



Annual Report & Financial Statements
for the year ended 31 July 2020

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 2019/20:

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 – Vice Principal (Finance & Facilities)

Board of Governors

A full list of Governors is given on pages 17 to 19 of these financial statements. Jackie Eayrs 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

Contents

Reference and Administrative Details	2
Strategic Report	4
Statement of Corporate Governance and Internal Control	17
Statement on the College's Regularity, Propriety and Compliance with Funding body terms and conditions of funding	26
Statement of Responsibilities of the Members of the Corporation	27
INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF HAVANT & SOUTH DOWNS COLLEGE	28
Statement of Comprehensive Income	31
Statement of Changes in Reserves	32
Balance Sheet as at 31 July 2020	33
Statement of Cash Flows	34
Notes to the Financial Statements	35

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 2020.

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.

Mission

The current mission and vision of the College is 'Drive to 2025', approved Summer 2019 and implemented this year.

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 15 to 17. 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 College strategic plan from 2020 to 2025 is 'Drive to 2025' and commenced in 2019/20.

The strategy is underpinned by objectives to provide:

- Educational courses of academic, vocational and technical rigour from entry to HE level;
- Offer responsive employer led provision in apprenticeships and T Level courses;
- Inclusive learning and support for vulnerable learners and those with specific educational needs and learning disabilities;
- A continued focus on educational quality and strong outcomes;
- Opportunities for students and staff to engage in learning through modern technologies and creative digital learning methods;
- A service to our local communities and be conscious of our environmental impact;
- Be a place to work that nurtures and develop its staff through positive health and wellbeing and training and development plans;
- 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
- Regional LEPS – Solent, Enterprise M3
- 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
- Community Engagement Policy
- 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

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 dependent on its 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.

Strategic financial objectives for 2019/20 were:

- a sustainable pay to income ratio of not greater than 71%;
- average 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.

The year was one of mixed fortunes on the above objectives hindered by the impact of COVID from March to July 2020. Non-grant (variable incomes) softened during COVID lockdown and staff costs have continued to remain high throughout the year absolutely and relative to income.

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 latest ESFA financial health rating is "Requires Improvement".

Financial Performance Indicators

Measure	Actual for 2019/20	Budget for 2019/20	Status
Surplus/(Deficit) as a % of Total Income	(17.5)%	(6.6)%	X
Adjusted Current ratio	1.2	2.4	X
Average cash days	52 days	45 days	<input checked="" type="checkbox"/>
Borrowings	NIL	NIL	<input checked="" type="checkbox"/>
Staff to income ratio (excl RF)	80%	71%	X
16-19 ESFA funded learners	19/20 Allocation 4,982 vs R04 actual of 4,878	Within 2.5% of in-year lagged allocation	<input checked="" type="checkbox"/>
Successful application and grant draw down of; <ul style="list-style-type: none"> • ESFA T Level 1 Capital • Merger grant (RF) 	T Level Wave 1 £452k Merger RF £1.93M	N/A £1.94M	<input checked="" type="checkbox"/>

Resources

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

The college employed 954 people (expressed as average headcount) in 2019/20, of whom 434 were teaching staff.

In 2019/20 the College had various learner cohorts being 4,878 16-18-year-old FE learners, with 61 FE learners aged 19+, 1,519 adult part time learners and 411 apprentices. In addition, the College had 285 HE learners, 63 14-16-year-old learners and 5 non-EU international students under Tier 4 visas.

The College through partnerships had 146 learners on distance learning and 568 subcontracted learners. These were Adult 19+ and funded from the AEB allocation.

The College has £7.6 million of net liabilities (after taking account of a £38.9 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 2020 is £46.1 million. The net book value of intangible assets at 31 July 2020 is £18k.

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.

Stakeholders

The College has many stakeholders including:

- current, future, and past students.
- staff and trade unions.
- local and regional employers.
- schools and universities, namely University of Portsmouth and University of Chichester.
- funding bodies – ESFA, OfS, Hampshire County Council.
- Barclays bank.
- local community.
- local borough councils and Local Enterprise Partnerships – Solent, EM3.

DEVELOPMENT AND PERFORMANCE

Financial Results

During 2019/20 the College continued to face financial pressures. The year was a first full year post Alton merger, 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 budget for 2019/20 was set at a top level prior to merger during Restructuring Facility discussions with the then Transactions Unit (TU). The budgeted deficit after depreciation of £2.2M, was a stretched target from the pre Alton merger negotiations with the Transactions Unit to secure the £6.4M merger Restructuring Facility. It was recognised that to achieve this over the two year post merger period the College needed to save almost £2.9M in staff costs to secure a staff to income ratio of near 70%. This was not achieved both as a percentage of income and in absolute terms where pay costs landed some £2M above budget assumptions.

The outturn of the above was that the College generated a deficit before other gains and losses in the year of £5,635k (2018/19 deficit of £1,426k) which includes the receipt of a Restructuring Facility grant of £629k to continue to facilitate the merger with Alton College. The financial result for 2019/20 included costs of redundancy at £481k (2018/19 £258k), subcontract and partnership costs of £945k (2018/19 £977k) towards AEB delivery and a trading loss of £190k (2018/19 £194k) on the ARAMARK catering contract.

The College saw headline income, after removal of one-off ESFA restructuring facility grants, fall by £2,101k largely from a sustained fall in our 16-19 lagged ESFA recurrent grant and in 'Other income'. The ESFA given the financial challenges of COVID 19 did not reconcile performance against AEB allocations though HSDC did earn 86% of its in-year allocation with continued use of subcontracted partnership delivery. Apprenticeship income held stable though up until COVID 19, growth year-on-year was expected.

Staffing costs continue to increase, are unsustainably high and above FE sector norms. The College did benefit in year from a TPS grant to help fund increased TPS costs that are not reflected in base rate funding. LGPS service rates also continue to be a burden on staff costs. The College gave a 1.0% inflationary pay award in year.

Non-pay costs fell in year by £2,048k year-on-year driven by an absence of one-off merger related costs and some softening of costs from partial closure from March 2020 due to COVID 19. A sizeable amount of College non pay costs are fixed or semi-fixed in nature with the additional duplication of costs running 3 campuses.

The College LGPS defined benefit pension liability, valued annually by Actuaries, suffered a material swing from COVID 19. The pension deficit liability worsened to £38.9 million (2019 – £23.7 million). This is a national and sectoral issue reflective of the weak economic outlook and the impact of asset performance of the scheme.

Tangible fixed asset additions during the year amounted to £2,727,000 being assets capitalised in year and assets under the course of construction at year end 31 July 2020.

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 Alton College.

In Summer 2020 the College invested over £1 million in refurbishment work at the South Downs campus. This work was mostly in the Main Build for T Level Wave 1 (Construction, Digital and Education and Childcare) courses of which a ESFA grant of £452,000 was awarded. The works were completed in time for September 2020 T level teaching.

The above were originally part of a wider programme of works approved in the College's Property Strategy to refurbish the entire 1st floor of the Main Build. COVID risks with supply and delivery, and a need to protect cash in these uncertain times, meant the College decided to defer the bigger refurbishment until more certainty exists regarding future funding and land sale receipt.

COVID 19

From March 2020 the College responded to the challenges of the COVID Pandemic. The College has since developed strength in delivering blended remote learning strategies to ensure teaching continues in some manner at distance with learners. It soon became clear in the year that these strategies would be needed for longer than the short term as the Pandemic continued to plague all aspects of College life and workings.

The College has taken all practical COVID safety measures in classrooms and throughout its campuses to ensure social distancing and strict cleaning regimes are adhered to. These have been implemented but have constrained the natural operation and social ambience of the College and changed the delivery styles adopted in classrooms.

In addition, the College has a strong response system for dealing with any suspected negative or confirmed positive COVID test cases led by Senior Management, Facilities, Health & Well Being and middle management. Governors, parents, staff, PHE, ESFA and Local Authorities are all informed as appropriate.

The impact of COVID on College financial position has been marginally negative given we benefit from a large proportion of in-year protected ESFA funding. The College did see a slowing and loss of some commercial incomes i.e. lettings, salons, restaurants and apprenticeships earnings against prior year actuals and in year budgets. Positively, some costs in non pay softened (utilities, exams, catering subsidies) due to the partial close of the College from March 2020. The College also availed itself to the Government CJRS which helped offset financially in total some of the adverse impacts.

Ofsted Inspection

In March 2020 (pre COVID) the College received a full Ofsted Inspection for HSDC of all 3 campuses. This was the first Ofsted inspection since mergers and the College received a 'Good' outcome with all themes 'Good' and Adult Learning programmes deemed 'Outstanding'.

Sources of income

The College continued to have significant reliance on the education sector funding bodies for its principle funding source, largely from recurrent grants. In 2019/20 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 curtailed by COVID 19 during the year.

The College in year continued to benefit from one-off T Level capital and revenue grants of £1,075k in support of developing and resourcing curriculum in readiness for T Level Wave 1 starts from September 2020.

Events after the reporting period

The College received a Further Education Commissioner (FEC) Diagnostic Assessment in December 2020 and the College received the Report in January 2021 with recommendations. An FEC follow-up on progress against these recommendations will take place in May 2021.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Financial Health

The College is currently assessed by the ESFA as having a 'Requires Improvement' financial health grade and in January 2020 was issued an 'Early Intervention' letter for deteriorating financial health. The College whilst not under formal intervention is also subject to quarterly monitoring, 2019 to 2024, 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 2019/20 was £3,091,000 (2018/19: net cash outflow £2,370,000). In year the College received £1,929,000 of Restructuring grant monies. The College cash balance at the year-end was £3,380,000 with no borrowings.

The impact of COVID on cash has been harder to quantify precisely. The College is near 80% ESFA grant income protected but there has been some loss of expected commercial incomes i.e. lettings, salons, restaurants and apprenticeships earnings against prior year actuals and in year budgets.

The College only applied for additional public funding subsidies from Government Job Retention Scheme. In year from March 2020 to July 2020 the College claimed £285k for staff members furloughed from COVID 19 impacts.

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. 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.

Public examinations were cancelled in year due to COVID 19 with A level and GCSEs results awarded based on Centre Assessment Grades (CAGs). These results were better than prior year. For our vocational and technical level courses, results were less impacted by COVID 19 and on the whole were in line with expectations and at or above national averages for FE Colleges.

Curriculum developments

The College curriculum in year has developed in two main ways. Firstly, the development of T Levels for launch from September 2020 being 3 pathways of Digital, Construction and Education and Childcare. Secondly in response to the COVID pandemic the curriculum has developed rapidly to support more remote/distance learning in conjunction with traditional classroom teaching.

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 2019 to 31 July 2020, the College paid 70% per cent of its invoices within 30 days.

FUTURE PROSPECTS

T Level Summer Project

During Summer 2020 the College spent £904k towards T levels capital refurbishment works on the South Downs campus to support deliver of Wave 1 T levels.

In addition, it had submitted a Bid for Wave 2 T level capital funding and awaits the outcome of this from the ESFA during October 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. COVID 19 pandemic has slowed progress down to some degree particularly around land sale at South Downs and in reducing the size and scale of the Summer 2020 planned projects.

South Downs partial land sale

The College continues to work in a positive manner with a selected Property Developer regarding a partial land sale. The current expectation of contract exchange is early Spring 2021 with Planning outcome expected by September 2021. The College would intend to vacate the buildings and land in time for September 2021 though flexibility on dates is being explored with the Developer as a mitigation.

EM3 LEP Bid – Digital & Gaming Hub (Alton campus)

Through engagement with the EM3 LEP the College submitted a successful Bid in October 2020 for a new Gaming & Digital Hub at Alton that was approved. This will involve refurbishment and improvements works to buildings at Alton and if successful will see new curriculum offered on the Alton campus supporting the T level skills agenda.

Further Education Capital Allocation

In August 2020 the College received announcement of a share of the £200 million from the £1.5 billion Government Capital Allocation fund to support the condition improvement and upgrading of the College estate. The College allocation was £1.29 million to be spent or committed by 31 March 2021.

The College has been developing plans to utilise this fund to support matters of Health & Safety improvements, legacy backlog maintenance issues and to co-fund the EM3 LEP Bid and Alton reception refurbishment.

Covid 19

It is recognised that the on-going uncertainties of COVID 19 will and continue to have some degree of negative impact on College business, financially and operationally in 2020/21. The College remains open for Teaching & Learning per Government guidelines but will suffer some adverse impact if a local or national lockdown of duration is announced.

In 2020/21 the College could see a full trading year of COVID 19 disruption and with early signs of withdrawal of Government stabilisation measures and no COVID 19 direct financial support from ESFA for on-going costs or business interruption the financial outlook and ability to achieve plans will be challenged.

HSDC Property strategy works could be deferred or scaled back based on severity of outbreak and the financial outlook emerging during the year.

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 Board is aware the cash position of HSDC for 2019/20 has seen cash reserves materially reduce stemming from the pandemic slowdown to our business whilst seeing high unsustainable staff costs. The Board is clear that this trend has potentially serious consequences to the 'Going Concern' assessment in both the short and medium term if not addressed. Consequently, the Senior Leadership Team, backed by the Board, has begun both in-year cost saving measures against approved 2020/21 budgets and from January 2021 early financial planning for 2021/22 has begun to inject pace and execution into an emerging future Financial Sustainability Plan backed by Board.

Mitigations taken in 2020/21 to reduce staff costs and protect cash have included the beginning of in-year staff restructures being to date the College Leadership Team, Catering Restaurants, Facilities and Classroom Technicians as part of a faster paced Financial Sustainability Plan. In addition, the College has trimmed original non-pay budgets back. These savings will represent part year contributions to a financial cost saving in-year.

In January 2020 HSDC received from ESFA an 'Early Intervention Notice' for deteriorating financial health and following the submission of financial plans in July 2020 received notice in November of a FEC Diagnostic Review for financial performance and strategy in December 2020. In January 2021 the College received the draft report and whilst it recognises the pace of recent mergers, the 'Good' Ofsted Inspection outcome (March 2020), it highlighted a lack of pace and depth in driving costs out. The College will face an FEC follow-up review of actions identified and progress in May 2021 which the Board welcomes but FEC feel the opportunity to protect and address the College financials is achievable for the future but needs more pace of change.

In preparing financial forecasts HSDC recognises that continued uncertainty prevails in the economy, on funding announcements and recruitment given exam cancellations for Summer 2021. The College is of approximately £33M turnover, with about 85% being pre-announced fixed profile cash funding of ESFA 16-19 lagged study programmes and AEB. The College has seen a recruitment bounce in the census for December 2020 leading to an anticipated £1.3M funding bounce for 2021/22, which are factored into its forecasts. The College has also assumed from Sept 2021 that normality will return to operations and has made assumptions on non grant income accordingly.

Regarding costs envisaged in the forecasts, we have recognised the costs of restructures to come in 2020/21 and have recognised a sustainable staff cost of circa £24M in cashflow planning. This is at least a £2M annual saving to be delivered leading into and during the year of 2021/22 and will drive from better curriculum efficiency (staff utilisation, remission levels, subject offer reviews) of near a 50% targeted contribution. Additionally, the Student Services and Support functions will be reviewed for scale of service in light of falling affordability. These measures will target the near 72% staff costs/income ratio and is backed by measures and initiatives to come from the Financial Sustainability Plan. In year end 31 July 2021 the Finance & Estates Committee are holding additional Financial Sustainability meetings outside of the core cycle of business to assess progress.

The College has a busy year on capital projects from January to September 2021 of value £2.5M across Alton and South Downs campuses of which equivalent match funding grants have been allocated from ESFA FE College Condition Allowance, EM3 Digital and Gaming Hub Grant and a ESFA T Level Wave 2 grant. All these projects are phased with worse case spend timings in the cashflow and tight project cost management and value engineering will assure spend levels to strict budgets.

The College is also currently pursuing a part disposal of land. For cashflow planning the College has cautiously assumed no land sale proceeds in 2020/21 but has assumed a 50% payment of £2.5M by September 2021, subject to satisfactory contract exchange and granting of planning permission between February to September 2021. The Board is minded any capital works outside of the above grant funded projects will only be instructed when sale receipts of £2.5M are banked. This is to manage cash solvency and will be assessed for affordability based on trends in cashflows around operating incomes and costs over the next 12 months. It is clear to the Board land sale receipts are not earmarked to support continued operational cost challenges. The Financial Sustainability Plan is deemed as a final chance for HSDC, 3 years into mergers to address cost structures sustainable to steady levels of income.

The College will continue to apply fairly and timely to the CJRS and other Government financial support packages of the pandemic as it has in 2019/20 to address costs incurred and income lost in the light of COVID-19. The Board also accept income and cost planning during the pandemic is more challenging to score with a direct impact on cash position but that the College has fairly recognised some Government financial support in its cash plans.

The above factors built into future cashflow forecasting demonstrates the College is expected to have sufficient cash headroom and to remain solvent throughout the forecast period to 31 July 2022. This includes consideration of the trough of seasonal funding dip (March – April) and is without the need for borrowing or exceptional ESFA funding support. This is dependent on the successful completion of the land sale referred to above which, at the time of signing, is yet to be finalised and hence there is uncertainty over timing and quantum of the receipts from this. Therefore a material uncertainty exists that may cast significant doubt on the College's ability to continue as a going concern. However, the Board is confident that the transaction will complete as planned and both parties' solicitors are close to finalising the legal contract as at January 2021 to expedient the potential developer's submission to Havant Borough Council in early Spring 2021.

On this basis the Board is of the opinion that the 'going concern' assumption remains appropriate and accordingly the College continues to adopt the going concern basis in the preparation of its 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 2019/20, 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 £38.9 million (2018/19: £23.7 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, a high staff to income ratio (above sector norms) and the on-going economic and financial risk of the COVID pandemic.

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.

- In-year restructures
- Driving pay and non pay efficiencies and savings where possible.

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:

- The College considers all aspects of disability and access in planning executing its Property Strategy and Curriculum Plan
- All campuses are wheelchair accessible with relevant adaptations made for learners with sensory impairments, including visual and auditory alarm systems, braille signage and BSL communicators as required
- Specialist facilities include a sensory room, adapted toilets and personal care facilities, including hoists and a Braille printer
- Additional learning support was provided for a significant number of full-time and part-time students in 2019/20 with High Needs, EHCPs and recognised additional learning needs. This included an Educational Psychologist, Specialist Teachers / Assessors, Learning Support Assistants, BSL communicators.
- Some learning support is also available to students who do not qualify for an EHCP/High Needs funding, but have a recognised additional learning need. Learners can self-refer or be referred by other staff and undergo initial and diagnostic testing for potential SEND needs.
- A range of adaptive equipment and software is available to students with SEND needs.
- The College's Policy for students with SEND sets out objectives for initial guidance and assessment, 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	13.37

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

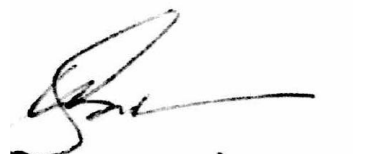
Total cost of facility time £	£13,414
Total pay bill £	£26,545,754
Percentage of total bill spent on facility time	0.05%

Time spent on paid trade union activities as a percentage of total paid facility time	0%
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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 27th January 2021 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 2019 to 31 July 2020 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 Code of Good Governance for English Colleges, 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 Association of Colleges Code of Good Governance for English Colleges. 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 2020. 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 2019/2020 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 2019/2020)
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	

Name	Date of Appointment	Term of Office	Date of Resignation	Status of Appointment	Committees served	Attendance at Corporation Meetings (in the year 2019/2020)
Mr Kevin Bradshaw	3 rd October 2019	3 years		Support Staff Governor	CQL Committee Student Committee	
Ms Fay Brown	2 nd October 2017 Reappointed 16 Sept 2020	3 years		Teaching Staff Governor	Curriculum, Quality & Learning Committee HE Committee	
Dr Simon Claridge	1 st August 2017	4 years		External Governor	HR Committee Remuneration Committee HE Committee F&E Committee Estates Strategy Group (Chair)	
Ms Elizabeth Cooper	1 st March 2019	4 years		External Governor	Alton CQL Committee HR Committee	
Mr Clive Dobbin	14 th December 2015 Reappointed 4 th July 2019	4 years		External Governor	Vice-Chair wef Dec 2017, HR Committee (Chair) Remuneration (Chair) Search & Governance (Chair) CQL Committee Audit Committee	
Ms Lucy Flannery	31 October 2016 Reappointed 16 Sept 2020	4 years		External Governor	CQL Committee Search & Governance Committee	
Mr Mike Gaston	20 April 2015	n/a		Principal	Ex-officio member of all committees except Audit and Remuneration Committees	
Mr Ian Gibson	1 st March 2019	1 year	Service completed on 31/07/20	External Governor	Estates Strategy Group	
Mrs Elspeth Mackeggie Gurney	1 st March 2019	4 years		External Governor	Alton CQL Committee Audit Committee	
Mrs Romy Jones	22 nd March 2018	4 years		External Governor	CQL Committee (Chair) HE Committee Alton CQL Committee	
Ms Lydia Morrison	2 nd July 2018	4 years		External Governor	Audit Committee (Chair)	
Miss Jasmine Savill	30 th March 2020	2 years		Student Governor	Student Committee CQL Committee	

Name	Date of Appointment	Term of Office	Date of Resignation	Status of Appointment	Committees served	Attendance at Corporation Meetings (in the year 2019/2020)
Mrs Heather Smith	16 th Dec 2019	4 years	13 th Feb 2020	External Governor	Finance & Estates Committee	
Mr Fraser Wilson	1 st March 2019	4 years		External Governor	Alton CQL Committee (Chair) HSDC CQL Committee	
Mr Joshua Winstanley	30 th March 2020	2 years		Student Governor	Student Committee CQL Committee	
Mr Tony Wright	1 st March 2019	4 years		External Governor	Alton CQL Committee Search & Governance Committee	
Ms Jackie Eayrs was appointed as Clerk on the 1 st April 2019 with effect from 15 th July 2019 and was the Clerk for the period covered by these Financial Statements.						

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 2019/2020 these committees were Finance and Estates; Curriculum Quality and Learning; 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.

In 2018/2019, the Corporation reviewed its Policy on Expenses for Governors and Senior Postholders and a separate Policy was agreed. 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 two other Governors, 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 2019-2020 and all of the committees concluded that the Board was complying with the key criteria in the Code of Good Governance. Although compliant, a number of actions were identified to further enhance the Board's performance towards some aspects of the Code. During 2019/2020, further development of the annual review of performance against the Code was completed which linked the key criteria in the Code with an evidence-based matrix. During 2020/2021 this will 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 2020, 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 2019 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 2020 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. There was one vacancy during the 2019/2020 year.

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 five members of the Corporation (including the Accounting Officer) and operates in accordance with written terms of reference approved by the Corporation. One vacancy has existed for part of the 2019/2020 year.

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 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.

Curriculum Quality & Learning Committee

The Curriculum Quality & Learning (CQL) Committee comprises 10 members of the Corporation (including the Accounting Officer) and operates in accordance with written terms of reference approved by the Corporation.

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

The CQL 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 the curriculum, quality and performance.

Search & Governance Committee

The Search & Governance Committee comprises five 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 2019-2020, a new Student Committee was established which comprised a maximum of 15 members, including the Accounting Officer, Student Governors, the President/Vice-President and Secretary from each Campus Based Student Union (CBSU) 3 other Governors and up to 2 co-opted members. The Student Committee is 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 as well as forming part of the wider Learner Voice Framework.

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 2020 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 2020 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.

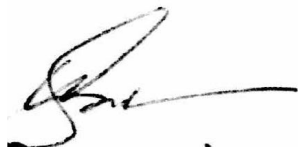
The senior leadership team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior leadership team and 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 2020, the Corporation carried out the annual assessment for the year ended 31 July 2020 by considering documentation from the senior management team and internal audit and taking account of events since 31 July 2020.

There have been no changes to the governance framework due to COVID 19. The Corporation and its Committees have continued to operate in the normal way with meetings taking place on a remote basis and members have continued to uphold their duties in the usual way.

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 27 January 2021 and signed on its behalf by:



Dr M Bateman – Chair of Governors



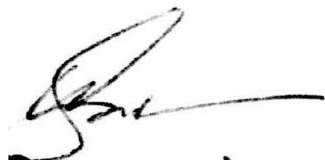
Mr M Gaston – Principal & Accounting Officer

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 ESFA of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the corporation's grant funding agreements and contracts with the ESFA. As part of our consideration we have had due regard to the requirements of grant funding agreements and contracts with the ESFA.

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

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



Dr M Bateman – Chair of Governors

27 January 2021



Mr M Gaston – Principal & Accounting Officer

27 January 2021

Statement of Responsibilities of the Members of the Corporation

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

The law applicable to charities in England and the terms and conditions of the Funding Agreement between the Education and Skills Funding Agency and the Corporation of the College, requires the corporation of the college to prepare financial statements and the Operating and Financial Review for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions the annual Accounts Direction issued by the Education and Skills Funding Agency, Accounts Direction issued by the Office for Students and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and which give a true and fair view of the state of affairs of the College and of the College's surplus/deficit of income over expenditure for that period.

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

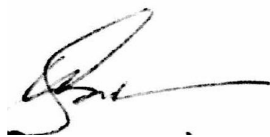
- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare financial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

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

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

Members of the Corporation are responsible for ensuring that funds from the Education and Skills Funding Agency are used only in accordance with the authorities that govern them as defined by and in accordance with Further & Higher Education Act 1992, subsequent legislation and related regulations and the Funding Agreement with the Education and Skills Funding Agency and any other conditions that may be prescribed from time to time. They are also responsible for ensuring funds from Office for Students or other sources are properly applied for the purposes for which they have been given and in accordance with relevant legislation or terms and conditions attached to them.

Approved by order of the members of the corporation on 27 January 2021 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 and South Downs College (the 'College') for the year ended 31 July 2020 which comprise the statement of comprehensive income, the balance sheet, the 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 2020 and of the College's deficit of income over expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

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

Material Uncertainty Related to Going Concern

We draw attention to note 1 to the financial statements concerning the College's ability to continue as a going concern. The conditions described in note 1, including the lack of certainty in respect of a potential land sale, indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the Annual 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.

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

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Post-16 Audit Code of Practice 2019 to 2020 issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

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

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

- the College's grant and fee income, as disclosed in the note to the accounts, has been materially misstated.

Responsibilities of the Corporation of Havant and South Downs College

As explained more fully in the Statement of the Corporation's Responsibilities set out on page 27, 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 22 October 2020. 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

Date: 28 January 2021

Statement of Comprehensive Income

	Notes	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
INCOME			
Funding body grants	2	27,502	29,308
ESFA restructuring facility grant	2	629	4,323
Tuition fees and education contracts	3	1,686	1,800
Other grants and contracts	4	1,315	1,136
Other income	5	2,445	2,787
Investment income	6	10	27
Total income		33,587	39,381
EXPENDITURE			
Staff costs	7	26,747	25,857
Restructuring costs	7	481	258
Other operating expenses	8	8,775	10,823
Depreciation and amortisation	11/12	2,636	2,529
Interest and other finance costs	9	583	1,340
Total expenditure		39,222	40,807
(Deficit) before other gains and losses and tax		(5,635)	(1,426)
Taxation	10	-	-
(Deficit) for the year		(5,635)	(1,426)
Actuarial gain/(loss) in respect of pension schemes		(13,745)	(4,370)
Total Comprehensive Income for the year		(19,380)	(5,796)
Represented by:			
Unrestricted comprehensive income		(19,380)	(5,796)
		(19,380)	(5,796)

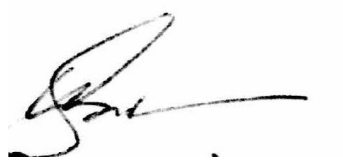
Statement of Changes in Reserves

	Income and Expenditure account £'000	Revaluation reserve £'000	Total £'000
Balance at 1 August 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	1,901	9,889	11,790
Deficit from the income and expenditure account	(5,635)	-	(5,635)
Other comprehensive income	(13,745)	-	(13,745)
Transfers between revaluation and income and expenditure reserves	247	(247)	-
Total comprehensive income for the year	<u>(19,133)</u>	<u>(247)</u>	<u>(19,380)</u>
Balance at 31 July 2020	<u><u>(17,232)</u></u>	<u><u>9,642</u></u>	<u><u>(7,590)</u></u>

Balance Sheet as at 31 July 2020

	Notes	2020 £'000	2019 £'000
Fixed assets			
Tangible fixed assets	11	46,098	45,992
Intangible assets	12	18	33
		46,116	46,025
Current assets			
Stocks	13	7	7
Trade and other receivables	14	1,037	1,083
Cash and cash equivalents	19	3,380	6,471
		4,424	7,561
Creditors – amounts falling due within one year	15	(5,209)	(5,155)
Net current assets		(785)	2,406
Total assets less current liabilities		45,331	48,431
Creditors – amounts falling due after more than one year	16	(13,878)	(12,780)
Provisions			
Defined benefit pension scheme	17	(38,893)	(23,730)
Other provisions	17	(150)	(131)
Total net assets/(liabilities)		(7,590)	11,790
Unrestricted reserves			
Income and expenditure account		(17,232)	1,901
Revaluation reserve		9,642	9,889
Total unrestricted reserves		(7,590)	11,790

The financial statements on pages 31 to 59 were approved and authorised for issue by the corporation on 27 January 2021 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	2020 £'000	2019 £'000
Cash flow from operating activities			
Deficit for the year		(5,635)	(1,426)
Adjustment for non cash items			
Depreciation and amortisation		2,636	2,529
Deferred capital grant release		(811)	(585)
(Increase)/decrease in stocks		-	(1)
(Increase) in debtors		46	(312)
Increase/(decrease) in creditors due within one year		260	135
Increase/(decrease) in creditors due after one year		-	(17)
Increase in provisions		19	131
Pensions costs less contributions payable		920	1,220
Reserves adjustment			5
Adjustment for investing or financing activities			
Investment income		(10)	(27)
Interest payable		583	1,340
Restructuring facility grant to repay amounts borrowed		-	(3,386)
Loss on fixed asset disposal		-	162
Net cash flow from operating activities		<u>(1,992)</u>	<u>(232)</u>
Cash flows from investing activities			
Investment income		10	27
Capital grant receipts		1,314	284
Payments made to acquire fixed assets		(2,338)	(1,589)
		<u>(1,014)</u>	<u>(1,278)</u>
Cash flows from financing activities			
Interest paid		(85)	(860)
Restructuring facility grant to repay amounts borrowed		-	3,386
Repayments of amounts borrowed		-	(3,386)
		<u>(85)</u>	<u>(860)</u>
Increase/(Decrease) in cash and cash equivalents in the year		<u>(3,091)</u>	<u>(2,370)</u>
Cash and cash equivalents at beginning of the year	19	6,471	8,841
Cash and cash equivalents at end of the year	19	3,380	6,471

Notes to the Financial Statements

1. Accounting policies

Statement of accounting policies

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

General Information

Legal status

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

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 2019* (the 2019 FE HE SORP), the *College Accounts Direction for 2019 to 2020* 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.

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

The Board is aware the cash position of HSDC for 2019/20 has seen cash reserves materially reduce stemming from the pandemic slowdown to our business whilst seeing high unsustainable staff costs. The Board is clear that this trend has potentially serious consequences to the 'Going Concern' assessment in both the short and medium term if not addressed. Consequently, the Senior Leadership Team, backed by the Board, has begun both in-year cost saving measures against approved 2020/21 budgets and from January 2021 early financial planning for 2021/22 has begun to inject pace and execution into an emerging future Financial Sustainability Plan backed by Board.

Mitigations taken in 2020/21 to reduce staff costs and protect cash have included the beginning of in-year staff restructures being to date the College Leadership Team, Catering Restaurants, Facilities and Classroom Technicians as part of a faster paced Financial Sustainability Plan. In addition, the College has trimmed original non-pay budgets back. These savings will represent part year contributions to a financial cost saving in-year.

In January 2020 HSDC received from ESFA an 'Early Intervention Notice' for deteriorating financial health and following the submission of financial plans in July 2020 received notice in November of a FEC Diagnostic Review for financial performance and strategy in December 2020. In January 2021 the College received the draft report and whilst it recognises the pace of recent mergers, the 'Good' Ofsted Inspection outcome (March 2020), it highlighted a lack of pace and depth in driving costs out. The College will face an FEC follow-up review of actions identified and progress in May 2021 which the Board welcomes but FEC feel the opportunity to protect and address the College financials is achievable for the future but needs more pace of change.

In preparing financial forecasts HSDC recognises that continued uncertainty prevails in the economy, on funding announcements and recruitment given exam cancellations for Summer 2021. The College is of approximately £33M turnover, with about 85% being pre-announced fixed profile cash funding of ESFA 16-19 lagged study programmes and AEB. The College has seen a recruitment bounce in the census for December 2020 leading to an anticipated £1.3M funding bounce for 2021/22, which are factored into its forecasts. The College has also assumed from Sept 2021 that normality will return to operations and has made assumptions on non grant income accordingly.

Regarding costs envisaged in the forecasts, we have recognised the costs of restructures to come in 2020/21 and have recognised a sustainable staff cost of circa £24M in cashflow planning. This is at least a £2M annual saving to be delivered leading into and during the year of 2021/22 and will drive from better curriculum efficiency (staff utilisation, remission levels, subject offer reviews) of near a 50% targeted contribution. Additionally, the Student Services and Support functions will be reviewed for scale of service in light of falling affordability. These measures will target the near 72% staff costs/income ratio and is backed by measures and initiatives to come from the Financial Sustainability

Plan. In year end 31 July 2021 the Finance & Estates Committee are holding additional Financial Sustainability meetings outside of the core cycle of business to assess progress.

The College has a busy year on capital projects from January to September 2021 of value £2.5M across Alton and South Downs campuses of which equivalent match funding grants have been allocated from ESFA FE College Condition Allowance, EM3 Digital and Gaming Hub Grant and a ESFA T Level Wave 2 grant. All these projects are phased with worse case spend timings in the cashflow and tight project cost management and value engineering will assure spend levels to strict budgets.

The College is also currently pursuing a part disposal of land. For cashflow planning the College has cautiously assumed no land sale proceeds in 2020/21 but has assumed a 50% payment of £2.5M by September 2021, subject to satisfactory contract exchange and granting of planning permission between February to September 2021. The Board is minded any capital works outside of the above grant funded projects will only be instructed when sale receipts of £2.5M are banked. This is to manage cash solvency and will be assessed for affordability based on trends in cashflows around operating incomes and costs over the next 12 months. It is clear to the Board land sale receipts are not earmarked to support continued operational cost challenges. The Financial Sustainability Plan is deemed as a final chance for HSDC, 3 years into mergers to address cost structures sustainable to steady levels of income.

The College will continue to apply fairly and timely to the CJRS and other Government financial support packages of the pandemic as it has in 2019/20 to address costs incurred and income lost in the light of COVID-19. The Board also accept income and cost planning during the pandemic is more challenging to score with a direct impact on cash position but that the College has fairly recognised some Government financial support in its cash plans.

The above factors built into future cashflow forecasting demonstrates the College is expected to have sufficient cash headroom and to remain solvent throughout the forecast period to 31 July 2022. This includes consideration of the trough of seasonal funding dip (March – April) and is without the need for borrowing or exceptional ESFA funding support. This is dependent on the successful completion of the land sale referred to above which, at the time of signing, is yet to be finalised and hence there is uncertainty over timing and quantum of the receipts from this. Therefore a material uncertainty exists that may cast significant doubt on the College's ability to continue as a going concern. However, the Board is confident that the transaction will complete as planned and both parties' solicitors are close to finalising the legal contract as at January 2021 to expedient the potential developer's submission to Havant Borough Council in early Spring 2021.

On this basis the Board is of the opinion that the 'going concern' assumption remains appropriate and accordingly the College continues 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. The final grant income is normally determined with the conclusion of the

year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

The recurrent grant from OfS represents the funding allocations attributable to the current financial year 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 actuarial gains and losses.

Short term Employment benefits

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

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. Any lease premiums or incentives relating to leases signed after 1st August 2014 are spread over the minimum lease term.

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

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Assets held under

finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

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

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 2019 to value the pensions liability at 31 July 2020. 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 2020 £'000	Year ended 31 July 2019 £'000
Recurrent grants		
Education and Skills Funding Agency - 16 to 18	22,278	25,042
Education and Skills Funding Agency - adult education budget	2,147	2,228
Education and Skills Funding Agency - apprenticeships	1,162	1,134
Office for Students	179	190
Specific Grants		
Administration of Learner Support Funds	30	29
Teacher Pension Scheme contribution grant	895	-
Education and Skills Funding Agency - Other	-	100
Education and Skills Funding Agency – Restructuring Facility	629	4,323
Releases of government capital grants	811	585
Total	28,131	33,631

Supplementary OfS disclosure	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Grant Income		
Grant income from the OfS (recurrent)	179	190
Grant income from the OfS (capital)	11	16
Fee Income		
Fee income for taught awards	1,050	1,088
Total	1,240	1,294

The above disclosure includes HE grant and fee income only.

3 Tuition fees and education contracts	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Adult education fees	873	866
Fees for FE loan supported courses	348	341
Fees for HE loan supported courses	126	193
International students' fees	37	34
Total tuition fees	1,384	1,434
Education contracts	302	366
Total	1,686	1,800

4 Other grants and contracts	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
Other grants and contracts	1,030	1,136
Coronavirus Job Retention Scheme grant	285	-
Total	1,315	1,136

The corporation furloughed 136 employees from curriculum support, commercial and other support functions under the government's Coronavirus Job Retention Scheme. The funding received of £285k relates to staff costs which are included within the staff costs note below as appropriate.

5	Other income	Year ended 31 July 2020 £'000	Year ended 31 July 2019 £'000
	Catering and residences	764	944
	Student travel and trips	647	640
	Nursery income	580	640
	Exam fees	83	113
	Other income generating activities	371	450
	Total	2,445	2,787

6	Investment income	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
	Other interest receivable	10	27
	Total	10	27

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

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

	2020	2019
	No.	No.
Teaching staff	434	437
Non-teaching staff	520	552
	<u>954</u>	<u>989</u>
Staff costs for the above persons	£'000	£'000
Wages and salaries	19,345	19,029
Social security costs	1,776	1,754
Other pension costs	5,425	4,775
Payroll sub-total	<u>26,546</u>	<u>25,558</u>
Contracted out staffing services	201	299
	<u>26,747</u>	<u>25,857</u>
Restructuring costs - contractual	376	187
Restructuring costs - non-contractual	105	71
	<u>27,228</u>	<u>26,115</u>

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, and Head of Centre Alton.

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

	2020	2019
	No.	No.
The number of key management personnel including the Accounting Officer was:	7	9

The total of seven key management personnel includes two people who job share.

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

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	
	2020	2019
£45,000 to £50,000	-	1
£65,000 to £70,000	4	3
£75,000 to £80,000	-	1
£80,000 to £85,000	1	-
£85,000 to £90,000	1	2
£105,000 to £110,000	-	1
£140,000 to £145,000	-	1
£145,000 to £150,000	1	-
	<u>7</u>	<u>9</u>

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 (2018/19 one other member of staff in band £60,000 to £65,000).

Key management personnel compensation is made up as follows:

	2020	2019
	£'000	£'000
Basic salary	531	584
Performance related pay and bonus	5	10
Employers National Insurance Contributions	61	66
Benefits in kind	1	1
	<u>598</u>	<u>651</u>
Pension contributions	123	98
Total emoluments	<u><u>721</u></u>	<u><u>759</u></u>

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:

	2020	2019
	£'000	£'000
Basic salary	145	140
Performance related pay and bonus	5	-
Benefits in kind	1	1
	<u>151</u>	<u>141</u>
Pension contributions	34	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 senior postholders, including the Principal and Chief Executive, is subject to annual review by the Remuneration Committee of the governing body who justify the remuneration in accordance with the Corporation's Remuneration Policy for Senior Postholders and the Clerk to the Corporation. The purpose of this Policy is to provide a coherent framework for the determination and annual review of the pay of senior postholders and the Clerk that is fair, transparent and equitable.

For the Principal and Chief Executive (Accounting Officer) the level of remuneration is justified by the Committee in recognition of the successful lead on two strategic mergers over the last 3 years, an in-year (March 2020) Ofsted inspection which awarded the College a 'Good' graded outcome, the success of HSDC in being a T Level pilot launch organisation from September 2020 and in recognition of the increased size and complexity of the postholder's role in leading HSDC over 3 educational campuses. In addition, the Board was acutely aware that the Principal had not received an uplift in salary since his appointment in April 2015 and concluded that, given the increased size of the College, and having reviewed the AoC Salary benchmark data, the salary of the Principal was behind the median for all colleges.

The remuneration of key management staff (non senior post holders) is determined by a combination of job description assessments through an external pay moderating tool (PILATS), similar sized College benchmarking and overall affordability. Postholders are usually assigned a fixed point salary and appraised on performance annually through the College appraisal and development process. Certain roles where necessary to recruit attract a market supplement, reviewed on an annual basis.

Relationship of Principal pay and remuneration expressed as a multiple

	2020	2019
Principal basic salary as a multiple of the median of all staff	4.6	4.8
Principal total remuneration as a multiple of the median of all staff	4.8	4.8

Compensation for loss of office paid to former key management personnel

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

Notes to the Financial Statements (continued)

8 Other operating expenses	2020	2019
	£'000	£'000
Teaching costs	1,807	2,062
Non-teaching costs	3,622	4,913
Premises costs	858	1,121
Exam costs	2,488	2,727
Total	8,775	10,823

Other operating expenses include:	2020	2019
	£'000	£'000
Auditors' remuneration (incl VAT):		
Financial statements audit	58	68
Funding review audit	1	3
Teachers' pension audit	5	4
Internal audit	11	13
Hire of assets under operating leases	234	411
Depreciation	2,636	2,529

9 Interest and other finance costs	Year ended	Year ended
	31 July 2020	31 July 2019
	£'000	£'000
On bank loans, overdrafts and other loans	-	110
Break costs associated with early loan repayments	-	695
On finance leases	85	55
Net interest on defined pension liability (Note 22)	498	480
Total	583	1,340

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.

Notes to the Financial Statements (continued)**11 Tangible fixed assets**

	Land and Buildings Freehold £'000	Equipment £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation				
At 1 August 2019	66,611	8,184	9	74,804
Additions	502	1,215	1,010	2,727
Disposals	-	-	-	-
Transfers	9	-	(9)	-
At 31 July 2020	67,122	9,399	1,010	77,531
Depreciation				
At 1 August 2019	22,615	6,197	-	28,812
Charge for the year	1,554	1,067	-	2,621
Elimination in respect of disposals	-	-	-	-
At 31 July 2020	24,169	7,264	-	31,433
Net book value at 31 July 2020	42,953	2,135	1,010	46,098
Net book value at 31 July 2019	43,996	1,987	9	45,992

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 £1,033k in respect of assets held under finance leases. The depreciation charge for the year on these assets for the year was £593k (2019 £340k).

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

Notes to the Financial Statements (continued)**12 Intangible assets**

	Total £'000
Cost or valuation	
At 1 August 2019	73
Disposals	-
At 31 July 2020	<u>73</u>
Amortisation	
At 1 August 2019	40
Charge for the year	15
At 31 July 2020	<u>55</u>
Net book value at 31 July 2020	<u>18</u>
Net book value at 31 July 2019	<u>33</u>

13 Stock

	2020 £'000	2019 £'000
Stock	<u>7</u>	<u>7</u>
Total	<u>7</u>	<u>7</u>

14 Trade and other receivables

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade receivables	47	118
Prepayments and accrued income	445	537
Amounts owed by the ESFA	57	120
Other debtors	<u>488</u>	<u>308</u>
Total	<u>1,037</u>	<u>1,083</u>

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

	2020	2019
	£'000	£'000
Obligations under finance leases	303	344
Trade creditors	828	1,612
Other creditors	604	103
Other taxation and social security	429	463
Accruals and deferred income	1,804	1,126
Deferred income - government capital grants	785	949
Deferred income - government revenue grants	20	123
Amounts owed to the ESFA	436	435
Total	5,209	5,155

16 Creditors: amounts falling due after one year

	2020	2019
	£'000	£'000
Obligations under finance leases	326	261
Deferred income - government capital grants	13,552	12,519
Total	13,878	12,780

17 Provisions

	Defined benefit obligations	Dilapidations provision	Total
	£'000	£'000	£'000
At 1 August 2019	23,730	131	23,861
Expenditure in period	(2,192)	-	(2,192)
Additions in period	17,355	19	17,374
At 31 July 2020	38,893	150	39,043

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.

Notes to the Financial Statements (continued)**18 Cash and cash equivalents**

	At 1 August 2019 £'000	Cash flows £'000	New finance leases £'000	At 31 July 2020 £'000
Cash and cash equivalents	6,471	(3,091)	-	3,380
Obligations under finance leases	(605)	374	(398)	(629)
Total	5'866	(2,717)	(398)	2,751

19 Capital commitments

	2020 £'000	2019 £'000
Commitments contracted for at 31 July	491	122
Total	491	122

20 Lease obligations**Operating Leases**

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

	2020 £'000	2019 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	41	41
Later than one year and not later than five years	69	107
Later than five years	81	84
Total	191	232
Other		
Not later than one year	88	192
Later than one year and not later than five years	120	99
Later than five years	-	-
Total	208	291

Notes to the Financial Statements (continued)**20 Lease obligations (continued)****Finance Leases**

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

	2020	2019
	£'000	£'000
Future minimum lease payments due		
Not later than one year	303	344
Later than one year and not later than five years	326	261
Later than five years	-	-
Total	629	605

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

21 Events after the reporting period

There are no events after the reporting period.

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 2019.

Total pension cost for the year	2020		2019	
	£'000	£'000	£'000	£'000
Teachers' Pension Scheme: contributions paid		2,440		1,748
Local Government Pension Scheme:				
Contributions paid	2,065		1,807	
FRS 102 (28) charge	920		1,220	
Charge to the Statement of Comprehensive Income		2,985		3,027
Total Pension Cost for Year		5,425		4,775

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.

Notes to the Financial Statements (continued)**22 Defined benefit obligations (continued)****The Teachers' Pension Budgeting and Valuation Account**

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

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

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

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

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) in April 2019. The valuation reported total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £218 billion, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £196 billion giving a notional deficit of £22 billion.

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2019 onwards (compared to 16.48% during 2018/19). DfE has agreed to pay a teacher pension employer contribution grant to cover the additional costs during the 2019/20 academic year.

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 contributions made for the year ended 31 July 2020 were £2,626,000 of which employer's contributions totalled £2,192,000 and employees' contributions totalled £434,000. The agreed College contribution rate for future years is 24.1% from April 2020. It ranges from 5.5% to 12.5% for employees, depending on salary according to a national scale.

Due to the scheme being in deficit additional contributions are made by the College as a fixed amount to reduce the deficit, the target recovery period being 16 years.

Notes to the Financial Statements (continued)**22 Defined benefit obligations (continued)****Principal Actuarial Assumptions**

The following information is based upon a full actuarial valuation of the fund at 31st March 2019 updated to 31st July 2020 by a qualified independent actuary.

	At 31 July 2020	At 31 July 2019
Rate of increase in salaries	3.3%	3.7%
Future pensions increases	2.3%	2.2%
Discount rate for scheme liabilities	1.4%	2.2%
Inflation assumption (CPI)	2.3%	2.2%

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 2020 Years	At 31 July 2019 Years
<i>Retiring today</i>		
Males	23.00	23.10
Females	25.50	25.80
<i>Retiring in 20 years</i>		
Males	24.70	24.70
Females	27.20	27.60

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

	Fair Value 2020 £'000	Fair Value 2019 £'000
Equities	27,276	29,071
Bonds	10,315	9,948
Property	3,025	3,477
Cash	793	917
Other	8,183	4,877
Total fair value of assets	49,592	48,290
Actual return on plan assets	370	3,360

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:

	2020	2019
	£'000	£'000
Fair value of plan assets	49,592	48,290
Present value of plan liabilities	(88,485)	(72,020)
Net pensions liability (Note 18)	<u>(38,893)</u>	<u>(23,730)</u>

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

	2020	2019
	£'000	£'000
Amounts included in staff costs		
Current service cost	2,932	2,100
Past service cost	180	980
Total	<u>3,112</u>	<u>3,080</u>
Amounts included in interest payable		
Net interest charge	498	480
	<u>498</u>	<u>480</u>
Amounts recognised in Other Comprehensive Income		
Return on pension plan assets	(703)	1,920
Experience gains/(losses) arising on defined benefit obligations	(13,042)	(6,290)
Changes in assumptions underlying the present value of the plans liabilities	-	-
Amount recognised in Other Comprehensive Income	<u>(13,745)</u>	<u>(4,370)</u>

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**

	2020	2019
	£'000	£'000
Net defined benefit (liability)/asset in scheme at 1 August	(23,730)	(17,660)
Movement in year:		
Current service cost	(2,932)	(2,100)
Employer contributions	2,192	1,860
Past service cost	(180)	(980)
Net interest on the defined (liability)/asset	(498)	(480)
Actuarial gain/(loss)	(13,745)	(4,370)
Net defined benefit liability 31 July	<u>(38,893)</u>	<u>(23,730)</u>

Asset and Liability Reconciliation

	2020	2019
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	72,020	61,640
Current Service cost	2,932	2,100
Interest cost	1,571	1,720
Contributions by Scheme participants	434	420
Experience (gains)/losses on defined benefit obligations	13,042	6,290
Changes in financial assumptions	-	-
Estimated benefits paid	(1,694)	(1,130)
Past Service cost	180	980
Defined benefit obligations at end of period	<u>88,485</u>	<u>72,020</u>

	2020	2019
	£'000	£'000

Change in fair value of plan benefits

Fair value of plan assets at start of period	48,290	43,980
Interest on plan assets	1,073	1,240
Return/(loss) on plan assets	(703)	1,920
Employer contributions	2,192	1,860
Contributions by Scheme participants	434	420
Estimated benefits paid	(1,694)	(1,130)
Fair value of assets at end of period	<u>49,592</u>	<u>48,290</u>

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

The 'McCloud' judgement in the Court of Appeal found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed amounted to illegal age discrimination. On 27 June 2019 the Supreme Court denied permission for Government to appeal this judgement, and on 15 July 2019 the Government issued a ministerial statement saying they would expect to compensate members across all public-sector schemes which contained transitional protection arrangements (which includes the LGPS). Allowance for prospective McCloud liabilities were accounted for last year as £780k in past service costs.

The McCloud consultation for the LGPS (in England and Wales) was published on 16 July 2020 by MHCLG, setting out proposed changes aimed at removing the unlawful age discrimination. Accounting figures produced by Aon this year for employers in the LGPS include an updated valuation of the McCloud liabilities using the data provided for the 2019 funding valuation. The impact of this update is recognised in the 2019/20 current service cost as 0.53% of Pensionable Pay over the accounting period.

On 26 October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal Guaranteed Minimum Pensions (GMPs) is required. The ruling confirmed that trustees have a duty "to equalise benefits for men and women so as to alter the result which is at present produced in relation to GMPs".

HM Treasury have, however, gone on record since the Lloyds judgement to say, "Public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment."

The 2018/19 past service cost included £140k to allow for the constructive obligation using an approximate method which paid full indexation of GMPs for members whose State Pension Age was between 6 April 2016 and 5 December 2018. The 2019/20 calculation allows for full indexation of GMPs for members whose State Pension Age is on or after 6 April 2016; any impact of this change in assumption is recorded through Other Comprehensive Income.

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.

There are no related party transactions to report for the year (2019: £43,664).

The total expenses paid to or on behalf of the Governors during the year was £39 (2019: £217). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

Notes to the Financial Statements (continued)**23 Related party transactions (continued)**

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2019: £Nil).

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 22 October 2020 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 2019 to 31 July 2020 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 01 August 2019 to 31 July 2020 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Basis for conclusion

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

We are independent of 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 the 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 2019 to 31 July 2020 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

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

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

Use of our report

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

RSM UK Audit Ltd

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Date: 28 January 2021