Studio Schools	93	275
	<u>13,838</u>	<u>14,051</u>
Total	13,838	14,051

3 Tuition fees and education contracts

	2015	2014
	£'000	£'000
Tuition fees	1,205	1,414
Education contracts	716	622
	<u>1,921</u>	<u>2,036</u>
Total	1,921	2,036

4 Other grants and contracts

	2015	2014
	£'000	£'000
Catering and conferences	34	352
Other income generating activities	92	137
Other grants and contracts	229	152
Other Income	261	383
	<u>616</u>	<u>1,024</u>
Total	616	1,024

Southampton City College
Notes to the Accounts (continued)

5 Endowment and investment income

	2015 £'000	2014 £'000
Other interest receivable	<u>6</u>	<u>3</u>

6 Staff costs

The average number of persons (including senior post-holders) employed by the College during the year, described as full-time equivalents, was:

	2015 No.	2014 No.
Teaching staff	124	137
Non teaching staff	<u>135</u>	<u>151</u>
	<u>259</u>	<u>288</u>

Staff costs for the above persons

	2015 £'000	2014 £'000
Wages and salaries	7,945	8,405
Social security costs	526	553
Other pension costs (including FRS 17 adjustments of £(85,000) (2014: £42,000)	1,164	1,113

Payroll sub total

9,635 10,071

Contracted out staffing services

363 257

Exceptional restructuring costs

9,998 10,328
311 224

Total Staff costs

10,309 10,552

The number of senior post-holders and other staff who received annual emoluments, excluding pension contributions but including benefits in kind, in the following ranges was:

	Senior post-holders		Other staff	
	2015 No.	2014 No.	2015 No.	2014 No.
£60,001 to £70,000	0	0	3	4
£70,001 to £80,000	0	0	1	0
£80,001 to £90,000	0	0	0	0
£90,001 to £100,000	0	0	0	0
£100,001 to £110,000	0	0	0	0
£110,001 to £120,000	0	1	0	0
£120,001 to £130,000	1	0	0	0
£130,001 to £140,000	0	0	0	0
	<u>1</u>	<u>1</u>	<u>4</u>	<u>4</u>

Southampton City College

Notes to the Accounts (continued)

7 Senior post-holders' emoluments

Senior post-holders are defined as the Principal and holders of the other senior posts whom the Governing Body has selected for the purposes of the articles of government of the College relating to the appointment and promotion of staff who are appointed by the Governing Body.

	2015 No.	2014 No.
The number of senior post-holders including the Principal was:	<u>1</u>	<u>1</u>
Senior post-holders' emoluments are made up as follows:		
	2015 £'000	2014 £'000
Salaries	121	110
Benefits in kind	1	1
Pension contributions	<u>16</u>	<u>14</u>
Total emoluments	<u>138</u>	<u>125</u>

The above emoluments include amounts payable to the Principal (who is also the highest paid senior post-holder) of:

	2015 £'000	2014 £'000
Salaries	121	110
Benefits in kind	<u>1</u>	<u>1</u>
	<u>122</u>	<u>111</u>
Pension contributions	<u>16</u>	<u>14</u>

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Local Government Pension Scheme and are paid at the same rate as for other employees.

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

Southampton City College
Notes to the Accounts (continued)

8 Other operating expenses

	2015	2014
	£'000	£'000
Teaching costs	824	901
Non teaching costs	2,037	2,060
Premises costs	<u>1,444</u>	<u>1,436</u>
Total	<u>4,305</u>	<u>4,397</u>

Other operating expenses include:

	2015	2014
	£'000	£'000
Auditors' remuneration:		
Financial statements audit - Group	35	42
Financial statements audit - College	19	25
Internal audit - Group & College	14	13
Hire of other assets – operating leases	<u>111</u>	<u>137</u>

9 Interest and other finance costs

	2015	2014
	£'000	£'000
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in more than five years	<u>392</u>	<u>495</u>
	392	495
Pension finance costs (Note 29)	<u>41</u>	<u>199</u>
Total	<u>433</u>	<u>694</u>

Southampton City College
Notes to the Accounts (continued)

10 Taxation

The College is not liable for corporation tax for any activities during the year ending 31 July 2015 nor through the prior year

11 Deficit on continuing operations for the period

The deficit on continuing operations for the year is made up as follows:

	2015 £'000	2014 £'000
College deficit for the year	(559)	(323)
Deficit generated by subsidiary undertakings	(85)	(115)
Total	(644)	(438)

12 Tangible fixed assets (Group)

	Land and buildings		Group Equipment	Assets In Construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000		£'000
Cost or valuation					
At 1 August 2014	53,366	10	6,214	969	60,559
Additions	1,150	-	469	-	1,619
Assets in construction transfers	-	968	-	(944)	24
Disposals	-	-	-	-	-
At 31 July 2015	54,516	978	6,683	25	62,202
Depreciation					
At 1 August 2014	9,121	8	4,248	-	13,377
Charge for the year	1,246	20	712	-	1,978
Revaluation	-	-	-	-	-
Elimination in respect of disposals	-	-	-	-	-
At 31 July 2015	10,367	28	4,960	-	15,355
Net book value at 31 July 2015	44,149	950	1,723	25	46,847
Net book value at 31 July 2014	44,246	1	1,966	969	47,182

Southampton City College
Notes to the Accounts (continued)

12 Tangible fixed assets (College only)

	Land and buildings		Equipment	Assets In Construction	Total
	Freehold	Long leasehold			
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 August 2014	50,704	10	6,026	-	56,740
Additions	97	-	156	22	275
Surplus on revaluation	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 July 2015	50,801	10	6,182	22	57,015
Depreciation					
At 1 August 2014	9,105	8	4,217	-	13,330
Charge for the year	1,182	1	579	-	1,762
At 31 July 2015	10,287	9	4,796	-	15,092
Net book value at 31 July 2015	40,514	1	1,386	22	41,923
Net book value at 31 July 2014	41,599	2	1,809	-	43,411

The transitional rules set out in FRS15 Tangible Fixed Assets have been applied on implementing FRS15. Accordingly the book values at implementation have been retained.

If fixed assets had not been revalued they would have been included at the following historical cost amounts:

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

Southampton City College
Notes to the Accounts (continued)

13 Investments

	College 2015 £	College 2014 £
Investments in subsidiary companies	2	2
Investments in associate companies	-	-
	<hr/>	<hr/>
Total	<u>2</u>	<u>2</u>

The College owned 100% of the ordinary £1 shares of City Hub Events Limited, a company incorporated in England and Wales which commenced trade in August 2011 and was made dormant in August 2014. The principal activity of the company was event management and catering.

The College has control over the Inspire Academy Trust, a company incorporated in England and Wales and limited by guarantee, and therefore the results of the Trust are included in these consolidated financial statements. This charitable company's financial results have been incorporated into the results of the College at the year end. The Trust has a year end of August 2015 and therefore the results of the period ending 31 July for the Trust have been consolidated into the Group financial statements.

Southampton City College
Notes to the Accounts (continued)

14 Debtors

	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
Amounts falling due within one year:				
Trade debtors	680	677	862	969
Amounts owed by group undertakings:				
Subsidiary undertakings	-	10	-	98
Prepayments and accrued income	300	272	786	347
Other debtors	9	-	-	-
Amounts owed by the Funding Bodies	187	120	191	191
Total	1,176	1,079	1,839	1,605

15 Creditors: amounts falling due within one year

	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
Bank loans and overdrafts	205	205	194	194
Payments received in advance	441	441	504	504
Trade creditors	288	288	262	246
Other taxation and social security	194	181	129	168
Accruals	367	338	387	332
Other Creditors	470	478	628	404
Amounts owed to the Funding Bodies	932	483	436	-
Total	2,897	2,415	2,540	1,848

16 Creditors: amounts falling due after one year

	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
Bank loans	6,708	6,708	6,912	6,912
Trust Funds	2	2	2	2
Total	6,710	6,710	6,914	6,914

Southampton City College
Notes to the Accounts (continued)

17 Borrowings

Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
In one year or less	205	205	194	194
Between one and two years	218	218	205	205
Between two and five years	733	733	692	692
In five years or more	5,757	5,757	6,015	6,015
Total	6,913	6,913	7,106	7,106

Bank loan facility and overdrafts at 5.83 per cent repayable by instalments falling due between 1 August 2015 and 31 July 2034 totalling £6,912,703 are secured on a portion of the freehold land and buildings of the College.

18 Provisions for liabilities and charges

	Group and College Enhanced Pensions £'000
At 1 August 2014	1,326
Expenditure in the period	(101)
Transferred from income and expenditure	103
At 31 July 2015	1,328

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 provided by the funding bodies and its successor organisations.

Southampton City College
Notes to the Accounts (continued)

19 Deferred capital grants

	Group Funding Body	College Funding Body
	£'000	£'000
At 1 August 2014	22,390	20,917
Cash received	1,502	-
Released to income and expenditure account	(1,016)	(844)
At 31 July 2015	22,876	20,073

20 Revaluation reserve

	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
At 1 August	5,959	3,856	4,409	3,930
Transfer from revaluation reserve to general:				
Depreciation on revalued assets	(118)	(74)	(74)	(74)
Acquisition	-	-	1,624	-
At 31 July	5,841	3,782	5,959	3,856

21 Movements on general reserves

	Group 2015 £'000	College 2015 £'000	Group 2014 £'000	College 2014 £'000
Income and expenditure account reserve				
At 1 August	2,434	2,555	1,965	2,128
Deficit retained for the year	(644)	(559)	(438)	(323)
Transfer from revaluation reserve	118	74	74	74
Actuarial (loss)/gain in respect of pension	(910)	(920)	833	857
City Hub Events Limited reserve transfer	-	(74)	-	(181)
At 31 July	998	1,076	2,434	2,555
Balance represented by:				
Pension reserve	(8,715)	(8,660)	(7,796)	(7,740)
Income and expenditure account reserve excluding pension reserve	9,713	9,736	10,230	10,295
At 31 July	998	1,076	2,434	2,555

Southampton City College
Notes to the Accounts (continued)

22 Reconciliation of consolidated operating deficit to net cash inflow from operating activities

	2015	2014
	£'000	£'000
Deficit on continuing operations after depreciation of assets at valuation	(644)	(438)
Depreciation (notes 1 and 12)	1,978	1,909
Deferred capital grants released to income (note 19)	(1,016)	(895)
Interest payable (note 9)	433	694
Interest receivable (note 5)	(6)	(3)
FRS 17 pension cost less contributions payable (notes 6 and 29)	(85)	42
Increase in stocks	(1)	(20)
Decrease/ (increase) in debtors	663	(1,003)
Increase in creditors	398	772
Increase/(decrease) in provisions	2	(17)
Net cash inflow from operating activities	1,722	1,041

23 Returns on investments and servicing of finance

	2015	2014
	£'000	£'000
Other interest received	6	3
Interest paid	(392)	(495)
Net Cash Outflow from returns on investment and servicing of finance	(386)	(492)

24 Capital expenditure and financial investment

	2015	2014
	£'000	£'000
Purchase of tangible fixed assets	(1,643)	(2,089)
Deferred capital grants received	1,502	1,511
Net Cash outflow from capital expenditure and financial investment	(141)	(578)

Southampton City College
Notes to the Accounts (continued)

25 Financing

	2015 £'000	2014 £'000
Debt due beyond a year:		
Repayment of amounts borrowed	(193)	(157)
Net cash outflow from financing	(193)	(157)

26 Analysis of changes in net funds

	At 1 August 2014 £'000	Cash flows £'000	Other changes £'000	At 31 July 2015 £'000
Cash in hand, and at bank	324	1,002	-	1,326
Overdrafts	-	-	-	-
	<u>324</u>	<u>1,002</u>	<u>-</u>	<u>1,326</u>
Debt due within 1 year	(194)	194	(205)	(205)
Debt due after 1 year	(6,914)	(1)	205	(6,710)
Total	(6,784)	1,195	-	(5,589)

27 Cash flow relating to exceptional items

	2015 £'000	2014 £'000
Provision as at 1 August	0	0
Income and expenditure account charge		
Operating cash outflow	0	0
Provision as at 31 July	0	0

Southampton City College

Notes to the Accounts (continued)

28 Major non-cash transactions

There were no major non-cash transactions in the year.

29 Pension and similar obligations

The College and Inspire Academy Trust's employees belong to three principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Hampshire Local Government Pension Scheme (LGPS) and Isle of Wight Local Government Pension Scheme (LGPS) for non-teaching staff, which are managed by Hampshire Pension Fund and Isle of Wight Pension Fund respectively. All pension schemes are defined-benefit schemes.

Total pension cost for the year	2015 £'000	2014 £'000
Teachers Pension Scheme: contributions paid	619	562
Local Government Pension Scheme:		
Contributions paid	630	509
FRS 17 charge	(85)	42
Charge to the Income and Expenditure Account	545	551
Total Pension Cost for Year	1,164	1,113

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2013. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Teachers' Pension Scheme

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

Southampton City College

Notes to the Accounts (continued)

29 Pension and similar obligations (continued)

The Teachers' Pension Budgeting and Valuation Account

Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pensions' increases). From 1 April 2001, the Account has been credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Valuation of the Teachers' Pension scheme

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

- employer contribution rates were set at 16.4% of pensionable pay;
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay.

The new employer contribution rate for the TPS will be implemented in September 2015.

A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:

<https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx>

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £619,000 (2014: £562,000)

Southampton City College
Notes to the Accounts (continued)

29 Pension and similar obligations (continued)

FRS 17

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Hampshire Pension Fund and the Isle of Wight Pension Fund. The total contribution made for the year ended 31 July 2015 was £907,000, of which employer's contributions totalled £630,000 and employees' contributions totalled £277,000. The agreed contribution rates for future years are 13.1% per cent for employers and, dependant on earnings, 5.5% to 11.4% per cent for employees for the Hampshire scheme. The agreed contribution rates for future years are 20.7% per cent for employers and, dependant on earnings, 5.5% to 11.4% per cent for employees for the Isle of Wight scheme.

FRS 17

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2014 updated to 31 July 2015 by a qualified independent actuary.

		Hampshire Fund College		
		At 31 July 2015	At 31 July 2014	
Rate of increase in salaries		3.60%	3.70%	
Rate of increase for pensions in payment / inflation		2.10%	2.20%	
Discount rate for scheme liabilities		3.60%	4.10%	
Inflation assumption CPI		2.10%	2.20%	
Commutation of pensions to lump sums		70%	25%	
		Hampshire Fund IAT		Isle of Wight Fund IAT
		At 31 July 2015	At 31 July 2014	At 31 July 2015
Rate of increase in salaries		3.50%	3.60%	4.6%
Rate of increase for pensions in payment / inflation		2.00%	3.10%	2.7%
Discount rate for scheme liabilities		3.80%	3.70%	3.8%
Inflation assumption CPI		2.00%	2.10%	2.7%
Commutation of pensions to lump sums		70%	25%	63.0%
The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:				
		Hampshire Fund College & IAT		Isle of Wight Fund IAT
		At 31 July 2015	At 31 July 2014	At 31 July 2015
<i>Retiring today</i>				
Males		24.50	24.40	22.4
Females		26.30	26.20	24.5
<i>Retiring in 20 years</i>				
Males		26.60	26.50	23.8
Females		28.60	28.50	26.7

Southampton City College
Notes to the Accounts (continued)

29 Pension and similar obligations

Local Government Pension Scheme (Continued)

The estimated college's share of the assets and liabilities in the scheme and the expected rates of return were:

	Group & College Long-term rate of return expected at 31 July 2015	Group Value at 31 July 2015	College Value at 31 July 2015	Group & College Long-term rate of return expected at 31 July 2014	Group Value at 31 July 2014	College Value at 31 July 2014
		£'000	£'000		£'000	£'000
Equities	7.00%	9,089	9,028	7.50%	8,550	8,512
Gilts	2.50%	4,073	4,051	3.20%	3,395	3,379
Corporate Bonds	3.20%	273	267	3.70%	185	184
Property	6.20%	1,294	1,286	6.80%	1,094	1,089
Cash	1.00%	521	518	1.10%	540	537
Other	7.00%	553	550	7.50%	440	439
Total market value of assets		15,803	15,700		14,204	14,140
Present value of scheme liabilities						
- Funded		(24,518)	(24,360)		(22,000)	(21,880)
- Unfunded		-	-		-	-
Deficit in the scheme		(8,715)	(8,660)		(7,796)	(7,740)

Analysis of the amount charged to income and expenditure account

	Group	
	2015	2014
	£'000	£'000
Employer service cost (net of employee contributions)	545	551
Past service cost	80	20
Total operating charge	625	571

Analysis of pension finance income / (costs)

Expected return on pension scheme assets	882	777
Interest on pension liabilities	(905)	(964)
Pension finance costs	(23)	(187)

Amount recognised in the statement of total recognised gains and losses (STRGL)

	£'000	£'000
Actuarial gains on pension scheme assets	708	280
Actuarial (losses)/gains on scheme liabilities	(1,618)	543
Actuarial (loss)/gain recognised in STRGL	(910)	823

Southampton City College
Notes to the Accounts (continued)

29 Pension and similar obligations

Local Government Pension Scheme (Continued)

Movement in surplus/ (deficit) during year	2015 £'000	2014 £'000
Deficit in scheme at 1 August	(7,796)	(8,421)
Movement in year:		
Employer service cost (net of employee contributions)	(545)	(551)
Employer contributions	657	560
Past service cost	(80)	(20)
Net Interest/ return on assets	(41)	(141)
Actuarial gain/(loss)	(910)	777
Deficit in scheme at 31 July	(8,715)	(7,796)

Asset and Liability Reconciliation

	2015 £'000	2014 £'000
Reconciliation of Liabilities		
Liabilities at start of period	22,000	21,133
Service cost	545	551
Interest cost	905	964
Employee contributions	190	178
Experience gains and losses on scheme liabilities		-
Actuarial loss/(gain)	1,618	(496)
Benefits paid	(820)	(350)
Past Service cost	80	20
Curtailments and settlements		-
Liabilities at end of period	24,518	22,000

Reconciliation of Assets

Assets at start of period	14,204	12,712
Expected return on assets	864	823
Actuarial gain	708	281
Employer contributions	657	560
Employee contributions	190	178
Benefits paid	(820)	(350)
Assets at end of period	15,803	14,204

The estimated value of employer contributions for the year ended 31st July 2016 is £645,000.

Southampton City College
Notes to the Accounts (continued)

29 Pension and similar obligations

Local Government Pension Scheme (Continued)

History of experience gains and losses

	2015	2014	2013	2012	2011
Difference between the expected and actual return on assets:					
Amount £'000*	708	281	1,150	(270)	(770)
Experience gains and losses on scheme liabilities:					
Amount £'000*	140	42	(10)	(120)	1,540
Total amount recognised in STRGL:					
Amount £'000*	(910)	823	700	(2,120)	250

* FRS 17 (revised) allows for EITHER monetary amounts or values expressed in percentage terms to be disclosed here.

30 Post-balance sheet events

Inspire Academy Trust, a subsidiary company of Southampton City College, closed one of its' Studio Schools; IEA Southampton on 31st August 2015.

31 Capital commitments

	Group and College	
	2015	2014
	£'000	£'000
Commitments contracted for at 31 July	210	53
Authorised but not contracted at 31 July	90	300

32 Financial commitments

At 31 July the College had annual commitments under non-cancellable operating leases as follows:

	Group and College	
	2015	2014
	£'000	£'000
Land and buildings		
Expiring within one year	-	-
Expiring within two and five years inclusive	-	-
Expiring in over five years	-	-
Other		
Expiring within one year	4	14
Expiring within two and five years inclusive	107	211
Expiring in over five years	-	-
	111	225

Southampton City College

Notes to the Accounts (continued)

33 Contingent liability

Management are not aware of any contingent liabilities of a material nature.

34 Related party transactions

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

Transactions with the FE Funding Bodies and HEFCE are detailed in notes 2, 14, 15 and 19.

35 Amounts disbursed as agent

	2015 £'000	2014 £'000
Brought forward from prior year	173	172
Funding body grants – hardship support	779	572
Funding body grants – childcare	196	236
	<u>1,148</u>	<u>980</u>
Disbursed to students	(667)	(690)
Administration costs	(33)	(35)
Amount consolidated in financial statements	(191)	(82)
	<u>257</u>	<u>173</u>
Balance unspent as at 31 July, included in creditors		

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the income and expenditure account. The Income and expenditure consolidated in the College's financial statements relates to the purchase of some equipment from the access fund and the payment of accommodation by the College on students behalf.

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

In accordance with the terms of our engagement letter dated 18 November 2015 and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether the expenditure disbursed and income received by Southampton City College during the period 1 August 2014 to 31 July 2015 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

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

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

Respective responsibilities of Southampton City College and the reporting accountant

The corporation of Southampton City College is responsible, under the financial memorandum and the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2014 to 31 July 2015 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities accounts have been prepared to 31 July 2015 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

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

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

Our work included identification and assessment of the design and operational effectiveness of the controls, policies and procedures that have been implemented to ensure compliance with the framework of authorities including high level financial control areas where we identified areas where a material irregularity is likely to arise. We undertook detailed testing, based on our identification of the areas where a material irregularity is likely to arise where such areas are in respect of controls, policies and procedures that apply to classes of transactions. This work was integrated with our audit on the financial statements to the extent evidence from the conduct of that audit supports the regularity conclusion.

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2014 to 31 July 2015 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

RSM UK Audit LLP

RSM UK AUDIT LLP (formerly Baker Tilly UK Audit LLP)

Chartered Accountants

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Date: 21/12/15