HAVANT & SOUTH DOWNS COLLEGE

Annual Report & Financial Statements

for the year ended 31 July 2018

Key Management Personnel, Board of Governors and Professional Advisers

Key management personnel

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2017/18:

Michael Gaston - Principal and CEO; Accounting Officer

Richard Barlow – Deputy Principal: Curriculum & Quality

Kelvin Smith – Vice Principal: Finance & Facilities

Dan Beale – Vice Principal: Quality & Student Experience

Suki Dhesi - Vice Principal: Quality & Student Experience

Rebecca Abrey - Vice Principal: Business Services & People

Leona Berry - Vice Principal: Business Services & People

Rebecca Abrey left the College in May 2018. Her replacement, Leona Berry, started at the end of July 2018.

Suki Dhesi returned from maternity leave in April 2018 and from thereon worked part time sharing the role of Vice Principal, Quality & Student Experience with Dan Beale.

Board of Governors

A full list of Governors is given on pages 21 to 23 of these financial statements. Pam Robertson acted as Clerk to the Corporation throughout the period.

Professional advisers

Financial statements auditors and reporting accountants:
RSM UK Audit LLP, Portland, 25 High Street, Crawley, West Sussex, RH10 1BC

Internal auditors:
TIAA Ltd, 53-55 Gosport Business Centre, Aerodrome Road, Gosport, PO13 0FQ

Bankers:
Barclays Bank plc, PO Box 156, 67-69 West Street, Fareham

Solicitors:
Blake Morgan LLP, New Kings Court, Tollgate, Chandler's Ford, Eastleigh, Hants, SO53 3LG
Eversheds LLP, 1 Callaghan Square, Cardiff, CF10 5BT

Employment Advisers:
Menzies Law Ltd, St Brandon's House, 29 Great George Street, Bristol, BS1 5QT

Table of Contents

Report of the Governing Body	4
Statement of Corporate Governance and Internal Control	21
Statement of Regularity, Propriety and Compliance	33
Statement of the Responsibilities of the Members of the Corporation	34
Independent Auditor's Report on the Financial Statements	35
Statement of Comprehensive Income and Expenditure	38
Balance Sheet as at 31 July	39
Statement of Changes in Reserves	40
Statement of Cash Flows	41
Notes to the Financial Statements	42
Independent Reporting Accountant's Report on Regularity to the Corporation of Havant & South Downs College and the Secretary of State for Education acting through the Department for Education	69

Report of the Governing Body

NATURE, OBJECTIVES AND STRATEGIES:

The governing body present their annual report together with the financial statements and auditor's report for HSDC for the year ended 31 July 2018.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Havant & South Downs College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011. The Corporation was originally incorporated as The South Downs College.

Merger with Havant Sixth Form College

The South Downs College and Havant Sixth Form College merged on 1 August 2017. Havant Sixth Form College dissolved as a legal entity at midnight, 31 July 2017 and thereon transferred all assets and liabilities to The South Downs College. The South Downs College changed its legal name on 1 August 2017 to Havant & South Downs College.

Mission

The current mission and vision of the College is 'Destination 2020'. This was approved by Governors and implemented in 2015/16.

The vision - *'To be a leading FE provider for academic, professional and technical excellence.'*

Following the merger, the Board has undertaken further work on the developing the Strategic Plan up to 2025 and wider consultation on the developing plans will take place in 2018-19.

Public Benefit

Havant & South Downs 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 pages 21 to 23. 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 to its supplementary guidance on the advancement of education.

Our purpose is to provide opportunities that will enable our students to secure a purposeful and rewarding future, and to ensure that our students leave with skills that are valued by employers locally, regionally, nationally and internationally.

Public Value Statement

The Board reviewed and updated its Public Value Statement in December 2017 as follows:

Our vision:

To be a leading provider of academic, professional and technical excellence.

Our mission:

The College will be a community of learning underpinned by the expectation for outstanding quality of delivery and outcomes through inspirational teaching, leadership and management.

We are inclusive and provide equal opportunity for all to succeed whatever their capability and capacity for learning.

Havant and South Downs College Strategic Plan – Destination 2020

Our Strategic Plan maps out the direction that the College will take over the coming three years in order to ensure that it maintains and enhances its reputation for students and continues to develop high quality provision meeting needs of employers and the wider community.

Implementation of our plan will deliver an experience for all our students to support their onward journeys into employment or further and higher education.

To achieve this the College will provide:

- Exceptional opportunities for students and staff to harness the benefits of advanced learning technologies via Microsoft and Google technologies
- A centre of excellence for A-level achievement and progression to university
- High standards of teaching supported through a proactive and extensive staff development culture
- Innovative programmes that foster and enable the skills required for work to be acquired and developed, with high levels of employer endorsement and effective partnerships
- A learning environment that enables innovation in curriculum delivery
- A robust financial position to support growth and investment

Havant and South Downs College creates Public Value in these ways.

We are taking the lead in Further Education, securing futures through our innovative approach to local and national skills and employment needs. Our aim is to help people from Hampshire, West Sussex and Portsmouth City region of all ages and backgrounds to develop and reach their goals. The delivery of provision in Arts, Culture and Sport is also recognised as a key strand to public benefit to the local community.

Havant & South Downs College has strong partnerships with:

- Local universities, including Portsmouth, Chichester, Winchester
- Hampshire County Council and nearby Local Authorities
- Solent Local Enterprise Partnership
- Local schools and employers

For our stakeholders

- We provide the pathways for people to move onwards in their learning and careers
- We provide a broad, distinctive curriculum choice and a rich student experience
- We foster close relationships with neighbouring schools, parents and employers
- We expect high achievement among our staff, and recognise that achievement
- We seek out relationships with employers to promote learning at work and the development of skills at all levels
- We work with small and medium-sized businesses and in the developing sectors of local industry. In specialist areas our strengths will reach across the South East of England.

For the public

Members of the public can assess the value added to the local community by the College through

- Ofsted and QAA inspection reports
- Student and employer surveys
- Published accounts
- The public records of College Corporation meetings

Governors of the College will review and update its public value statement as part of its regular review of the College Strategic Plan.

Implementation of strategic plan

2017/18 is the first trading year of the merged College between the former Havant Sixth Form College and South Downs College. This was an important strategic decision made jointly by both previous Corporations as a result of the Solent Area Review.

The College has had a successful and challenging first year of merger as one would expect from alignment and continued development of processes, systems and operations to support the larger College. The challenges have been managed and towards the end of the year evidence of improvements in data management, brand recognition, curriculum and management reporting, operational practices and staff workings across a multi campus College were beginning to take shape.

In July 2015 the former South Downs College adopted a strategic plan, 'Destination 2020', for period 1st August 2015 to 31st July 2020. The strategic aims of 'Destination 2020' have continued to be relevant for the merged College. Clear measures have been put in place to monitor progress against these aims, which are annually reported and reviewed by the Corporation. There are also underpinning curriculum, property and financial plans, which are reviewed and updated each year.

The College's continuing strategic aims are:

1. Outstanding student outcomes that demonstrate ambition and progression that clearly transforms lives.
2. To be a strategic partner with employers, responding to needs of business and contributing to our economic and cultural community.
3. To be financially sustainable and invest in the delivery of our mission.
4. Our learning community will have access to industry-standard facilities that create an innovative teaching and learning environment.
5. We will be socially responsible and inclusive
6. We will act as an exemplary employer that attracts and invests in a skilled workforce
7. We will have a differential advantage to other providers with strong brand recognition

Following the merger with Havant Sixth Form College, the next stage of the Strategy is being developed for the period to 2025. There will be wide consultation on this during 2018-19.

Financial objectives

The future success of the College is tied to its financial sustainability, and this is recognised in 'Destination 2020'. The strategic aim is to ensure financial sustainability by a manageable cost base, an adequate and reliable income stream and enough cash to invest for the future.

Strategic financial objectives for 2017/18 were:

- a sustainable pay to income ratio of not greater than 70%;
- cash holdings of not below £5m;
- a challenge to deliver financial break-even against a set budget deficit;
- to earn the Adult Education allocation with minimal financial clawback;
- no borrowings unless of a strategic property nature;
- to diversify and grow incomes away from heavy reliance on funding body grants.

Of the above measures, all were achieved, with the exception of the financial trading position and the extent to which the College has managed to diversify and grow incomes away from reliance on funding body grants.

The College made a historic trading deficit of £986,000 which was worse than the budget plan, partly driven by higher than anticipated restructuring costs and rising non pay costs. Funding body grants continue to be a major proportion of College incomes which are highly sensitive to learner numbers. Other income streams have proved challenging in the short term to grow in such a competitive local environment.

Performance indicators

The College is committed to observing the importance of sector measures and indicators. The College is required to complete the annual Finance Record for the Education and Skills Funding Agency (ESFA). The College is assessed by the ESFA as having a "Good" financial health rating.

Destination 2020 Measure

The measures linked to the strategic aims within the strategic plan, Destination 2020, are noted below, together with the results for 2017/18.

Strategic Aim 1

Outstanding student outcomes that demonstrate ambition and progression that clearly transforms lives. This is achieved through outstanding teaching, learning and assessment.

In the absence of a formal Ofsted Inspection since merger the College holds 'Outstanding' from the former South Downs College (inspected in October 2007), and 'Good' from the former Havant Sixth Form College (inspected in November 2015). HSDC through its annual self assessment process scores itself for 2017/18 as a 'Good'. The evidence to support this judgement and progress towards 'outstanding' as outlined in strategic aim 1 includes:

- an improvement in overall achievement from 85.3% to 86.1%;
- an improved achievement rate of 19+ learners (a 4% increase from 82.3% to 86.9%);
- Maths and English, both GCSE and Functional Skills remain above the sector average;
- A Level value added improved from a 6 to a 5 (now is 'satisfactory to good'.

Strategic Aim 2

Engage as a strategic partner with employers, responding to needs of business and contributing to our economic and cultural community.

The College over the year through its Curriculum Directors and Business Development Team has continued to develop links with industry and has employer relationships in both study programmes and apprenticeship provision. Employers include Fullers Brewery, Carnival UK cruises in Catering and Hospitality and Harwin Engineering. In addition, the College has continued to develop its Adult Learning provision on both sites and has delivered provision in the Solent LEP area by use of subcontractors and partnerships to reach out closer to communities.

Strategic Aim 3

We will be financially sustainable, with the ability to invest to transform to support the delivery of our vision.

2017/18 reflects per these financial statements a tough year of trading. The College has continued to be challenged in core funding but has grown AEB and apprenticeship incomes. Staff costs continue to be above sector norms and redundancy and restructure costs are material whilst experiencing rising non-pay costs over two ageing sites. However, the College has continued to invest over the year in building refurbishments and IT platforms to support the vision of excellence.

Strategic Aim 4

Our learning community have access to industry-standard facilities that create an innovative teaching and learning environment.

The College since merger has embarked on a Property Strategy of building improvements through modernisation and future estate rationalisation. The Summer 2018 saw a significant refurb of classrooms, social spaces and IT facilities for students at the Havant campus. The College for future intends to create a Digital Learning Hub by applying to the Solent LEP in response to local employer priorities. In 2018/19 land sale options, if realised, will help finance and support continued modernisation and upgrade of campus facilities to aid innovation and meet student and industry expectations.

Strategic Aim 5

We will be socially responsible and inclusive

The College by offering a range of provision at all levels and with strong student support structures and involvement with local communities demonstrates social responsibility and inclusiveness. It has relationships with many clubs and societies, particularly of a sporting nature being Havant Hockey Club and the Havant and Waterlooville Football Club and invited in guest speakers and employers to events throughout the year. It also hosts Business Breakfast meetings throughout the year as part of its engagement with local employers and community businesses.

Strategic Aim 6

We will act as an exemplary employer that attracts and invests in a highly skilled and responsive workforce achieving a shared sense of mission.

During the year investment in people continued and notable achievements were; HSDC contract alignments for all staff post-merger; continued progress on BlueSky to track personal objectives and continuous professional learning for all staff linked to strategic aims and values. It also utilised its Levy allocation to support Level 5 Leadership & Management Apprenticeship Training Programme.

We ran four professional development days for staff focusing on Ofsted, teaching & learning good practice and Staff Health and Well Being Day. The College in the year also took part in organised charitable events supporting local communities with our employees in a 'Giving Something Back' day.

The College was proud to receive in year the Health and Work Charter and Mindful Employer Charter and each year participates in the 'Be Heard' employee survey to assess staff morale and engagement.

Strategic Aim 7

We will have a differential advantage to other providers, ensuring a strong positive brand reputation reflecting high levels of stakeholder satisfaction.

HSDC brand is a new brand for the merged College. Early indication is that the brand is becoming recognised and positively received by our stakeholders.

FINANCIAL POSITION

Financial results

The College in 2017/18 continues to face financial pressures. 2017/18 was the first year of merger with both sites continuing to operate as before against a backdrop of falling learner incomes and rising cost pressures in staff and non-pay expenditure.

The College generated a deficit before other gains and losses in the year of £986,000 (2016/17 restated merger surplus of £72,000). The financial result for 2017/18 included costs of redundancy at £536,000; new in 2017/18 are subcontract and partnership costs of £800,000 towards AEB delivery and a trading loss of £303,000 on the ARAMARK catering contract, primarily due to falling learner numbers.

The College saw a decline in main 16-19 ESFA lagged funding of circa £3,000,000 versus 2016/17. For adult provision (AEB) the College exceeded its funding allocation by £106,000, largely from sub contract partnership delivery of £738,000, at 20% margin. Apprenticeship income has continued to grow in year though this income stream has continued to be a challenge given the new Levy and Non-Levy funding regimes.

Staffing costs have continued to fall year-on-year by £2,662,000 (excluding redundancy costs of £536,000) though the staff to income ratio at 70% is above sector norms. This is a continued challenge for the College given national pay award pressures and ever rising pension servicing costs of TPS and LGPS schemes.

Non-pay costs have risen some £650k year-on-year. The main drivers of this are continued costs of maintaining two ageing sites; the movement of previous in-house catering staff to ARAMARK under an outsourcing model; new subcontract costs and the general rise in inflation especially for utilities.

Tangible fixed asset additions during the year amounted to £1,740,000 being assets capitalised in year and assets under the course of construction at year end 31 July 2018.

Throughout 2017/18 the College has invested its own funds in capital projects including South Downs campus reception and Student Hub refurbishment (Summer 2017) and similar works for at Havant during Easter 2018 to create the HSDC brand consistently over both sites.

Over Summer 2018 a major refurbishment took place on the Havant campus modernising 31 teaching classrooms, 4 IT suites, the Adult Learning Centre, HE auditorium style seating installation and the Student Lounge dining area bringing in Starbucks. The works were completed by Gilbert Ash contractors following a competitive tender process run by our appointed Property Strategy Consultants, Peter Marsh Consulting

The College continued to have significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2017/18 the FE funding bodies provided 82% of the College's total income although the College has shown some modest increase in income diversification.

Treasury policies and objectives

The College has treasury management arrangements in place to manage cash flows, banking arrangements, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Cash flows and liquidity

The net cash outflow from activities in 2017/18 was £1,460,000 (2016/17: net cash inflow £1,409,000). The College cash balance at the year-end was £6,113,000 with no borrowings.

Reserves

The College has no formal Reserves Policy but recognises the importance of reserves in the financial stability of the organisation and to ensure adequate funds to support College core activities. At the balance sheet date, the College has accumulated reserves of £2,603,000 and cash balances of £6,113,000. The College wishes to continue to accumulate and protect its reserves and cash balances for future by generating an annual operating surplus or minimise deficit trading.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Financial Health

The College is currently assessed by the ESFA as having a 'Good' financial health grading. This is largely a result of the College's healthy cash balance of £6,113,000 at 31 July 2018. The College has no borrowings though a potential merger with Alton College could impact this (see page 12).

Student numbers

In 2017/18 the College had various learner cohorts being 4,047 16-18-year-old FE learners, with 137 FE learners aged 19+, 1,408 Adult Part Time learners and 379 apprenticeships. In addition, the College had 298 HE learners and 101 14-16-year-old learners.

The College through partnerships had learners of 875 on Distance Learning and 384 subcontracted. These learners were of Adult 19+ and were funded from AEB allocation.

Student achievements

Student achievements are an important performance indicator of College success in meeting the needs of learners, through high quality teaching learning and support.

In 2017/18 the College's overall achievement rate increased compared with the previous year, especially for 19+ students: All Ages 86.4% (85.3%); 16-18 86.1% (86.2%); 19+ 86.9% (82.3%). There were strong outcomes for Maths and English: GCSE and Functional Skills for 16-18 students remain significantly above the GFE sector performance, and achievement rates were significantly improved for adult students on the South Downs campus. The College's 2017/18 Quality Improvement Plan had targeted improvements in 19+ achievement and A level value-added as high priorities – the latter of which improved from 'below satisfactory' (Alps score of 6) to 'satisfactory to good' (Alps score of 5).

Curriculum developments

The College offers a wide range of further education courses, both full-time and part-time, to meet the needs of the local community.

The College runs a wide range of vocational courses/study programmes from Level 1, 2, 3 up to Level 5 HE programmes. The subject areas offered are listed as follows:

• Animal Care • Applied Science • Automotive • Beauty Therapy • Business • Catering & Hospitality	• Early Years • Engineering • Hairdressing • Health & Social Care • ICT • Media & Film	• Performing Arts • Public & Uniform Services • Sport • Travel & Tourism • Visual Arts • AAT

The College delivers a comprehensive A level programme, with A levels offered over a wide range of subject areas covering facilitating subjects and modern foreign languages. Post-merger all A levels are will eventually be delivered from the Havant site by September 2019 with it becoming the future A level Centre of Excellence.

There is also a full-time GCSE resit programme for 16-18 learners (English and Maths) which learners must do alongside a formal study programme if they do not hold a grade 4/5, or C in English or Maths GCSE.

The College also provides provision and support for Special Educational Needs learners. The number of High Needs learners at the College during 2017/18 was 43 with 138 under an EHCP.

As a provider of vocational education on a significant scale (especially at Level 3), the College has sought to respond to the needs of local employers through engaging with employers in review, development and delivery of curriculum provision; developing its higher education (HE) provision and rapidly expanding of apprenticeship provision.

The apprenticeship provision is currently offered across a limited range of subject areas including health & social care, catering, business administration, customer service, IT applications, clinical health, engineering and design.

Higher education provision is offered mainly in the subject areas of Engineering, Business, Music, teacher-training, Graphic Design, Computing Systems & Development and Early Years Education. This provision is a mixture of foundation degrees and higher national certificates/diploma with franchised links to Universities of Portsmouth and Chichester for come courses.

Adult learning is operated at the College and this provision is centred on employability and progression, specifically English and Maths (GCSE & Functional Skills), IT, ESOL, Access to HE and vocational qualifications.

In 2017/18 the College engaged subcontracting partners as part its AEB fulfilment which was a new development to reach out to more adult community learners.

Full-cost provision is usually of a professional nature for learners on day release or evening classes from their employers studying qualifications in Purchasing and Supply or Accountancy (AAT).

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. During the accounting period 1 August 2017 to 31 July 2018, the College paid 75% per cent of its invoices within 30 days. The change of to HSDC following merger has caused issues with some suppliers despite due notification and has thus negatively impacted the statistic. The College incurred no interest charges in respect of late payment for this period.

Future Prospects

Alton College

Whilst in 2017/18 HSDC was formed from a recommendation of the Solent Area Review process, it was clear strategically, that against a backdrop of a continued falling demographic this was not necessarily the end to the structure.

HSDC like many colleges is financially challenged in the context of falling learners and rising staff costs, whilst facing a continued funding regime challenge, ever rising burdens of legislative and government policy directives. It also finds itself in a highly competitive post-16 landscape with a high density of competing post-16 providers of colleges and schools in near local catchments.

To mitigate this the College in Summer 2018 was invited to submit an Expression of Interest to Alton Sixth Form College for a possible future partnership. The College was then invited to submit a fuller application as part of a Structures and Prospects Analysis (SPA). HSDC was eventually selected by the Alton Board in June 2018, with FE Commissioner and ESFA approval to pursue a merger with HSDC of a type B+.

On 20 September 2018 HSDC submitted a financial plan to the Transactions Unit (TU) for Restructuring Facility Funding to support the merger and is now going through necessary financial and legal due diligence to assess the impact of the proposed merger. Subject to satisfactory due diligence reports and the right financial grant package from the TU it is possible the two Boards of each College could vote to approve a merger with HSDC acquiring Alton. If a vote is passed, as it stands, the intent would be that Alton College dissolves midnight 28 February 2019 novating all assets and liabilities to HSDC as on 1 March 2019. The new merged College will be a General Further Education College.

The potential merger is intended to create a larger, more resilient organisation, where the best elements from the two current Colleges are combined, delivering consistently high-quality teaching and improving outcomes for students across all three campuses. The merger would trade as a group structure with each campus maintaining its own local identity.

The College has established a clear project plan for the merger and produced an Implementation Plan which addresses all key aspects of the proposed merger. The Corporations of both Colleges believe that these plans, with the support of the Transaction Unit are deliverable and will ensure a sustainable, resilient College for future. We recognise there will be challenges, particularly in achieving some financial targets, and in the context of a changing demographic.

A level site transition

As part of the merger Property Strategy it was always the intention to eventually move all A level provision from South Downs campus onto the traditional Havant A level site. This journey is to begin from September 2018 with all A levels eventually on the Havant site by September 2019. During 2017/18 all new and existing learners were guaranteed study at the campus they had originally applied to.

From September 2018 new A level learners to HSDC are based on the Havant site with only continuing first going into second year A level learners remaining to complete studies on the South Downs site. From September 2019/20 all A level provision will exist entirely on the Havant campus, with the learners at South Downs site being just vocational, technical, professional and HE provision only.

T Levels Pilot

In year the College was selected to be involved in a pilot of 54 providers selected by the Department of Education to develop the new flagship high quality technical qualifications. These qualifications are to be on par with academic A-levels but with a strong work based technical focus to provide young people with cutting-edge skills to gain jobs and start careers in industry. The first three T-levels will be in the priority sectors of Construction, Digital and Education and Childcare and will be taught by providers from 2020.

The College is preparing internally and with external employers to put the foundations in place to ensure we can deliver these qualifications from September 2020.

Solent LEP

The College is intending to apply to the Solent LEP, Prosperity Fund in November 2018 to invest in facilities that address key employer skills demands in sectors of transport, warehouse, logistics and digital skills. The College will intend to open a dedicated facility at the South Downs site by conversion of existing teaching spaces offering training in these areas using technology of virtual reality software and simulation-based training. Such projects, if successful, will need to be deliverable by the end of 2019/20 and will expect to see a 30% match from the College or a partnering employer and the balance as loan or grant from the LEP.

Property Strategy

Before and from the date of merger HSDC has engaged the services of FE Educational Property Consultants, Peter Marsh Consulting Ltd (PMc) to assist in the development, design, management and implementation of an emerging Property Strategy.

The Board is acutely aware that a lack of historic investment and funding over both sites is damaging our ability to compete with rival colleges, develop new curriculum offers, respond to government and LEP initiatives and to deliver a sustainable, financially efficient, modern estate.

Throughout the year PMc have been involved in project management support and contractor selections for the refurbishment works completed over the year on both campuses. In addition, PMc have been advising the Corporation, and the newly formed Estates Property Strategy Group, on options for further campus developments, partial land sale packaging for South Downs site, working with the local Borough and shared occupancy ideas with Havant Hockey Club for the Havant site.

PMc have also been involved in developing a wider Property Strategy for the potential merger with Alton College and indeed submitted a consolidated group property strategy to the TU on behalf of HSDC.

RESOURCES

The College has various resources that it can deploy in pursuit of its strategic objectives. Tangible resources include the main college sites and fixtures, fittings and equipment. The net book value of these fixed assets at 31 July 2018 is £25.8 million. The net book value of intangible assets at 31 July 2018 is £74k.

Financial

The College has £8.67 million of net assets (after taking account of a £14.95 million pension liability). At the balance sheet date, it has no short- or long-term debt.

People

The College employed 496 people (expressed as full-time equivalents) in 2017/18, of whom 217 were teaching staff. All staff are committed to the education and development of learners and to ensuring that each student is treated as an individual and are supported to achieve.

Reputation

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

PRINCIPAL RISKS AND UNCERTAINTIES:

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

Based on the strategic plan, the Risk Management Committee members undertake a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions, which should mitigate any potential impact on the College. The internal controls are then implemented, and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the Risk Management Committee will also consider any risks, which may arise as a result of a new area of work being undertaken by the College.

The Senior Leadership Team has clear individual responsibilities for considering risk in key areas of activity within the College. This is monitored by management through routine meetings and by Governors through relevant committee structures. The overall College risk register is reviewed at least annually by the Audit Committee and more frequently where necessary. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

This is supported by a risk management training programme to raise awareness of risk throughout the College.

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

Government funding

The College has considerable reliance on continued Government funding through the Education and Skills Funding Agency and through HEFCE. In 2017/18, 82% of College revenue was ultimately public funded and this level of requirement is expected to continue. There can be no assurances that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms. As a result, the College's forward plans assume that Government funding will reduce year on year.

The College is aware of several issues which may impact on future funding:

- Apprenticeship funding reforms and future devolution of the adult education budget
- The local population of 16-18-year olds declining from a demographic dip not expected to rise until 2022 in Hampshire.
- Market share of 16-18-year olds falling given merger and the movement of all A level provision to Havant site
- A continued move to advanced learner loans for 19-23 and 24+ learners as part of Government funding policy reviews
- The pending TPS valuation 2016 announcement which will likely see employer pension service rate rises from September
- The impact from BREXIT and the sustained increase in inflation reducing the real value of government funding

These risks are mitigated in several ways:

- Ensuring the College is rigorous in delivering high quality education and training
- Providing an attractive environment for learners
- Strengthening relationships with schools and enhancing internal progression opportunities for current students
- Promoting the availability of adult loans to learners
- Ensuring the College is focused on those priority sectors including apprenticeship training, which will attract levy funding
- Working closely with the Solent Local Enterprise Partnership (LEP) to ensure that the education provision aligns to local and regional priorities
- In conjunction with key stakeholders, the College is developing a strategy for growth in response to the devolution agenda and to the apprenticeships reform
- The College proactively engaging in collaboration options and pursuing the merger recommendation

Tuition Fee Policy

Ministers have indicated that learners and employers should make an increasing contribution to their costs of learning.

In line with the majority of other colleges, Havant & South Downs College will increase tuition fees broadly in accordance with the rising fee assumptions. The risk for the College is that demand falls off as fees increase. This will impact on the growth strategy of the College.

This risk is mitigated in a few ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students.
- Close monitoring of the demand for courses as prices change.

Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of FRS 102 of £14.9 million (2016/17: £17.5 million). This amount is not required to be settled immediately but it is the long-term aim of the fund to eliminate the deficit over a period of 19 years.

Accounting for defined benefit pension schemes under FRS 102 is a risk as the Local Government Pension Scheme is not under the direct control of the College, being managed by bodies appointed by Hampshire County Council under the oversight of trustees appointed by Hampshire County Council and accounted for in accordance with the advice of independent qualified actuaries. Significant judgements are required in relation to assumptions for future salary increases, inflation, investment returns and member longevity that underpin their valuations. These valuations include current stock market values which are liable to change over a short term whereas the fund is for the longer term.

Failure to maintain the financial viability of the College

The College's current financial health grade is classified as 'Good' as described above. This is largely a result of the College's healthy cash balance of £6.1 million at 31 July 2018. Also, the College does not have any bank loans or debts and is not anticipating the need for any for the foreseeable future.

Notwithstanding that, the continuing challenge to the College's financial position remains the constraint on further education funding arising from the ongoing cuts in public sector spending whilst maintaining the student experience.

This risk is mitigated in several ways:

- By rigorous budget setting procedures and sensitivity analysis
- Regular in year budget monitoring
- Income diversification and growth
- Robust financial controls
- Exploring ongoing procurement efficiencies

Future Alton merger

2017/18 has been the first year of the HSDC merger. The discussions taking place currently regarding a second merger with Alton College, potentially on 1 March 2019, will add further risk to the structure at a time of financial challenge and stretched capacity. The merger is dependent on the successful outcome of the College's bid to the Transaction Unit for funding to secure the merger and ensure that the strong vision of maintaining outstanding provision in tertiary education for both communities. The right level of financial support is necessary to give the merged College financial resilience and sustainability. This is critical to support our future strategic goals and vision whilst, at the same time, not compromising the strategic goals that underpinned the principles of the HSDC merger decision.

STAKEHOLDER RELATIONSHIPS

The Board reviewed and updated its Stakeholder Engagement Statement in December 2017 as follows:

Havant and South Downs College's stakeholder engagement strategy aims to ensure that:

- ✓ We seek the engagement of stakeholders as a vehicle for improvement.
- ✓ Stakeholders receive clear, coherent and consistent messages.

Havant and South Downs College makes effective use of people's time in seeking their views, involving them in decisions and sharing relevant information.

Havant and South Downs College is able to make use, at a strategic level, of information, opinions and feedback gained from engaging with stakeholders.

The strategy explains:

- ✓ Havant and South Downs College's main stakeholder groups
- ✓ The purposes and principles of engagement
- ✓ Communication channels

Havant and South Downs College Stakeholders

A stakeholder is any group or individual who could affect or be affected by our work.

Havant and South Downs College has a varied range of stakeholders, including: young people, adults, parents, carers, employers, volunteers, schools, colleges, universities, partners, staff, governors, and members of the local community.

Valuing Difference and Diversity

Havant and South Downs College values difference and diversity in all its work. In the groups that we strategically engage with there are some individuals who are vulnerable, hard to reach individuals. We will reflect on the best ways of communicating with them so that their needs can be met. We will consider the use of plain language, easy read and audio-visual options as appropriate.

The Purposes of Engagement

Havant and South Downs College's engagement activities and marketing strategy support the implementation and delivery of our services and increase our effectiveness as an education and training provider.

Stakeholder engagement aims to help us make our overall strategy and performance more effective.

This will be achieved through consulting with stakeholders about what in their view constitutes an effective educational and training provider. We will collect information from stakeholders and analyse the findings to help assess our success, report on the impact we are having as a College and use the information to inform our strategic planning and priority setting.

Stakeholder engagement should shape policies and procedures.

We will aim to highlight ways to improve as a college and use engagement as a tool for making changes where necessary. We will work with stakeholders to develop procedure which will help us to engage with them productively.

Stakeholder engagement should inform effective practice and planning.

This will be achieved through engaging with stakeholders at regular intervals.

Principles of Engagement

Engagement Activity will:

- ✓ Be proportionate both for the group being consulted and to the purpose of the engagement.
- ✓ Be open, transparent and focused with our stakeholders, explaining clearly how their views will be used and what influence they may have.
- ✓ Ensure no group has undue influence or access, but that engagement is tailored to the commitments and interests of the audience.
- ✓ Be accountable, and cost effective, using the necessary resources and time to make a difference, and to properly evaluate findings.

Levels of Engagement

Havant and South Downs College will engage with stakeholders at an appropriate level, in appropriate ways and at appropriate times. This will be dictated by what the aims of engagement are, and what we are trying to achieve as a partnership (Havant and South Downs College and its stakeholders.) Engagement will operate at several different levels.

- Information – To gather information about Havant and South Downs College, including information about how stakeholders can engage with Havant and South Downs College. To give stakeholders information about the reasons for and the benefits of engagement.
- Consultation – To seek opinions about areas of Havant and South Downs College's work and the services it provides.
- Involvement – Engaging stakeholders in becoming part of the solution by listening to their views and supporting them to bring about change and improvement.

Havant and South Downs College will be transparent with stakeholders about what we want to achieve, and how information given to us will be used, and by whom.

Equal opportunities

Havant & South Downs College is fully committed to promoting, maintaining and supporting equality and diversity for all who study at the College. It recognises that valuing and embracing diversity is key to providing high quality teaching and learning.

The College takes pride in servicing the local communities surrounding the College and is fully committed to promoting equality of opportunity, access, dignity and fairness, both in the services it provides and in its range of progressive employment practices.

The College aims to eliminate unlawful, discriminate, harassment and victimisation actions and to foster good relations between all learners, staff and the wider communities it serves.

The College strives to ensure that the work environment is free of harassment and bullying and that everyone is treated with dignity and respect, an important part of ensuring equal opportunities.

The College aims to create an environment where our students and staff achieve their full potential, treating all equally whilst celebrating diversity. Havant & South Downs College values diversity of its students and staff and is committed to the fair treatment of all regardless of all the protected characteristics of age, disability, gender reassignment, religion or belief, race, sex, and sexual orientation, marriage and civil partnership, pregnancy and maternity.

Havant & South Downs College has a core set of explicit values which arose out of wide consultation with College stakeholders. These values represent an affirmation of behaviours that the College believes in and which should help guide the College in all that it does. Underpinning these values is recognition that its stakeholders are a diverse group with diverse needs and fundamental is the College's commitment to promote positive outcomes for its stakeholders, removing barriers that could impede this.

Further information on Equality and Diversity at the College can be found on the College intranet (www.hsdc.ac.uk/equality) including the College Equality and Diversity Policy and Action Plan.

Disability statement

The College seeks to achieve the objectives set down in the Equality Act 2010, and in particular:

- All the campus (other than one temporary classroom) is wheelchair accessible.
- Additional support was provided for a significant number of full-time and part-time students in 2017/18.
- A range of adaptive equipment and software is available to students with Learning Difficulties and Disabilities (LDD). There is part-time LDD provision within the community as well as full-time and part-time provision on the main site. The College's Policy for students with LDD sets out objectives for initial guidance, entry and on-course support and progression.
- 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

Number of employees who were relevant union officials during the relevant period	FTE equivalent employee number
14	12.42

Percentage of time	Number of employees
0%	-
1-50%	14
51-99%	-
100%	-

Total cost of facility time £	£11,063
Total pay bill £	£18,840,605
Percentage of total bill spent on facility time	0.06%

Time spent on paid trade union activities as a percentage of total paid facility time	20%

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 17 December 2018 and signed on its behalf by:

Dr M Bateman – Chair

Statement of Corporate Governance and Internal Control

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

The College endeavours to conduct its business:

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

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

In the opinion of the Governors, the College complies with all the provisions of the Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31st July 2018. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of the Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted in June 2015.

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 2017/18 year and up to the date of signing were as listed in the table below:

Name	Date of Appointment	Term of Office	Date of Resignation	Status of Appointment	Committees served	Attendance at Corporation Meetings (in the year 2017/18)
Dr Mike Bateman	1st August 2017	4 years		External Governor	Corporation Chair wef 1 Aug 2017 Ex-officio member of all committees except Audit Committee	100%
Ms Fay Brown	2nd October 2018	3 years		Teaching Staff Governor	Standards & Quality Committee Audit Committee	60%

Name	Date of Appointment	Term of Office	Date of Resignation	Status of Appointment	Committees served	Attendance at Corporation Meetings (in the year 2017/18)
Mr Martin Brunner	8th July 2016	4 years	6th September 2018	External Governor	Standards & Quality (Chair) HE Committee	100%
Dr Simon Claridge	1st August 2017	4 years		External Governor	HR Committee Remuneration Committee HE Committee Estates Strategy Group (Chair)	100%
Mr Ron Crank MBE	Jul 2013	4 years	18 December 2017	External Governor	Corporation Vice-Chair wef June 2015 Finance & Estates Search & Governance (Chair) Remuneration (Chair)	50%
Mr Michael Cripps	31 October 2016	4 years		External Governor	Finance & Estates Committee Estates Strategy Group	100%
Mr Clive Dobbin	14th December 2015	4 years		External Governor	Vice-Chair wef Dec 2017, HR Committee (Chair) Remuneration (Chair) Search & Governance (Chair)	100%
Mr Mike Fairhurst	1st August 2017	4 years	7th April 2018	External Governor	Standards & Quality Committee Student Committee	66.67%
Ms Lucy Flannery	31 October 2016	4 years		External Governor	Standards & Quality Committee Search & Governance Committee	80%
Mr Mike Gaston	20 April 2015	N/A		Principal	Finance & Estates Standards & Quality Search & Governance HR Student	100%
Mrs Sue Garland	1st August 2017	4 years	4th October 2018	External Governors	Standards & Quality Committee HR Committee	80%

Name	Date of Appointment	Term of Office	Date of Resignation	Status of Appointment	Committees served	Attendance at Corporation Meetings (in the year 2017/18)
Mr Tom Horwood	14th December 2015	4 years	2nd July 2018	External Governor	Finance & Estates (Chair) Estates Strategy Group	40%
Mrs Romy Jones	22nd March 2018	4 years		External Governor	Standards & Quality Committee HE Committee	100%
Ms Katie Kemish	6th November 2017	2 years		Student Governor	Student Committee	25%
Mrs Stephenie Linham	7 Oct 99 * 5 Jul 01 * 3 Jul 03 * 5 Jul 07 * 7 Jul 11	2 years 2 years 4 years 4 years 4 years	2nd July 2018	External Governor	Standards & Quality Committee HR Committee Student Committee (Chair)	100%
Mr Gary Medlow	1st August 2017	4 years		External Governor	Finance & Estates Committee HR Committee	100% - also on approved long-term sickness absence
Ms Lydia Morrison	2nd July 2018	4 years		External Governor	Audit Committee	100%
Mr Richard Pearce	1st July 2014	4 years	30th June 2018	External Governor	Audit Committee (Chair)	80%
Mr Lewis Powell	6th November 2017	2 years	22nd January 2018	Student Governor	Student Committee	0%
Mr Richard Showan	12 March 2015	4 years		External Governor	Finance & Estates Committee	60%
Mr David Todman	17th March 2016	4 years		External Governor	Standards & Quality Committee Audit Committee HR Committee	60%
Mrs Louise Wells	1st October 2015	4 years	4th May 2018	Support Staff Governor	Audit Committee Student Committee	100%
Ms Pam Robertson was appointed as Clerk with effect from 10th August 2015 and reconfirmed as the Clerk to the Board of HSDC wef 1st August 2018.						

As a consequence of the merger on 1 August 2017, former members of the Havant Sixth Form College Board joined the newly formed HSDC Board. During 2017-18, a number of Governors stood down because their terms of office came to an end or for professional and personal reasons. One Governor was absent for an extended period of sickness absence. The Board has deliberately chosen to maintain the current vacancies in the short-term to provide flexibility in developing the governance model for the proposed merger with Alton as it is expected that former Alton Governors will join the Board of the newly merged College in 2019.

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 environment issues. The Corporation meets each term.

The Corporation conducts its business through a number of committees. Each committee has its terms of reference, which have been approved by the Corporation. During 2017/18 these committees were Finance and Estates; Quality and Standards; HE, Student, Search and Governance; Remuneration; HR; and Audit. In addition, the Board established a separate Estates Strategy Working Group as a time-limited group to oversee the implementation of the College's Estates Strategy.

Full papers and minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the Clerk to the Corporation at:

Havant & South Downs College

College Road

Waterlooville

PO7 8AA

The minutes of all Corporation meetings, except those deemed to be confidential by the Corporation, are available on the College's website.

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

Formal agenda, papers and reports are supplied to governors in a timely manner, prior to Board meetings. Briefings are also provided part of an ongoing schedule of Governors' Training.

The Corporation has recently reviewed its Policy on Expenses for Governors and Senior Postholders and a separate Policy is now in place. The Chair of the Corporation authorises all expenses for the Principal in accordance with this Policy.

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 Accounting Officer are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a Search and Governance committee comprising the Principal, the Chair and the Vice Chair and one other Governor, which is responsible for the selection and nomination of any new member for the Corporation's consideration, in accordance with the Rules of Membership which are laid down in the Standing Orders. The Corporation is responsible for ensuring that appropriate induction training is provided as required, including ensuring that all Governors are fully conversant with their duties in respect of Health & Safety, Equality & Diversity, Safeguarding and Prevent.

External Members of the Corporation are appointed for a term of office not exceeding four years, Staff Members for a three-year term of office and Student Members for a period not exceeding two years.

Corporation Self-Assessment

As part of the College's Quality framework, the Board produces a self-assessment report and Quality Improvement Plan (QiP). The Corporation has self assessed itself as 'Good' for the year.

In preparation for the merger in 2017, the Boards of South Downs College and Havant Sixth Form College undertook a full joint review of governance, as well as acting on the issues which had been identified in the QiP for that year, for development. The Boards articulated a clear vision for the governance of the merged College and developed the Board infrastructure to ensure that all key areas of College performance would be scrutinised effectively and to maximise the use of individual Governor's skills and the participation of key stakeholders, including students, employers and HE partners.

The Board membership was reviewed, and the opportunity was taken to include experienced Governors from both Colleges to serve the newly merged College. Whilst this resulted in a membership of 20, it is anticipated that the size of the Board will be slightly smaller over the next two years. The current profile reflects a wide range of appropriate skills and high levels of positive engagement from Governors. They use their knowledge and skills well to support the College and the Board benefits from the additional skills of Board co-options who contribute specialist knowledge and expertise. There are high levels of attendance and engagement at both Board and Committee meetings and the College's informal links arrangements have been developed well.

Governors have a clear Vision and Mission for the College. It is focussed on excellence, achieving high standards and ensuring effective support for learners, in the context of local and national priorities. Significant attention has been paid to monitoring academic performance to secure improvements with a clear focus on learner success and a culture of high aspirations and continuous improvement. Governors have a clear understanding of the College's strengths and areas for development, with strong relationships with senior managers, providing effective challenge and support.

Key legal duties are addressed effectively, and Governors are clear about roles and responsibilities. There is an effective framework for Safeguarding, with appropriate risk assessment and the College's Prevent Strategy has been fully implemented. Governors understand fully their duties to protect learners from radicalisation and extremism. The Board promotes Equality & Diversity fully. Financial oversight is highly effective, and Governors hold senior leaders to account for the effective deployment of resources for the benefit of learners.

Governors monitor their own performance in a variety of ways, particularly with regard to the key criteria enshrined in the ***Code of Good Governance for English Colleges.*** The College adopted the voluntary Code of Good Governance for English Colleges (The Code) in 2015 and agreed that the key elements of the Code would be enshrined within the work of the committees. Each committee undertakes an annual review of performance against the key criteria as well as reviewing existing terms of reference. A review was undertaken in the summer term 2017-18 and all of the committees concluded that the Board was complying with the key criteria in the Code of Good Governance and no gaps were identified which required specific actions. The following minor changes were approved to committee terms of reference:

- Membership of the Audit Committee was clarified to indicate that Staff members could not serve on this Committee.
- Membership of the Remuneration Committee was modified to comprise the Chair, the Vice-Chair, the Chair of the HR Committee and the Chair of the Audit Committee, based on best practice from the HE sector.

Areas for improvement for the newly merged College for 2017/18 were identified, as follows:

- Board Infrastructure - Prior to merger in 2017, the Board opted for a similar committee structure to that which had existed in both of the former colleges, but also established a new Student and HE Committee and it was agreed that they would be assessed after a year. The outcomes were reviewed in the summer term 2018 and the establishment of the HE Committee was welcomed, and it was agreed that there had been major benefits from the involvement of external partners in this Committee. The Student Committee was concerned that, given the importance of the learner voice, some of the responsibilities of the Committee were also considered by other committees of the Board, particularly the Standards and Quality Committee. The Committee was also of the view that it was vital that there was active student participation, so it was agreed that it would be more appropriate for the existing Student Committee to become part of the overall Learner Voice framework in the College and operate in a similar way to the College's Equality & Diversity Forum. This will allow for stronger student representation, with Governor involvement on the Committee. The Committee would then report to the Standards & Quality Committee.
- Stakeholder Engagement – The Board had reviewed its approach to Stakeholder Engagements as part of the wider Marketing Strategy and Employment Engagement Strategy.
- Governors' Links - The Governors' Links system has continued to be developed to the mutual benefit of Governors, managers, staff and students, with a particular emphasis on involving Governors in key meetings associated with the quality cycle and in meeting staff and students.
- Board Reporting - The Board remains committed to improving and streamlining reporting so that each Committee has considered how reporting can be improved further. Governors have welcomed the use of the summary reporting template and some committees felt that reporting had improved significantly. Other committees remained concerned at the bulk of paperwork presented. The following was emphasised:
  - The Board requires high-level information and an overview, not excessive detail.
  - The summary of key implications at the end of the reporting template should be properly completed and RAG-rated as it provides a guide to key issues.
  - As far as possible, detailed reports should be uploaded to the portal so that Governors can access them if they choose.

Remuneration Committee

Throughout the year ending 31st July 2018, the College's Remuneration Committee comprised the Chair, Vice Chair of the HR Committee and one other member. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Accounting Officer and other key management personnel.

Details of remuneration for the year ended 31st July 2018 are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee comprises five members of the Corporation (excluding the Accounting Officer and the Chair). The Committee operates in accordance with written terms of reference approved by the Corporation. For part of the year, there was one vacancy.

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal, reporting accountants 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 Further Education 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 Committee.

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

The Audit Committee also advises the Corporation on the appointment of internal, reporting accountants and financial statements auditors and their remuneration for audit and non-audit work as well as reporting annually to the Corporation. The Audit Committee also determines Financial Regulations and subsequent variations.

Finance & Estates Committee

The Finance & Estates Committee comprises six members of the Corporation (including the Accounting Officer) and operates in accordance with written terms of reference approved by the Corporation.

The Finance & Estates Committee meets on a termly basis and considers and determines matters of financial and estates strategy referred to it by the Accounting Officer and advises the Corporation accordingly.

The Finance & Estates Committee also considers proposals for the Corporation's annual estimates of income and expenditure and advises the Corporation accordingly; determines, on behalf of the Corporation, the framework for tuition fees and fee remission policy; considers any proposals for capital building projects in the light of any regulations or guidance from the Education and Skills Funding Agency, and monitors the progress and expenditure of any projects; and considers and, where appropriate, determines any other matters relating to finance and estates referred to it by the Corporation and advises the Corporation accordingly.

The Board has also established, during the year, an Estates Steering Group, which is a time-limited group, designed to support the effective implementation of the Board's Estates Strategy.

Human Resources (HR) Committee

The HR Committee comprises five members of the Corporation (including the Accounting Officer) and operates in accordance with written terms of reference approved by the Corporation.

The HR Committee meets on a termly basis and considers and determines matters of employment strategy referred to it by the Accounting Officer and advises the Corporation accordingly.

The HR Committee receives termly (or more frequently if it so wished) management information relating to staff; sets a framework for the pay and conditions for all staff other than senior posts.

Standards & Quality Committee

The Standards & Quality Committee comprises seven members of the Corporation (including the Accounting Officer) and operates in accordance with written terms of reference approved by the Corporation.

The Standards & Quality Committee meets on a termly basis and advises the Corporation regarding its responsibility for approving the quality strategy of the institution.

The Standards & Quality Committee also considers the College's annual Self-Assessment Report and Quality Improvement Plan; monitors student achievement, retention and success rates; is familiar with and keeps under review the College's curriculum profile; facilitates and encourages a culture which fosters continuous improvement and supports students, teachers and support staff; and considers and, where appropriate, determines any other matters relating to standards/quality.

Search & Governance Committee

The Search & Governance Committee comprises four members of the Corporation (including the Accounting Officer, the Chair and the Vice Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

The Search & Governance Committee meets annually or whenever vacancies determine additional meetings and advises on the appointment of members (other than as a parent, staff or student member) and such other matters relating to membership and appointments as determined by the Corporation.

The Search & Governance Committee considers the skills and profile of the Board at every Board meeting and seeks appropriate members to meet the required skills. Where appropriate, some new applicants are invited to be co-opted non-governor members on committees. The Committee considers the training and induction provided to members of the Board on an ongoing basis as well as succession planning.

HE Committee

The HE Committee comprises 12 members, including the designated HE Governor Champion, 3 other Governors, representatives of HE and partner institutions and HE Student Reps. The HE Committee is responsible for the development and oversight of the Higher Education provision at the College, including:

- Strategy
- Curriculum development and renewal
- Quality and standards
- Policy, rules and regulations assurance

Student Committee

During 2017-18, the Student Committee comprised up 8 members, including the Accounting Officer, Student Governors, 3 other Governors and Students either nominated by the Student Union or nominated generally within the College. The Student Committee was required to lead the Corporation on all strategic and policy matters relating directly to student services and support, in accordance with the Articles of Government. From September 2018, this Committee is being changed to reflect a wider student base and will report to the Standards & Quality Committee, as part of the wider Learner Voice framework.

Future Governance Issues

With the potential merger with Alton College, both Boards will be working closely together in the period up to merger. Wherever possible, joint meetings will take place to streamline reporting to both Boards and ensure that there is common understanding on key issues.

Early discussions have taken place about possible future governance arrangements for the new merged College, following merger with Alton College and will be formally concluded in the autumn term 2018. They have focussed on:
(i) Likely total numbers of External Governors;
(ii) The numbers of Governors from the existing College Boards, particularly how many former Alton Board members will be able to join the new Board;
(iii) The framework for ensuring that there is local representation;
(iv) Possible Committee structures;
(v) Ensuring that the new governance model is future-proof and can respond effectively to needs;
(vi) Ensuring that the proposals for the future are determined through joint discussions and secured appropriately in advance of the merger.

A number of activities will take place during the autumn term 2018 to ensure that there is clarity about the governance infrastructure which will be established for the new merged College, as follows:

- Finalising the required Board profile and skills profile;
- Mapping existing Governors against skills profile to determine whether they should be invited to serve as Governors of the new merged College;
- Agreeing arrangements for Staff and Student Governors;
- Agreeing supporting committee infrastructure and membership, including co-options, and drawing up terms of reference;
- Ensuring that all necessary amendments are made to the Instrument and Articles of Government and changes are passed by the Board.

Arrangements have also been made to secure effective management. The current Principal of HSDC College will continue in post as Principal and Chief Executive of the merged College, because the Principal of Alton Sixth Form College left the College in August 2018.

The Principal of HSDC is experienced in leading a successful merger between Havant SFC and South Downs GFE and has an experienced SLT who with the College management group continue to offer a wide provision with good outcomes for students.

Internal Control

Scope of Responsibility

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

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

The purpose of the system of internal control

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

Capacity to handle risk

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

The risk and control framework

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

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

Havant & South Downs College has an internal audit service, which operates in accordance with the requirements of the Education and Skills Funding Agency's Post 16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. At minimum, annually, the Internal Audit Service, which is commissioned from TIAA, provides the governing body with a report on internal audit activity in the College. The report includes the Internal Auditor's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. The Principal'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, the 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 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 senior leadership team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior leadership team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit 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 leadership team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2018 meeting, the Corporation carried out the annual assessment for the year ended 31st July 2018 by considering documentation from the senior management team and internal audit and taking account of events since 31st July 2018.

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

Going Concern

The activities of the College, together with the factors likely to affect its future development and performance, are set out in the report pf the Governing Body. The financial position of the College, its cashflow and liquidity are presented in the Financial Statements and accompanying notes.

The College does not currently have any borrowings and has a reasonable cash balance at the year-end. The College has prepared future financial forecasts both as a single entity and to consider the possible merger with Alton College based on the indicative Transaction Unit deal. These plans demonstrate the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Approved by order of the members of the Corporation on 17 December 2018 and signed on its behalf by:

Dr M Bateman – Chair

Mr M Gaston – Principal & Accounting Officer

Statement of Regularity, Propriety and Compliance

The Corporation has considered its responsibility to notify the Education & 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.

Matters arising

As a public authority, Havant and South Downs College is bound by The Public Contracts Regulations 2015 ("the Regulations"). This brings certain requirements in respect of public procurement. During the period 1 August 2017 to 31 July 2018 Havant and South Downs College entered into new leasing agreements for IT equipment with a total cost of £844k, but the College was unable to evidence that the procurement was:

- advertised in the Official Journal of the European Union (OJEU) as required under The Public Contracts Regulations 2015;
- appropriately authorised in line with Havant and South Downs College's financial regulations.

We confirm that no other 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.

Dr M Bateman – Chair of Governors

17 December 2018

Mr M Gaston – Principal & Accounting Officer

17 December 2018

Statement of the Responsibilities of the Members of the Corporation

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

The law applicable to charities in England and the terms and conditions of the College's grant funding agreement/financial memorandum, 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 surplus/deficit of income over expenditure for that period.

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

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

The Corporation is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation including the Further and Higher Education Act 1992 and Charities Act 2011, and relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard its assets and to prevent and detect fraud and other irregularities.

The Corporation is responsible for the maintenance and integrity of the College's website; the work carried out by 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. 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 17 December 2018 and signed on its behalf by:

Dr M Bateman – Chair

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF HAVANT & SOUTH DOWNS COLLEGE

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the governors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

Responsibilities of the Corporation of Havant and South Downs College

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 34, the Corporation is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at http://www.frc.org.uk/auditorsresponsibilities this description forms part of our auditor's report.

Use of our report

This report is made solely to the Corporation, as a body, in accordance with the Funding Agreement published by the Education and Skills Funding Agency and our engagement letter dated 9 May 2018. 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
Portland
25 High Street
Crawley
West Sussex
RH10 1BG

18/12/18

Statement of Comprehensive Income and Expenditure

	Notes	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
INCOME			
Funding body grants	2	24,104	26,484
Tuition fees and education contracts	3	1,572	1,983
Other grants and contracts	4	217	135
Other income	5	2,232	2,109
Investment income	6	19	39
Total income		**28,144**	**30,750**
EXPENDITURE			
Staff costs	7	18,841	21,503
Restructuring costs	7	536	284
Other operating expenses	8	7,655	7,002
Depreciation and amortisation	11/12	1,620	1,393
Interest and other finance costs	9	480	496
Total expenditure		**29,130**	**30,678**
Deficit before other gains and losses and tax		**(986)**	**72**
Taxation	10	-	-
Deficit for the year		**(986)**	**72**
Remeasurement of net defined benefit pension scheme liability	21	3,260	4,280
Total Comprehensive Income for the year		**2,274**	**4,352**
Represented by:			
Unrestricted comprehensive income		2,274	4,352
		2,274	**4,352**

Balance Sheet as at 31 July 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Tangible fixed assets	11	25,798	25,655
Intangible assets	12	74	97
		25,872	**25,752**
Current assets			
Stocks	13	6	14
Debtors	14	459	438
Cash and cash equivalents	18	6,113	7,573
		6,578	**8,025**
Creditors – amounts falling due within one year	15	(3,651)	(4,229)
Net current assets		**2,927**	**3,796**
Total assets less current liabilities		**28,799**	**29,548**
Creditors – amounts falling due after more than one year	16	(5,183)	(5,666)
Provisions			
Defined benefit obligations	17	(14,950)	(17,490)
Total net assets		**8,666**	**6,392**
Unrestricted reserves			
Income and expenditure account		2,603	178
Revaluation reserve		6,063	6,214
Total unrestricted reserves		**8,666**	**6,392**

The financial statements on pages 38 to 68 were approved and authorised for issue by the corporation on 17 December 2018 and were signed on its behalf on that date by:

Dr M Bateman

Chair

Mr M Gaston

Accounting Officer

Statement of Changes in Reserves

	Income and Expenditure account £'000	Revaluation reserve £'000	Total £'000
Balance at 1 August 2016	(4,325)	6,365	2,040
Surplus from the income and expenditure account	72	-	72
Other comprehensive income	4,280	-	4,280
Transfers between revaluation and income and expenditure reserves	151	(151)	-
Total comprehensive income for the year	4,503	(151)	4,352
Balance at 31 July 2017	**178**	**6,214**	**6,392**
Deficit from the income and expenditure account	(986)	-	(986)
Other comprehensive income	3,260	-	3,260
Transfers between revaluation and income and expenditure reserves	151	(151)	-
Total comprehensive income for the year	**2,425**	**(151)**	**2,274**
Balance at 31 July 2018	**2,603**	**6,063**	**8,666**

Statement of Cash Flows

	Notes	2018 £'000	2017 £'000
Cash flow from operating activities			
Deficit for the year		(986)	72
Adjustment for non cash items			
Depreciation and amortisation		1,620	1,392
Deferred capital grant release		(682)	(453)
(Increase)/decrease in stocks		8	1
(Increase)/decrease in debtors		(21)	232
Increase/(decrease) in creditors due within one year		(278)	657
Increase/(decrease) in creditors due after one year		146	(186)
Pensions costs less contributions payable		280	290
Adjustment for investing or financing activities			
Investment income		(19)	(39)
Interest payable		480	416
Net cash flow from operating activities		**548**	**2,383**
Cash flows from investing activities			
Investment income		19	39
Capital grant receipts		53	30
Payments made to acquire fixed assets		(1,740)	(977)
		(1,668)	(908)
Cash flows from financing activities			
Interest paid		(40)	(16)
Repayments of amounts borrowed		(299)	(50)
		(339)	(66)
Increase/(Decrease) in cash and cash equivalents in the year		**(1,460)**	**1,409**
Cash and cash equivalents at beginning of the year	18	7,573	6,164
Cash and cash equivalents at end of the year	18	6,113	7,573

Notes to the Financial Statements

1. Accounting policies

Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

General Information

Legal status

The Corporation was established in England under the Further and Higher Education Act 1992 for the purpose of conducting Havant & South Downs College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011. The Corporation was originally incorporated as The South Downs College.

Merger with Havant Sixth Form College

The South Downs College and Havant Sixth Form College merged on 1 August 2017. Havant Sixth Form College dissolved as a legal entity at midnight, 31 July 2017 and thereon transferred all assets and liabilities to The South Downs College. The South Downs College changed its legal name on 1 August 2017 to Havant & South Downs College. The combination is considered to meet the definition of a merger under FRS 102 and so merger accounting has been applied.

Campuses

Havant & South Downs College has two campuses, as follows:

Havant Campus
New Road
Havant
PO9 1QL

South Downs Campus
College Road
Waterlooville
PO7 8AA

Basis of accounting

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2017 to 2018* and in accordance with Financial Reporting Standard 102 – *"The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland"* (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

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

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

Basis of consolidation

In accordance with Financial Reporting Standard (FRS) 102, the activities of the student union have not been consolidated because the College does not control those activities

Going concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Report of the Governing Body. The financial position of the College, its cash flow and liquidity are presented in the Financial Statements and accompanying notes.

The College does not currently have any borrowings and has a reasonable cash balance at the year-end. The College has prepared future financial forecasts both as a single entity and to consider the possible merger with Alton College based on the indicative Transaction Unit deal. These plans demonstrate that the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Recognition of income

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

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

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 model as permitted by FRS 102.

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.

Remeasurements comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit pension liability) are recognised immediately in other comprehensive income.

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.

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 prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Land and buildings

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 15 and 50 years.

Car parks and other similar outlay are depreciated over 20 years unless the expected life differs in which case a more appropriate period is used.

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

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

On adoption of FRS 102, the College followed the transitional provision to retain the book value of land and buildings, some of which were revalued in 1993, as deemed cost but not to adopt a policy of revaluations of these properties in the future.

Assets under construction

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

Subsequent expenditure on existing fixed assets

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

Equipment

Equipment costing less than £2,500 per individual item, or group of related items, is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

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

• technical equipment	5 years
• motor vehicles	5 years
• IT equipment	3 to 5 years
• furniture	5 years
• plant	7 years

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Comprehensive Income and Expenditure.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets include software purchased and development costs. These are typically amortised over a period of 5 years.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income and Expenditure. The College has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1 August 2014.

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

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

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

Stocks

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

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.

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

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 and expenditure 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:

- 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 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 21, 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 2016 to value the pensions liability at 31 July 2018. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the Accounts (continued)

2 Funding body grants

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Recurrent grants		
Education and Skills Funding Agency - 16 to 18 learners	20,238	23,242
Education and Skills Funding Agency - adult learners	2,030	1,514
Education and Skills Funding Agency - apprenticeships	880	637
Higher Education Funding Council	242	296
Specific Grants		
Administration of Learner Support Funds	32	40
Education and Skills Funding Agency - other	-	100
Releases of government capital grants	682	655
Total	**24,104**	**26,484**

3 Tuition fees and education contracts

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Adult education fees	742	810
Fees for FE loan supported courses	262	383
Fees for HE loan supported courses	264	392
Apprenticeship fees and contracts	-	17
Total tuition fees	1,268	1,602
Education contracts	304	381
Total	**1,572**	**1,983**

4 Other grants and contracts

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Other grants and contracts	217	135
Total	**217**	**135**

Notes to the Accounts (continued)

5 Other income

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Catering and residences	787	949
Student travel and trips	622	630
Nursery income	448	260
Exam fees	104	88
Other income generating activities	271	182
Total	**2,232**	**2,109**

6 Investment income

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Other interest receivable	19	39
Total	**19**	**39**

Notes to the Accounts (continued)

7 Staff costs

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

	2018 No.	2017 No.
Teaching staff	217	261
Non-teaching staff	279	274
	496	**535**
Staff costs for the above persons	**£'000**	**£'000**
Wages and salaries	14,403	16,841
Social security costs	1,377	1,483
Other pension costs	3,061	3,179
Payroll sub-total	**18,841**	**21,503**
Restructuring costs - contractual	326	284
Restructuring costs - non-contractual	210	-
	19,376	**21,787**

Contractual payments were approved by the corporation.

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 Senior Leadership Team which comprises the Principal, Deputy Principal and Vice Principals.

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

	2018 No.	2017 No.
The number of key management personnel including the Accounting Officer was:	7	9

Notes to the Accounts (continued)

7 Staff costs (continued)

The total of seven key management personnel includes two people who job share in addition to a change of personnel in the Vice Principal: Business Services & People role part way through the year.

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

	Key management personnel	
	2018	**2017**
	No.	**No.**
£10,000 to £20,000	-	1
£40,001 to £50,000	-	4
£60,001 to £70,000	4	1
£70,001 to £80,000	1	1
£80,001 to £90,000	1	1
£140,000 to £150,000	1	1
	7	9

Key management personnel compensation is made up as follows:

	2018	**2017**
	£'000	**£'000**
Salaries	573	554
Employers National Insurance Contributions	65	71
Benefits in kind	-	-
	638	**626**
Pension contributions	84	96
Total emoluments	**722**	**722**

Compensation totals are reported as the full-time annual values for each of the key management personnel. Leavers and joiners part year costs and job share FTE equivalents are not taken in to account which adds £161k to total emoluments reported in 2018.

Notes to the Accounts (continued)

7 Staff costs (continued)

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

	2018 £'000	2017 £'000
Salaries	140	140
Benefits in kind	-	1
	140	141
Pension contributions	23	23

Compensation for loss of office paid to former key management personnel

No key management personnel received compensation for loss of office during the year.

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

Notes to the Accounts (continued)

8 Other operating expenses

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Teaching costs	1,694	1,733
Non-teaching costs	3,637	3,488
Premises costs	1,590	1,627
Exam costs	734	154
Total	**7,655**	**7,002**

Other operating expenses include:	**2018 £'000**	**2017 £'000**
Auditors' remuneration:		
Financial statements audit	38	55
Funding review audit	2	-
Internal audit	17	14
Hire of assets under operating leases	633	316

9 Interest payable

	2018 £'000	2017 £'000
On bank loans, overdrafts and other loans	-	16
On finance leases	40	-
Net interest on defined pension liability (Note 21)	440	480
Total	**480**	**496**

10 Taxation

The members do not believe the College was liable for any corporation tax arising out of its activities during either year.

Notes to the Accounts (continued)

11 Tangible fixed assets

	Land and Buildings Freehold £'000	Equipment £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation				
At 1 August 2017	36,245	6,428	179	42,852
Additions	557	673	510	1,740
Disposals	-	(168)	-	(168)
Transfers	179	-	(179)	-
At 31 July 2018	**36,981**	**6,933**	**510**	**44,424**
Depreciation				
At 1 August 2017	12,234	4,963	-	17,197
Charge for the year	913	684	-	1,597
Elimination in respect of disposals	-	(168)	-	(168)
At 31 July 2018	**13,147**	**5,479**	-	**18,626**
Net book value at 31 July 2018	**23,834**	**1,454**	**510**	**25,798**
Net book value at 31 July 2017	24,011	1,465	179	25,655

Land and buildings were valued in 1993 at depreciated replacement cost by AYH, a firm of independent chartered surveyors and the transitional provisions of FRS 102 adopted to use previous valuation as deemed cost on initial adoption of FRS 102.

The net book value of equipment includes an amount of £437k in respect of assets held under finance leases. The depreciation charge for the year on these assets for the year was £115k.

Notes to the Accounts (continued)

11 Tangible fixed assets (continued)

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

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

12 Intangible assets

	Total £'000
Cost or valuation	
At 1 August 2017	115
Additions	-
At 31 July 2018	**115**
Amortisation	
At 1 August 2017	18
Charge for the year	23
At 31 July 2018	**41**
Net book value at 31 July 2018	**74**
Net book value at 31 July 2017	97

Notes to the Accounts (continued)

13 Stock

	2018 £'000	2017 £'000
Other Stock	6	14
Total	**6**	**14**

14 Debtors

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade receivables	81	149
Prepayments and accrued income	275	253
Amounts owed by the ESFA	89	23
Other	14	12
Total	**459**	**437**

Notes to the Accounts (continued)

15 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Bank loans and overdrafts	-	299
Trade payables	690	463
Other creditors	393	120
Other taxation and social security	377	516
Accruals and deferred income	1,029	1,126
Deferred income - government capital grants	682	645
Deferred income - government revenue grants	80	157
Obligations under finance leases	131	-
Amounts owed to the ESFA	269	903
Total	**3,651**	**4,228**

16 Creditors: amounts falling due after one year

	2018 £'000	2017 £'000
Obligations under finance leases	177	-
Deferred income - government capital grants	5,006	5,666
Total	**5,183**	**5,666**

Notes to the Accounts (continued)

17 Provisions

	Defined benefit obligations £'000	Total £'000
At 1 August 2017	17,490	17,490
Expenditure in period	(1,440)	(1,440)
Transferred from income and expenditure account	(1,100)	(1,100)
At 31 July 2018	**14,950**	**14,950**

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government Pension Scheme. Further details are given in Note 21.

18 Cash and cash equivalents

	At 1 August 2017 £'000	Cash flows £'000	At 31 July 2018 £'000
Cash and cash equivalents	7,573	(1,460)	6,113
Total	**7,573**	**(1,460)**	**6,113**

19 Capital commitments

	2018 £'000	2017 £'000
Commitments contracted for at 31 July	703	180
Total	**703**	**180**

Notes to the Accounts (continued)

20 Lease obligations

Operating Leases

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

	2018 £'000	2017 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	49	-
Later than one year and not later than five years	162	204
Later than five years	87	131
Total	**298**	**335**
Other		
Not later than one year	269	131
Later than one year and not later than five years	154	340
Later than five years	-	-
Total	**423**	**471**

Finance Leases

At 31 July the College had minimum lease payments under finance leases as follows:

	2018 £'000	2017 £'000
Future minimum lease payments due		
Not later than one year	131	-
Later than one year and not later than five years	177	-
Later than five years	-	-
Total	**308**	**-**

Finance lease obligations are secured on the assets to which they relate.

Notes to the Accounts (continued)

21 Defined benefit obligations

The College's 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) for non-teaching staff, which is managed by Hampshire County Council. Both are multi-employer defined-benefit plans.

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

Total pension cost for the year	**2018**		**2017**	
	£'000	**£'000**	**£'000**	**£'000**
Teachers' Pension Scheme: contributions paid		1,336		1,509
Local Government Pension Scheme:				
Contributions paid	1,440		1,260	
FRS 102 (28) charge	280		450	
Charge to the Statement of Comprehensive Income		1,720		1,710
Total Pension Cost for Year		**3,056**		**3,219**

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

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' 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 Teachers' Pension Budgeting and Valuation Account

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.

Notes to the Accounts (continued)

21 Defined benefit obligations (continued)

Teachers' Pension Scheme (continued)

Valuation of the Teachers' Pension Scheme

The latest actuarial review of the TPS was carried out as at 31 March 2012. The valuation report was published by the Department for Education (the Department) on 9 June 2014. The key results of the valuation are:

- new employer contribution rates were set at 16.48% of pensionable pay (including administration fees of 0.08%);
- total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £191,500 million, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £176,600 million giving a notional past service deficit of £14,900 million;
- an employer cost cap of 10.9% of pensionable pay.
- the assumed real rate of return is 3.0% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.75%. The assumed nominal rate of return is 5.06%.

The new employer contribution rate for the TPS was implemented in September 2015. The next valuation of the TPS is currently underway based on April 2016 data, whereupon the employer contribution rate is expected to be reassessed and will be payable at some point in 2019.

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

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Hampshire County Council. The total contribution made for the year ended 31st July 2018 was £1,750,000 of which employer's contributions totalled £1,440,000 and employees' contributions totalled £310,000. The agreed contribution rate is 14.9% for employers up to March 2018, increasing to 16.7% from April 2018. It ranges from 5.5% to 7.5% for employees, depending on salary.

Notes to the Accounts (continued)

21 Defined benefit obligations (continued)

Local Government Pension Scheme (continued)

Principal Actuarial Assumptions

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

	At 31 July 2018	At 31 July 2017
Rate of increase in salaries	3.6%	3.5%
Future pensions increases	2.1%	2.0%
Discount rate for scheme liabilities	2.8%	2.6%
Inflation assumption (CPI)	2.1%	2.0%
Commutation of pensions to lump sums	25.0%	25.0%

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements. The life expectancies at age 65 resulting from these mortality assumptions are:

	At 31 July 2018 Years	At 31 July 2017 Years
Retiring today		
Males	24.10	24.00
Females	27.20	27.00
Retiring in 20 years		
Males	26.20	26.00
Females	29.40	29.30

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

	Fair Value at 31 July 2018 £'000	Fair Value at 31 July 2017 £'000
Equities	23,213	19,816
Bonds	8,833	8,386
Property	2,555	2,105
Cash	767	1,187
Other	1,132	886
Total market value of assets	**36,500**	**32,380**
Actual return on plan assets	**3,370**	**2,970**

Notes to the Accounts (continued)

21 Defined benefit obligations (continued)

Local Government Pension Scheme (continued)

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

	2018 £'000	2017 £'000
Fair value of plan assets	36,500	32,380
Present value of plan liabilities	(51,450)	(49,870)
Net pensions liability (Note 17)	**(14,950)**	**(17,490)**

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

	2018 £'000	2017 £'000
Amounts included in staff costs		
Current service cost	1,560	1,670
Past service cost	160	40
Total	**1,720**	**1,710**
Amounts included in interest payable		
Net interest charge	440	480
	440	**480**
Amounts recognised in Other Comprehensive Income		
Return on pension plan assets	2,520	2,270
Experience gains/(losses) arising on defined benefit obligations	740	2,010
Amount recognised in Other Comprehensive Income	**3,260**	**4,280**

Notes to the Accounts (continued)

21 Defined benefit obligations (continued)

Local Government Pension Scheme (continued)

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

	2018 £'000	2017 £'000
Net defined benefit (liability)/asset in scheme at 1 August	(17,490)	(20,840)
Movement in year:		
Current service cost	(1,560)	(1,670)
Employer contributions	1,440	1,260
Past service cost	(160)	(40)
Net interest on the defined (liability)/asset	(440)	(480)
Actuarial gain/(loss)	3,260	4,280
Net defined benefit liability 31 July	**(14,950)**	**(17,490)**

Asset and Liability Reconciliation

	2018 £'000	2017 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	49,870	49,710
Current Service cost	1,560	1,670
Interest cost	1,290	1,180
Contributions by Scheme participants	310	320
Experience (gains)/losses on defined benefit obligations	(740)	(2,010)
Estimated benefits paid	(1,000)	(1,040)
Past Service cost	160	40
Defined benefit obligations at end of period	**51,450**	**49,870**

	2018 £'000	2017 £'000
Change in fair value of plan benefits		
Fair value of plan assets at start of period	32,380	28,870
Interest on plan assets	850	700
Return on plan assets	2,520	2,270
Employer contributions	1,440	1,260
Contributions by Scheme participants	310	320
Estimated benefits paid	(1,000)	(1,040)
Fair value of assets at end of period	**36,500**	**32,380**

Notes to the Accounts (continued)

21 Defined benefit obligations (continued)

Local Government Pension Scheme (continued)

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

22 Related party transactions

The total expenses paid to or on behalf of the Governors during the year was £265 (2017: £nil). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2017: £Nil).

Fasset Ltd – two members of the Board of Governors

Purchase transactions paid in the financial year totalling £178,746 (2017 - £nil), relating to refurbishment of Havant campus reception following competitive tendering. An additional balance of £30,955 is due in the next financial year, of which £28,738 was paid in October 2018 leaving a retention payment of £2,217 due Easter 2019.

Paris Smith LLP – a member of the Board of Governors, is a limited liability partner.

Transactions paid in the financial year totalling £22,614 (2017 - £nil), providing law advice to College on an employment tribunal case. An additional invoice of £4,138 was paid in August 2018.

Notes to the Accounts (continued)

23 Merger Disclosure

The South Downs College and Havant Sixth Form College merged on 1 August 2017. Havant Sixth Form College dissolved as a legal entity at midnight 31 July 2017 and thereon transferred all assets and liabilities to The South Downs College. The South Downs College changed its legal name on 1 August 2017 to Havant & South Downs College.

As the merger was at the start of the reporting period, the current year's total comprehensive income relates to the newly formed merged entity. No significant adjustments were required to align accounting policies and no further adjustments were made to net assets as a result of the merger.

Statement of comprehensive income for year ended 31 July 2017

	South Downs College 2017 £'000	Havant College 2017 £'000	Havant & South Downs College 2017 £'000
Funding body grants	20,691	5,793	26,484
Tuition fees and education contracts	1,875	108	1,983
Other grants and contracts	135	-	135
Other income	1,783	326	2,109
Investment income	39	-	39
Total Income	**24,523**	**6,227**	**30,750**
Staff costs	17,663	3,840	21,503
Restructuring costs	276	8	284
Other operating expenses	5,405	1,597	7,002
Depreciation & amortisation	888	505	1,393
Interest & other finance costs	400	96	496
Total expenditure	**24,632**	**6,046**	**30,678**
Surplus/(Deficit) before other gains & losses	**(109)**	**181**	**72**
Taxation	-	-	-
Actuarial gain/(loss) on pension scheme	3,490	790	4,280
Total Comprehensive Income	**3,381**	**971**	**4,352**

Notes to the Accounts (continued)

23 Merger Disclosure (continued)

Balance Sheet for year ended 31 July 2017

	South Downs College 2017 £'000	Havant College 2017 £'000	Havant & South Downs College 2017 £'000
Tangible fixed assets	17,201	8,454	26,655
Intangible assets	97	-	97
Total non-current assets	**17,298**	**8,454**	**25,752**
Stocks	14	-	14
Trade and other receivables	390	48	438
Cash at bank and in hand	7,079	494	7,573
Total current assets	**7,483**	**542**	**8,025**
Creditors due within one year	(2,965)	(1,264)	(4,229)
Net current liabilities	**4,518**	**(722)**	**3,796**
Total assets less current liabilities	**21,816**	**7,732**	**29,548**
Creditors due after one year	(3,209)	(2,457)	(5,666)
Defined benefit obligations	(14,330)	(3,160)	(17,490)
Total net assets	**4,277**	**2,115**	**6,392**
Income and expenditure account	399	(221)	178
Revaluation reserve	3,878	2,336	6,214
Total unrestricted reserves	**4,277**	**2,115**	**6,392**

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF HAVANT & SOUTH DOWNS COLLEGE AND THE SECRETARY OF 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 9 May 2018 and further to the requirements of the grant funding agreements and contracts with the Education and Skills Funding Agency (the "ESFA"), to obtain limited assurance about whether the expenditure disbursed and income received by Havant and South Downs College during the period 1 August 2017 to 31 July 2018 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work, except for the matters listed below nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2017 to 31 July 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Matters arising

As a public authority, Havant and South Downs College is bound by The Public Contracts Regulations 2015 ("the Regulations"). This brings certain requirements in respect of public procurement. During the period 1 August 2017 to 31 July 2018 Havant and South Downs College entered into new leasing agreements for IT equipment with a total cost of £844k, but was not able to provide evidence that the procurement was:

- advertised in the Official Journal of the European Union (OJEU) as required under The Public Contracts Regulations 2015;
- appropriately authorised in line with Havant and South Downs College's financial regulations.

Basis for conclusion

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

We are independent of the Havant and South Downs 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 Havant and South Downs College for regularity

The Corporation of Havant and South Downs College is responsible, under the grant funding agreements and contracts with the ESFA and the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. The Corporation of Havant and South

Downs College is also responsible for preparing the Governing Body's Statement of Regularity, Propriety and Compliance.

Reporting accountant's responsibilities for reporting on regularity

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

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

We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 Aug 2017 to 31 July 2018 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

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

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

Use of our report

This report is made solely to the Corporation of Havant and South Downs 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 Havant and South Downs 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 Havant and South Downs 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
25 High Street
Crawley
West Sussex
RH10 1BG

18/12/18