



**HAVANT &
SOUTH DOWNS
COLLEGE**

**Annual Report & Financial Statements
for the year ended 31 July 2019**

Reference and Administrative Details

Key management personnel

Key management personnel are defined as members of the Senior Leadership Team and were represented by the following in 2018/19:

Mike Gaston - Principal and CEO; Accounting Officer

Richard Barlow – Deputy Principal

Jon Myers – Head of Centre (Alton)

Dan Beale – Vice Principal (Teaching, Learning and Quality)

Suki Dhesi - Vice Principal (Teaching, Learning and Quality)

Leona Berry - Vice Principal (Business Services & People)

Kelvin Smith – Finance Director

Sara Russell – Principal (Alton College), to 27th August 2018

Vanessa Chapman – Head of HR (Alton College), to 30th June 2019

Board of Governors

A full list of Governors is given on pages 16 to 18 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

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Strategic Report

OBJECTIVES AND STRATEGY

The governing body present their annual report together with the financial statements and auditor's report for Havant & South Downs College (HSDC) for the year ended 31 July 2019.

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 Alton College

Havant & South Downs College and Alton College merged on 1 March 2019. Alton College dissolved as a legal entity at midnight, 28 February 2019 and thereon transferred all assets and liabilities to Havant & South Downs College.

Mission

The current mission and vision of the College to July 2019 was 'Destination 2020', approved and implemented from 2015/16.

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

With the in-year merger with Alton College the Board have approved a new vision for the merged College of 'Drive to 2025', approved by Governors in Summer 2019 ready for implementation in 2019/20.

Our purpose – Drive to 2025:

Education transforms lives. HSDC exists to realise the ambitions of our community – raising aspirations, enabling achievement, fulfilling dreams.

Our vision – Drive to 2025:

By 2025, we will be the first choice FE College for students, staff and employers in Hampshire – fully equipping our communities for work and life.

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 16 to 18. 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.

Havant & South Downs College Strategic Plan

The current strategic plan of 'Destination 2020', the strategy set in 2015 by the former South Downs College Corporation, has now reached its tenure given the passage of time and mergers over that timeframe with Havant Sixth Form College in August 2017 and Alton College in March 2019. The new College strategic plan for 2020 to 2025 is 'Drive to 2025' which will be the strategy commencing from 2019/20.

To achieve this the college will provide:

- Opportunities for students and staff to use technology and digital learning methods;
- Two distinct A-level centres with progression to Higher Education or employment;
- Innovative vocational and technical programmes that equip learners for with work skills and that are employer facing and in partnership with;
- A learning environment that enables innovation in curriculum delivery;
- A robust financial position to support innovation and investment.

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 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 our communities
- 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 in 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
- 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

2018/19 is the second year of the merged College between the former Havant Sixth Form College and South Downs College following the Solent Area Review.

In the early part of 2018/19 HSDC began preparing for submission to the Transactions Unit for a Restructuring Facility grant to support a merger with Alton College. This followed HSDC being selected as approved partner to Alton College following a 'Structures and Prospects Analysis' supported by the

FE Commissioner. The aim of this was the desire by HSDC Corporation to grow, support financial resilience, protect choice and increase market share.

The machinations of governance, consultations and approval of a grant from the Transactions Unit resulted in a successful outcome that led to merger with Alton College on 1 March 2019.

The Alton College merger within 18 months of the first HSDC merger has created many challenges for the College in terms of people, processes, systems, brand and in enormous efforts of Corporation, the senior leadership team and middle management to keep the College sites seamlessly operational against the challenge and complexities of an in-year merger.

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 larger merged College to July 2019. 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.

Destination 2020 Measure

The measures linked to the strategic aims within the strategic plan, Destination 2020, are noted below, together with the results for 2018/19.

Strategic Aim 1

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

Headline performances for the year were;

- achievement rates at 85% (target 87.5%);
- a strong achievement rate for adult learners of over 80% and even higher for partnership delivery;
- Maths and English pass rates for GCSE and Functional Skills above the sector average;
- Alps value add scores (5-6) and Vocational scores of (3-4)

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 continued to develop links with industry and employers in both study programmes, apprenticeship provision and in preparation for T levels - employers include Fullers Brewery in Catering and Hospitality, Harwin Engineering, Mitsubishi and Portsmouth Royal Navy. Also, the College has continued to work with subcontract partners in Adult provision within the Solent LEP.

Strategic Aim 3

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

Structural change through mergers continue to bear costs and one-off adjustments in the financials. The College has continued to see reductions in core 16-19 lagged funding but grown AEB and apprenticeship incomes. Staff costs continue above sector norms with rising non-pay costs over three

sites, particularly around running and maintenance costs. The College benefits from a modestly healthy cash position with no debt servicing.

Strategic Aim 4

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

The College continues to execute a Property Strategy of building and teaching space upgrades. The option of land sale at South Downs College in 2019/20 and the successful T level capital grant bid will support a deep modernisation around T levels and STEM provision and other areas of curriculum.

Strategic Aim 5

We will be socially responsible and inclusive.

The College offers a range of provision at all levels with strong student pastoral and welfare support and involvement with local communities demonstrating social responsibility and inclusiveness. It has relationships with many clubs and societies, particularly Havant Hockey Club and Havant and Waterlooville Football Club. It engages through its curriculum and the Business Development Team with many employers and community stakeholders.

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.

The College is proactive with staff engagement in terms of a WellBeing Charter, BeHeard satisfaction surveys and One to Watch employer status. Staff turnover is at around sector norms, excluding redundancy impacts and the College through its People Plan continues to be innovative and supportive in staff professional development.

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 still relatively new since the original merged College yet early indication is the brand is positively recognised by stakeholders. Employer satisfaction levels from recent employer surveys indicate the College is a 'choice' provider and employer speak well of their relationships with HSDC.

Strategic Development

From 2019/20 the Corporation has approved a new strategic direction - 'Drive to 25'.

Drive to 25 – strategic aims:

People and Place – we will be an employer of choice in Hampshire offering an open and supportive culture promoting an active and healthy lifestyle while nurturing the talents of staff and students.

Quality and Standards – we will ensure our students progress to an ambitious life beyond College that fulfils their dreams through outstanding teaching, learning, support, challenge and assessment.

Financial Sustainability – we will achieve financial sustainability through efficient and effective management of our business, enabling continued funding for investment and innovation.

Community and Social Responsibility – we will be recognised as the learning heart of our communities, meeting the needs of all our students whilst ensuring ethical practices and recognising our environmental responsibility.

Business and Innovation – we will be the preferred partner in Hampshire for employers and other organisations, renowned for innovation in our curriculum design and delivery.

Financial objectives

The future success of the College is underpinned to financial sustainability, this recognised in 'Drive to 25'. 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.

The merger with Alton College resulted in a Restructuring Facility grant of £6.5m. This supported early loan settlements of Alton College and financial support to assist with merger related costs of restructure, IT upgrades, marketing and some health & safety matters. The grant comes with forward based financial performance conditions for staff costs and Educational EBITDA, monitored quarterly over 5-year period from May 2019.

Strategic financial objectives for 2018/19 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 fully earn our Adult Education allocation;
- to have no borrowings;
- to diversify and grow incomes away from heavy reliance on funding body grants.

Of the above measures, all were achieved, except for 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.

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 "Requires Improvement" financial health rating.

| Measure | Actual for 2018/19 | Budget for 2018/19 | Achieved |
|---|--|---|-------------------------------------|
| Surplus/(Deficit) as a % of Total Income | (4%) | Break Even Budget | X |
| Adjusted Current ratio | 1.82 | 1.5 | <input checked="" type="checkbox"/> |
| Borrowings | NIL | NIL | <input checked="" type="checkbox"/> |
| Staff to income ratio (incl RF) | 67% | 70% | <input checked="" type="checkbox"/> |
| 16-19 ESFA funded learners | 18/19 Allocation 5,626 vs. 18/19 Learners 4,982 | No less than in-year lagged allocation | X |
| Non-Government funding as % of Total income | 16% | 16% | <input checked="" type="checkbox"/> |

Resources

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

The college employed 612 people (expressed as full-time equivalents) in 2018/19, of whom 285 were teaching staff.

In 2018/19 the College had various learner cohorts being 4,877 16-18-year-old FE learners, with 71 FE learners aged 19+, 1,604 adult part time learners and 445 apprentices. In addition, the College had 383 HE learners, 62 14-16-year-old learners and 4 non-EU international students.

The College through partnerships had 224 learners on distance learning and 316 subcontracted learners. These were Adult 19+ and funded from the AEB allocation.

The College has £11.8 million of net assets (after taking account of a £23.73 million pension liability). At the balance sheet date, it has no short or long-term debt. Tangible resources include the main college sites and fixtures, fittings and equipment. The net book value of these fixed assets at 31 July 2019 is £46 million. The net book value of intangible assets at 31 July 2019 is £33k.

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.

DEVELOPMENT AND PERFORMANCE

Financial Results

The College in 2018/19 continues to face financial pressures. 2018/19 saw an in-year merger with Alton College, with all three 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 £1,426k (2017/18 restated merger deficit of £1,216k). The receipt of a Restructuring Facility grant of £4,323k to facilitate the merger with Alton College has favourably impacted the bottom line. The financial result for 2018/19 included costs of redundancy at £258k (2017/18 £629k), subcontract and partnership costs of £977k (2017/18 £800k) towards AEB delivery and a trading loss of £194k (2017/18 £303k) on the ARAMARK catering contract.

The College saw a decline in main 16-19 ESFA lagged funding of circa £3,000k versus 2017/18. For adult provision (AEB) the College exceeded its funding allocation by £219k, largely from subcontracted partnership delivery of £878k 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 increased year-on-year by £1,034k (excluding redundancy costs of £258k), £840k of this is due to FRS pension entries on the LGPS with the remaining £194k being an increase in staff costs paid. 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 £1,112k year-on-year. The main drivers of this are continued costs of maintaining three ageing sites, one off exceptional costs incurred to facilitate the Alton College merger, additional subcontract costs, all compounded by the general rise in inflation, especially for utilities.

Tangible fixed asset additions during the year amounted to £1,886,000 being assets capitalised in year and assets under the course of construction at year end 31 July 2019.

Developments

Over the year the College continued to align systems and procedures to drive merger efficiencies from the original merger of Havant and South Downs Colleges and began works to absorb Alton College.

Throughout 2018/19 the Havant site benefitted from Summer 2018 refurbishments of classrooms, teachers' workrooms, HE auditorium, IT suites and the student social/dining area. This was stage one of a two stage refurbishment plan that continued in Summer 2019 with a further upgrade of classrooms, student/staff canteen and a new photography dark room.

Over Summer 2019 Alton College received an upgrade of its IT estate (PCs & laptops) funded from the Restructuring Facility grant. In addition, a new inter-site broadband connection was established into Alton from South Downs to allow seamless systems access and working over sites.

The catering contract at Alton was re-tendered and outsourced on a three year contract to ARAMARK aligning the contract to the Havant and South Down sites.

Reserves

The College has accumulated reserves of £1,901k and a cash balance of £6,471k.

Sources of income

The College continued to have significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2018/19 the FE funding bodies provided 81% of the college's total income excluding the one-off Restructuring Facility grant. The College has shown some modest increase in income diversification.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Financial Health

The College is currently assessed by the ESFA as having a 'Requires Improvement' financial health grading. The College whilst not under formal intervention is subject to quarterly monitoring for the next 5 years as a condition of the Restructuring Facility grant received for Alton merger.

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 2018/19 was £2,370,000 (2017/18: net cash inflow £1,409,000). In year the College received £4,238,000 of Restructuring grant monies. The College cash balance at the year-end was £6,471,000 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 £1,901,000 and cash balances of £6,471,000. 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.

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 2018/19 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 bolstered by subcontract delivery. The College's 2018/19 Quality Improvement Plan had targeted improvements in 19+ achievement and A level value-added as high priorities – the latter of which still requires improvement for A level provision.

Apprenticeship provision continues to require improvements above minimum standards and quality plans have been instigated and are under constant review.

Curriculum developments

The College runs a wide range of technical and professional courses/study programmes from entry/foundation and levels 1, 2, 3, (including A levels) and Level 5 HE programmes. It also offers a GCSE Maths and English resit programme.

The College in meeting student and employers' needs must continually innovate and add new provisions into its curriculum offer. Below are some of the significant new developments:

- STEM A levels for 2019/20 in Product Design and Environmental Science;
- New provision for the construction and railway industries via subcontracting/partnerships;
- Securing delivery of all three of the first T levels in Construction, Digital and Early Years Education;
- Continuation of an Engineering Academy with a key local employer using robotics;
- Establishing the HSDC Culinary Academy with the Royal Navy in Portsmouth;
- Development of online distance learning provision targeted at key sectors within the local region;
- Achieving a new Tier 4 licence from the Home Office and recruiting some International students.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. During the accounting period 1 August 2018 to 31 July 2019, the College paid 86% per cent of its invoices within 30 days.

FUTURE PROSPECTS

A level site transition

From September 2019/20 all A level provision will move entirely from the South Downs campus to the Havant campus, with learners at South Downs being vocational, technical, professional and HE.

T Levels Pilot

In 2017/18 the College was selected in a pilot to develop new flagship technical level qualifications (T levels). The T-levels will be in the priority sectors of Construction, Digital, Education and Childcare due for teaching from September 2020. In year the College applied to the T Level Capital Fund (TLCF) to support a T level refurb project and was successfully awarded a 50% co-funded grant match of £495,000 toward the project, to be completed by September 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.

Property Strategy

The College through the Estates Strategy Group and FE Educational Property Consultants, Peter Marsh Consulting Ltd (PMc) has continued to review, develop and implement its Property Strategy. Two significant developments in the year include;

South Downs site land sale

The College through a competitive tender has proceeded to appoint a preferred Developer, 'Places for People' to work up a Heads of Terms and formal due diligence to support a final decision in Autumn 2019 by Corporation for the potential land sale, subject to a minimum net receipt.

HHC proposals plans (feasibility study)

In year the College has also been working with Havant Hockey Club (HHC) who co-share the green spaces at Havant campus to consider a development proposal for a multi-purpose modern sporting facility, consisting of 2 artificial multi-use training pitches, a sports dome and a Clubhouse. The Hockey Club currently have use of an artificial hockey pitch on the campus with a lease expiry of March 2023. The proposal at this stage is subject to a formal Planning application with the local council and Sport England and to be developed further in 2019/20 before a final decision is made by HSDC and HHC.

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 cashflow and liquidity are presented in the Financial Statements and accompanying notes.

The College has no borrowings and relatively healthy cash balances at the year-end. The College has prepared future financial forecasts to include the merger with Alton College based on the 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. The College also has a future timed cash receipt for a possible land sale in the next 12 months. For this reason, the College continues to adopt the going concern basis in presenting the Financial Statements.

PRINCIPAL RISKS AND UNCERTAINTIES:

The College has well developed strategies for managing risk and strives to embed risk management in all that it does. Risk management processes are designed to protect its assets, reputation and financial stability. The governing body has overall responsibility for risk management and its approach to managing risks and internal controls is explained in the Statement on Corporate Governance. A risk register is maintained at the College level which is reviewed termly by Audit Committee and other governing sub committees aligned to strategic aims. 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.

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. In 2018/19, 81% of College revenue was public funded and this level of requirement is expected to continue. There are early signs government funding into the sector will slowly rise partially offsetting years of funding policy cuts.

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

- The demands of delivering T level programmes.
- The local population of 16-18-year olds declining from a demographic dip not expected to rise until 2022 in Hampshire.
- The outcomes of future Government Spending Reviews.

These risks are mitigated in several ways:

- Ensuring the college delivers quality, market focused provision.
- Investing in the teaching and learning environment.
- Maintaining strong relationships with feeder schools and securing internal student progression.
- Ensuring the college is focused on those priority sectors including apprenticeships, T levels.

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 £23.7 million (2017/18: £17.7 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 'Requires Improvement' as described above. 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 falling student numbers and the continued burden of legislative cost increases whilst striving to be more efficient and innovative.

This risk is mitigated in several ways:

- By rigorous budget setting procedures and sensitivity analysis.
- Income diversification and growth.
- Robust financial controls and budget monitoring.
- Driving procurement efficiencies.

Equal opportunities

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, disability, religion or belief and age. We strive vigorously to remove conditions which place people at a disadvantage, and we will actively combat bigotry. This policy is resourced, implemented and monitored on a planned basis. The College's Equality & Diversity Policy is published on the College's internet site.

The College publishes an Annual Equality & Diversity Report and Equality & Diversity Action Plan to ensure compliance with all relevant equality legislation including the Equality Act 2010. The College undertakes equality & diversity impact assessments on all new policies and procedures and publishes the results. Equality & diversity impact assessments are also undertaken for existing policies and procedures on a prioritised basis.

The College is a 'Positive about Disabled' employer and has committed to the principles and objectives of the Positive about Disabled standard. The College considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion which, as far as possible, provide identical opportunities to those of non-disabled employees.

Further information on Equality and Diversity at the college can be found on the college website at <https://www.hsdac.ac.uk/life-at-hsdac/equality-diversity-and-inclusion/>.

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 learning support was provided for a significant number of full-time and part-time students in 2018/19.
- 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 |
|--|--------------------------------|
| 16 | 13.84 |

| Percentage of time | Number of employees |
|--------------------|---------------------|
| 0% | - |
| 1-50% | 16 |
| 51-99% | - |
| 100% | - |

| | |
|---|-------------|
| Total cost of facility time £ | £12,656 |
| Total pay bill £ | £25,557,822 |
| Percentage of total bill spent on facility time | 0.05% |

| | |
|---|----|
| Time spent on paid trade union activities as a percentage of total paid facility time | 0% |
|---|----|

Disclosure of information to auditors

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

Approved by order of the members of the Corporation on 16 December 2019 and signed on its behalf by:



Dr M Bateman – Chair of Governors

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2018 to 31 July 2019 and up to the date of approval of the annual report and financial statements.

The ESFA requires colleges to comply with either the AoC's college governance code, the UK corporate code or the charity code.

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 has complied with all the provisions of the Code throughout the year ended 31 July 2019. 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 2018/19 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 2018/19) |
|---------------|-------------------------------|----------------|---------------------|------------------------|------------------------------------|--|
| Laura Adshead | 1 st November 2018 | 1 year | Term ended 31/07/19 | Support Staff Governor | HSDC Standards & Quality Committee | 92% |

| Name | Date of Appointment | Term of Office | Date of Resignation | Status of Appointment | Committees served | Attendance at Corporation Meetings (in the year 2018/19) |
|------------------------------|--------------------------------|----------------|---------------------------------------|-------------------------|---|--|
| Dr Mike Bateman | 1 st August 2017 | 4 years | | External Governor | Corporation Chair wef 1 Aug 2017 Ex-officio member of all committees except Audit Committee | 80% |
| Ms Fay Brown | 2 nd October 2017 | 3 years | | Teaching Staff Governor | Standards & Quality Committee HE Committee | 88% |
| Mr Martin Brunner | 8 th July 2016 | 4 years | 6 th September 2018 | External Governor | Standards & Quality (Chair) HE Committee | n/a |
| Dr Simon Claridge | 1 st August 2017 | 4 years | | External Governor | HR Committee Remuneration Committee HE Committee F&E Committee Estates Strategy Group (Chair) | 96.5% |
| Ms Elizabeth Cooper | 1 st March 2019 | 4 years | | External Governor | Alton Standards & Quality Committee HR Committee | 69% |
| Mr Michael Cripps | 31 st October 2016 | 4 years | 9 th July 2019 | External Governor | Finance & Estates Committee Estates Strategy Group | 94% |
| Mr Clive Dobbin | 14 th December 2015 | 4 years | | External Governor | Vice-Chair wef Dec 2017, HR Committee (Chair) Remuneration (Chair) Search & Governance (Chair) | 86% |
| Ms Lucy Flannery | 31 October 2016 | 4 years | | External Governor | Standards & Quality Committee Search & Governance Committee | 95% |
| Mrs Sue Garland | 1 st August 2017 | 4 years | 4 th October 2018 | External Governors | Standards & Quality Committee HR Committee | 0% |
| Mr Mike Gaston | 20 April 2015 | n/a | | Principal | Ex-officio member of all committees except Audit and Remuneration Committees | 89% |
| Mr Ian Gibson | 1 st March 2019 | 1 year | | External Governor | Estates Strategy Group | 91% |
| Mrs Elspeth Mackeggie Gurney | 1 st March 2019 | 4 years | | External Governor | Alton Standards & Quality Committee Audit Committee | 75% |
| Mrs Romy Jones | 22 nd March 2018 | 4 years | | External Governor | Standards & Quality Committee (Chair) HE Committee Alton S&Q Committee | 74% |
| Ms Katie Kemish | 6 th November 2017 | 2 years | Ceased to be a student July 2019 | Student Governor | Standards & Quality Committee | 8% |
| Mr Gary Medlow | 1 st August 2017 | 4 years | Passed away 1 st July 2019 | External Governor | Finance & Estates Committee HR Committee (26/11/18 only) | 78.5% |
| Ms Lydia Morrison | 2 nd July 2018 | 4 years | | External Governor | Audit Committee (Chair) Remuneration Committee | 65% |

| Name | Date of Appointment | Term of Office | Date of Resignation | Status of Appointment | Committees served | Attendance at Corporation Meetings (in the year 2018/19) |
|--|-------------------------------|----------------|--|-----------------------|--|--|
| Ms Catherine Oble | 3 rd December 2018 | 1 year | Ceased to be a student July 2019 | Student Governor | Standards & Quality Committee | 40% |
| Mr Phillip Sharpe | 1 st March 2019 | 4 years | 27 th April 2019 | External | Audit | 100% |
| Mr Richard Showan | 12 th March 2015 | 4 years | Term expired 11 th March 2019 | External Governor | Finance & Estates Committee | 100% |
| Mr Fraser Wilson | 1 st March 2019 | 4 years | | External Governor | Alton Standards & Quality Committee | 100% |
| Mr Tony Wright | 1 st March 2019 | 4 years | | External Governor | Alton Standards & Quality Committee Search & Governance Committee | 61.5% |
| Ms Pam Robertson was appointed as Clerk with effect from 10 th August 2015 and reconfirmed as the Clerk to the Board of HSDC wef 1 st August 2018. Ms Jackie Eayrs was appointed as Clerk on 1 st April 2019 wef 15 th July 2019 following the retirement of Ms Robertson. | | | | | | |

As a consequence of the merger on 1st March 2019, a number of former members of the Alton Sixth Form College Board joined the HSDC Board.

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 2018/19 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 minutes of all meetings, except those deemed to be confidential by the Corporation, are available on the College's website at www.hsdac.ac.uk or from the Clerk to the Corporation at:

Havant & South Downs College
College Road
Waterlooville
PO7 8AA

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 provided on an ad hoc basis.

During the year, the Corporation 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

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 2018-2019 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. Further development of the annual review of performance against the Code is planned which will link the key criteria in the Code with an evidence-based matrix which would also be linked to the Board's self-assessment activities.

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.

Remuneration Committee

Throughout the year ending 31 July 2019, the College's Remuneration Committee comprised the Chair, Vice Chair, Chair of the HR Committee and Chair of Audit Committee. 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.

The Board adopted the AoC's Senior Staff Remuneration Code in Summer 2015 and an Annual Report will be presented to the Board at the Autumn term meeting each year.

Details of remuneration for the year ended 31 July 2019 are set out in note 7 to the financial statements.

Audit Committee

During the year, the Audit Committee comprised four members of the Corporation and a Co-option (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, 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 Strategy Working 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 and sets a framework for the pay and conditions for all staff other than the holders of 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, where appropriate, determines any other matters relating to standards and 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 termly 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 profile of the Board at every 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 2018-2019, the Student Committee comprised of 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 changed to reflect a wider student base and reported to the Standards & Quality Committee, as part of the wider Learner Voice framework.

Governance Issues

A number of activities took place during the autumn term 2018 to ensure clarity about the governance infrastructure that was 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 were made to the Instrument and Articles of Government and changes were passed by the Board.

Arrangements were also made to secure effective management. The current Principal of HSDC College continued 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, continued 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 31 July 2019 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 2019 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 meeting on the 16 December 2019, the Corporation carried out the annual assessment for the year ended 31 July 2019 by considering documentation from the senior management team and internal audit and taking account of events since 31 July 2019.

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"*.

Approved by order of the members of the Corporation on 16 December 2019 and signed on its behalf by:



Dr M Bateman – Chair of Governors



Mr M Gaston – Principal & Accounting Officer

Statement on the College's Regularity, Propriety and Compliance with Funding body terms and conditions of funding

The Corporation has considered its responsibility to notify the 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 that the following instance of material irregularity, impropriety or funding non-compliance have been discovered and notified to ESFA. If any instances are identified after the date of this statement, these will be notified to 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 01 August 2018 to 31 July 2019 Havant and South Downs College entered into new leasing agreements for IT equipment with a total cost of £724k, but was not able to provide evidence that the procurement was:

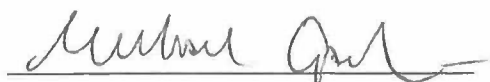
- advertised in the Official Journal of the European Union (OJEU) as required under The Public Contracts Regulations 2015;
- appropriately authorised in line with Havant and South Downs College's financial regulations.

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

16 December 2019



Mr M Gaston – Principal & Accounting Officer

16 December 2019

Statement of Responsibilities of the Members of the Corporation

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

The law applicable to charities in England and the terms and conditions of the College's grant funding agreement, 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 16 December 2019 and signed on its behalf by:



Dr M Bateman – Chair of Governors

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 2019 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 2019 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 Strategic Report and Financial Statements other than the financial statements and our auditor's report thereon. The governors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post-16 Audit Code of Practice 2018 to 2019 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 & South Downs College

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 26, 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

17/12/19

Statement of Comprehensive Income

| | Notes | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 Combined |
|--|-------|-------------------------------------|---|
| INCOME | | | |
| Funding body grants | 2 | 29,308 | 31,527 |
| ESFA restructuring facility grant | 2 | 4,323 | - |
| Tuition fees and education contracts | 3 | 1,800 | 1,823 |
| Other grants and contracts | 4 | 1,136 | 1,170 |
| Other income | 5 | 2,787 | 2,547 |
| Investment income | 6 | 27 | 25 |
| Total income | | 39,381 | 37,092 |
| EXPENDITURE | | | |
| Staff costs | 7 | 25,857 | 24,823 |
| Restructuring costs | 7 | 258 | 629 |
| Other operating expenses | 8 | 10,823 | 9,711 |
| Depreciation and amortisation | 11/12 | 2,529 | 2,413 |
| Interest and other finance costs | 9 | 1,340 | 734 |
| Total expenditure | | 40,807 | 38,308 |
| (Deficit) before other gains and losses and tax | | (1,426) | (1,216) |
| Taxation | 10 | - | - |
| (Deficit) for the year | | (1,426) | (1,216) |
| Actuarial gain/(loss) in respect of pension schemes | | (4,370) | 3,900 |
| Total Comprehensive Income for the year | | (5,796) | 2,684 |
| Represented by: | | | |
| Unrestricted comprehensive income | | (5,796) | 2,684 |
| | | (5,796) | 2,684 |

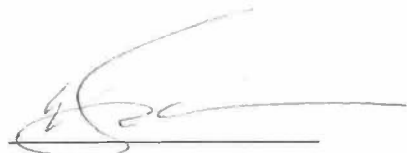
Statement of Changes in Reserves

| | Income and Expenditure account £'000 | Revaluation reserve £'000 | Total £'000 |
|--|---|---------------------------------|----------------------|
| Balance at 1 August 2017 | 4,519 | 10,383 | 14,902 |
| Deficit from the income and expenditure account | (1,216) | - | (1,216) |
| Other comprehensive income | 3,900 | - | 3,900 |
| Transfers between revaluation and income and expenditure reserves | 247 | (247) | - |
| Total comprehensive income for the year | <u>2,931</u> | <u>(247)</u> | <u>2,684</u> |
| Balance at 31 July 2018 | 7,450 | 10,136 | 17,586 |
| Deficit from the income and expenditure account | (1,426) | - | (1,426) |
| Other comprehensive income | (4,370) | - | (4,370) |
| Transfers between revaluation and income and expenditure reserves | 247 | (247) | - |
| Total comprehensive income for the year | <u>(5,549)</u> | <u>(247)</u> | <u>(5,796)</u> |
| Balance at 31 July 2019 | <u><u>1,901</u></u> | <u><u>9,889</u></u> | <u><u>11,790</u></u> |

Balance Sheet as at 31 July 2019

| | Notes | 2019 £'000 | 2018 £'000 Combined |
|--|-------|----------------------|---------------------------|
| Fixed assets | | | |
| Tangible fixed assets | 11 | 45,992 | 46,757 |
| Intangible assets | 12 | 33 | 74 |
| | | <u>46,025</u> | <u>46,831</u> |
| Current assets | | | |
| Stocks | 13 | 7 | 6 |
| Debtors | 14 | 1,083 | 771 |
| Cash and cash equivalents | 19 | 6,471 | 8,841 |
| | | <u>7,561</u> | <u>9,618</u> |
| Creditors – amounts falling due within one year | 15 | (5,155) | (5,280) |
| Net current assets | | <u>2,406</u> | <u>4,338</u> |
| Total assets less current liabilities | | 48,431 | 51,169 |
| Creditors – amounts falling due after more than one year | 16 | (12,780) | (15,923) |
| Provisions | | | |
| Defined benefit pension scheme | 18 | (23,730) | (17,660) |
| Other provisions | 18 | (131) | - |
| Total net assets | | <u><u>11,790</u></u> | <u><u>17,586</u></u> |
| Unrestricted reserves | | | |
| Income and expenditure account | | 1,901 | 7,450 |
| Revaluation reserve | | 9,889 | 10,136 |
| Total unrestricted reserves | | <u><u>11,790</u></u> | <u><u>17,586</u></u> |

The financial statements on pages 29 to 57 were approved and authorised for issue by the corporation on 16 December 2019 and were signed on its behalf on that date by:



Dr M Bateman

Chair of Governors



Mr M Gaston

Accounting Officer

Statement of Cash Flows

| | Notes | 2019 £'000 | 2018 £'000 Combined |
|---|-------|----------------|---------------------------|
| Cash flow from operating activities | | | |
| Deficit for the year | | (1,426) | (1,217) |
| Adjustment for non cash items | | | |
| Depreciation and amortisation | | 2,529 | 2,413 |
| Deferred capital grant release | | (585) | (913) |
| (Increase)/decrease in stocks | | (1) | 8 |
| (Increase) in debtors | | (312) | (161) |
| Increase/(decrease) in creditors due within one year | | 135 | (348) |
| Increase/(decrease) in creditors due after one year | | (17) | 146 |
| Increase in provisions | | 131 | - |
| Pensions costs less contributions payable | | 1,220 | 380 |
| Reserves merger adjustment | | 5 | - |
| Adjustment for investing or financing activities | | | |
| Investment income | | (27) | (25) |
| Interest payable | | 1,340 | 734 |
| Restructuring facility grant to repay amounts borrowed | | (3,386) | - |
| Loss on fixed asset disposal | | 162 | - |
| Net cash flow from operating activities | | (232) | 1,017 |
| Cash flows from investing activities | | | |
| Investment income | | 27 | 25 |
| Capital grant receipts | | 284 | 53 |
| Payments made to acquire fixed assets | | (1,589) | (1,897) |
| | | (1,278) | (1,819) |
| Cash flows from financing activities | | | |
| Interest paid | | (860) | (214) |
| Restructuring facility grant to repay amounts borrowed | | 3,386 | - |
| Repayments of amounts borrowed | | (3,386) | (555) |
| | | (860) | (769) |
| Increase/(Decrease) in cash and cash equivalents in the year | | (2,370) | (1,572) |
| Cash and cash equivalents at beginning of the year | 19 | 8,841 | 10,413 |
| Cash and cash equivalents at end of the year | 19 | 6,471 | 8,841 |

Notes to the Accounts

1. Accounting policies

Statement of accounting policies

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

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 Alton College

Havant & South Downs College and Alton College merged on 1 March 2019. Alton College dissolved as a legal entity at midnight, 28 February 2019 and thereon transferred all assets and liabilities 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 three campuses, as follows:

Havant Campus
New Road
Havant
PO9 1QL

South Downs Campus
College Road
Waterlooville
PO7 8AA

Alton Campus
Old Odiham Road
Alton
GU34 2LX

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. 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 OfS (formerly 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.

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.

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 22, will impact the carrying amount of the pension liability. The actuary has used the latest full actuarial valuation performed at 31 March 2016 to value the pensions liability at 31 July 2019. 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 Financial Statements (continued)

| 2 | Funding body grants | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|----------|--|--|--|
| | Recurrent grants | | |
| | Education and Skills Funding Agency - 16 to 18 learners | 25,042 | 27,214 |
| | Education and Skills Funding Agency - adult learners | 2,228 | 2,132 |
| | Education and Skills Funding Agency - apprenticeships | 1,134 | 880 |
| | Office for Students (formerly 2HEFCE) | 190 | 242 |
| | Specific Grants | | |
| | Administration of Learner Support Funds | 29 | 32 |
| | Education and Skills Funding Agency - Other | 100 | - |
| | Education and Skills Funding Agency – Restructuring Facility | 4,323 | - |
| | Releases of government capital grants | 585 | 1,027 |
| | Total | 33,631 | 31,527 |
| 3 | Tuition fees and education contracts | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
| | Adult education fees | 866 | 786 |
| | Fees for FE loan supported courses | 341 | 262 |
| | Fees for HE loan supported courses | 193 | 264 |
| | International students' fees | 34 | 115 |
| | Total tuition fees | 1,434 | 1,427 |
| | Education contracts | 366 | 396 |
| | Total | 1,800 | 1,823 |
| 4 | Other grants and contracts | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
| | Other grants and contracts | 1,136 | 1,170 |
| | Total | 1,136 | 1,170 |
| 5 | Other income | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
| | Catering and residences | 944 | 787 |
| | Student travel and trips | 640 | 622 |
| | Nursery income | 640 | 594 |
| | Exam fees | 113 | 104 |
| | Other income generating activities | 450 | 440 |
| | Total | 2,787 | 2,547 |

Notes to the Financial Statements (continued)

| 6 | Investment income | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|----------|---------------------------|--|--|
| | Other interest receivable | 27 | 25 |
| | Total | 27 | 25 |

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:

| | 2019 No. | 2018 No. |
|--|---------------------|---------------------|
| Teaching staff | 285 | 295 |
| Non-teaching staff | 327 | 342 |
| | 612 | 637 |
| Staff costs for the above persons | £'000 | £'000 |
| Wages and salaries | 19,029 | 18,921 |
| Social security costs | 1,754 | 1,760 |
| Other pension costs | 4,775 | 3,961 |
| Payroll sub-total | 25,558 | 24,642 |
| Contracted out staffing services | 299 | 181 |
| | 25,857 | 24,823 |
| Restructuring costs - contractual | 187 | 419 |
| Restructuring costs - non-contractual | 71 | 210 |
| | 26,115 | 25,452 |

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, Vice Principals, Head of Centre Alton and Finance Director. Staff costs include compensation paid to key management personnel for loss of office.

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

| | 2019 No. | 2018 No. |
|--|---------------------|---------------------|
| The number of key management personnel including the Accounting Officer was: | 9 | 11 |

Notes to the Financial Statements (continued)**7 Staff costs (continued)**

The total of nine key management personnel includes two people who job share in addition to two members of staff who left during the financial year.

The number of key management personnel 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 | |
|----------------------|---------------------------------|-------------|
| | 2019 | 2018 |
| £40,001 to £45,000 | - | 1 |
| £45,000 to £50,000 | 1 | - |
| £65,000 to £70,000 | 3 | 5 |
| £75,000 to £80,000 | 1 | 1 |
| £85,000 to £90,000 | 2 | 2 |
| £105,000 to £110,000 | 1 | 1 |
| £140,000 to £145,000 | 1 | 1 |
| | 9 | 11 |

In addition to the key management personnel above is one other member of staff whose annual emoluments, which include an annually reviewed market supplement, would be included in band £60,000 to £65,000 (2017/18 one other member of staff in band £60,000 to £65,000).

Key management personnel compensation is made up as follows:

| | 2019 | 2018 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Salaries | 584 | 672 |
| Employers National Insurance Contributions | 66 | 78 |
| Benefits in kind | 1 | 1 |
| | 651 | 751 |
| Pension contributions | 98 | 100 |
| Total emoluments | 749 | 851 |

There were no salary sacrifice arrangements in place for key management personnel in the year.

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

| | 2019 | 2018 |
|-----------------------|--------------|--------------|
| | £'000 | £'000 |
| Salaries | 140 | 140 |
| Benefits in kind | 1 | 1 |
| | 141 | 141 |
| Pension contributions | 23 | 23 |

Notes to the Financial Statements (continued)**7 Staff costs (continued)**

The governing body has adopted AoC's Senior Staff Remuneration Code in July 2019 and will assess pay in line with its principles in future and sector benchmarking.

The remuneration package of the Principal and Chief Executive is subject to annual review by the Remuneration Committee of the governing body who use benchmarking information to provide objective guidance.

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

Relationship of Principal pay and remuneration expressed as a multiple

| | 2019 | 2018 |
|---|------|------|
| Principal basic salary as a multiple of the median of all staff | 4.8 | - |
| Principal total remuneration as a multiple of the median of all staff | 4.8 | - |

Compensation for loss of office paid to former key management personnel

One member of key management personnel received compensation of £25k 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.

| 8 Other operating expenses | 2019 £'000 | 2018 £'000 |
|--|-----------------------|-----------------------|
| Teaching costs | 2,062 | 1,986 |
| Non-teaching costs | 4,913 | 4,326 |
| Premises costs | 1,121 | 963 |
| Exam costs | 2,727 | 2,436 |
| Total | 10,823 | 9,711 |
| Other operating expenses include: | 2019 £'000 | 2018 £'000 |
| Auditors' remuneration (incl VAT): | | |
| Financial statements audit | 68 | 57 |
| Funding review audit | 3 | 2 |
| Teachers' pension audit | 4 | 2 |
| Internal audit | 13 | 30 |
| Hire of assets under operating leases | 411 | 656 |

Notes to the Financial Statements (continued)

| 9 | Interest and other finance costs | Year ended 31 July 2019 £'000 | Year ended 31 July 2018 £'000 |
|----------|---|--|--|
| | On bank loans, overdrafts and other loans | 110 | 174 |
| | Break costs associated with early loan repayments | 695 | - |
| | On finance leases | 55 | 40 |
| | Net interest on defined pension liability (Note 22) | 480 | 520 |
| | Total | 1,340 | 734 |

Loan break costs incurred in 2018/19 relate to the early repayment of commercial loans at Alton College facilitated by a Restructuring Facility grant.

10 Taxation

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

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 2018 | 65,371 | 10,154 | 510 | 76,035 |
| Additions | 750 | 1,127 | 9 | 1,886 |
| Disposals | (20) | (3,097) | - | (3,117) |
| Transfers | 510 | - | (510) | - |
| At 31 July 2019 | 66,611 | 8,184 | 9 | 74,804 |
| Depreciation | | | | |
| At 1 August 2018 | 21,066 | 8,212 | - | 29,278 |
| Charge for the year | 1,569 | 938 | - | 2,507 |
| Elimination in respect of disposals | (20) | (2,953) | - | (2,973) |
| At 31 July 2019 | 22,615 | 6,197 | - | 28,812 |
| Net book value at 31 July 2019 | 43,996 | 1,987 | 9 | 45,992 |
| Net book value at 31 July 2018 | 44,305 | 1,942 | 510 | 46,757 |

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 £618k in respect of assets held under finance leases. The depreciation charge for the year on these assets for the year was £340k.

Notes to the Financial Statements (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 2018 | 115 |
| Disposals | (42) |
| At 31 July 2019 | 73 |
| Amortisation | |
| At 1 August 2018 | 41 |
| Charge for the year | 23 |
| | (24) |
| At 31 July 2019 | 40 |
| Net book value at 31 July 2019 | 33 |
| Net book value at 31 July 2018 | 74 |

13 Stock

| | 2019 £'000 | 2018 £'000 |
|--------------|---------------|---------------|
| Stock | 7 | 6 |
| Total | 7 | 6 |

14 Debtors

| | 2019 £'000 | 2018 £'000 |
|--------------------------------------|---------------|---------------|
| Amounts falling due within one year: | | |
| Trade debtors | 118 | 91 |
| Prepayments and accrued income | 537 | 552 |
| Amounts owed by the ESFA | 120 | 114 |
| Other debtors | 308 | 14 |
| Total | 1,083 | 771 |

Notes to the Financial Statements (continued)**15 Creditors: amounts falling due within one year**

| | 2019 | 2018 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Bank loans and overdrafts | - | 260 |
| Obligations under finance leases | 344 | 131 |
| Trade creditors | 1,612 | 816 |
| Other creditors | 103 | 781 |
| Other taxation and social security | 463 | 489 |
| Accruals and deferred income | 1,126 | 1,380 |
| Deferred income - government capital grants | 949 | 968 |
| Deferred income - government revenue grants | 123 | 80 |
| Amounts owed to the ESFA | 435 | 375 |
| Total | 5,155 | 5,280 |

16 Creditors: amounts falling due after one year

| | 2019 | 2018 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Bank loans | - | 3,126 |
| Obligations under finance leases | 261 | 177 |
| Deferred income - government capital grants | 12,519 | 12,620 |
| Total | 12,780 | 15,923 |

17 Maturity of debt**Bank loans and overdrafts**

Bank loans and overdrafts are repayable as follows:

| | 2019 | 2018 |
|----------------------------|----------|--------------|
| | £'000 | £'000 |
| In one year or less | - | 260 |
| Between one and two years | - | 272 |
| Between two and five years | - | 898 |
| In five years or more | - | 1,956 |
| Total | - | 3,386 |

Notes to the Financial Statements (continued)**18 Provisions**

| | Defined benefit obligations | Dilapidations provision | Total |
|------------------------|-----------------------------|-------------------------|---------------|
| | £'000 | £'000 | £'000 |
| At 1 August 2018 | 17,660 | - | 17,660 |
| Expenditure in period | (1,860) | - | (1,860) |
| Additions in period | 7,930 | 131 | 8,061 |
| At 31 July 2019 | 23,730 | 131 | 23,861 |

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

Dilapidations provision relates to the replacement of a 3G Astro Turf surface which has a life expectancy of 12 years. It was installed in 2012 giving an expected crystallisation of the provision of 2024.

19 Cash and cash equivalents

| | At 1 August 2018 | Cash flows | At 31 July 2019 |
|---------------------------|------------------|----------------|-----------------|
| | £'000 | £'000 | £'000 |
| Cash and cash equivalents | 8,841 | (2,370) | 6,471 |
| Total | 8,841 | (2,370) | 6,471 |

20 Capital commitments

| | 2019 | 2018 |
|---------------------------------------|------------|------------|
| | £'000 | £'000 |
| Commitments contracted for at 31 July | 122 | 704 |
| Total | 122 | 704 |

Notes to the Financial Statements (continued)**21 Lease obligations****Operating Leases**

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

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Future minimum lease payments due | | |
| Land and buildings | | |
| Not later than one year | 41 | 49 |
| Later than one year and not later than five years | 107 | 162 |
| Later than five years | 84 | 87 |
| Total | <u>232</u> | <u>298</u> |
| Other | | |
| Not later than one year | 192 | 280 |
| Later than one year and not later than five years | 99 | 157 |
| Later than five years | - | - |
| Total | <u>291</u> | <u>437</u> |

Finance Leases

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

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Future minimum lease payments due | | |
| Not later than one year | 344 | 131 |
| Later than one year and not later than five years | 261 | 177 |
| Later than five years | - | - |
| Total | <u>605</u> | <u>308</u> |

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

Notes to the Financial Statements (continued)**22 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 2016 and of the LGPS 31 March 2016.

| Total pension cost for the year | 2019 | | 2018 | |
|---|-------|--------------|-------|--------------|
| | £'000 | £'000 | £'000 | £'000 |
| Teachers' Pension Scheme: contributions paid | | 1,748 | | 1,823 |
| Local Government Pension Scheme: | | | | |
| Contributions paid | 1,807 | | 1,752 | |
| FRS 102 (28) charge | 1,220 | | 380 | |
| Charge to the Statement of Comprehensive Income | | 3,027 | | 2,132 |
| Total Pension Cost for Year | | 4,775 | | 3,955 |

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.

Notes to the Financial Statements (continued)**22 Defined benefit obligations (continued)****Teachers Pension Scheme (continued)**

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.

Valuation of the Teachers' Pension Scheme

The latest actuarial review of the TPS was carried out as at 31 March 2016. The valuation report was published by the Department for Education (the Department) on 5 March 2019. The key results of the valuation are:

- new employer contribution rates were set at 23.68% 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 £218,100 million, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £196,100 million giving a notional past service deficit of £22,000 million;
- an employer cost cap of 7.3% of pensionable pay.
- the assumed real rate of return is 2.8% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 2.2%. The assumed nominal rate of return is 4.45%.

The employer contribution rate of 23.68% for the TPS was implemented in September 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 31 July 2019 was £2,280,000 of which employer's contributions totalled £1,860,000 and employees' contributions totalled £420,000. The agreed contribution rate is 16.7% for employers up to March 2019, increasing to 19.1% from April 2019. It ranges from 5.5% to 7.5% for employees, depending on salary.

Notes to the Financial Statements (continued)**22 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 2019 by a qualified independent actuary.

| | At 31 July 2019 | At 31 July 2018 |
|--------------------------------------|--------------------|--------------------|
| Rate of increase in salaries | 3.7% | 3.6% |
| Future pensions increases | 2.2% | 2.1% |
| Discount rate for scheme liabilities | 2.2% | 2.8% |
| Inflation assumption (CPI) | 2.2% | 2.1% |

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 2019 Years | At 31 July 2018 Years |
|-----------------------------|-----------------------------|-----------------------------|
| <i>Retiring today</i> | | |
| Males | 23.10 | 24.10 |
| Females | 25.80 | 27.20 |
| <i>Retiring in 20 years</i> | | |
| Males | 24.70 | 26.20 |
| Females | 27.60 | 29.40 |

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

| | Fair Value £'000 | Fair Value £'000 |
|-------------------------------------|---------------------|---------------------|
| Equities | 29,071 | 27,970 |
| Bonds | 9,948 | 10,643 |
| Property | 3,477 | 3,079 |
| Cash | 917 | 924 |
| Other | 4,877 | 1,364 |
| Total market value of assets | 48,290 | 43,980 |
| Actual return on plan assets | 3,360 | 4,010 |

Notes to the Financial Statements (continued)**22 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:

| | 2019 | 2018 |
|---|-----------------|-----------------|
| | £'000 | £'000 |
| Fair value of plan assets | 48,290 | 43,980 |
| Present value of plan liabilities | (72,020) | (61,640) |
| Net pensions liability (Note 18) | (23,730) | (17,660) |

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

| | 2019 | 2018 |
|--|----------------|--------------|
| | £'000 | £'000 |
| Amounts included in staff costs | | |
| Current service cost | 2,100 | 1,970 |
| Past service cost | 980 | 160 |
| Total | 3,080 | 2,130 |
| Amounts included in interest payable | | |
| Net interest charge | 480 | 520 |
| | 480 | 520 |
| Amounts recognised in Other Comprehensive Income | | |
| Return on pension plan assets | 1,920 | 3,040 |
| Experience gains/(losses) arising on defined benefit obligations | (6,290) | 860 |
| Changes in assumptions underlying the present value of the plans liabilities | - | - |
| Amount recognised in Other Comprehensive Income | (4,370) | 3,900 |

Notes to the Financial Statements (continued)**22 Defined benefit obligations (continued)****Local Government Pension Scheme (continued)****Movement in net defined (liability)/asset during the year**

| | 2019 | 2018 |
|---|-----------------|-----------------|
| | £'000 | £'000 |
| Net defined benefit (liability)/asset in scheme at 1 August | (17,660) | (20,660) |
| Movement in year: | | |
| Current service cost | (2,100) | (1,970) |
| Employer contributions | 1,860 | 1,750 |
| Past service cost | (980) | (160) |
| Net interest on the defined (liability)/asset | (480) | (520) |
| Actuarial gain/(loss) | (4,370) | 3,900 |
| Net defined benefit liability 31 July | (23,730) | (17,660) |

Asset and Liability Reconciliation

| | 2019 | 2018 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Changes in the present value of defined benefit obligations | | |
| Defined benefit obligations at start of period | 61,640 | 59,670 |
| Current Service cost | 2,100 | 1,970 |
| Interest cost | 1,720 | 1,540 |
| Contributions by Scheme participants | 420 | 390 |
| Experience (gains)/losses on defined benefit obligations | 6,290 | (860) |
| Changes in financial assumptions | - | - |
| Estimated benefits paid | (1,130) | (1,230) |
| Past Service cost | 980 | 160 |
| Defined benefit obligations at end of period | 72,020 | 61,640 |

| | 2019 | 2018 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Change in fair value of plan benefits | | |
| Fair value of plan assets at start of period | 43,980 | 39,010 |
| Interest on plan assets | 1,240 | 1,020 |
| Return on plan assets | 1,920 | 3,040 |
| Employer contributions | 1,860 | 1,750 |
| Contributions by Scheme participants | 420 | 390 |
| Estimated benefits paid | (1,130) | (1,230) |
| Fair value of assets at end of period | 48,290 | 43,980 |

Notes to the Financial Statements (continued)**22 Defined benefit obligations (continued)****Local Government Pension Scheme (continued)**

In December 2018 the Court of Appeal ruled in the 'McCloud/Sargeant' judgement that the transitional protection arrangements put in place when the Firefighters' and Judges' pension schemes were reformed were age discriminatory. The Government applied to the Supreme Court for permission to appeal this judgement, however the Supreme Court rejected the Government's request on 27 June 2019. The next stage is for the case to be referred to the Employment tribunal to agree the remedy, following appropriate consultation. In a Ministerial Statement dated 15 July 2019 Government committed to extending a remedy across all public sector schemes which included similar transitional protection arrangements, which includes the LGPS. The resulting constructive obligation has been calculated at 31 July 2019, in relation to a potential remedy, using an approximate method. Based on this method the constructive obligation has been calculated as £780k which is recognised within past service costs.

The current valuation also reflects also 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. The constructive obligation has been calculated at 31 July 2019, in relation to a potential remedy, using an approximate method. Based on this method the constructive obligation has been calculated as £140k which is recognised within past service costs.

23 Related party transactions

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

The total expenses paid to or on behalf of the Governors during the year was £217 (2018: £462). 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 (2018: £Nil).

Fasset Ltd – members of the Board of Governors

Purchase transactions paid in the financial year totalling £35,388 (2018 - £178,746), relating to refurbishment of Havant campus reception following competitive tendering. £1,108 retention payment outstanding at 31 July 2019 (2018 - outstanding balance of £30,955).

Paris Smith LLP – a member of the Board of Governors

Transactions paid in the financial year totalling £8,276 (2018 - £22,614), providing law advice to the College on an employment tribunal case. No amounts were outstanding at year end 2018 and 2019.

Notes to the Financial Statements (continued)**24 Merger Disclosure**

Havant & South Downs College and Alton College merged on 1 March 2019. Alton College dissolved as a legal entity at midnight 28 February 2019 and thereon transferred all assets and liabilities to Havant & South Downs College.

No significant adjustments were required to align accounting policies and no further adjustments were made to net assets as a result of the merger.

Analysis of Total Comprehensive Income

| | Havant & South Downs | Alton College | Merged Entity | Full Year |
|---------------------------------------|----------------------------|-------------------------|---------------------------------|----------------|
| | 28 Feb 2019 £'000 | 28 Feb 2019 £'000 | 1 Mar - 31 Jul 2019 £'000 | 2019 £'000 |
| Funding body grants | 12,542 | 3,943 | 12,823 | 29,308 |
| ESFA restructuring facility grant | - | - | 4,323 | 4,323 |
| Tuition fees and education | 1,089 | 94 | 617 | 1,800 |
| Other grants and contracts | 263 | 453 | 420 | 1,136 |
| Other income | 1,593 | 258 | 936 | 2,787 |
| Investment income | 9 | 7 | 11 | 27 |
| Total Income | 15,496 | 4,755 | 19,130 | 39,381 |
| Staff costs | 11,048 | 3,249 | 11,560 | 25,857 |
| Restructuring costs | 49 | 17 | 192 | 258 |
| Other operating expenses | 5,078 | 1,245 | 4,500 | 10,823 |
| Depreciation & amortisation | 998 | 439 | 1,092 | 2,529 |
| Interest & other finance costs | 41 | 152 | 1,147 | 1,340 |
| Total expenditure | 17,214 | 5,102 | 18,491 | 40,807 |
| Surplus/(Deficit) before other | (1,718) | (347) | 639 | (1,426) |
| Taxation | - | - | - | - |
| Actuarial gain/(loss) on pension | - | (510) | (3,860) | (4,370) |
| Total Comprehensive Income | (1,718) | (857) | (3,221) | (5,796) |

Notes to the Financial Statements (continued)

24 Merger Disclosure (continued)

Statement of comprehensive income for year ended 31 July 2018

| | Havant & South Downs College | Alton College | Merged Entity |
|---|------------------------------------|---------------|----------------|
| | 2018 | 2018 | 2018 |
| | £'000 | £'000 | £'000 |
| Funding body grants | 24,104 | 7,423 | 31,527 |
| Tuition fees and education contracts | 1,572 | 251 | 1,823 |
| Other grants and contracts | 217 | 953 | 1,170 |
| Other income | 2,232 | 315 | 2,547 |
| Investment income | 19 | 6 | 25 |
| Total Income | 28,144 | 8,948 | 37,092 |
| Staff costs | 18,841 | 5,982 | 24,823 |
| Restructuring costs | 536 | 93 | 629 |
| Other operating expenses | 7,655 | 2,056 | 9,711 |
| Depreciation & amortisation | 1,620 | 793 | 2,413 |
| Interest & other finance costs | 480 | 254 | 734 |
| Total expenditure | 29,130 | 9,178 | 38,308 |
| Surplus/(Deficit) before other gains & | (986) | (230) | (1,216) |
| Taxation | - | - | - |
| Actuarial gain/(loss) on pension scheme | 3,260 | 640 | 3,900 |
| Total Comprehensive Income | 2,274 | 410 | 2,684 |

Notes to the Financial Statements (continued)

24 Merger Disclosure (continued)

Balance Sheet at the date of the merger

| | Havant & South Downs College | Alton College | Merged Entity |
|--|------------------------------------|-------------------------|-------------------------|
| | 28 Feb 2019 £'000 | 28 Feb 2019 £'000 | 28 Feb 2019 £'000 |
| Tangible fixed assets | 26,144 | 20,604 | 46,748 |
| Intangible assets | 61 | - | 61 |
| Total non-current assets | 26,205 | 20,604 | 46,809 |
| Stocks | - | - | - |
| Trade and other receivables | 165 | 735 | 900 |
| Cash at bank and in hand | 3,694 | 2,150 | 5,844 |
| Total current assets | 3,859 | 2,885 | 6,744 |
| Creditors due within one year | (2,728) | (4,677) | (7,405) |
| Net current liabilities | 1,131 | (1,792) | (661) |
| Total assets less current liabilities | 27,336 | 18,812 | 46,148 |
| Creditors due after one year | (5,416) | (7,450) | (12,866) |
| Defined benefit obligations | (14,950) | (3,300) | (18,250) |
| Total net assets | 6,970 | 8,062 | 15,032 |
| Income and expenditure account | 906 | 4,045 | 4,951 |
| Revaluation reserve | 6,063 | 4,017 | 10,080 |
| Total unrestricted reserves | 6,970 | 8,062 | 15,032 |

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF HAVANT AND SOUTH DOWNS COLLEGE AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH EDUCATION AND SKILLS FUNDING AGENCY**Conclusion**

We have carried out an engagement, in accordance with the terms of our engagement letter dated 09 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 01 August 2018 to 31 July 2019 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 01 August 2018 to 31 July 2019 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 01 August 2018 to 31 July 2019 Havant and South Downs College entered into new leasing agreements for IT equipment with a total cost of £724k, 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 01 August 2018 to 31 July 2019 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.

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17/12/19

