

SOUTH DOWNS COLLEGE

**Report and Financial Statements
for the year ended 31 July 2016**



Key Management Personnel, Board of Governors and Professional Advisers

Key management personnel

Key management personnel are defined as members of the College Leadership Team and were represented by the following in 2015/16:

Michael Gaston - Principal and CEO; Accounting Officer

Richard Barlow - Vice Principal Curriculum and Quality

Rebecca Abrey - Assistant Principal Human Resources and Organisational Development

Deborah Smith - Assistant Principal Student Services and Support

Anne Whitworth – Interim Finance Director

Board of Governors

A full list of Governors is given on page 20 of these financial statements.

Pam Robertson acted as Clerk to the Corporation throughout the period.

Professional advisers

Financial statements auditors and reporting accountants:

RSM UK Audit LLP , Davidson House, Forbury Square, Reading, RG1 3EU

Internal auditors:

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

Bankers:

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

Solicitors:

Blake Morgan LLP, New Kings Court, Tollgate, Chandler's Ford, Eastleigh, Hants, SO53 3LG

Eversheds LLP, 1 Callaghan Square, Cardiff, CF10 5BT

Employment Advisers:

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

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Report of the Governing Body

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2016.

Legal status

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

The Corporation was incorporated as The South Downs College.

Mission

Governors reviewed the College's mission during 2014/15 and in July 2015 adopted a new vision and mission with strategic objectives entitled Destination 2020. All staff and managers were involved in the process with Governors signing off measures in the Autumn Term 2015 for immediate adoption.

The vision adopted states: To be a leading provider for professional and technical excellence.

Public Benefit

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 as Principal Regulator for all FE Corporations in England. The members of the Governing Body, who are trustees of the charity, are disclosed on page 20.

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

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

- High-quality teaching
- Widening participation and tackling social exclusion
- Strong student support systems
- Good progress to Higher Education for students
- Excellent employment record for students
- Links with employers, industry and commerce.

Public Value Statement

The College adds significant positive value to its main stakeholders: students, local communities, local businesses and the taxpayer.

Through learning, South Downs College adds value to people's lives. The College provides high quality education to approximately 8,400 learners.

South Downs College adds value to local business through:

- High quality apprenticeship programmes
- Bespoke courses for employers
- Close working links with a large number of local employers
- Improved literacy and numeracy for the working population
- Tailored programmes to support skill shortages
- High quality outcomes for students
- High quality pre-professional programmes
- High quality candidates for work experience
- Highly skilled, well qualified and confident potential employees

South Downs College has strong partnerships with:

- Universities, including Portsmouth and Chichester
- Hampshire County Council
- Portsmouth City Council
- Havant Borough Council
- Solent Local Enterprise Partnership
- Coast to Capital Local Enterprise Partnership
- Local Schools
- Hampshire Chamber of Commerce
- Local Employers

The value added by South Downs College is measured by:

- Ofsted
- Skills Funding Agency
- Education Funding Agency
- Student Outcomes
- Student Destinations
- Learner Voice
- Employer Satisfaction

Implementation of strategic plan

In July 2015 the College adopted a strategic plan, 'Destination 2020', for the period 1 August 2015 to 31 July 2020. This strategic plan includes a number of strategic aims, which are detailed below. Clear measures have been put in place to ascertain progress made against these strategic aims, which are monitored by the Corporation. There are also underpinning curriculum, property and financial plans, which are reviewed and updated each year. The College's continuing strategic aims are to:

- Outstanding student outcomes that demonstrate ambition and progression that clearly transforms lives.
- To be a strategic partner with employers, responding to needs of business and contributing to our economic and cultural community.
- To be financially sustainable, with the ability to invest to transform to support the delivery of our vision.
- Our learning community will have access to industry-standard facilities that create an innovative teaching and learning environment.
- We will be socially responsible and inclusive
- We will act as an exemplary employer.
- We will have a differential advantage to other providers.

The College is on target for achieving these objectives.

Financial objectives

The future success of the College is tied to its financial sustainability, and this is recognised in Destination 2020. The strategic aim is to ensure there is a viable financial model with a manageable cost structure, an adequate and reliable income stream and sufficient free cash flow to invest in the future.

The College's current financial objectives are:

- Pay Cost to Income Ratio to be no greater than 70% in 2015/16 and to be in line with sector norms by 2018/19.
- Financial Plan to be Cash Neutral over two years from August 2014 to July 2016.
- Target Surplus to be at least 3% of income to enable investment.
- Cash to be made available to provide for Transformational Investment, to work towards IT Strategy and wider Property Strategy priorities.
- Income and Expenditure budget prior to restructuring costs to be at least break-even in 2015/16.
- Income and Expenditure budgets post restructuring costs to have a deficit of no more than £900k in 2015/16.
- Borrowing to be considered for Transformational Investment, but to be no more than 40% of total income.

Performance indicators have been agreed to monitor the successful implementation of these policies.

Performance indicators

The College is committed to observing the importance of sector measures and indicators and uses the FE Choices data available on the GOV.UK website which looks at measures such as success rates. The College is required to complete the annual Finance Record for the Skills Funding Agency (SFA). The College is assessed by the Skills Funding Agency as having a "Good" financial health grading.

Destination 2020 Measure

The measures linked to the strategic aims within the strategic plan, Destination 2020, are noted below, together with the results for 2015/16.

Strategic Aim 1

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

Measures	2015/16 Results
1. Headline overall success rate	80.2%
2. Alps value-added scores	BTEC L3: 4 AS levels: 5 A levels: 5
3. Overall apprenticeship success rate	73.2%
4. Student satisfaction with teaching, learning and assessment (score out of 10 from Learner Satisfaction Survey)	7.9

Strategic Aim 2

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

Measures	2015/16 Results
5. Employer Satisfaction	79.5%
6. Successful College start-up incubator programme that supports new business growth	4 Evolve business start-ups
7. Partnership with employers to provide work placements (including work experience)	1,525 employers 2,050 work placements

Strategic Aim 3

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

Measures	2015/16 Results
8. Surplus/(Deficit) as a % of Total Income	(0.6%)
9. Solvency / Adjusted Current Ratio	2.6 : 1
10. Borrowing as % of Total Income	0%
11. Pay Costs (excl. Exceptional Items) as % of Total Income	71%
12. EFA Fundable Learner Numbers	3,975
13. Non-Government Funding as % of Total Income	16%

Strategic Aim 4

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

Measures	2015/16 Results
14. Average Annual Capital Investment as % of Total Income	1.9%

Strategic Aim 5

Be socially responsible and inclusive through pro-actively meeting the needs of all learners so they achieve and progress.

Measures	2015/16 Results
15. Positive progression of students (to education, employment or training)	85%

Strategic Aim 6

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

Measures	2015/16 Results
16. Annual Staff Turnover	14%

Strategic Aim 7

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

Measures	2015/16 Results
17. Learner satisfaction	81%
18. % of students retained throughout their programme of study.	90.8%

FINANCIAL POSITION**Financial results**

The College generated a deficit before other gains and losses in the year of £135,000 (2014/15 – surplus of £1,861,000), with total income of £24,925,000, (2014/15 - £28,350,000).

The College has accumulated reserves of £896,000 and cash and short-term investment balances of £5,829,000. The College wishes to continue to accumulate reserves and cash balances in order to facility future property and other investments.

Tangible fixed asset additions during the year amounted to £349,000. This was mainly in relation to IT related equipment. Intangible asset additions during the year amounted to £115,000, which related to the purchase and development of software.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2015/16 the FE funding bodies provided 83% of the College's total income.

Treasury policies and objectives

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

Cash flows and liquidity

The net cash outflow from activities in 2015/16 was £430,000 (2014/15: net cash inflows £1.8 million). The net cash outflow in 2015/16 was due to restructuring costs, which amounted to £1.1million.

The College's cash balance at the year end is still reasonable at £5.8 million and the College does not have any borrowings.

Reserves Policy

To date, the Board has aimed to generate an annual surplus of 3% of income, which in turn would increase the reserves by this amount. However, at the time of setting this target, the impact of Brexit on the local government pension scheme (LGPS) liability was not anticipated. The significant reduction in total reserves from £5.9 million at 31 July 2015 to £0.9 million at 31 July 2016 is due almost entirely to the actuarial loss experienced by the pension fund.

The College is proactively working toward a merger with a nearby Sixth Form College, Havant College. The current plan is for the two institutions to merge on the 1 August 2017. Following this the Corporation will consider its reserves policy for the combined institution.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE**Student numbers**

In 2015/16 the College has delivered educational courses and apprenticeships that has produced £20,753,000 in funding body main allocation funding (2014/15 – £24,148,000). In 2015/16 the College had 3,975 16-18 year old FE learners, 3,700 FE learners aged 19+, 198 14-16 learner enrolments and 168 Apprenticeships. In addition, the College had 409 HE learners.

Student achievements

Student achievements are the most important performance indicator of the College's success in meeting the needs of all learners, delivering high quality teaching & learning, and supporting all students to achieve success. The College saw a two-year decline in overall achievement (2013-14 and 2014-15).

The College's 2015-16 Quality Improvement Plan targeted in particular improvements in 19+ achievement and Maths & English outcomes as a high priorities.

In relation to A levels, the College's performance is strong regarding high grades (48%) in 2015/16. Also, value added performance is rated as good.

Despite many areas of success and some notable areas of excellent provision, although final outcomes are still to be confirmed, the College is now anticipating a further decline in some key achievement measures in 2015/16. A wide range of improvement actions is already in place to reverse these declines.

Curriculum developments

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

The College operates a wide range of vocational study programmes at Level 1 and Level 2 (933 learners) and at level 3 (1,793 learners). The subject areas offered are listed as follows:

<ul style="list-style-type: none"> • Animal Care • Applied Science • Automotive • Beauty Therapy • Business • Catering & Hospitality 	<ul style="list-style-type: none"> • Early Years • Engineering • Hairdressing • Health & Social Care • ICT • Media & Film 	<ul style="list-style-type: none"> • Performing Arts • Public Services • Sport • Travel & Tourism • Visual Arts
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The College also delivers a comprehensive A level programme, with 42 different A levels offered over a wide range of subjects areas (1,093 learners).

There is also a full-time GCSE resit programme for 16-18 learners (33 learners) under which (in addition to English, Maths and Science) students are able to study Geology, Media Studies, Sociology and Business Studies.

In addition, the Colleges provides provision and support for Special Educational Needs learners. The number of High Needs learners at the College during 2015/16 was 52.

As a provider of vocational education on a significant scale (especially at Level 3), the College has sought to respond to the needs of local employers through engaging with employers in review, development and delivery of curriculum provision; developing its higher education (HE) provision and: rapidly expanding of apprenticeship provision. The College's income for HE courses grew by 34% and its apprenticeships funding by 54% in 2015/16.

The apprenticeship provision (168 enrolments) is currently offered across a limited range of subject areas including health & social care, catering, business administration, customer service, IT applications, clinical health, engineering and design. Higher education provision (409 Level 4/5 enrolments) is offered mainly in the subject areas of Engineering, Business, Music, teacher-training, Graphic Design, Computing Systems & Development and Early Years Education. This provision is a mixture of foundation degrees and higher national certificates/diplomas.

Adult learning is operated at the College, with approximately 1,828 enrolments. This provision is centred on employability and progression, specifically English and Maths (GCSE & Functional Skills), IT, ESOL, Access to HE and vocational qualifications.

Full-cost provision for employers is operated in employment sectors such as purchasing & supply and accountancy (1,873 enrolments).

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires Colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95%. During the accounting period 1 August 2015 to 31 July 2016, the College paid 84% per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Events after the end of the reporting period

Michael Gaston was also appointed the Interim Principal and Chief Executive of Havant Sixth Form College on 1 August 2016, pending the potential merger between South Downs College and Havant Sixth Form College.

Future Prospects

The main future development of significance for 2015/16 has been the launch of the government post-16 education and training area based reviews. The College, being in the Solent LEP, was in the first wave of area reviews and the recommendation was that the College should seek to merge with another educational provider. This was consistent with discussions which had already been taking place with a nearby sixth College, Havant College.

This proposal to merge two strong and successful Colleges in Havant and Waterloo is based on a shared vision of improving opportunities for all students, underpinned by a commitment to both excellence and inclusion. The process will be through a type B+ merger, emphasising parity of esteem between the two colleges, and the transfer date is 1 August 2017.

The aim is to create a first-class College which speaks with one powerful and strategic voice for our region, while retaining deep roots in the local communities it serves across the region. This combination of local access to skills development within a strategic regional framework is at the heart of the new College's vision to deliver both economic growth and social cohesion through enhanced education and training opportunities.

The positive culture of the merged College will build upon strong and effective collaboration across Partnerships, schools, universities, employers and community groups. The College will listen to partners to ensure it provides the skills needed across the region.

These are exciting times, albeit tempered with an understanding that the economic climate and reductions in public spending present huge challenges. However, the two Boards of Governors approach this merger with confidence and a shared belief that by creating a merged College, the whole community will benefit.

In order to secure the merger, an Advisory Board has been established with members from both College Corporations. Stage one of the legal and financial due diligence is currently underway as a precursor to a merger by 1 August 2017. A second stage due diligence is due to be completed early in 2017. If both stages of due diligence report satisfactory outcomes then it is envisaged that by 31 March 2017 both colleges will pass a resolution to merge. Subject to a stakeholder consultation,

Havant College Corporation will then pass a resolution to dissolve as a legal entity on 31 July 2017, and all the staff, assets and liabilities will transfer to South Downs College Corporation.

Both South Downs College and Havant Sixth Form College face significant challenges, and a key one is the 16-18 demographic projections for both Hampshire and Portsmouth which clearly show that the potential number of 16-18 year old learners upon which both rely will remain significantly below the peak seen in 2014 (and lacking in any significant increase) until at least 2020. Both Colleges operate within a highly competitive post-16 landscape of Colleges in the region, and it is, therefore, believed that a single College will be better-placed to meet these challenges.

Alongside merger, South Downs College would like to reduce its dependency on the Skills Funding Agency and the Education Funding Agency and is continuing to seek opportunities to grow income, particularly in the areas where the College currently performs well, such as higher education.

The College also continues to develop employability programmes and ensure that curriculum is fit for purpose in meeting employer needs. This in turn will support continued growth in apprenticeships and bespoke programmes whilst encouraging a culture change in how curriculum is planned and delivered.

The College will seek to increase its market share of student numbers amongst 16-18 year olds in feeder school cohorts whilst retaining as many of its adult learners as is commensurate with the funding for adults' skills.

After making appropriate enquiries, in particular relating to cash flow projections for the two years ending 31 July 2018, both with and without merger, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

RESOURCES:

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

Tangible resources include the main College site and fixtures, fittings and equipment. The net book value of these fixed assets at 31 July 2016 is £17.3 million.

Financial

The College has £0.9 million of net assets (after taking account of a £17 million pension liability). It does not have any short or long term debt.

People

The College employed 445 people (expressed as full time equivalents) in 2015/16, of whom 233 were teaching staff. All staff are committed to the education and development of learners and to ensuring that each student is treated as an individual and are supported to achieve.

Reputation

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

PRINCIPAL RISKS AND UNCERTAINTIES:

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

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

A new approach to monitoring the College's risk register was introduced in 2014/15. The Senior Leadership Team has clear individual responsibilities for considering risk in key areas of activity within the College. This is monitored through routine meetings and by Governors through relevant committee structures. The overall College risk register is reviewed at least annually by the Audit Committee and more frequently where necessary. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

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

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

Government funding

The College has considerable reliance on continued Government funding through the further education sector funding bodies and through HEFCE. In 2015/16, 84% of the College's revenue was ultimately public funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms. As a result, the College's forward plans assume that Government funding will reduce year on year.

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

- The Government is seeking to increase participation in post-16 education and has made it mandatory that all 16 and 17 year olds continue in education if they are not in

employment or undertaking employment based training. However this must be achieved within existing funding.

- The Government is prioritising its adult funding for those people not in employment and who require new skills to enable them to seek employment, with the key funding priority being for adult apprenticeships.
- The majority of learners aged 19+ enrolling on programmes at level 3 and level 4 are no longer eligible for SFA grant funding and either must apply for an advanced learning loan or self fund their education.
- The local population of 16-18 year olds has fallen in recent years and is predicted to continue to do so until 2020.
- The College's market share of 16-18 year olds may fall as a consequence of perceived uncertainties in relation to the potential merger with Havant Sixth Form College, and following industrial action in July 2016.

These risks are mitigated in a number of ways:

- Ensuring the College is rigorous in delivering high quality education and training.
- Providing an attractive environment for learners.
- Strengthening relationships with schools and enhancing internal progression opportunities for current students.
- Promoting the availability of adult loans to learners.
- Ensuring the College is focused on those priority sectors including apprenticeship training, which will attract levy funding from May 2017.
- Expanding privately funded provision.
- Maintaining and managing key relationships with the various funding bodies.
- Working closely with the Solent Local Enterprise Partnership (LEP) to ensure that our provision aligns to local and regional priorities.

Tuition Fee Policy

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

In line with the majority of other colleges, South Downs College will increase tuition fees broadly in accordance with the rising fee assumptions. The price elasticity of adult learning is not yet fully understood. The risk for the College is that demand falls off as fees increase. This will impact on the growth strategy of the College.

This risk is mitigated in a number of ways:

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

Maintain adequate funding of pension liabilities

The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of FRS 102 of £17 million (2014/15: £11.6 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 is 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.

This year has also seen significant changes to LGPS costs and the pension liability.

The adoption of FRS 102 has resulted in significantly more costs being recognised as pension costs within expenditure rather than as a gain or loss. The main change under FRS 102 is the calculation of the pensions financing cost. The financing cost is calculated as the net difference between the 'interest on the plan's liabilities' and the 'interest on the plan's assets'. It is the change to the interest on the plan's assets (called the 'expected return on assets' under FRS 17) which is causing the biggest change to the financing cost. Under FRS 17 the interest on the plan's assets was calculated using an interest rate equal to the 'expected return on assets', which was required to be set at a best-estimate assumption for the return on assets, allowing for the plan's overall investment strategy. As most LGPS Funds invest a significant proportion of their assets in growth investments, which are expected to earn a rate of return above that available on bonds, this rate of return was typically set a few percentage points higher than the discount rate assumption (which is set by reference to the yield on AA rated corporate bonds). FRS 102 requires the interest on the plan assets to be calculated using the lower discount rate assumption, which in turn increases the overall interest charge.

FRS 102 (and FRS 17) requires the calculation of the defined benefit obligation (liabilities) to be based on an assumption for the "discount rate" equal to the yield on high quality corporate bonds of the same terms and currency as those of the liabilities. "High quality" is generally interpreted as AA rated corporate bonds. A higher discount rate results in a lower present *value* being placed on future cashflows and a lower liability, whereas a lower discount rate results in a higher present *value* being placed on future cashflows and a higher liability. The reduction in UK AA rated corporate bond yields following the Brexit vote has caused the reported liabilities to increase significantly.

Albeit these risks are recognised, there is little that the College can do to mitigate these changes.

STAKEHOLDER RELATIONSHIPS

In line with other Colleges and with universities, South Downs College has many stakeholders. These include: students; funding councils; staff; local employers (with specific links); schools; other Colleges; universities; Local Enterprise Partnerships (LEPs); Local Authorities; Government Offices; the local community; trade unions; and other professional bodies.

The College recognises the importance of these relationships and engages in regular communication with them through various modes, e.g. team briefs, internet, intranet, meetings and attendance at stakeholder events or conferences.

Equal opportunities

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

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

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

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

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

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

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

Disability statement

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

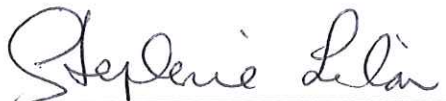
- All of the campus (other than one temporary classroom) is wheelchair accessible.

- Additional support was provided for a significant number of full-time and part-time students in 2015/16.
- A range of adaptive equipment and software is available to students with Learning Difficulties and Disabilities (LDD). There is part-time LDD provision within the community as well as full-time and part-time provision on the main site. The College's Policy for students with LDD sets out objectives for initial guidance, entry and on-course support and progression.
- Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

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 12 December 2016 and signed on its behalf by:



Mrs Stephenie Linham – Chair

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and financial statements of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2015 to 31 July 2016 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

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

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

In the opinion of the Governors, the College complies with all the provisions of the Code in so far as they apply to the further education sector, and it has complied throughout the year ended 31 July 2016. 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 (Governors serving on the College Board during 2015/16)

The members who served on the Corporation during the year and up to the date of signature of this report were as listed below:

Name	Date of Appointment	Term of Office	Date of Resignation	Status of Appointment	Committees served	Attendance at Corporation Meetings
Cllr Mr R Bolton	29 March 2012 28 March 2016 *	4 years 4 years	26 August 2016	External Governor	Finance & Estates until Jan 2016 Audit Committee from Jan 2016	80%
Ms Chloe Bowles	14 December 2015	2 years		Student Governor	Standards & Quality	67%
Mr Martin Brunner	8 July 2016	4 years		External Governor	Standards & Quality	100%
Mr I Child	3 March 2011 3 March 2015 *	4 years 4 year	7 July 2016	External Governor	Chair Finance & Estates	100%
Mr R Crank	July 2013	4 years		External Governor	Corporation Vice-Chair wef June 2015 Finance & Estates Search & Governance (Chair) Remuneration (Chair)	100%
Mr Clive Dobbin	14 December 2015	4 years		External Governor	HR	100%
Mr M Gaston	20 April 2015			Principal	Finance & Estates Standards & Quality Search & Governance HR	100%
Mr Tom Horwood	14 December 2015	4 years		External Governor	Finance & Estates	50%
Mrs S Linham	7 October 1999 5 July 2001 * 3 July 2003 * 5 July 2007 * 7 July 2011*	2 years 2 years 4 years 4 years 4 years		External Governor	Corporation Chair Search & Governance Finance & Employment Remuneration Standards & Quality	80%
Dr S Mitchell	12 March 2015	4 years	7 July 2016	External Governor	Finance & Estates Standards & Quality	40%
Mr R Pearce	1 July 2014	4 years		External Governor	Audit Search & Governance Remuneration HR	100%
Mr Luke Perman	14 December 2015	2 years	23 August 2016	Student Governor	Standards & Quality	100%
Mr R Showan	12 March 2015	4 years		External Governor	Audit	80%
Mr David Todman	17 March 2016	4 years		External Governor	HR	100%
Mrs J Vincent	July 2013	4 years		External Governor	Standards & Quality	80%
Mrs Louise Wells	1 October 2015	4 years		Support Staff Governor	Audit	75%
Mr A Whitlock	11 December 2014	4 years		Staff Governor	Finance & Estates	80%

Ms Pam Robertson was appointed as Clerk with effect from 10 August 2015.

* Date of reappointment

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. These committees are Finance and Estates; Quality and Standards; Search and Governance; Remuneration; HR; and Audit.

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

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 also provided on an ad-hoc basis.

The Clerk to the Corporation is authorised to sign the expenses for the Principal up to £500. Over £500 must be authorised by the Chair of Governors.

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 Committee (now Search and Governance) comprising the Principal, the Chair and the Vice Chair and one other Governor which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding four years (and a student term is not exceeding two years).

Corporation Performance

Corporation Self-Assessment

As part of the College's Quality framework, the Board produces a self-assessment report and Quality Improvement Plan. Individual Governors undertook a self-assessment exercise earlier in spring term 2016 and the Board, via its committee structure, reviewed the performance of the Board against the criteria in the Code of Good Governance for English College, during the summer term 2016.

As a result of these processes, the conclusion is that Governance at South Downs College is good. Governors have successfully reviewed and articulated a clear Vision and Mission for the College which is focussed on excellence, achieving high standards and ensuring effective support for learners. It reflects local and national priorities. The Board membership profile reflects a wide range of appropriate skills and Governors use their knowledge and skills well to support the College. There are high levels of attendance and engagement at both Board and Committee meetings. The Board has a sound framework for operation and makes full use of the committee infrastructure to ensure that there is scrutiny of all key areas of performance and to maximise the use of individual Governor's skills.

Governors have a clear understanding of the College's strengths and areas for development. They understand the quality of the College's provision and have become increasingly proactive in supporting effective performance management to improve teaching and learning. They increased the strength of their monitoring of the College's academic performance and there is a clear focus on learner success and a culture of high aspirations and continuous improvement. There are stronger relationships with senior managers and Governors act as "critical friends", providing challenge and support. Financial oversight is highly effective and Governors hold senior leaders to account for the effective deployment of resources for the benefit of learners.

There are effective arrangements in place for Safeguarding, with appropriate risk assessment and Governors are clear about roles and responsibilities. Similarly, the College's Prevent Strategy has been fully implemented and Governors understand fully their duties to protect learners from radicalisation and extremism. The Board promotes Equality & Diversity fully. 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.

Areas for improvement have been identified, including, further development, refinement and streamlining of reports to the Board/committees to provide opportunities for ab-initio discussion and to focus on strategy, risks and costs, by full implementation of the newly developed KPI dashboards, effective use of the risk register to set agenda and production of summary reports, and further strengthening of links with stakeholders to ensure full understanding of their needs, by involvement of Governors in learner voice and other stakeholder activities. These will form the key areas for development during 2016/17.

Remuneration Committee

Throughout the year ending 31 July 2016, the College's Remuneration Committee comprised the Chair, Vice Chair and one other member. The Committee's responsibilities are to make

recommendations to the Board on the remuneration and benefits of the Principal and any other senior post holders.

Details of remuneration for the year ended 31 July 2016 are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee comprises five members of the Corporation (excluding the Principal and the Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal, regularity and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the main 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, regularity and financial statements auditors and their remuneration for both 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 (formerly the Finance & Employment Committee) comprises six members of the Corporation (including the Principal) and operates in accordance with written terms of reference approved by the Corporation.

The Finance & Estates Committee meets on a termly basis and considers and determines matters of financial and estates strategy referred to it by the Principal 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 Skills Funding Agency, and monitors the progress and expenditure of any projects; and considers and, where appropriate, determines any other matters relating to finance and estates referred to it by the Corporation and advises the Corporation accordingly.

Human Resources (HR) Committee

The HR Committee was established in October 2015. It comprises five members of the Corporation (including the Principal) 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 Principal and advises the Corporation accordingly.

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

Standards & Quality Committee

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

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

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

Search & Governance Committee

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

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

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

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 he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum/Financial Agreement between 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 South Downs College for the year ended 31 July 2016 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2016 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.

South Downs College has an internal audit service, which operates in accordance with the requirements of the Education Funding Agency and Skills Funding Agency's Joint 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 regularity auditors, in their management letters and other reports.

The Principal has been advised on the implications of the result of his 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 July 2016 meeting, the Corporation considered the Internal Audit Strategy and Operational Plan for the 2016/17 year and discussed future arrangements for seeking controls assurance.

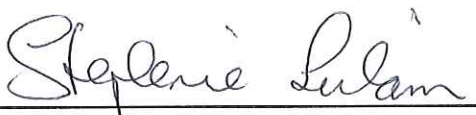
Based on the advice of the Audit Committee and the Principal, the Corporation is of the opinion that the College has adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for "*the effective and efficient use of resources, the solvency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

Going Concern

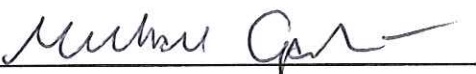
The activities of the College, together with the factors likely to affect its future development and performance are set out in the Members Report. The financial position of the College, its cashflow and liquidity are presented in the Financial Statements and accompanying Notes.

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

Approved by order of the members of the Corporation on 12 December 2016 and signed on its behalf by:



Mrs Stephenie Linham – Chair



Mr Michael Gaston – Accounting Officer

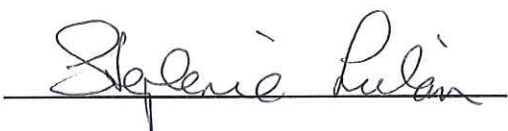
Governing Body's Statement on the College's Regularity, Propriety and Compliance with Funding Body Terms and Conditions of Funding

The Corporation has considered its responsibility to notify the Skills Funding Agency of material irregularity, impropriety and non-compliance with Skills Funding Agency terms and conditions of funding, under the Financial Memorandum in place between the College and the Skills Funding Agency. As part of its consideration, the Corporation has had due regard to the requirements of the Financial Memorandum.

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

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 Skills Funding Agency.

Approved by order of the members of the Corporation on 12 December 2016 and signed on its behalf by:



Mrs Stephenie Linham – Chair



Mr Michael Gaston – Accounting Officer

Statement of the Responsibilities of the Members of the Corporation

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

Within the terms and conditions of the Financial Memorandum agreed between the Skills Funding Agency (SFA) and the Corporation of the College, the Corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and with the Accounts Direction for 2015-16 Financial Statements, issued jointly by the SFA and the EFA, and which give a true and fair view of the state of affairs of the College and the result for that year.

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

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

The Corporation is also required to prepare a report to the Governing Body which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

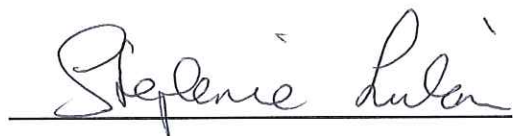
The Corporation is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and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

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the SFA are used only in accordance with the Financial Memorandum with the SFA and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and

expenditure, so that the benefits that should be derived from the application of public funds from the SFA are not put at risk.

Approved by order of the members of the Corporation on 12 December 2016 and signed on its behalf by:

A handwritten signature in cursive script, reading "Stephenie Linham", written over a horizontal line.

Mrs Stephenie Linham – Chair

Independent auditor's report to the governing body of South Downs College

We have audited the College financial statements ("the Financial Statements") set out on pages 33 to 62. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" as set out in our engagement letter dated 3 May 2016.

This report is made solely to the Governing Body, as a body, in accordance with the Financial Memorandum published by the Skills Funding Agency and our engagement letter dated 3 May 2016. Our audit work has been undertaken so that we might state to the Governing Body, as a body, those matters we are required under our engagement letter dated 3 May 2016 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 Governing Body, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Governing Body of South Downs College and Auditor

As explained more fully in the Statement of the Governing Body's Responsibilities set out on page 29, the Governing Body is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with the terms of our engagement letter dated 3 May 2016, Joint Audit Code of Practice issued by the Skills Funding Agency and Education Funding Agency and International Standards on Auditing (UK and Ireland). The International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2016 and of the College's deficit of income over expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Matters on which we are required to report by exception

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

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

RSM UK Audit LLP

RSM UK AUDIT LLP

Chartered Accountants

Davidson House

Forbury Square

Reading

Berkshire

RG1 3EU

19/12/2016

Statement of Comprehensive Income

	Notes	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
INCOME			
Funding body grants	2	20,991	24,391
Tuition fees and education contracts	3	1,934	1,688
Other grants and contracts	4	145	282
Other income	5	1,798	1,940
Investment income	6	57	49
		<hr/>	<hr/>
Total income		24,925	28,350
EXPENDITURE			
Staff costs	7	17,715	19,118
Fundamental restructuring costs	7	1,113	618
Other operating expenses	8	5,055	5,623
Depreciation	11	777	750
Interest and other finance costs	9	400	380
		<hr/>	<hr/>
Total expenditure		25,060	26,489
		<hr/>	<hr/>
(Deficit)/surplus before other gains and losses and tax		(135)	1,861
Taxation	10	-	-
		<hr/>	<hr/>
(Deficit)/surplus for the year		(135)	1,861
Actuarial loss in respect of pensions schemes		(4,920)	(1,160)
		<hr/>	<hr/>
Total Comprehensive (Expenditure)/Income for the year		(5,055)	701
		<hr/>	<hr/>
Represented by:			
Unrestricted comprehensive income		(5,055)	(701)
		<hr/>	<hr/>
		(5,055)	(701)
		<hr/>	<hr/>

Statement of Changes in Reserves

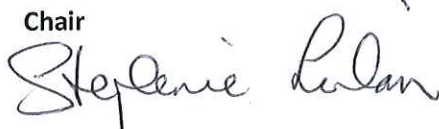
	Income and Expenditure account £'000	Revaluation reserve £'000	Total £'000
Balance at 1 August 2014	1,093	4,157	5,250
Surplus from the income and expenditure account	1,861	-	1,861
Other comprehensive income	(1,160)	-	(1,160)
Transfers between revaluation and income and expenditure reserves	93	(93)	-
	<hr/> 794	<hr/> (93)	<hr/> 701
Balance at 31 July 2015	1,887	4,064	5,951
Deficit from the income and expenditure account	(135)	-	(135)
Other comprehensive income	(4,920)	-	(4,920)
Transfers between revaluation and income and expenditure reserves	93	(93)	-
Total comprehensive income for the year	<hr/> (4,962)	<hr/> (93)	<hr/> (5,055)
Balance at 31 July 2016	<hr/> (3,075)	<hr/> 3,971	<hr/> 896

Balance Sheet as at 31 July

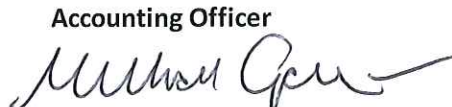
	Notes	2016 £'000	2015 £'000
Fixed assets			
Tangible fixed assets	11	17,291	17,719
Intangible assets	12	115	-
Current assets			
Stocks	13	15	22
Trade and other receivables	14	604	578
Cash and cash equivalents	18	5,829	6,259
		<u>6,448</u>	<u>6,859</u>
Less: Creditors – amounts falling due within one year	15	(2,513)	(3,066)
Net current assets		<u>3,935</u>	<u>3,793</u>
Total assets less current liabilities		21,341	21,512
Less: Creditors – amounts falling due after more than one year	16	(3,395)	(3,596)
Provisions			
Defined benefit obligations	17	(17,050)	(11,600)
Other provisions		-	(365)
Total net assets		<u><u>896</u></u>	<u><u>5,951</u></u>
Unrestricted reserves			
Income and expenditure account		(3,075)	1,887
Revaluation reserve		3,971	4,064
Total unrestricted reserves		<u><u>896</u></u>	<u><u>5,951</u></u>

The financial statements on pages 33 to 62 were approved and authorised for issue by the Corporation on 12 December 2016 and were signed on its behalf on that date by:

Mrs Stephenie Linham
Chair



Mr Michael Gaston
Accounting Officer



Statement of Cash Flows

	Notes	2016 £'000	2015 £'000
Cash inflow from operating activities			
(Deficit)/surplus for the year		(135)	1,861
Adjustment for non cash items			
Depreciation		777	750
Decrease/(increase) in stocks		7	(2)
Increase in debtors		(26)	(158)
(Decrease)/increase in creditors due within one year		(553)	375
Decrease in creditors due after one year		(201)	(194)
Decrease in provisions		(365)	(668)
Pensions costs less contributions payable		130	90
Adjustment for investing or financing activities			
Investment income		(57)	(49)
Interest payable		400	380
		<u>(23)</u>	<u>2,385</u>
Net cash flow from operating activities			
Cash flows from investing activities			
Investment income		57	49
Payments made to acquire fixed assets		(349)	(631)
Payments made to acquire intangible assets		(115)	-
		<u>(407)</u>	<u>(582)</u>
(Decrease)/Increase in cash and cash equivalents in the year		<u>(430)</u>	<u>1,803</u>
Cash and cash equivalents at beginning of the year	18	6,259	4,456
Cash and cash equivalents at end of the year	18	5,829	6,259

Notes to the Accounts

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

South Downs College is a corporation established under the Further and Higher Education Act 1992 as an English general college of further education. The address of the College's principal place of business is:

South Downs College
College Road
Waterlooville
Hampshire
PO7 8AA

The nature of the College's operations are set out in the Report of the Governing Body.

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (the 2015 FE HE SORP), the *College Accounts Direction for 2015 to 2016* 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.

Transition to the 2015 FE HE SORP

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the College has amended certain accounting policies to comply with FRS 102 and the 2015 FE HE SORP. The trustees have also taken advantage of certain exemptions from the requirements of FRS 102 permitted by FRS 102 Chapter 35 'Transition to this FRS'.

An explanation of how the transition to the 2015 FE HE SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the College is provided in note 26.

The 2015 FE HE SORP requires Colleges to prepare a single statement of comprehensive income, and not the alternative presentation of a separate income statement and a statement of other comprehensive income. This represents a change in accounting policy from the previous period where separate statements for the Income and Expenditure account and for the Statement of Total Recognised Gains and Losses were presented.

The application of first time adoption allows certain exemptions from the full requirements of the FRS 102 and the 2015 FE HE SORP in the transition period. The following exemptions have been taken in these financial statements:

Revaluation as deemed cost – at 1 August 2014, the College has retained the carrying values of freehold properties as being deemed cost.

Lease incentives – the College has continued to recognise the residual benefits associated with lease incentives on the same basis as that applied at the date of transition.

Basis of accounting

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

Basis of consolidation

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

Recognition of income

Government revenue grants include funding body recurrent grants and other grants are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured for the period in line with best estimates of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. The 16-18 learner-

responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year 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.

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual method as permitted by FRS 102.

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.

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.

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.

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 the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS 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.

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

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value 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. Freehold buildings are depreciated over their expected useful economic life to the College of between 20 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 15 and 50 years.

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

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

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

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

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
- computer equipment 5 years
- furniture 5 years
- plant 7 years

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. Any lease premiums or incentives relating to leases signed after 1 August 2014 are spread over the minimum lease term. The College has taken advantage of the transitional exemptions in FRS 102 and has retained the policy of spreading lease premiums and incentives to the date of the first market rent review for leases signed before 1 August 2014.

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

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

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

Stock

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

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 3 months or less from the date of acquisition.

Foreign currency translation

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

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and, therefore, it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of the VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

Provisions and contingent liabilities

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

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

Agency arrangements

The College acts as an agent in the collection and payment of 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.

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

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 23, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2013 has been used by the actuary in valuing the pensions liability at 31 July 2016. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the Accounts (continued)

2 Funding council grants

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Recurrent grants		
Education Funding Agency	18,668	21,566
Skills Funding Agency	1,903	2,406
Higher Education Funding Council	182	176
Specific Grants		
Administration of Learner Support Funds	37	44
Releases of government capital grants	201	199
Total	20,991	24,391

3 Tuition fees and education contracts

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Adult education fees	976	995
Fees for FE loan supported courses	373	294
Fees for HE loan supported courses	279	67
Total tuition fees	1,628	1,356
Education contracts	306	332
Total	1,934	1,688

4 Other grants and contracts

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Other grants and contracts	145	282
Total	145	282

Notes to the Accounts (continued)

5 Other income

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Catering and residences	668	728
Other income generating activities	301	317
Miscellaneous income	829	895
	<u>1,798</u>	<u>1,940</u>
Total		

6 Investment income

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Other interest receivable	<u>57</u>	<u>49</u>
	<u>57</u>	<u>49</u>

Notes to the Accounts (continued)

7 Staff costs

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

	2016 No.	2015 No.
Teaching staff	233	258
Non teaching staff	212	249
	<u>445</u>	<u>507</u>

Staff costs for the above persons

	2016 £'000	2015 £'000
Wages and salaries	14,245	15,666
Social security costs	1,102	1,111
Other pension costs	2,368	2,341
Payroll sub-total	<u>17,715</u>	<u>19,118</u>
Fundamental restructuring costs - contractual	1,113	618
	<u>18,828</u>	<u>19,736</u>

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, Vice Principal and Assistant Principals.

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

	2016 No.	2015 No.
The number of key management personnel including the Accounting Officer was:	<u>4</u>	<u>7</u>

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

	Senior post-holders		Other staff	
	Year ended 31 July 2016	Year ended 31 July 2015	Year ended 31 July 2016	Year ended 31 July 2015
	2016 No.	2015 No.	2016 No.	2015 No.
£60,001 to £70,000	-	-	2	4
£70,001 to £80,000	-	-	-	1
£80,001 to £90,000	1	1	-	-
£140,000 to £150,000	1	1	-	-
	<u>2</u>	<u>2</u>	<u>2</u>	<u>5</u>

Notes to the Accounts (continued)

7 Staff costs (continued)

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

	Key management personnel		Other staff	
	2016 No.	2015 No.	2016 No.	2015 No.
£60,001 to £70,000	2	4	-	-
£70,001 to £80,000	-	1	-	-
£80,001 to £90,000	1	1	-	-
£140,000 to £150,000	1	1	-	-
	<u>4</u>	<u>7</u>	<u>-</u>	<u>-</u>

Key management personnel emoluments are made up as follows:

	2016 £'000	2015 £'000
Salaries	350	544
National Insurance Contributions	43	51
	<u>393</u>	<u>595</u>
Pension contributions	53	74
Total emoluments	<u>446</u>	<u>669</u>

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

	2016 £'000	2015 £'000
Salaries	140	140
National Insurance Contributions	18	17
	<u>158</u>	<u>157</u>
Pension contributions	23	23

Compensation for loss of office paid to former key management personnel

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

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

Notes to the Accounts (continued)

8 Other operating expenses

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Teaching costs	1,496	1,677
Non teaching costs	2,387	2,485
Premises costs	1,172	1,461
Total	5,055	5,623

Other operating expenses include:

	2016 £'000	2015 £'000
Auditors' remuneration:		
Financial statements audit	30	24
Internal audit	13	25
Hire of assets under operating leases	124	128

9 Interest payable

	2016 £'000	2015 £'000
Pension finance costs (note 23)	400	380
Total	400	380

10 Taxation

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

Notes to the Accounts (continued)

11 Tangible fixed assets

	Land and Buildings Freehold £'000	Equipment £'000	Total £'000
Cost or valuation			
At 1 August 2015	23,470	2,223	25,693
Additions	-	349	349
Disposals	-	(18)	(18)
At 31 July 2016	23,470	2,554	26,024
Depreciation			
At 1 August 2015	6,683	1,291	7,974
Charge for the year	486	291	777
Elimination in respect of disposals	-	(18)	(18)
At 31 July 2016	7,169	1,564	8,733
Net book value at 31 July 2016	16,301	990	17,291
Net book value at 31 July 2015	16,787	932	17,719

Land and buildings were valued in 1993 at depreciated replacement cost by AYH a firm of independent chartered surveyors.

Notes to the Accounts (continued)

11 Tangible fixed assets (continued)

If fixed assets had not been revalued they would have been included at the

	£'000
Cost	Nil
Aggregate depreciation based on cost	Nil
	<hr/>
Net book value based on cost	Nil

12 Intangible assets

	Software £'000	Total £'000
Cost or valuation		
At 1 August 2015	-	-
Additions	115	115
	<hr/>	<hr/>
At 31 July 2016	115	115
	<hr/>	<hr/>
Amortisation		
At 1 August 2015	-	-
Charge for the year	-	-
	<hr/>	<hr/>
At 31 July 2016	-	-
	<hr/>	<hr/>
Net book value at 31 July 2016	115	115
	<hr/>	<hr/>
Net book value at 31 July 2015	-	-

Notes to the Accounts (continued)

13 Stock

	2016 £'000	2015 £'000
Other Stock	15	22
	<hr/>	<hr/>
Total	15	22

14 Debtors

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade receivables	211	234
Prepayments and accrued income	350	322
Amounts owed by the Skills Funding Agency	23	-
Other	20	22
	<hr/>	<hr/>
Total	604	578

Notes to the Accounts (continued)

15 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade payables	180	336
Other taxation and social security	433	375
Accruals and deferred income	1,008	1,209
Deferred income - government capital grants	201	201
Deferred income - government revenue grants	172	185
Amounts owed to the Skills Funding Agency	311	374
Learners' General Deposits	45	60
Other payments received in advance	163	326
Total	2,513	3,066

16 Creditors: amounts falling due after one year

	2016 £'000	2015 £'000
Deferred income - government capital grants	3,395	3,596
Total	3,395	3,596

Notes to the Accounts (continued)

17 Provisions

	Defined benefit Obligations £'000	Restructuring £'000	Total £'000
At 1 August 2015	11,600	365	11,965
Expenditure in the period		(365)	(365)
Transferred from income and expenditure account	5,450		5,450
At 31 July 2016	17,050	-	17,050

Defined benefit obligations relate to the liabilities under the College's membership of the Local Government pension Scheme. Further details are given in Note 23.

18 Cash and cash equivalents

	At 1 August 2015 £'000	Cash flows £'000	Other changes £'000	At 31 July 2016 £'000
Cash and cash equivalents	6,259	(430)	-	5,829
Total	6,259	(430)	-	5,829

19 Capital commitments

	2016 £'000	2015 £'000
Commitments contracted for at 31 July	49	103

Notes to the Accounts (continued)

20 Lease Obligations

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

	2016 £'000	2015 £'000
Future minimum lease payments due		
Land and buildings		
Not later than one year	-	-
Later than one year and not later than five years	39	48
Later than five years	342	383
	<u>381</u>	<u>431</u>
Other		
Not later than one year	13	13
Later than one year and not later than five years	221	54
Later than five years	-	-
	<u>234</u>	<u>67</u>

21 Contingent liabilities

There are no known contingent liabilities.

22 Events after the reporting period

The main future development of significance for 2015/16 has been the launch of the government post-16 education and training area based reviews. The College, being in the Solent LEP, was in the first wave of area reviews and the recommendation was that the College should seek to merge with another educational provider. This was consistent with discussions which had already been taking place with a nearby sixth form College, Havant College.

This proposal to merge two strong and successful Colleges in Havant and Waterlooville is based on a shared vision of improving opportunities for all students, underpinned by a commitment to both excellence and inclusion. The process will be through a type B+ merger, emphasising parity of esteem between the two colleges, and the transfer date is 1 August 2017.

Michael Gaston was also appointed the Interim Principal and Chief Executive of Havant Sixth Form College on 1 August 2016, pending the potential merger between South Downs College and Havant Sixth Form College.

Notes to the Accounts (continued)

23 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.

Total pension cost for the year	2016		2015	
	£'000	£'000	£'000	£'000
Teachers Pension Scheme: contributions paid		1,278		1,241
Local Government Pension Scheme:				
Contributions paid	960		1,010	
FRS 102 charge	130		90	
Charge to the Statement of Comprehensive Income		1,090		1,100
Enhanced pension charge to Statement of Comprehensive Income		-		-
Total Pension Cost for Year		2,368		2,341

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2012 and of the LGPS 31 March 2013.

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

Teachers' Pension Scheme

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

Notes to the Accounts (continued)**23 Defined benefit obligations (continued)****The Teachers' Pension Budgeting and Valuation Account**

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

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

Valuation of the Teachers' Pension Scheme

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

- employer contribution rates were set at 16.48% of pensionable pay;
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £14.9 billion;
- an employer cost cap of 10.9% of pensionable pay.

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

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

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

Scheme Changes

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

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

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

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

The pension costs paid to TPS in the year amounted to £1,278,000 (2015: £1,608,000)

Notes to the Accounts (continued)

23 Defined benefit obligations (continued)

FRS 102 (28)

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

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.

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Hampshire County Council. The total contribution made for the year ended 31 July 2016 was £1,490,000, of which employer's contributions totalled £1,220,000 and employees' contributions totalled £270,000. The agreed contribution rates for future years are 14.9% from 2017, increasing to 20.3% in 2020 for employers and range from 5.5% to 7.5% cent for employees, depending on salary.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 July 2016 by a qualified independent actuary

	At 31 July 2016	At 31 July 2015
Rate of increase in salaries	3.3%	3.6%
Future pensions increases	1.8%	2.1%
Discount rate for scheme liabilities	2.4%	3.6%
Inflation assumption (CPI)	1.8%	2.1%
Commutation of pensions to lump sums pre April 2010		25.0%
Commutation of pensions to lump sums post April 2010		75.0%

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

	At 31 July 2016 Years	At 31 July 2015 Years
<i>Retiring today</i>		
Males	24.60	24.50
Females	26.40	26.30
<i>Retiring in 20 years</i>		
Males	26.70	26.60
Females	28.70	28.60

23 Defined benefit obligations (continued)**Local Government Pension Scheme (Continued)**

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

	Fair Value at 31 July 2016 £'000	Fair Value at 31 July 2015 £'000
Equities	13,211	11,535
Bonds	6,547	5,517
Property	1,724	1,645
Cash	1,212	662
Other	606	702
Total market value of assets	23,300	20,060

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

	2016 £'000	2015 £'000
Fair value of plan assets	23,300	20,060
Present value of plan liabilities	(40,350)	(31,660)
Net pensions liability (Note 17)	(17,050)	(11,600)

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

	2016 £'000	2015 £'000
Amounts included in staff costs		
Current service cost	1,090	1,090
Past service cost	260	90
Total	1,350	1,180

Amounts included in interest payable

Net interest charge	400	380
	400	380

Amounts recognised in Other Comprehensive Income

Return on pension plan assets	1,860	1,250
Experience losses arising on defined benefit obligations	(6,780)	(2,410)
Amount recognised in Other Comprehensive Income	(4,920)	(1,160)

Notes to the Accounts (continued)

23 Defined benefit obligations (continued)

Local Government Pension Scheme (Continued)

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

	2016 £'000	2015 £'000
Deficit in scheme at 1 August	(11,600)	(9,970)
Movement in year:		
Current service cost	(1,090)	(1,090)
Employer contributions	1,220	1,090
Past service cost	(260)	(90)
Net interest on the defined liability	(400)	(380)
Actuarial gain or loss	(4,920)	(1,160)
Net defined benefit liability 31 July	(17,050)	(11,600)

Asset and Liability Reconciliation

	2016 £'000	2015 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	31,660	27,360
Current Service cost	1,090	1,090
Interest cost	1,130	1,110
Contributions by Scheme participants	270	310
Experience gains and losses on defined benefit	6,780	2,410
Estimated benefits paid	(840)	(710)
Past Service cost	260	90
Defined benefit obligations at end of period	40,350	31,660

	2016 £'000	2015 £'000
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Reconciliation of Assets

Fair value of plan assets at start of period	20,060	17,390
Interest on plan assets	730	730
Return on plan assets	1,860	1,250
Employer contributions	1,220	1,090
Contributions by Scheme participants	270	310
Estimated benefits paid	(840)	(710)
Assets at end of period	23,300	20,060

Notes to the Accounts (continued)

24 Related party transactions

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

The total expenses paid to or on behalf of the Governors during the year was £57; 2 governors (2015: £Nil). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and charity events in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2015: £Nil).

25 Amounts disbursed as agent

Learner support funds			
		2016	2015
		£'000	£'000
Funding body grants – bursary support		121	145
Funding body grants – discretionary learner support		730	977
		<u>851</u>	<u>1122</u>
Disbursed to students		(589)	(666)
Administration costs		(38)	(44)
		<u>224</u>	<u>412</u>
Balance unspent as at 31 July, included in creditors			

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

Notes to the Accounts (continued)

26 Transition to FRS 102 and the 2015 FE HE SORP

The year ended 31st July 2016 is the first year that the College has presented its financial statements under FRS 102 and the 2015 FE HE SORP. The following disclosures are required in the year of transition. The last financial statements prepared under previous UK GAAP were for the year ended 31st July 2015 and the date of transition to FRS 102 and the 2015 FE HE SORP was therefore 1st August 2014. As a consequence of adopting FRS 102 and the 2015 FE HE SORP, a number of accounting policies have changed to comply with those standards.

An explanation of how the transition to FRS 102 and the 2015 FE HE SORP has affected the College's financial position, financial performance and cash flows, is set out below.

	Note	1st August 2014 £'000	31st July 2015 £'000
Financial Position			
Total reserves under previous SORP		6,042	6,604
Employee leave accrual	a	(792)	(653)
Total effect of transition to FRS 102 and 2015 FE HE SORP		(792)	(653)
Total reserves under 2015 FE HE SORP		5,250	5,951
Financial Performance			
Surplus for the year after tax under previous SORP			2,072
Holiday pay accrual movement	a		139
Pensions provision – actuarial loss	b		(1,160)
Changes to measurement of net finance cost and service cost on defined benefit plans	c		(350)
Total effect of transition to FRS 102 and 2015 FE HE SORP			(1,371)
Total comprehensive income for the year under 2015 FE HE SORP			701

Notes to the Accounts (continued)

26 Transition to FRS 102 and the 2015 FE HE SORP**a) Recognition of short term employment benefits**

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31st August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 18 days unused leave for teaching staff and 2.5 unused leave for non-teaching staff.

An accrual of £789,000 was recognised at 1 August 2014, and £653,000 at 31 July 2015. Following a re-measurement exercise in 2015/16, the movement on this provision of £139,000 has been charged to Comprehensive Income in the year ended 31 July 2016.

b) Change in recognition of defined benefit plan finance costs

The net pension finance cost recognised in the Income and Expenditure account for the year ended 31st July 2015 under the previous UK GAAP was the net of the expected return on pension plan assets and the interest on pension liabilities. FRS 102 requires the recognition in the Statement of Comprehensive Income, of a net interest cost, calculated by multiplying the net plan obligations by the market yield on high quality corporate bonds (the discount rate applied). The change has had no effect on net assets as the measurement of the net defined benefit plan obligation has not changed. Instead, the decrease in the surplus for the year has been mirrored by a reduction in the actuarial losses presented within Other Comprehensive Income

c) Presentation of actuarial gains and losses within Total Comprehensive Income

Actuarial gains and losses on the College's defined benefit plans were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS 102 to be presented within the Statement of Comprehensive Income, as movements in Other Comprehensive Income.

**Independent reporting Accountant's report on regularity
to the Corporation of South Downs College and the Secretary of State for
Education acting through the Skills Funding Agency**

In accordance with the terms of our engagement letter dated 3 May 2016 and supplementary letter dated 22 November 2016 ('engagement letter') and further to the requirements of the financial memorandum with Skills Funding Agency we have carried out an engagement to obtain limited assurance about whether the expenditure disbursed and income received by South Downs College during the period 1 August 2015 to 31 July 2016 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

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

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

Respective responsibilities of South Downs College and the reporting accountant

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

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Joint Audit Code of Practice. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

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

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we

would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

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

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

Conclusion

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2015 to 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

RSM UK Audit LLP

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15/12/2016