

# **SOUTHAMPTON CITY COLLEGE**

**Report and Financial Statements for the  
year ended  
31 July 2021**



## CONTENTS

	<b>Page number</b>
Reference and Administrative Details	2
Members' Report	3
Governance Statement	13
Statement on Regularity, Propriety and Compliance	21
Statement of Responsibilities of the Members of the Corporation	22
Independent Auditor's Report on the Financial Statements	24
Statement of Comprehensive Income and Expenditure	29
Statement of Changes in Reserves	30
Balance Sheet	31
Statement of Cash Flows	32
Notes to the Financial Statements	33

## Reference and Administrative Details

### Board of Governors

A full list of Governors is given on page 14 of these financial statements.

### Clerk to the Corporation

Lily Garth

### Senior Leadership Team

Sarah Stannard, Principal & CEO; Accounting Officer

Robert Rees, Vice Principal Curriculum & Quality (to 18 April 2021)

Karen Northover, Vice Principal Curriculum & Quality (from 19 April 2021)

Jeremy Cook, Vice Principal Finance & Resources (to 16 July 2021)

Anne Whitworth, Vice Principal Finance & Resources (from 1 September 2021)

### Principal and Registered Office

St Mary Street

Southampton

SO14 1AR

### Professional Advisers

External auditors: RSM UK Audit LLP

Bankers: Santander Corporate & Commercial Banking

Solicitors: Womble Bond Dickinson (UK) LLP, Southampton  
& Rollits LLP, Hull

## Members' Report

### OBJECTIVES AND STRATEGY

The governing body present their annual report together with the financial statements and auditor's report for Southampton City College for the year ended 31 July 2021.

### Legal Status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Southampton City College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011. The Corporation was incorporated as Southampton Technical College. On 23 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 1 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, VISION AND STRATEGY

**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-focused education and training
- First choice for career-focused education for students, apprentices, 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.

### Implementation of the Strategic Plan

In December 2020 the College reviewed its strategic plan and a new plan for 2020-2023 was approved by the Board.

During the 2020/21 year the College's strategic objectives were 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

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

## RESOURCES

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

### Tangible

The College has its main campus at St Mary Street, Southampton and a specialist Marine Skills Centre at Hazel Road, Woolston.

### Financial

The College has net assets of £11.5m, excluding pension liabilities (2019/20: £12.04m).

When pension liabilities are included, the College has net liabilities of £2.8m. This is an improvement of £3.3m from the 2019/20 figure. This change was caused by the annual actuarial valuation of the Hampshire County Council Pension Scheme (LGPS) which calculated a substantial actuarial gain for the period of £4.7m (2019/20: loss £6.4m). Annual actuarial valuations can fluctuate significantly from year to year.

### People

The College employs 206 people (expressed as full-time equivalents), of whom 97.5 are teaching staff. The staff numbers referred to in note 7 are calculated on a different basis, being the average headcount for the year.

### Student Numbers

Student numbers on a headcount basis are as follows:

	<b>2021</b>	<b>2020</b>
16-19	1,006	1,045
Funded adults - Adult Education Budget	1,442	1,627
Higher Education	125	195
Apprentices	404	605
Other	856	989
<b>Total</b>	<b>3,833</b>	<b>4,461</b>

## Reputation

The College has a good reputation locally and regionally and is recognised by a wide range of stakeholders as an essential provider and contributor to the economic health and development of the city.

The College's good reputation and strong relationships with stakeholders has been maintained (despite the extended period of uncertainty) through active stakeholder relationship management by the College's leaders and managers.

## Stakeholders

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

- Students
- Staff
- Local employers
- Local community
- Southampton City Council
- Southampton Chamber of Commerce
- Solent LEP
- Solent colleges and universities
- Trade Unions
- Professional bodies
- Education sector funding bodies
- FE Commissioner
- The Department for Education

The College recognises the importance of these relationships and engages in regular communication with all stakeholders through a number of different channels.

## FINANCIAL PERFORMANCE

### Results

The operating outturn for the year was a deficit of £1.43m before other gains and losses (2019/20: surplus £514k). This deficit was after the receipt of additional funding provided by the ESFA of £2.48m (2019/20: £3.46m) and savings on pay costs during the year.

The College did not furlough any staff during the year but was able to operate with fewer staff than planned.

During the year the College incurred significant expenditure on backlog maintenance, which amounted to just under £1.4m. This expenditure is included within other operating expenses (premises costs) and was agreed in advance with the ESFA.

The outturn for total comprehensive income was positive at £3.29m (2019/20: negative £5.88m) due to the impact of the LGPS actuarial gain of £4.72m (2019/20: £6.39m actuarial loss).

The College's Financial Health as calculated on the Education Skills Funding Agency's Financial Health tool was Inadequate. This was the same result as in 2019/20 and 2018/19.

The College has significant reliance on the education sector's funding bodies for its income, largely from recurrent grants. In 2020/21 FE funding bodies provided 87% of the College's total income (2019/20: 85%).

The College's overall income was £801k lower than the previous year. Income for major areas of College income were worse or better, as follows:

- 16-18 year old student funding was £527k higher than the previous year at £6.03m (2019/20: £5.5m).
- Adult Education Budget (AEB) courses performed less well through the year, and it is believed this was largely due to the Covid-19 pandemic. The College delivered around 70% of its AEB allocation.
- £2.48m of working capital support provided by the ESFA (2019/20: £3.46m).

Staff costs, excluding restructuring, increased by 6.3% in the year, of which 2.7% related to the increase in FRS102 pension charge. All staff received a lump sum pay award during the year of £350, or proportion thereof for part time staff. The FRS102 pension charge for the year included within these pay costs was £614k, which was an increase of £232k on the previous year.

Operating expenses excluding premises costs increased by approximately £65k (2.6%). However, this was after the inclusion of £249k of coronavirus related costs. Clearly if these costs had not been incurred there would have been a saving compared with the previous year. The planned programme of catch-up maintenance on buildings and IT infrastructure continued throughout this year.

The College has accumulated deficit reserves of £2.82m (2019/20: deficit £6.11m). Cash and short-term investment balances at 31 July 2021 were £1.25m (2019/20: £1.26m).

Tangible fixed asset additions during the year amounted to £256k for updates to equipment.

### **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.

### **Cash Flows and Liquidity**

The size of the College's total borrowing and its approach to interest rates was calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cash flow at the time of the redevelopment program starting in 2009.

Since then changes in government policy (which reduced the funding rate per student and substantially reduced the number of adult students participating in education), and the costs of the extra support needed to enable City College's student cohort to succeed, has changed the operating model compared to that used in the initial business case to support the loan.

The net cash inflow from operating activities of £378k (2019/20: £1.75m) includes £2.48m of Emergency Funding from the ESFA (2019/20: £3.46m). As highlighted in previous financial statements, since a merger did not take place the College required additional financial support from the ESFA to continue its operations. This funding is recognised as Grant Income as the terms of the Grant Agreement create a low probability of conversion to a loan in the future.

## Banking

The College holds its day-to-day banking and a long-term loan with Santander bank.

The College breached its loan covenants in 2020/21, but due to the efforts of the Corporation to secure a long term financially viable solution, Santander previously put in place Reservation of Rights letters which waived its right to take immediate action. This loan has been classified as short term in these financial statements as it was in previous years.

Santander remains supportive of the College, as it continues to work on a long-term solution with the support of the Department for Education.

## Reserves

The College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of any organisation. As at the balance sheet date, the Income and Expenditure account reserve stands at a deficit of £6.6m (2020: deficit £9.9m). The College would aim to clear the deficit balance by completing the work described in the Future Developments section on page 8. The College currently holds no restricted reserves.

## Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires Colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent.

During the accounting period 1 August 2020 to 31 July 2021, the College paid 86 per cent of its invoices within 30 days of date of invoice. The College incurred no interest charges in respect of late payment for this period.

## CURRENT PERFORMANCE AND FUTURE DEVELOPMENT

### Key Performance Indicators

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

The measures used to monitor progress and inform the Governing Body are reviewed annually and targets are agreed at the start of each year. The College is committed to observing the importance of sector measures and indicators and uses external benchmarks to help set targets, wherever that data exists. Performance is reported at each Board meeting against these targets and against results from the previous year.

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



## Student Outcomes

This year qualification achievement rates for 16-18 year olds improved by 4.6% compared with the previous year and are now at 87.8%, which is 4.4% above the last national published rates. This is the fifth consecutive year of improvement in 16-18 student outcomes.

For adult students, overall achievement declined slightly, however this was to be expected due to the impact of the coronavirus pandemic on the completion of qualifications particularly in low-level basic skills courses such as ESOL, English and Mathematics.

## Future Developments

It has been the Corporation's view since the spring of 2015 that to ensure the provision of high quality, sustainable further education in Southampton, the community and employers in the city would be best served by City College merging with other educational partners to create a larger, more financially viable and resilient organisation.

Since 2015 the Corporation and Senior Management have been working with the ESFA, the FE Commissioner and partners on achieving this outcome.

- From June 2016 the College was working on the implementation of the Area Review process recommendation to merge with Solent University. In February 2018 the application to merge was refused by the Department of Education.
- The College undertook a rapid and focused Structure and Prospects Appraisal, with the support of the FE Commissioner team and the ESFA, which concluded in early June 2018. The Board selected Eastleigh College as its merger partner, the application by Eastleigh College for funding to support the merger was rejected in February 2019 by the ESFA and Eastleigh College withdrew.
- In the first half 2019 the FE Commissioner held a review of provision in the Southampton travel-to-learn area, involving all colleges with 50 or more 16-18 year old students from the city of Southampton.
- In September 2019 Itchen Sixth Form College began work on a proposal for the merger of City College with Itchen. In September 2020 the Department for Education refused the proposal.
- The DfE advised the College in the autumn 2020 that the FE Commissioner's team would be undertaking a Citywide Solution review, which involves Southampton City College and other local further education providers. The FE Commissioner's team is aiming to present recommendations to the Skills Minister in December 2021.

The ESFA continues to support City College in its work to agree and implement a sustainable, long-term solution that will deliver high quality further education to the community and employers of Southampton.

## Principal Risks and Uncertainties

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

A risk register is maintained for the College, which is reviewed monthly by the Senior Management Team and at each Audit & Risk Committee meeting (4 times a year). The Risk Register identifies key risks, likelihood of these occurring, potential impact on the College and

actions being taken to mitigate them. Risks are assessed using a consistent scoring system recommended by the College's internal auditors.

Below are the principal risks, from the Risk Register, which would have the most significant adverse impact on the College if they materialised.

### **Government funding**

The College has considerable reliance on continued government funding through the FE funding bodies and the OfS. In 2020/21, 87% of the College's revenue was 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 that:

- The College is rigorous in delivering high quality education and training
- The College is focused on priority areas which will continue to benefit from public funding
- Considerable effort is in place on maintaining and managing key relationships with the various funding bodies and agencies
- Other income is generated through direct and indirect contractual arrangements.

### **Going concern and failure to maintain the financial viability of the College**

The College's current financial health grade for 2020/21 is assessed by the ESFA as Inadequate and the College is aware of several issues which could impact on its future:

- the reservation of rights by the College's bankers, Santander, to call in outstanding loan balances at any time
- a decision by the ESFA not to provide further financial support
- uncertainty over its future may severely reduce student recruitment, which would weaken income and/or increase staff turnover, which could increase costs
- Covid-19 leading to reduced student recruitment and associated funding.

This risk is mitigated in a number of ways:

- Close working with the DfE, FE Commissioner, ESFA, City Council, MPs and local education institutions to agree and implement an acceptable long-term solution
- Regular and open communication with ESFA and Santander
- Rigorous budget setting and sensitivity analysis
- Regular in year budget monitoring
- Robust financial controls
- Continuous focus on procurement efficiencies
- Following government advice in relation to Covid-19

### **Failure to mitigate the risks of the Covid-19 pandemic to minimise disruption to teaching, learning and all other aspects of the College's operations**

The College is aware that the effect of the pandemic has and could continue to negatively impacted on the College in a number of ways:

- Reduce adult student and apprentice recruitment
- Reduce the quality of the learning experience for students and apprentices
- Increase the risk of a student or member of staff becoming severely ill

Risk mitigation includes:

- Following government advice and, where appropriate, introducing further safety measures
- Effective engagement with AoC and key local organisations such as PHE, NHS, Local Authorities etc.
- Strong and effective work by Health and Safety Committee including valuable input from UCU
- Providing online learning, support and engagement to minimise the impact of lockdowns on the progress of students and apprentices
- An orderly and effective return of staff and students following lockdowns
- Thorough risk assessment - agreed by the Health and Safety Committee, Senior Management Team and reviewed by Governors.
- Undertaking student assessments throughout the year where required by awarding bodies

## OTHER INFORMATION

### Public Benefit

Southampton City College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page 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 in education
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce.

City College is recognised by local and national stakeholders as providing education and training that is essential to the community and economy of the city of Southampton. The College has a highly inclusive Study Programme offer which provides over 1,000 local young people a year with either highly technical education and training in key sectors such as Marine and Health Care or a ladder of courses which enables students with low or no educational achievement to learn and to work their way up to a higher level of qualification and skill, improving their life opportunities. City College is the largest provider of further education for adult students in Southampton with approximately 2,500 enrolments annually in career-relevant qualifications and in critical life skills such as English as a second Language, English and

maths. Finally, the College trains over 400 apprentices a year in technical industrial skills such as Heating and Ventilation and Construction.

The College sponsored the Inspire Academy Trust which ran the Isle of Wight Studio School from its opening in September 2014 until its closure in August 2019. As the College does not support the Trust for its own benefits, it is not classed as a subsidiary and subsequently the results for the Trust are not consolidated with the College. The College will continue to provide back office support to the Trust until it is wound up, which is planned to happen during the 2021/22 academic year.

### **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 vigorously to remove conditions which place people at a disadvantage, and we will actively combat bigotry.

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. 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. The facility time data for the period from 1 April 2020 to 31 March 2021 is noted below.

No of employees who were trade union representatives for this period	3
--	---

FTE employee number	3
---------------------	---

Percentage of time	Number of employees
0%	0
1-50%	3
51-99%	0
100%	0

*Total pay bill and facility time costs*

Total cost of facility time	£15,889
Total pay bill	£7,940,042
Percentage of total bill spent on facility time	0.2%

*Paid trade union activities*

Time spent on paid trade union activities as a percentage of total paid facility time	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 13 December 2021 and signed on its behalf by:**



**Geraint Davies**  
Chair

## Governance Statement

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2020 to 31 July 2021 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 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 1 August 2015. In the opinion of the Members, the Corporation complies with the provisions of the Code and has done so throughout the year ended 31 July 2021. This opinion is based on an internal review of compliance with the Code.

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.

Name	Date of Appointment	Term of office	Date of leaving	Category	Board Attendance in 2020/21	Committees served
Mr H Brora (Board VC and Rem. Chair)	23.11.2012 23.11.2016 23.11.2020	4 years 4 years 1 year	22.11.2021	External	12/12	Audit & Risk Remuneration
Mr P Colbran	30.06.2020 01.07.2021	1 year 3 years		External	10/12	Audit & Risk
Mr G Davies (Chair)	01.12.2016 01.12.2017 01.12.2020	1 year 3 years 4 years		External	12/12	Search & Governance Remuneration
Cllr D Fitzhenry	31.03.2021	1 year		External	2/3	
Ms G Gould	05.11.2019 05.11.2020	1 year 3 years		External	11/12	Search & Governance
Mr D Hodgson	26.01.2021 19.07.2021	<6 months 1 year		Student	7/7	
Dr J John (Safeguarding/ Prevent Lead)	04.11.2014 04.11.2018	4 years 4 years		External	12/12	Search & Governance (Chair) Remuneration
Mr M. Keogh	04.03.2021	1 year		Staff	6/6	
Mr NJ Lapage	08.06.2020 08.06.2021	1 year 3 years		External	12/12	Audit & Risk
Mr A May	24.11.2012 Gap, then 31.01.2017	4 years 4 years	30.01.2021	Staff	5/5	Search & Governance
Mr M Simmons	08.10.2018 08.10.2019	1 year 3 years		External	12/12	Lead Quality Governor
Ms S Stannard	01.08.2013	Ex-officio		Principal	12/12	Search & Governance
Mr P Weir (Audit Chair)	03.10.2017 03.10.2018 03.10.2021	1 year 3 years 10 months		External	12/12	Audit & Risk
Mrs P. Wycherley	29.04.2021	1 year		External	2/3	
	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. During the Covid-19 pandemic the Corporation has continued with its meetings via remote methods.

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

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](http://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 and the Role of the Search & Governance Committee**

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation's Search & 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 2020/21 this work included annual self-assessment reviews of each Corporation Committee as well as of the Board and its composite Members. On 13 December 2021, 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.

### **Remuneration Committee**

Throughout the year ending 31 July 2021 the College's Remuneration Committee comprised three appropriately skilled external members of the Corporation. The Committee's role includes advising and making recommendations to the Board on the remuneration of the Principal who is currently the only Senior Post Holder at the College, and the Clerk to the Corporation. The Committee's Terms of Reference are publicly available and are compatible with the Corporation's voluntary adoption of the AoC Colleges' Senior Post Holder Code.

Details of remuneration of the Principal and other key management personnel for the year ended 31 July 2021 are set out in note 7 to the financial statements.

### **Audit & Risk Committee**

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

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

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

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

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

### **Internal Control**

#### *Scope of responsibility*

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

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

funding bodies. The Accounting Officer is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

#### *The purpose of the system of internal control*

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Southampton City College for the year ended 31 July 2021 and up to the date of approval of the annual report and accounts.

#### *Capacity to handle risk*

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2021 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.

During 2020/21 Southampton City College had an internal audit service, which operated in accordance with the requirements of the ESFA's *Post 16 Audit Code of Practice*. The work of the internal audit service was informed by an analysis of the risks to which the College is exposed, and an annual internal audit plan was based on this analysis. The analysis of risks and the internal audit plans were endorsed by the Corporation on the recommendation of the Audit & Risk committee. The Head of Internal Audit (HIA) provided the governing body with reports on internal audit activity in the College for 2020/21. Following receipt of this information, the College management and Governors have assessed the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

### **Risks faced by the Corporation**

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the College. This process has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board.

The Board has an approved Risk Management Policy in place and the identification and evaluation of key risks that threaten achievement of the College's objectives are carried out under that Policy.

The College holds and maintains a Risk Register which incorporates the organisational and financial risks. The Risk Register lists risks and assesses their impact and likelihood as well as reporting actions in place to manage the risk and further actions required. The reported actions are considered to be proportional steps to mitigate the identified risks.

The Risk Register includes Covid-19. The College's response to the pandemic is regularly reviewed by the Board, Senior Management Team and Health & Safety Committee. The College's Covid-19 Risk Assessment is regularly reviewed and updated as required.

### **Control Weaknesses Identified**

There are no significant internal control weaknesses that have been identified during 2020/21 and up to the date of the signing of the annual report and accounts for the year.

### **Responsibilities under Funding Agreements**

The Corporation has funding agreements and contracts in place with a number of organisations including the ESFA and the OfS which are signed by the Principal as Accounting Officer. The College's Senior Management Team ensures that the terms and conditions of funding are met. In addition, the College's MIS and Student Records Team review all funding rules and ensure that funding returns are supported by appropriate learner records. Furthermore, the College has a strong financial management control environment and this ensures regularity and propriety in the use of funding.

### **Statement from the Audit & Risk Committee**

The Audit & Risk Committee has advised the Board that the College has in place an adequate and effective framework for governance, risk management and control to ensure that the Corporation has fulfilled its statutory responsibility for the effective and efficient use of resources, the solvency of the institution and the safeguarding of its assets, and to manage the achievement of its objectives.

In having made this assessment, the Audit & Risk Committee was informed by the findings of the Financial Statements/Regularity auditors and other audit and assurance sources, including:

- Assurance: reviews of internal audit reports on key financial controls, IT support and disaster recovery, risk management and information governance were undertaken. The results from these audits confirmed that systems and controls were designed and operated effectively, with some minor exceptions. Management agreed to address the action points arising from the audits.
- Financial statements and regularity audit: review of the external audit strategy and external audit reports on the Annual Report and Financial Statements and Regularity Audit. No material issues were identified in relation to external audit or regularity.
- Governance framework: monitoring of the adequacy and effectiveness of the governance framework. No issues of control were raised.
- Risk management: monitoring of the Corporation's risk management plan and risk register, including confirmation that adequate levels of control were maintained during the Covid-19 lockdown periods.
- Fraud and irregularity: there were no incidences of fraud, irregularity or whistleblowing disclosures.

### *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
- comments made by the College's financial statements auditors and reporting accountant for regularity assurance in their management letters and other reports.

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

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

The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Senior Management Team and the Audit & Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2021 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2021 by considering documentation from the Senior Management Team and Internal Audit, and taking account of events since 31 July 2021.

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

### **Going Concern**

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

The College currently has net current liabilities of £6.5m including £5.33m of loans outstanding with Santander on terms negotiated in 2009. The terms of the existing loan agreement are for 25 years with 13 years remaining. The College has breached covenants over the past twelve months with the bank previously issuing Reservation of Rights letters enabling it to recall the loan at a future point. It is anticipated that a further Reservation of Rights letter will be issued by Santander on receipt of these financial statements. The bank continues to be supportive and has given no indication of any intention to recall the loan. The College continues to make all loan repayments in full and on time and works closely with stakeholders on its future position. All bank loans are treated as due within one year in these financial statements, in accordance with the terms of the loan and the ability of the bank to recall the loan on demand.

The College continues to receive emergency funding and during the year the College received £2.48m, which has been treated as a grant following a review of the terms and conditions of funding. This is consistent with prior years and the expected likelihood of the conditions being met that would mean the funding is not repayable. The ESFA has agreed to provide the College with further emergency funding in the year to 31 July 2022.

The College has prepared forecasts to July 2023 and has a reasonable expectation that it has adequate resources to continue in operational existence until February 2023. At that point the College would require additional financial assistance from the ESFA. The members of the Corporation have, therefore, concluded that the College is a going concern and the accounts should be prepared on a going concern basis. The College is working with the ESFA and FE Commissioner in order to deliver a long-term solution to the challenges it faces. The most likely outcome continues to be a business combination with another Further Education provider, however, at this time no provider nor other form of combination has been identified.

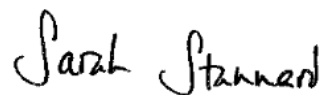
While the accounts have been prepared on a going concern basis, there is the existence of material uncertainty due the absence of committed funding beyond July 2022, the continued breach of covenants with the bank, and the absence of a clear future solution for the College that may cast significant doubt on the College's ability to continue as a going concern.

**Approved by order of the members of the Corporation on 13 December 2021 and signed on its behalf by:**



**Geraint Davies**

**Chair**



**Sarah Stannard**

**Accounting Officer**

## Statement on Regularity, Propriety and Compliance

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

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

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



**Geraint Davies**  
**Chair**  
13 December 2021



**Sarah Stannard**  
**Accounting Officer**  
13 December 2021

## Statement of Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the College's grant funding agreements and contracts with ESFA, the Corporation – through its accounting officer – is required to prepare financial statements and an operating and financial review for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education, ESFA's college accounts direction and the UK's Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the College and its deficit of expenditure over income for that period.

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

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess whether the Corporation is a going concern, noting the key supporting assumptions qualifications or mitigating actions as appropriate
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the College will continue in operation.

The Corporation is also required to prepare a Members' Report which describes what it is trying to do and how it is going about it, including information about the legal and administrative status of the College.

The Corporation is responsible for keeping proper accounting records which are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the College, and enable it to ensure that the financial statements are prepared in accordance with the Charities Act 2011 and relevant accounting standards. It is responsible for taking steps in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from ESFA are used only in accordance with ESFA's grant funding agreements and contracts and any other conditions that may be prescribed from time to time by the ESFA or any other public funder.

Members of the Corporation must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure so that the benefits that should be derived from the application of public funds from ESFA are not put at risk.

**Approved by order of the members of the Corporation on 13 December 2021 and signed on its behalf by:**



**Geraint Davies**  
**Chair**



## Independent Auditor's Report to the Corporation of Southampton City College

### Opinion

We have audited the financial statements of Southampton City College (the "College") for the year ended 31 July 2021 which comprise 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 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 2021 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.

### Material uncertainty relating to going concern

We draw attention to Note 1 in the financial statements, which states that, as of 31 July 2021, the College has net current liabilities of £6.5m including £5.33m of loans outstanding with Santander which remain in breach of their covenants and being repayable on demand. The bank continues to be supportive and has given no indication of any intention to recall the loan.

The College has confirmed emergency grant funding from the ESFA for the year ended 31 July 2022, however, based on the College's forecasts it only has adequate resources to continue in operational existence until February 2023. At that point the College would require further financial assistance from the ESFA and whilst the College is working with the ESFA and FE Commissioner for a long-term solution and has a reasonable expectation that support would be available, no formal agreement is in place.

As stated in Note 1, these events or conditions, along with the other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the College's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Corporation's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Corporation with respect to going concern are described in the relevant sections of this report.

### **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 contained within the Report and Financial Statements. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

### **Opinion on other matters prescribed by the Office for Students' Accounts Direction**

In our opinion, in all material respects:

- funds from whatever source administered by the College for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- funds provided by the Office for Students, UK Research and Innovation (including Research England), the Education and Skills Funding Agency and Department for Education have been applied in accordance with the relevant terms and conditions; and
- the requirements of the Office for Students' accounts direction for the relevant year's financial statements have been met.

### **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 2020 to 2021 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.

We have nothing to report in respect of the following matters where the Office for Students' accounts direction requires us to report to you if:

- the College's grant and fee income, as disclosed in the notes 2 and 3 to the accounts, has been materially misstated.
- The College's expenditure on access and participation activities for the financial year has been materially misstated.

### **Responsibilities of the Corporation of Southampton City College**

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 22 and 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.

### **The extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the sector, including the legal and regulatory framework that the College operates in and how the College are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 102, Further and Higher Education SORP, the College Accounts Direction published by the Education and Skills Funding Agency and Regulatory Advice 9: Accounts Direction published by the Office for Students. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

The most significant laws and regulations that have an indirect impact on the financial statements are those which are in relation to the Education Inspection Framework under the Education and Inspections Act 2006, Keeping Children Safe in Education under the Education Act 2002 and the UK General Data Protection Regulation (UK GDPR). We performed audit procedures to inquire of management and those charged with governance whether the College is in compliance with these law and regulations and inspected correspondence and inspected correspondence with licensing or regulatory authorities.

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments and evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business, challenging judgments and estimates.

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 8 November 2021. 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  
S053 3TY

Date: 20th December 2021

## Statement of Comprehensive Income

	Notes	Year ended 31 July 2021 £'000	Year ended 31 July 2020 £'000
<b>INCOME</b>			
Funding body grants	2	12,914	13,304
Tuition fees and education contracts	3	1,260	1,488
Other grants and contracts	4	105	157
Other income	5	597	725
Investment income	6	2	5
<b>Total income</b>		<b>14,878</b>	<b>15,679</b>
<b>EXPENDITURE</b>			
Staff costs	7	9,107	8,570
Restructuring costs	7	14	94
Other operating expenses	8	5,307	4,495
Depreciation	11	1,302	1,425
Interest and other finance costs	9	581	581
<b>Total expenditure</b>		<b>16,311</b>	<b>15,165</b>
<b>(Deficit) / Surplus before other gains and losses</b>		<b>(1,433)</b>	<b>514</b>
Gain on disposal of assets	11	-	-
<b>(Deficit) / Surplus before tax</b>		<b>(1,433)</b>	<b>514</b>
Taxation	10	-	-
<b>(Deficit) / Surplus for the year</b>		<b>(1,433)</b>	<b>514</b>
Actuarial gain / (loss) in respect of pensions schemes	16,22	4,719	(6,395)
<b>Total Comprehensive Income for the year</b>		<b>3,286</b>	<b>(5,881)</b>
<b>Represented by:</b>			
Unrestricted comprehensive income		<b>3,286</b>	<b>(5,881)</b>
		<b>3,286</b>	<b>(5,881)</b>

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

## Statement of Changes in Reserves

	Income and expenditure account £'000	Revaluation reserve £'000	Total £'000
<b>Balance at 1 August 2019</b>	<b>(4,104)</b>	<b>3,877</b>	<b>(227)</b>
Surplus from the income and expenditure account	514	-	514
Other comprehensive income	(6,395)	-	(6,395)
Transfers between revaluation and income and expenditure reserves	73	(73)	-
<b>Total comprehensive income for the year</b>	<b>(5,808)</b>	<b>(73)</b>	<b>(5,881)</b>
<b>Balance at 31 July 2020</b>	<b>(9,912)</b>	<b>3,804</b>	<b>(6,108)</b>
<b>Balance at 1 August 2020</b>	<b>(9,912)</b>	<b>3,804</b>	<b>(6,108)</b>
Deficit from the income and expenditure account	(1,433)	-	(1,433)
Other comprehensive income	4,719	-	4,719
Transfers between revaluation and income and expenditure reserves	74	(74)	-
<b>Total comprehensive income for the year</b>	<b>3,399</b>	<b>(74)</b>	<b>3,325</b>
<b>Balance at 31 July 2021</b>	<b>(6,552)</b>	<b>3,730</b>	<b>(2,822)</b>

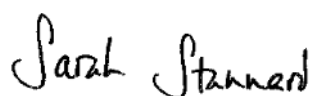
**Balance sheet as at 31 July**

	Notes	2021 £'000	2020 £'000
<b>Fixed assets</b>			
Tangible Fixed assets	11	35,963	37,009
		<b>35,963</b>	<b>37,009</b>
<b>Current assets</b>			
Stocks		5	7
Trade and other receivables	12	696	385
Cash and cash equivalents	17	1,247	1,259
		<b>1,948</b>	<b>1,651</b>
<b>Current Liabilities</b>			
Creditors – amounts falling due within one year	13	(8,447)	(7,784)
<b>Net current liabilities</b>		<b>(6,499)</b>	<b>(6,133)</b>
<b>Total assets less current liabilities</b>		<b>29,464</b>	<b>30,876</b>
Creditors – amounts falling due after more than one year	14	(16,355)	(17,116)
<b>Provisions for Liabilities</b>			
Defined benefit obligations	16	(14,337)	(18,143)
Other provisions	16	(1,594)	(1,725)
<b>Total net liabilities</b>		<b>(2,822)</b>	<b>(6,108)</b>
<b>Unrestricted Reserves</b>			
Income and expenditure account		(6,552)	(9,912)
Revaluation reserve		3,730	3,804
<b>Total unrestricted reserves</b>		<b>(2,822)</b>	<b>(6,108)</b>
<b>Total Reserves</b>		<b>(2,822)</b>	<b>(6,108)</b>

The financial statements on pages 29 to 53 were approved and authorised for issue by the Corporation on 13 December 2021 and were signed on its behalf on that date by



**Geraint Davies**  
Chair



**Sarah Stannard**  
Accounting Officer



## Statement of Cash Flows

	Notes	2021 £'000	2020 £'000
<b>Cash flow from operating activities</b>			
(Deficit) / Surplus for the year		(1,433)	514
<b>Adjustment for non-cash items</b>			
Depreciation		1,302	1,425
Deferred Capital Grants released to income		(1,117)	(668)
Decrease / (increase) in stock		2	(1)
(Increase) / decrease in debtors		(311)	587
Increase / (decrease) in creditors due within one year		940	(1,315)
Decrease in creditors due more than one year		(100)	(100)
(Decrease) / increase in provisions		(81)	375
Pensions costs less contributions payable		863	611
<b>Adjustment for investing or financing activities</b>			
Investment income		(2)	(5)
Interest payable		315	327
<b>Net cash flow from operating activities</b>		<u>378</u>	<u>1,750</u>
<b>Cash flows from investing activities</b>			
Investment income		2	5
Capital grants received		449	-
Payments made to acquire fixed assets		(256)	(415)
		<u>195</u>	<u>(410)</u>
<b>Cash flows from financing activities</b>			
Interest paid		(315)	(327)
Repayments of amounts borrowed		(270)	(259)
		<u>(585)</u>	<u>(586)</u>
<b>(Decrease) / increase in cash and cash equivalents in the year</b>		<u>(12)</u>	<u>754</u>
Cash and cash equivalents at beginning of the year	17	1,259	505
Cash and cash equivalents at end of the year	17	1,247	1,259

## Notes to the Financial Statements

### 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 2019 (the 2019 FE HE SORP), the College Accounts Direction for 2020 to 2021, Regulatory Advice and Accounts Direction issued by the Office for Students and in accordance with Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

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

#### Basis of Accounting

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

#### Basis of Consolidation

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

#### Going Concern

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

The College currently has net current liabilities of £6.5m including £5.33m of loans outstanding with Santander on terms negotiated in 2009. The terms of the existing agreement are for 25 years with 13 years remaining. The College has breached covenants over the past twelve months with the bank previously issuing Reservation of Rights letters enabling it to recall the loan at a future point. It is anticipated that a further Reservation of Rights letter will be issued by Santander on receipt of these financial statements. The bank continues to be supportive and has given no indication of any intention to recall the loan. The College continues to make all loan repayments in full and on time and works closely with stakeholders on its future position. All bank loans are treated as due within one year in these financial statements, in accordance with the terms of the loan and the ability of the bank to recall the loan on demand.

During the year the College received £2.48m of emergency funding, which has been treated as a grant following a review of the terms and conditions of funding. This is consistent with prior years and the expected likelihood of the conditions being met that would mean the funding is repayable. The ESFA has agreed to provide the College with further emergency funding in the year to 31 July 2022.

The College has prepared forecasts to July 2023 and has a reasonable expectation that it has adequate resources to continue in operational existence until February 2023. At that point the College would require additional financial assistance from the ESFA. The members of the Corporation have, therefore, concluded that the College is a going concern and the accounts should be prepared on a going concern basis. The College is working with the ESFA and FE Commissioner in order to deliver a long-term solution to the challenges it faces. The most likely outcome continues to be a business combination with another Further Education provider, however, at this time no provider nor other form of combination has been identified.

While the accounts have been prepared on a going concern basis, there is the existence of material uncertainty due the absence of committed funding beyond July 2022, the continued breach of covenants with the bank and the absence of a clear future solution for the College that may cast significant doubt on the College's ability to continue as a going concern.

## **Recognition of Income**

### *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. 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 funding is not subject to reconciliation and is, therefore, not subject to contract adjustments.

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

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

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

### **Capital Grant Funding**

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

### *Fee 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 received.

### *Investment Income*

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned on a receivable basis

### **Agency Arrangements**

The College acts as an agent in the collection and payment of certain discretionary support funds. Related payments received from the funding bodies and subsequent disbursements to

students are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

### **Accounting for Post-employment Benefits**

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

#### *Teachers' Pension Scheme (TPS)*

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

The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

#### *Hampshire Local Government Pension Scheme (LGPS)*

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

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

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

### **Short Term Employment Benefits**

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

### **Enhanced Pensions**

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

## Non-current Assets - Tangible Fixed Assets

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

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

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 31 July. They are not depreciated until they are brought into use.

### *Subsequent expenditure on existing fixed assets*

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

### *Equipment*

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

### *Depreciation*

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

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

## **Borrowing Costs**

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

## **Leased Assets**

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives relating to leases signed after 1 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 Liabilities and Equity**

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

All loans, investments and short-term deposits held by the group are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however, the College has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

## **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 a minor element of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

### **Provisions and Contingent Liabilities**

Provisions are recognised when

- the College has a present legal or constructive obligation as a result of a past event
- it is probable that a transfer of economic benefit will be required to settle the obligation and
- a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the statement of comprehensive income in the period it arises.

A contingent liability arises from a past event that gives the College a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but are disclosed in the notes to the financial statements.

### **Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty**

In preparing these financial statements, management have made the following judgements:

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

#### *Other key sources of estimation uncertainty*

##### *Tangible fixed assets*

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

##### *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount

rate. Any changes in these assumptions, which are disclosed in note 22, will impact the carrying amount of the pension liability. The actuary has used a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2019 to value the pensions liability at 31 July 2021. 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.

*Provision for Dilapidations*

The provision for dilapidations relates to repairing a leased, listed slipway located at the Woolston Marine Skills Centre site. The lease expired in December 2019 with the College remaining in occupation under the existing terms in agreement with the landlord. The tenancy was formally ended by the College in November 2020 and a provision of £450,000 has been made to make the slipway good as required under the terms of the lease.



<b>2 Funding body grants</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Recurrent grants</b>		
Education & Skills Funding Agency – Adult	1,423	1,928
Education & Skills Funding Agency – 16-18	6,029	5,502
Education & Skills Funding Agency – Apprentices	1,090	1,187
Office for Students	76	75
Other	422	250
<b>Specific grants</b>		
Teachers' Pension Scheme contribution grant	280	234
Education & Skills Funding Agency	2,477	3,460
Releases of government capital grants	1,117	668
<b>Total</b>	<b>12,914</b>	<b>13,304</b>

<b>2a Analysis of Office for Students (OfS) income</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Grant income from the OfS (note 2)	76	75
Fee income for taught awards (note 3)	499	425
<b>Total</b>	<b>575</b>	<b>500</b>

The disclosures shown above relate only to OfS / Higher Education. The disclosures do not include amounts received from the ESFA for Further Education which are shown in note 2 above. The OfS only regulates higher education in colleges. As a result, the amounts recorded above relate to courses at Level 4 and above.

<b>3 Tuition fees and education contracts</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Adult education fees	219	462
Fees for FE loan supported courses	287	258
Fees for HE loan supported courses	499	425
<b>Total tuition fees</b>	<b>1,005</b>	<b>1,145</b>
Education contracts	255	343
<b>Total</b>	<b>1,260</b>	<b>1,488</b>

<b>4 Other grants and contracts</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
European Commission	39	41
Other grants and contracts	66	116
<b>Total</b>	<b>105</b>	<b>157</b>

<b>5 Other income</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Catering and residences	4	14
Lease Income	508	508
Other income generating activities	85	203
<b>Total</b>	<b>597</b>	<b>725</b>

<b>6 Investment income</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Other interest receivable	2	5
<b>Total</b>	<b>2</b>	<b>5</b>

### 7 Staff costs

The average number of persons (including key management personnel) employed by the College during the year, on an average headcount basis, was:

	<b>2021</b>	<b>2020</b>
	<b>No.</b>	<b>No.</b>
Teaching staff	146	164
Non-teaching staff	128	137
	<b>274</b>	<b>301</b>

#### Staff costs for the above persons

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	6,226	6,015
Social security costs	514	500
Other pension costs (including FRS102 adjustments of £614,000 (2020: £382,000))	2,164	1,893
<b>Payroll sub-total</b>	<b>8,904</b>	<b>8,408</b>
Contracted out staffing services	203	162
	<b>9,107</b>	<b>8,570</b>
Restructuring costs – Contractual	14	94
<b>Total staff costs</b>	<b>9,121</b>	<b>8,664</b>

#### Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Senior Leadership Team which comprises the Principal, Vice Principal Finance &

Resources, and Vice Principal Curriculum & Quality. As the College was working towards a merger at the beginning of the financial year, the holders of the two Vice Principal posts were engaged on an interim basis through agencies and were not employees of the College. The cost of their services was £274,000 and is included in Note 8 Other Operating Expenses.

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

	<b>2021</b>	<b>2020</b>
	<b>No.</b>	<b>No.</b>
The number of key management personnel including the Accounting Officer was:	<b>2</b>	<b>2</b>

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:

	<b>Key management personnel</b>		<b>Other staff</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
£25,001 to £30,000 p.a.	1	-	-	-
£35,001 to £40,000 p.a.	-	1	-	-
£115,001 to £120,000 p.a.	1	1	-	-
	<u><b>2</b></u>	<u><b>2</b></u>	<u><b>-</b></u>	<u><b>-</b></u>

Key employed management personnel compensation is made up as follows:

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Salaries	140	154
Employers NI Contributions	18	19
Benefits in kind	1	2
	<u>159</u>	<u>175</u>
Pension contributions	33	29
<b>Total key management personnel compensation</b>	<u><b>192</b></u>	<u><b>204</b></u>

The above compensation includes amounts payable to the Principal and CEO who is the Accounting Officer and who is also the highest paid member of staff. Their pay and remuneration is as follows:

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Salaries	115	116
Benefits in kind	1	1
	<u>116</u>	<u>117</u>
Pension contributions	<u>28</u>	<u>23</u>

The Corporation has adopted the Association of Colleges Senior Post Holder Remuneration Code and assesses pay in line with its principles.

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

The remuneration package of the Principal & CEO is subject to annual review by the Remuneration Committee of the Governing Body who use benchmarking information (in particular the Association of Colleges' Senior Pay) survey to provide objective guidance and justification.

Relationship of Principal/CEO pay and remuneration expressed as a multiple of staff pay:

- Principal & CEO's basic salary as a multiple of the median of all staff 4.4
- Principal & CEO's total remuneration as a multiple of the median of all staff 4.46

The Accounting Officer and the Staff Board Member only received remuneration in respect of their roles as Principal and staff member under their respective employment contracts and not in respect of their roles as governors. The other members of the Corporation did not receive any payments from the College in respect of their roles as governors and although able to claim the reimbursement of travel and subsistence expenses incurred in the course of their duties, no payments were made.

## 8 Other operating expenses

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Teaching costs	385	385
Non-teaching costs	2,159	2,094
Premises costs	2,763	2,016
<b>Total</b>	<b><u>5,307</u></b>	<b><u>4,495</u></b>
<b>Other operating expenses include:</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Auditors' remuneration:		
Financial statements audit	48	31
Internal audit	19	5
Other services provided by the financial statements' auditor	2	2
Hire of assets under operating leases	10	67

**9 Interest and other finance costs**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
On bank loans, overdrafts and other loans:	315	327
	<u>315</u>	<u>327</u>
Net interest on defined pension liability (note 22)	249	229
Net interest on enhanced pension liability	17	25
	<u>17</u>	<u>25</u>
<b>Total</b>	<b><u>581</u></b>	<b><u>581</u></b>

**10 Taxation**

The College is not liable for corporation tax for any activities during the year ending 31 July 2021 nor through the prior year, because the College's activities are in line with its charitable objectives.

**11 Tangible fixed assets**

	Land and buildings		Equipment	Total
	Freehold	Long leasehold		
	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>				
As at 1 <sup>st</sup> August 2020	51,533	10	4,176	55,719
Additions	-	-	256	256
<b>At 31 July 2021</b>	<b>51,533</b>	<b>10</b>	<b>4,432</b>	<b>55,975</b>
<b>Depreciation</b>				
As at 1 <sup>st</sup> August 2020	15,352	10	3,348	18,710
Charge for the year	1,045	-	257	1,302
<b>At 31 July 2021</b>	<b>16,397</b>	<b>10</b>	<b>3,605</b>	<b>20,012</b>
<b>Net book value at 31 July 2021</b>	<b>35,136</b>	<b>-</b>	<b>827</b>	<b>35,963</b>
Net book value at 31 July 2020	36,181	-	828	37,009

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
<b>Net book value based on cost</b>	<b>Nil</b>

**12 Trade and other receivables**

	2021	2020
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	504	216
Prepayments and accrued income	86	66
Amounts owed by the ESFA	106	103
<b>Total</b>	<b>696</b>	<b>385</b>

**13 Creditors: amounts falling due within one year**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts	5,326	5,596
Trade payables	75	76
Payments received in advance	500	119
Other taxation and social security	128	124
Accruals	717	526
Deferred income - government capital grants	661	668
EFA Capital Grant repayment	100	100
Other Creditors	390	462
Amounts owed to the ESFA	550	113
<b>Total</b>	<b><u>8,447</u></b>	<b><u>7,784</u></b>

**14 Creditors: amounts falling due after more than one year**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
ESFA Funding	1,200	1,200
EFA Capital Grant repayment	99	200
Deferred income - government capital grants	15,056	15,716
<b>Total</b>	<b><u>16,355</u></b>	<b><u>17,116</u></b>

**15 Borrowings**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts are repayable as		
In one year or less	5,326	5,596
<b>Total</b>	<b><u>5,326</u></b>	<b><u>5,596</u></b>

**Bank covenants**

As at 31 July 2021 the College was in breach of two bank covenants, Debt Service Cover ratio and Interest Cover.

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% repayable by instalments falling due between 1 August 2021 and 30 April 2034 totalling £5,326,000, which is secured on all of the freehold land and buildings of the College.

**ESFA funding**

The College received £1.2m of funds in the 2018/19 from the ESFA which can be converted to loan at a future date at the discretion of the ESFA. These funds are not interest bearing and are shown as due over one year. As at the date of these accounts there is no repayment schedule in place for this sum.

**16 Provisions**

	<b>Provision for dilapidations</b>	<b>Enhanced pensions</b>	<b>Defined benefit obligation</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 August 2020	450	1,275	18,143	19,868
Expenditure in the period	-	(81)	863	782
Actuarial gain	-	(50)	(4,669)	(4,719)
<b>At 31 July 2021</b>	<b>450</b>	<b>1,144</b>	<b>14,337</b>	<b>15,931</b>

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 provision for dilapidations relates to repairing a leased, listed slipway located at the Woolston Marine Skills Centre site. The lease expired in December 2019 with the College remaining in occupation under the existing terms in agreement with the landlord. The tenancy was formally ended by the College in November 2020 and a provision of £450,000 has been made to make the slipway good as required under the terms of the lease.

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

The principal assumptions for this calculation are:

	<b>2021</b>	<b>2020</b>
Price inflation	2.6%	2.2%
Discount rate	1.6%	1.3%



**17 Analysis of Changes in Net Debt**

	<b>At 1 August 2020 £'000</b>	<b>Cash flows £'000</b>	<b>Other changes £'000</b>	<b>At 31 July 2021 £'000</b>
Cash and cash equivalents	1,259	(12)	-	1,247
Bank Loans	(5,596)	270	-	(5,326)
ESFA Funding	(1,200)	-	-	(1,200)
<b>Total</b>	<b>(5,537)</b>	<b>258</b>	<b>-</b>	<b>(5,279)</b>

**18 Capital and other commitments**

	<b>2021 £'000</b>	<b>2020 £'000</b>
Commitments contracted for at 31 July	<u>155</u>	<u>174</u>

**19 Commitments under operating leases**

The total future minimum lease payments under non-cancellable operating leases as follows:

	<b>2021 £'000</b>	<b>2020 £'000</b>
<b>Future minimum lease payments due</b>		
Not later than one year	11	11
Later than one year and not later than five years	<u>7</u>	<u>22</u>
	<u>18</u>	<u>33</u>

**20 Contingent liabilities**

The College received £2.48m in Emergency Funding during the year. The terms of this funding are such that the funds could be converted to a loan at some point in the future if specified conditions are not complied with. The College, in agreement with its auditors, has assessed there is a very low probability of not complying with these conditions, therefore this has been treated as Grant Income. The auditors have agreed with this treatment.

**21 Events after the reporting period**

There were no events to report after the year end.

## 22 Defined benefit obligations

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

<b>Total pension cost for the year</b>	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
Teachers' Pension Scheme: contributions paid	748	722
Local Government Pension Scheme:		
Contributions paid	816	779
FRS 102 (28) charge	614	382
Charge to the Statement of Comprehensive Income	1,430	1,161
Enhanced pension charge to Statement of Comprehensive Income	(14)	10
<b>Total Pension Cost for Year within staff costs</b>	<b>2,164</b>	<b>1,893</b>

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 2019 and of the LGPS 31 March 2019.

### 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 2019. The valuation report was published by the Department for Education in April 2019. The valuation reported total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £218 billion, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £198 billion giving a notional past service deficit of £22 billion.

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2019 onwards (compared to 16.48% during 2018/19). The DfE has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2020/21 academic year.

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 £748,000 (2020: £732,000).

### **Local Government Pension Scheme (LGPS)**

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 2021 were £982,000, of which employer's contributions totalled £816,000 and employees' contributions totalled £166,000.

After implementing the 2019 scheme revaluation, the agreed employer contribution rate for 2020/21 is 24.0% and the annual fixed contribution rate is £206k. The next scheme revaluation will be undertaken in 2022.

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

The current valuation allows for the 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. Allowance is made for full pension increases to be made on GMPs to individuals reaching State Pension Age after 6<sup>th</sup> April 2016.

The valuation also allows for the impact of the McCloud case which ruled that the transitional protection for some members of public service schemes implemented when they were reformed constituted age discrimination.

The following information is based upon a full actuarial valuation of the fund at 31 March 2019 updated to 31 July 2021 by a qualified independent actuary.

	<b>At 31 July 2021</b>	<b>At 31 July 2020</b>
Rate of increase in salaries	3.60%	3.30%
Future pensions increases	2.60%	2.30%
Discount rate for scheme liabilities	1.70%	1.40%
Inflation assumption (CPI)	2.60%	2.30%

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

	<b>At 31 July 2021</b>	<b>At 31 July 2020</b>
	Years	Years
<i>Retiring today</i>		
Males	23.1	23.0
Females	25.5	25.5
<i>Retiring in 20 years</i>		
Males	24.8	24.7
Females	27.3	27.2

	<b>Fair Value at 31 July 2021</b>	<b>Fair Value at 31 July 2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>The College's share of assets in the plan at the balance sheet date were:</b>		
Equity instruments	16,515	13,330
Debt instruments	4,878	5,041
Property	1,769	1,478
Cash	285	388
Other	5,077	4,000
<b>Total fair value of plan assets</b>	<b><u>28,524</u></b>	<b><u>24,237</u></b>

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

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of plan assets	28,524	24,237
Present value of plan liabilities	(42,861)	(42,380)
<b>Net pensions liability (Note 16)</b>	<b><u>(14,337)</u></b>	<b><u>(18,143)</u></b>

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

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts included in staff costs</b>		
Current service cost	1,430	1,074
Past service cost	-	87
<b>Total</b>	<b><u>1,430</u></b>	<b><u>1,161</u></b>
<b>Amounts included in investment income</b>		
Interest income	(339)	(489)
Interest expense on Defined Benefit pension obligation	588	718
	<b><u>249</u></b>	<b><u>229</u></b>

**Amount recognised in Other Comprehensive Income**

Return on pension plan assets	339	218
Experience gain/(losses) arising on defined benefit obligations	3,957	(6,460)
<b>Amount recognised in Other Comprehensive Income</b>	<b><u>4,296</u></b>	<b><u>(6,242)</u></b>

**Movement in net defined liability during the year**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Net defined liability in scheme at 1 August	(18,143)	(11,290)
Movement in year:		
Current service cost	(1,430)	(1,074)
Employer contributions	816	779
Past service cost	-	(87)
Net interest on the defined liability	(249)	(229)
Actuarial gain / (loss)	4,669	(6,242)
<b>Net defined liability at 31 July</b>	<b><u>(14,337)</u></b>	<b><u>(18,143)</u></b>

**Asset and Liability Reconciliation**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Changes in the present value of defined benefit obligations</b>		
<b>Defined benefit obligations at start of period</b>	42,380	34,300
Current service cost	1,430	1,074
Interest cost	588	718
Contributions by Scheme participants	166	161
Experience gains and losses on defined benefit obligations	(712)	6,460
Estimated benefits paid	(991)	(420)
Past Service cost	-	87
<b>Defined benefit obligations at end of period</b>	<b><u>42,861</u></b>	<b><u>42,380</u></b>

**Changes in fair value of plan assets**

<b>Fair value of plan assets at start of period</b>	24,237	23,010
Interest on plan assets	339	489
Remeasurement gains on assets	3,957	218
Employer contributions	816	779
Contributions by Scheme participants	166	161
Estimated benefits paid	(991)	(420)
<b>Fair value of plan assets at end of period</b>	<b><u>28,524</u></b>	<b><u>24,237</u></b>

**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, the College received £508,000 (2019/20: £508,000) for the lease of one of its buildings to Solent University. Paul Colbran, a member of the Board of Governors, is the Chief Operating Officer for Solent University.

**24 Amounts disbursed as agent: Learner support funds**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Brought forward from prior year	323	346
Funding body grants – bursary support	454	444
	<u>777</u>	<u>790</u>
Disbursed to students	(598)	(442)
Administration costs	(33)	(25)
Balance unspent as at 31 July, included in creditors	<u>146</u>	<u>323</u>

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

## **Independent Reporting Accountant's Report on Regularity to the Corporation of Southampton City College and The Secretary of State for Education acting through Education and Skills Funding Agency**

### **Conclusion**

We have carried out an engagement, in accordance with the terms of our engagement letter dated 8 November 2021 and further to the requirements of the grant funding agreements and contracts with the Education and Skills Funding Agency (the "ESFA") or any other public funder, to obtain limited assurance about whether the expenditure disbursed and income received by Southampton City College during the period 1 August 2020 to 31 July 2021 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 1 August 2020 to 31 July 2021 have 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 Code) issued by the ESFA and in any relevant conditions of funding concerning adult education notified by a relevant funder. 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) data 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 are 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 Code.

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 1 August 2020 to 31 July 2021 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  
Hampshire  
S053 3TY

20th December 2021