HIGHBURY COLLEGE

Annual Report and Financial Statements
For the year ended 31 July 2019

Key Management Personnel, Board of Governors and Professional advisers

Key management personnel

Key management personnel are defined as the members of the Senior Management Team and were represented by the following in 2018-2019 and up to the date of this report

Stella Mbubaegbu - Principal and CEO; Accounting officer until 4 December 2019
Penny Wycherley – Interim Principal and Accounting Officer from 5 December 2019
Jonathan Cox – Group Finance Director until 14 February 2020
John Owen –Interim Chief Finance Officer from 7 January 2020
Sue Martin – Interim Vice Principal –Learning & Quality from 9 January 2020
Paul Graham – Managing Director, Highbury Technical Professional until 30 November 2019
Teresa Cole – Managing Director, Highbury Foundations
Helen Brennan – Managing Director, Student Central

Board of Governors

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

Paola Schweitzer was Clerk to the Corporation for the year.

Professional advisers

Financial statements auditors and reporting accountants:

Mazars LLP
Chartered Accountants and Statutory Auditor
Floor 5, Merck House
Seldown Lane
Poole
Dorset
BH15 1TW

Internal auditors:

Southern Internal Audit Partnership
The Castle
Winchester
Hampshire
SO23 8UB

Bankers:
Barclays Bank
Southampton City 2 Branch
50-52 London Road
Southampton
Hampshire
SO15 2SF

Svenska Handelsbanken AB
Portsmouth Branch
Ground Floor
1000 Lakeside
Western Road
Portsmouth
PO6 3EN

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Strategic Report

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2019.

Legal status

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

The Corporation was incorporated as Highbury College. The Registered Office is Highbury College, Tudor Crescent, Portsmouth, Hampshire, PO6 2SA.

Mission

The College's mission, as approved by the Corporation is:

"To enable all our students to succeed."

Vision

Highbury College has developed an ambitious and challenging vision for a 21st Century College. The vision is for the College to be:

- A world-class learning enterprise, leading the way, transcending borders
- Transforming and enriching lives.
- Pioneering innovative approaches to education and training.
- Inspiring ambition and co-creating sustainable futures with individuals, entrepreneurs, businesses and communities.
- Serving its diverse stakeholder communities with pride and passion.
- An influential organisation, recognised for excellence locally, nationally and internationally.

At the heart of this vision is the College mission which is 'to enable all our students to succeed'.

The priorities over the next three years are:

- Priority 1: Student Success, Resilience and Employability
- Priority 2: Amazing College, Amazing Staff
- Priority 3: Passion for Portsmouth, Commitment to Global Britain
- Priority 4: Alliances, Partnerships and Collaboration
- Priority 5: Innovation for Growth & Sustainability
- Priority 6: Digital Transformation
- Priority 7: Commerciality

Public Benefit

The College is an exempt charity within the meaning of Part 3 of the Charities Act 2011 following the machinery of Governance changes in 2016 and is regulated by the Secretary of State for Education. 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. The members of the Governing Body are disclosed on page 14.

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

Strategic Report (continued)

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent progression into employment for students
- Strong student support systems
- Strong links with employers, industry and commerce.

Financial objectives

The Group's performance measured against the targets set for financial performance in 2018/19 were:

Financial Objective	Target	Actual
Liquidity – Adjusted Current Ratio	>= 1.5	0.4
Expenditure -Pay Costs as a % Income (exc restructure costs)	Less than 65%	75%
Margin- EBITDA Ratio	>5%	-17.5%
Gearing – Long Term Debt as a % of Income	Less than 40%	7.70%
Cash – Net Cash Inflow from Operating Activities	> £1m	(£1.1m)

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 Education and Skills Funding Agency ("ESFA"). The College was assessed by the ESFA as having a **"**Good**"** financial health as at 31 July 2019. This has now changed to "Inadequate" following FE Commissioner intervention in November 2019.

FINANCIAL POSITION

Financial Results

The Statement of Comprehensive Income shows a surplus for the Group of £1.6m (2017/18 restated - deficit of £4.1m). The group surplus is after crediting the accelerated release of £3.0m deferred capital grants relating to the Highbury City of Portsmouth Centre (HCPC) that was sold in the year, and charging loan break costs of £0.6m which related to the repayment of the balance of the loan secured against HCPC and FRS102 (28) pension costs of £0.8m. An additional deferred capital grant release was made of £0.5m following a detailed review. The underlying financial outturn excluding these adjustments was a deficit of £0.5m.

The surplus for the College was £1.2m (2017/18 restated-deficit of £4.2m). The figures for 2018 are restated in line with the requirements of FRS102. In particular, additional depreciation of £0.4m for under depreciated assets, the capitalisation of assets acquired under Finance Leases, previously not reported in line with FRS102 impacted the result by £0.4m. The correction in the accounting treatment of Highbury Burton Saudi Arabia Limited (HBSA) impacted the result by £1.1m.

The cash balance at the year-end stood at £0.72m £(2017/18 –£0.59m) and the net current liabilities adjusted to exclude the deferred capital grant creditor are £0.4m (2017/18 restated- £0.5m).

The cost of tangible fixed asset additions during the year amounted to £756k.The College disposed of assets with a net book value of £5.7m.

Strategic Report (continued)

The College has significant reliance on the funding bodies for its principal funding source, largely from recurrent grants. In 2018/19 the funding bodies provided 83% of the College's total income (80% 2017/18).

The College has four subsidiary companies:

	Country of Incorporation	Owner-ship	Activity
Highbury Apprenticeships (Birmingham) Ltd	England &Wales	100%	Apprenticeship Training
Highbury College Commercial Services Ltd	England &Wales	100%	Not trading
New Work Training Ltd	England &Wales	70%	Not trading
Highbury College Nigeria Ltd	Nigeria	100%	Dormant

The College continues to hold a 50% shareholding in the Joint Venture Company, Highbury Burton Saudi Arabia Limited (HBSA). HBSA is registered in Saudi Arabia. Its business is to deliver a contract for the Colleges of Excellence to manage and operate a College in Jeddah. The profit from the joint venture accrued to the College in the 2018/19 financial year was £0.7m. A dividend of £0.5m was received by the College in 2018/19.

The College was categorised as a "Good" financial health rating at 31 July 2019, but is now rated "Inadequate" following FE Commissioner intervention.

Future Prospects

The three-year financial forecast submitted by the College as at 31 July 2019 indicated that the college would move towards further improvement in the financial position through 2019/20 as a result of implementing savings arising from the sale of HCPC and further revenue savings.

The HCPC building was identified in the Property Strategy as being surplus to the current and future accommodation needs of the College and was sold for £5.7m in August 2018. The savings from the running and other associated costs were estimated to be £0.6m per annum. The proceeds from the sale were used to repay the long-term loan to which the property was held as security.

The College sought to secure a small surplus budget in 2019/20. However, this target has not been achieved and the College is currently projecting a deficit of £1.3 million in 2019/20. This will result in the College requiring emergency funding from the ESFA and it will remain in inadequate financial health at 31 July 2020. The College has been placed under supervised status by the Further Education Commissioner (FEC). Working together with the FEC and the ESFA, the new interim senior leadership team is implementing further measures and improved financial control to allow the College to move its financial health to "requires improvement" by 31 July 2021.

Going Concern

In January 2020 it became apparent to the interim senior leadership team that the College was at risk of running out of cash in March 2020. As a result, the College applied for a reprofiling of its main ESFA funding allocation and received £800,000 in March 2020. £400,000 of this was repaid in April 2020 and a further £200,000 in May 2020. The balance is due to be repaid in June 2020. The College has been unable to secure additional funding from its banks and as a result it has now become apparent that the College will require emergency funding in June 2020 if it is to continue to operate. An application for this is was submitted to ESFA in May 2020.

Strategic Report (continued)

The loan agreement that the College has with Svenska Handelsbanken AB requires the College to maintain a current ratio of greater than 1:1. This covenant will be breached once these financial statements are finalised and the loan will technically all be due for repayment. The College will discuss the profile of future repayments to the bank once these financial statements are finalised.

In addition to the above, the COVID-19 pandemic has caused significant disruption to the College's activities. The College closed to all students and staff at the end of March 2020. Although the College reopened to a small number of vulnerable students in May 2020, the majority of teaching and learning is being undertaken remotely. The College has lost significant income from its commercial activities; these are in part offset by expected cost savings, but the pandemic has placed additional strain on the College's finances. The commitment from the ESFA to continue to pay core funding to the College reduces the risk to the College.

Based on the information available to it, the Corporation believes that it is appropriate to continue to prepare the financial statements on a going concern basis, on the assumption that sufficient emergency funding will be provided by the ESFA to enable the College to continue to operate for at least a further year. However, these circumstances represent a material uncertainty that may cast doubt on the ability of the College to continue as a Going Concern and therefore to continue to realise its assets and discharge its liabilities in the normal course of business.

Treasury policies and objectives

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

The College has a separate treasury management policy in place. All borrowing requires the authorisation of the Corporation and shall comply with any requirements of the Financial Memorandum with the ESFA.

Cash flows and Liquidity

Net cash outflow from operating activities was £1,057k. (2017/18 £211k in-flow). The College has a working capital ratio of 0.4 (1.4 2017/18) after adjusting for the impact of the treatment of Capital Grants, and cash reserves of £724K (£591k 2017/18).

The College does not operate with an overdraft facility.

Reserves Policy

The College has no formal reserves policy but recognises the importance of reserves in the financial stability of any organisation and seeks to ensure that there are adequate reserves to support the College's core activities. The Group reserves do not include any restricted reserves. As at the balance sheet date the Income and Expenditure reserve of the Group stands at (£5.7m) (2018 restated: (£4.5m)), the overall Income and Expenditure reserves include the pension reserves deficit of (£17.1m) (2018: (£13.5m)). It is the Corporation's intention to increase reserves over the life of the strategic plan through the generation of annual operating surpluses.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student Numbers

In 2018/19 the College has delivered activity that has produced £11.9m in funding body main allocation funding (2017/18 – £12.1m). In 2018/19 the College achieved the following student numbers:

	Target	Actual
16-18 Learners:	1,179	1,373

In 2018-2019 students achieved 90.2% of their qualification aims (88.9% in 2017/18).

Strategic Report (continued)

Academic Developments

The College's Curriculum Strategy supports and underpins the key priorities identified in the Strategic Plan. The Strategy has proved successful in providing a responsive curriculum which meets the needs of employers and individuals and responds to regional and local needs.

In the College's April 2018 Ofsted inspection, the College received an overall grade of 3 "Requires Improvement". A subsequent Ofsted progress review meeting identified that the College had made satisfactory progress in all areas. Quality improvement action plans have been developed and continue to be implemented by the College to ensure the next inspection improves the overall grade to "Good".

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 an agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During 2018/19, the College paid 46 per cent of its invoices within 30 days. The College incurred minor interest charges in respect of late payment for this period.

RESOURCES:

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

Tangible resources include the Highbury Campus and the Highbury Northarbour Centre.

Financial
As at the 31st July 2019 the College Group had £4.1m of net liabilities including a £17.1m pension liability, bank debt of £1.0m ordinarily repayable by 31 July 2021 but now repayable on demand because of a breach of loan covenants, and deferred income from capital grants of £20.1m. Net Assets exclusive of the pension liabilities and the deferred income from capital grants were £33.0m.

People
The College employed an average of 323 people (expressed as full-time equivalents), of whom 102 were on teaching contracts during 2018/19.

Reputation
The College has had had a good reputation for many years having been graded as outstanding by Ofsted in 2011. However, in 2019 its reputation became more uncertain with a visit by the Further Education Commissioner's team and some press coverage that was critical of senior management.

PRINCIPAL RISKS AND UNCERTAINTIES:

The College Leadership Team undertakes a comprehensive review of the risks on a half termly basis with more frequent reviews through the Executive meetings of more urgent risks. Where risks are identified systems and procedures including specific preventable actions which mitigate potential negative impact on the College are implemented. A risk register, covering low, medium and high-level risks, is maintained at College level. 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 now scored using a points score system based on finance, reputational and likelihood with a maximum 30-point scale system.

Strategic Report (continued)

The internal controls for managing risks deemed as medium and high are incorporated into an annual risk management action plan. The effectiveness of the College's internal controls in managing those identified risks is monitored by the Audit Committee for risks deemed as high, and through the College Leadership Team's monthly Business Results meetings for those deemed as medium and high. In addition to the annual review the College Leadership Team will also consider any risks which arise during the year, for example, as a result of a new area of work being undertaken by the College or external factors such as changes in funding arrangements. These new risks will be added to the plan and submitted to Corporation for approval of the risk rating and the mitigating actions to manage the risk.

The College's approach to risk management is supported by an approach which raises awareness of risk throughout the College. In addition, Directors and Heads of Department incorporate risk management in their self-assessment reports and quality improvement plans. 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.

Cash Position

Reference is made elsewhere in this report to the critical nature of the College's cash position and the need to apply for emergency funding from ESFA for continuing support. Failure to secure this funding poses a major risk to continuing operations.

The main funding bodies change the policies regarding funding resulting in reductions of funds

The College has considerable reliance on continued government funding through the further education sector funding bodies. In 2018/19 approximately 83% of the College's revenue was publicly funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms. It is critical that action to respond to changes is taken rapidly and the College is flexible in its approach. The College's student profile with above average provision at Level 1 and 2 and a high proportion of adult learners means that it is particularly vulnerable to low levels of funding and therefore has to have a lean approach to management and to systems. Curriculum planning and staff utilisation are two of the major keys to managing resources and funding effectively

The College will continue to seek alternative sources of income to reduce the reliance on government funded provision.

The ESFA funding target may not be achieved

The College recruited approximately a slightly higher number of 16-18-year-old learners in 2018/19 as in 2017/18. Future financial projections as included in the financial planning for the College assume growth for learner allocations in line with the demographic trends.

Maintain adequate funding of pension liabilities

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102.

The dependency on external projects overseas

This is a growing risk as the Joint Venture in Saudi Arabi reaches the end with the College's dependency on this source of funding

Impact of COVID-19

The COVID-19 pandemic has severely disrupted normal College activity, and there is a risk that this will continue. The College has developed a detailed COVID risk register in order to minimise the risk

Strategic Report (continued)

STAKEHOLDER RELATIONSHIPS

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

- Students
- Education sector funding bodies
- FE Commissioner
- Staff
- Local employers (with specific links)
- Local Authorities
- Government Offices
- The Local Enterprise Partnership
- The local community
- Other FE institutions
- Trade unions
- Professional bodies

The College recognises the importance of these relationships and engages in regular communication with each of them.

Equal opportunities and employment of disabled persons

Highbury College is committed to ensuring equality of opportunity for all who learn and work at the College. We respect and positively value differences in race, gender, gender reassignment, sexual orientation, pregnancy and maternity, marriage and civil partnerships, religious belief, ability, class and age. We strive vigorously to remove conditions which place people at a disadvantage, and we will actively combat bigotry. This policy will be resourced, implemented and monitored on a planned basis.

The College's Equal Opportunities Policy and Single Equality Scheme, including its Race Relations and Transgender policies are published on the College's website.

The College values equality and celebrates diversity and welcomes applications from people with disabilities. Through its Human Resources Policies and procedures, the College seeks to ensure that:

(a) Full and fair consideration is given to applications for employment from applicants with disabilities, having regard for any reasonable adjustments that are required.

(b) The College continues to support and assist staff who have a disability during their employment through making reasonable adjustments such as changing working hours or work patterns, additional equipment, appropriate training or retraining.

(c) Staff with disabilities have equitable opportunities for training, career development and promotion.

Strategic Report (continued)

Disability Statement

Disability Statement – Policy

Highbury College is committed to equality of opportunity for all students, including those with learning difficulties and/or disabilities. The College aims to provide appropriate support to enable students to benefit from their studies and intends to continue developing such provision within the guidelines of the Equality Act 2010 and previously the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Acts 2001 and 2005.

The aim of Highbury College is that students with learning difficulties or disabilities should be fully included wherever possible. For those who are not ready for inclusion, the College also offers a range of entry and foundation courses and other personalised provision. Students with learning difficulties or disabilities are interviewed in the same way as any other student with an additional confidential interview on the same day with a specialist member of staff, to discuss individual support needs.

Disability Statement - Educational Support

The Learning Support Service employs staff with experience in working with students and apprentices who have difficulties with english, mathematics, language, study skills, social emotional and behavioural issues or specific learning difficulties such as dyslexia. 1:1 and small group support is delivered at all levels including Entry and Foundation on discrete and other programmes. Support needs are identified through initial and diagnostic assessments. All support is delivered in rooms that are accessible to learners with mobility difficulties.

The College employs a team of specialists (the SEN team) who work alongside teachers to provide support for students and apprentices with learning difficulties and/or disabilities. A team of learning assistants also supports groups and individual learners in classrooms, workshops and Study Centres. British Sign Language communicators are available for students with hearing impairment.

The Leadership Team of Highbury College is committed to provide a safe and healthy workplace and to protect the health and safety of all staff, students and any other persons that may be affected by the College's activities. Using the process of risk assessments, the College will make reasonable adjustments to working practices or premises so that best practice can be employed to provide appropriate support for students with learning difficulties or disabilities.

Disability Statement – Complaints Procedure

Highbury College has a formal complaints procedure, which is explained to learners via the Student/Apprentice handbook which is distributed during induction. Where a learner with disabilities or learning difficulties wishes to make a complaint and needs assistance with this, support will be given. Feedback forms for informal student feedback are also available for informal comments.

Disability Statement - Examinations and Assessments

Where learners require special arrangements for examinations or assessments e.g. extra time, reader or writer, this can be discussed in confidence. The first stage of an internal assessment is to meet with a specialist member of the College staff. The College will liaise with the Exam Board or Lead Assessment Body, and where an external assessment is required, e.g. an Educational Psychologist assessment, the College is able to make arrangements for this with current students. Special arrangements are at the sole discretion of the Exam Board or Lead Assessment Body. If a separate room, additional invigilator or reader/writer are approved by the examining body, the College is able to provide these for current students.

Disability Statement – Physical Access

Much of Highbury is accessible to people with disabilities and it is College policy to use, wherever possible, accessible rooms for groups, which include a student or students with disabilities.

Strategic Report (continued)

Trade Union Facility Time

In 2018/19 there were no employees of the College who hold a position as a trade union official.

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 26 May 2020 and signed on its behalf by:

Martin Doel
Chair of Governors

Statement of Corporate Governance and Internal Control

The College is committed to exhibiting best practice in all aspects of corporate governance. 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. The Statement covers the period from 1 August 2018 to 31 July 2019 and up to the date of approval of the annual report and principal 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 English Colleges' Foundation Code of Governance ("the Code"); and
iii. Having due regard to the UK Corporate Governance Code in so far 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 has adopted and complied with the Code. It has not adopted and therefore does 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. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes account of the English College's Foundation Code of Governance issued by the Association of Colleges in December 2011, which it formally adopted in July 2012.

In September 2018 the Clerk received two linked whistleblowing allegations. These were treated in accordance with the College's Whistleblowing Policy and were the subject of an independent external investigation. The investigation culminated in a report with a series of recommendations which were examined by a Special Committee. The recommendations were agreed by the Board and the governance shortcomings addressed through a working group and action plan. The Chair of Corporation and the Clerk to the Corporation informed the ESFA of these allegations promptly and kept them regularly updated on all developments. The ESFA provided advice and support during the investigation process and beyond. In October 2019 there was a visit by the Further Education Commissioner's Team and in November 2019 a diagnostic assessment was undertaken. Following that visit, the interim Chair of Corporation and interim Principal & CEO (January 2020 and December 2019 respectively) were appointed and have instigated sweeping changes within the College, particularly concerning governance.

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.

Statement of Corporate Governance and Internal Control (continued)

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

Name	Date of Present Appoint-ment	Term of Office (yrs)	Resignation / End of Term of Office	Status of Appointment	Commit-tees Served	Attend-ance (No of meetings)
Nazir Ahmed	12-Nov-19	4	11-Nov-23	Staff	F&E	1
David Allen	05-Dec-17	4	19-Dec-18	Staff		2
Stephen Burke	14-May-19	4	21-May-23	Independent	Audit, S&G	12
Max Craft	22-Mar-16	4	21-Mar-21	Independent	S&G, F&E, Rem	14
Katie Danvers-Hewitt	20-Mar-18	4	19-Mar-22	Independent	Audit, L&Q	18
Rob Dickens	16-Mar-20	4	15-Mar-24	Independent	F&E	4
Martin Doel	01-Jan-20	Interim	31-Aug-20	Independent	Interim Chair, S&G	5
Callum Farminer	28-Jan-20	1	31-Jul-20	Student		2
Miles Henson	20-Mar-18	4	12-Feb-19	Independent		1
Lena Itangata	05-May-20	4	04-May-24	Independent		1
Tim Mason	20-Mar-18	4	19-Mar-22	Independent	S&G, L&Q, F&E, Rem	17
Stella Mbubaegbu	01-Oct-01	N/A	30-Apr-20	Principal	Ex Officio member, and Search	9
Kayembe Mbombo	14-May-19	4	21-Nov-19	Independent	Audit	4
Tom McCaffery	03-Oct-17	2	05-Feb-19	Student		3
Andrew Minter	02-Jul-18	4	31-Dec-19	Independent	Audit, Rem	16
Drusilla Moody	03-Dec-17	4	18-Dec-18	Independent	Rem	4
Rob Nitsch	05-May-20	4	04-May-24	Independent	Audit	3
Mark Pembleton	27-Nov-18	4	26-Nov-22	Independent	Audit	11
Max Prangell	19-Mar-19	4	11-Sep-19	Independent	S&G	3
Ian Pretty	27-Nov-18	4	17-Dec-19	Independent	Audit	6
Paul Quigley	28-Jan-20	4	27-Jan-24	Independent	F&E	1
John Royston-Ford	20-Mar-18	4	19-Mar-22	Independent	Audit, L&Q Rem	17
Howard Slidel	04-Oct-16	4	10-Mar-19	Independent	Finance	2
Karen Wood	17-Dec-19	4	06-May-20	Staff	L&Q, S&G	3
Penny Wycherley	02-Dec-19	Interim	31-Aug-20	Interim Principal & CEO	S&G	6
Nicola Youern	05-Oct-18	4	19/12/2019	Independent	Chair of Corporation Search, Finance.	3

Ms Paola Schweitzer acts as Clerk to the Corporation

Statement of Corporate Governance and Internal Control (continued)

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The Corporation meets at least six times each year.

The Corporation conducts some of its business through Committees. Each Committee has terms of reference, which have been approved by the full Corporation.

Current Committees are Audit, Finance & Estates (F&E), Learning & Quality (L&Q), Search & Governance (S&G) and Remuneration (Rem). At its meeting on 28 January 2020 the Corporation confirmed that it was no longer following the policy governance (Carver) model and was returning to a more traditional FE college governance structure. Full minutes of all meetings are available from the Clerk to the Corporation at:

Highbury College
Tudor Crescent
Portsmouth
PO6 2SA

Minutes are also available on-line at www.highbury.ac.uk.

The Clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address.

All 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 agendas, 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 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 of the Corporation and Principal of the College are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. Under the policy governance model introduced in March 2018, potential new members were interviewed by the Chair, Principal and at least one other governor who then made a recommendation to Corporation. Potential new members are now interviewed by the Search & Governance Committee (reconvened in September 2019) which makes a recommendation to Corporation. 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. The total period of membership is normally limited to two four-year terms of office.

Corporation Performance

Performance against the Governance Performance Indicators for 2018/19 can be seen the table as follows

Area	Performance Indicator			Evidence	Comments
Attendance	1)	a)	80% attendance at all main Corporation meetings in the year	Corporation meeting minutes	Achieved (84%)
		b)	80% attendance at all committee meetings in year (by committee)	Committee meeting minutes	Achieved at Audit & Remuneration Committees (86% and 100% respectively).
		c)	All scheduled Corporation and Committee meetings are quorate	Corporation/Committee meeting minutes	One Audit Committee meeting was inquorate (05 March 2019)
Guiding and monitoring the strategic direction of the College	2)	Corporation to consider the strategic direction of the College once each year		Corporation meeting minutes	Vision Plan 2017-20 (Headline Outcomes) reviewed by Corporation on05 February 2019 (Min 2761).
	3)	Key strategic objectives and financial performance of the College to be formally monitored by Corporation each term.		Corporation meeting minutes & Annual Accounts	Monitoring Report & Forecast is a standing agenda item at all Corporation meetings: 02 October 2018 Min (2694), 27 November 2018 (Min 2711), 18 December 2018 (Min 2741), 05 February 2019 (Min 2762), 19 March 2019 (Min 2787), 14 May 2019 (Min 2810) and 02 July 2019 culminating in agreeing the Financial Plan 2018-2021 (Min 2836 & 2837).
	4)	Monitor achievement of College annual targets for retention and achievement.		Corporation meeting minutes	Quality Monitoring Report (which includes reporting on retention and achievement targets) is a standing agenda item at all Corporation meetings: 02 October 2018 (Min2694), 27 November 2018 (Min 2709), 18 December 2018 (Min 2740), 05 February 2019 (Min 2764), 19 March 2019 (min 2786), 14 May 2019 (Min 2809) and 02 July 2019 (Min 2834).
Senior post holders/Clerk	5)	Annual appraisal of Principal and Clerk undertaken by Chair.		Chair's report to Corporation	Annual appraisal of Principal carried out 21 May 2019. Annual appraisal of the Clerk carried out 11 June 2019 and reported to Corporation on 02 July 2019 (Min 2830).
Equality of Opportunity	6)	Monitoring Reports are presented to the Corporation as appropriate.		Corporation/Committee meeting minutes	An Equality & Diversity Report was not considered by Corporation in 2018/19.
Risk Management	7)	Corporation approves annual Risk Management Action Plan. Audit Committee monitors implementation of the Plan.		Corporation/Committee meeting minutes	Risk Management Policy agreed, and Strategic Risk Register noted by Corporation on 19 March 2019 (Min 2793) with Audit Committee considering Risk Management Monitoring as a standing item at its meetings (20 November 2018, (Min 904) and 21 May 2019 (Min 918).

Area	Performance indicator		Evidence	Comments
Audit Arrangements	8)	Corporation receives Annual Report from Audit Committee.	Corporation Minutes	Audit Committee Annual Report agreed by Corporation 27 November 2018 (Min 2718).
		Audit Committee and Auditors comply with Audit Code of Practice.	Audit Committee minutes and Audit/Inspection reports.	Audit Committee Annual Report to Corporation on 27 November 2018 (Min 2718), Strategic Internal Audit Plan & Annual Internal Audit Plan (Min 2746) & Internal Audit Reports (summer term 2018 - (Min 900, autumn term 2018 & spring term 2019 - (Min 914). Audit Committee's Terms of Reference reviewed on 20 November 2018 (Min 898).

Statement of Corporate Governance and Internal Control (continued)

Remuneration Committee

Throughout 2018/19, the College's Remuneration Committee comprised between three and five members of the Corporation including the Vice Chair (but excluding the Chair, Principal and Staff and Student members). The Committee's responsibilities are to make recommendations to the Chair of the Corporation on the remuneration and benefits of the Principal, other senior post holders and the Clerk to the Corporation. Details of remuneration for the year ended 31 July 2019 are set out in note 7 of the financial statements.

Audit Committee

During 2018/19 Audit Committee comprised between four members (excluding the Chair of the Corporation, student and staff governors, members of the Finance Committee and the Principal).

The Audit Committee is scheduled to meet on a termly basis, but only met twice in 2018/19 (the spring term meeting was inquorate). To date in 2019/20, there have been three meetings and a further inquorate meeting. The Committee provides a forum for reporting by the College's internal, financial statements and regularity auditors who have access to the committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the main FE funding bodies, as they affect the College's business. With the appointment by Corporation of the new external auditors (Mazars) in July 2019 it became clear that there had been significant accounting failings over a number of years. Steps have been put in place to address these weaknesses and the Board Development Plan being implemented by the Search & Governance Committee seeks to strengthen the financial and audit knowledge and experience on Corporation and more specifically, Audit Committee.

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 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 audit and non-audit work as well as reporting annually to the Corporation.

Internal Control

Scope of responsibility

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

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

Statement of Corporate Governance and Internal Control (continued)

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 Highbury College for the year ended 31 July 2019 and up to the date of approval of the annual report and accounts.

Capacity to Handle Risk

The Corporation agreed a revised risk management process and risk register in March 2020. The process and register will be reviewed annually by Corporation, with Audit Committee considering the process as a standing agenda item and other Committees regularly considering the items from the headline risk register associated with their areas. The Corporation is of the view that there is now a formal ongoing process for identifying, evaluating and managing the College's significant risks.

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 Corporation. This will now be scrutinised by the recently reconvened Finance & Estates Committee.
- Regular reviews by the Corporation 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.

The College has an internal audit service, which operates in accordance with the requirements of the ESFA post 16 Audit Code of Practice. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the Audit Committee. At least annually, the Internal Auditors provide the Corporation with a report on internal audit activity in the College.

The report includes the Head of Internal Audit'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 and the reporting accountant for regularity assurance in their management letters and other reports.

The Accounting Officer has been advised on the implications of the result of her 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.

Statement of Corporate Governance and Internal Control (continued)

The Senior Management 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 Management Team and the Audit Committee also receive regular reports from internal audit and other sources of assurance, 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 approves the Risk Management Process annually and receives an annual report on progress as well as details of risk management monitoring through the minutes of the Audit and other Committees. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

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

Going Concern

These financial statements have been prepared on a going concern basis. As noted in the strategic report, in January 2020 it became apparent to the interim leadership team that the College was at risk of running out of cash in March 2020. As a result, the College applied for a reprofile of its main ESFA funding allocation and received £800,000 in March 2020. £400,000 of this was repaid in April 2020 and a further £200,000 in May 2020. The balance is due to be repaid in June 2020. The College has been unable to secure additional funding from its banks and as a result it has now become apparent that the College will require emergency funding in June 2020 if it is to continue to operate and an application to ESFA for this was made in May 2020The loan agreement that the College has with Svenska Handelsbanken AB requires the College to maintain a current ratio of greater than 1:1. This covenant will be breached once these financial statements are finalised and the loan will technically all be due for repayment. The College will discuss the profile of future repayments to the bank once these financial statements are finalised.

In addition to the above, the COVID-19 pandemic has caused significant disruption to the College's activities. The College closed to all students and staff at the end of March 2020. Although the College reopened to a small number of vulnerable students in May 2020, the majority of teaching and learning is being undertaken remotely. The College has lost significant income from its commercial activities; this is, in part, offset by expected cost savings, but the pandemic has placed additional strain on the College's finances. The commitment from the ESFA to continue to pay core funding to the College does reduce the risk to the College.

Based on the information available to it, the Corporation believes that it is appropriate to continue to prepare the financial statements on a going concern basis, on the assumption that sufficient emergency funding will be provided by the ESFA to enable the College to continue to operate for at least a further year. However, these circumstances represent a material uncertainty that may cast doubt on the ability of the College to continue as a Going Concern and therefore to continue to realise its assets and discharge its liabilities in the normal course of business.

Approved by order of the members of the Corporation on 26 May 2020 and signed on its behalf by:

Penny Wycherley

Martin Doel

Penny Wycherley, Accounting Officer

Martin Doel, Chair of Governors

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 ESFA of material irregularity, impropriety and non-compliance with ESFA's terms and conditions of funding, under the College's grant funding agreements and contracts with the ESFA. 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 its knowledge, the Corporation believes it is able to identify any material irregular or improper use of funds by the College, or material non-compliance with the terms and conditions of funding under the College's grant funding agreements and contracts with the ESFA.

See paragraph 5 Statement of Corporate Governance and Internal Control above.

Approved by order of the members of the Corporation on 26 May 2020 and signed on its behalf by:

Penny Wycherley

Penny Wycherley, Accounting Officer

Martin Doel

Martin Doel, Chair of Governors

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.

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

In preparing the financial statements the Corporation is required to:

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

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

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

Members of the Corporation are responsible for ensuring that funds from the Education and Skills Funding Agency are used only in accordance with the authorities that govern them as defined by and in accordance with Further & Higher Education Act 1992, subsequent legislation and related regulations and the Financial Memorandum with the Education and Skills Funding Agency and any other conditions that may be prescribed from time to time.

Approved by order of the members of the Corporation on 26 May 2020 and signed on its behalf by:

Martin Doel

Martin Doel

Chair of Governors

INDEPENDENT AUDITOR'S REPORT TO THE CORPORATION OF HIGHBURY COLLEGE

Independent auditor's report to the members of Highbury College

Qualified Opinion

We have audited the financial statements of Highbury College (the 'College') for the year ended 31 July 2019 which comprise the Consolidated and College Statement of Comprehensive Income and Expenditure, the Consolidated and College Statement of Changes in Reserves, the Consolidated and College Balance Sheet, the Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2019 and of the College's deficit of expenditure over income for the year then ended; and

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for Qualified Opinion

With respect to tangible and intangible fixed assets, having a carrying amount of £34m in the financial statements, the audit evidence available to us was limited because the fixed asset register appeared to be incomplete and did not reconcile to the nominal ledger. Owing to the historic nature of the register and the underlying issues, the Corporation was unable to produce an appropriate fixed asset register within the timescales required for the completion of the audit. We were therefore unable to obtain sufficient appropriate audit evidence regarding fixed assets and thus we are not able to form a view as to whether the carrying value of this material balance was fairly stated both at the year end and at the start of the year.

With respect to the consolidation of subsidiaries within the group financial statements, the audit evidence available to us for the College's subsidiary, Highbury College Nigeria Limited, was limited as no books or records were maintained for that entity. The Corporation were unable to produce adequate books and records to allow us to obtain sufficient evidence regarding the proper consolidation of this subsidiary including its assets and liabilities and completeness of transactions.

As a result of these aforementioned matters, we were unable to fully determine whether any adjustments might have been considered necessary in respect of recorded or unrecorded fixed assets or the completeness of the consolidation of Highbury College Nigeria Limited, and the associated elements making up the Consolidated and College Statement of Comprehensive Income and Expenditure, the Consolidated and College Statement of Changes in Reserves, the Consolidated and College Balance Sheet, the Consolidated Cash Flow Statement and notes to the financial statements. The possible effects in the financial statements of undetected misstatements arising from these matters, if any, could be material in relation to both the current and prior year.

Independent auditor's report to the members of Highbury College (continued)

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements ("Note 1") and commentary within the Strategic Report, which sets out the Governor's view on the significant uncertainty relating to the College's financial position, in particular that in January 2020 it became apparent to the interim leadership team that the College was at risk of running out of cash in March 2020. As a result, the College applied for a reprofiling of its main ESFA funding allocation and received £800,000 in March 2020. £400,000 of this was repaid in April 2020 and a further £200,000 in May 2020. The balance is due to be repaid in June 2020. The College has been unable to secure additional funding from its banks and, as a result, it has now become apparent that the College will require emergency funding in June 2020 if it is to continue to operate and an application to ESFA for this was submitted to ESFA in May 2020.

The financial challenges facing the College have been exacerbated by the Coronavirus COVID-19 pandemic. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK. The full impact following the recent emergence of the COVID-19 is still unknown. It is therefore not currently possible to *evaluate* all the potential implications to the College's activity, students, staff, suppliers and the wider economy

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

Other information

The Corporation are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Independent auditor's report to the members of Highbury College (continued)

Matters on which we are required to report by exception

Arising solely of the limitations on the scope of our work relating to fixed assets and Highbury College Nigeria Limited, referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether adequate accounting records had been kept.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or

- the information given in the report of the Members of the Corporation, including the operating and financial review and statement of corporate governance, is inconsistent with the financial statements; and

- we have not received all the information and explanations we require for our audit.

Responsibilities of the Corporation

As explained more fully in the Statement of Responsibilities of the Members of the Corporation set out on page 22, the Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Corporation determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Independent auditor's report to the members of Highbury College (continued)

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

Use of the audit report

This report is made solely to the Corporation as a body in accordance with Article 22 of the College's Articles of Government. Our audit work has been undertaken so that we might state to the Corporation those matters we are required 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 College and the Corporation as a body for our audit work, for this report, or for the opinions we have formed.

Mazars LLP

Mazars LLP
Chartered Accountants and Statutory Auditor
5th Floor, Merck House
Seldown Lane
Poole
Dorset
BH15 1TW

Date: 29 May 2020

Consolidated Statements of Comprehensive Income

	Notes	Year ended 31 July 2019		Year ended 31 July 2018 Restated	
		Group £'000	**College £'000**	**Group £'000**	**College £'000**
INCOME					
Funding body grants	2	16,342	16,342	15,554	15,554
Tuition fees and education contracts	3	1,883	1,883	1,982	1,982
Other grants and contracts	4	858	858	1,324	1,324
Other income	5	1,391	659	1,443	579
Investment income	6	-	-	(7)	(7)
Total income		**20,474**	**19,742**	**20,296**	**19,432**
EXPENDITURE					
Staff costs	7	11,971	11,726	11,674	11,379
Restructuring costs	7	171	171	132	128
Other operating expenses	8	4,541	4,349	5,415	4,964
Depreciation & Amortisation	11	1,838	1,760	6,781	6,703
Interest and other finance costs	9	1,017	1,017	642	642
Total expenditure		**19,538**	**19,023**	**24,644**	**23,816**
Surplus/ (deficit) before other gains and losses		**936**	**719**	**(4,348)**	**(4,384)**
(Loss)/Profit on disposal of fixed assets		(18)	-	51	51
Share of operating surplus in joint venture		672	500	155	143
Surplus / (deficit) before tax		**1,590**	**1,219**	**(4,142)**	**(4,190)**
Taxation	10	-	-	-	-
Surplus / (deficit) for the year		**1,590**	**1,219**	**(4,142)**	**(4,190)**
Re-measurement of defined pension liabilities	25	(2,760)	(2,760)	2,480	2,480
Total Comprehensive Income for the year		**(1,170)**	**(1,541)**	**(1,662)**	**(1,710)**

Consolidated Statements of Comprehensive Income (continued)

	Year ended 31 July 2019		Year ended 31 July 2018 Restated	
	Group	**College**	**Group**	**College**
	£'000	**£'000**	**£'000**	**£'000**
Represented by:				
Restricted comprehensive income	-	-	-	-
Unrestricted comprehensive income	(1,170)	(1,541)	(1,662)	(1,710)
	(1,170)	**(1,541)**	**(1,662)**	**(1,710)**
Surplus for the year attributable to:				
Non-controlling interest	**(6)**	**-**	**(43)**	**-**
Group	**1,596**	**1,219**	**(4,099)**	**(4,190)**

Consolidated and College Statement of Changes in Reserves

	Income and expenditure account	Revaluation reserve	Total excluding Non-controlling interest	Non Control-ling Interest	Total
	£'000	£'000	£'000	£'000	£'000
Group					
Balance at 31st July 2017	**(2,919)**	**1,659**	**(1,260)**	541	**(719)**
(Deficit) from the income and expenditure account	(2,480)	-	(2,480)		(2,480)
Other comprehensive income	2,480	-	2,480		2,480
Effect of Prior Year adjustment	(1,578)		(1,578)	(642)	**(2,220)**
Transfers between revaluation and income and expenditure reserves					
Total comprehensive income for the year	(1,578)		(1,578)	**(642)**	(2,220)
Balance at 31st July 2018 restated	**(4,497)**	**1,659**	**(2,838)**	(101)	**(2,939)**
Surplus/(deficit) from the income and expenditure account	1,590	-	1,590	(6)	1,584
Other comprehensive income	(2,760)	-	(2,760)		(2,760)
Total comprehensive income for the year the year	(1,170)	-	(1,170)	**(6)**	(1,176)
Balance at 31 July 2019	**(5,666)**	**1,659**	**(4,007)**	(107)	**(4,114)**

Consolidated and College Statement of Changes in Reserves (continued)

	Income and expenditure account	Revaluation reserve	Total excluding Non-controlling interest	Non Control-ling Interest	Total
	£'000	£'000	£'000	£'000	£'000
College					
Balance at 31st July	**(1,374)**	**1,659**	**(285)**		**285**
(Deficit) from the income and expenditure account	(2,545)	-	(2,545)		(4,190)
Other comprehensive income	2,480	-	2,480		2,480
Effect of Prior Year adjustment	(2,102)	-	(2,102)		(2,102)
Transfers between revaluation and income and expenditure reserves	-	-	-		-
Total comprehensive income for the year	(2,167)		(2,167)		(2,167)
Balance at 31st July 2018 restated	**(3,541)**	**1,659**	**(1,882)**		**(1,882)**
Surplus from the income and expenditure account	1,219	-	1,219		1,219
Other comprehensive income	(2,760)	-	(2,760)		(2,760)
Total comprehensive income for the year	(1,541)		(1,541)		(1,541)
Balance at 31 July 2019	**(5,081)**	**1,659**	**(3,422)**		**(3,422)**

Balance Sheets as at 31 July 2019

	Notes	Group	College	Group	College
				Restated	
		2019	2019	2018	2018
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible Fixed assets	11	34,255	34,103	41,048	40,809
Intangible Fixed Assets	12	75	56	105	83
Investments in joint venture	12	2,659	1,221	1,619	1,221
		36,989	**35,380**	**42,772**	**42,113**
Current assets					
Debtors	13	1,817	2,106	1,968	2,510
Cash and cash equivalents	18	724	169	591	158
		2,541	**2,275**	**2,559**	**2,668**
Less: Creditors – amounts falling due within one year	14	(7,297)	(4,730)	(5,559)	(3952)
Net current (liabilities)		**(4,756)**	**(2,455)**	**(3,000)**	**(1,284)**
Total assets less current liabilities		**32,223**	**32,925**	**39,772**	**40,829**
Creditors – amounts falling due after more than one year	15	(19,207)	(19,207)	(29,201)	(29,201)
Provisions					
Defined benefit pension obligations	25	(17,140)	(17,140)	(13,510)	(13,510)
Total net (liabilities)		**(4,114)**	**(3,422)**	**(2,939)**	**(1,882)**
Unrestricted Reserves					
Income and expenditure account		(5,666)	(5,081)	(4,497)	(3,541)
Revaluation reserve		1,659	1,659	1,659	1,659
Non-Controlling Interest		(107)	-	(101)	-
Total unrestricted reserves		**(4,114)**	**(3,422)**	**(2,939)**	**(1,882)**
Attributable to the College Corporation		**(4,007)**	**(3,422)**	**(2,838)**	**(1,882)**
Attributable to Non-Controlling Interest		**(107)**	**-**	**(101)**	**-**
Total Reserves		**(4,114)**	**(3,422)**	**(2,939)**	**(1,882)**

Since their appointment in December 2019 and January 2020 respectively the College's Interim Principal and Interim Chief Finance Officer have been working with the Corporation and the financial statement auditors to address some significant accounting issues that had come to light during the course of the audit of these financial statements. The majority of these issues have now been resolved. However, the college has historically not maintained a detailed fixed asset register and has been unable to provide sufficient evidence to satisfy the auditors that the depreciation charge to the income and expenditure account or the carrying value in the balance sheet is fairly stated. In addition, the College was unable to satisfy the auditors that there were no material liabilities in its dormant Nigerian subsidiary company, Highbury College Nigeria Limited.

Balance Sheets as at 31 July 2019 (continued)

The financial statements have been prepared on the basis of the information available to the interim leadership team and whilst there is no evidence of material mis-statement, the Corporation recognises in approving these financial statements that these elements remain uncertain.

The financial statements on pages 27 to 63 were approved and authorised for issue by the Corporation and were signed on its behalf on 26 May 2020 by:

Martin Doel, Chair of Governors

Penny Wycherley, Accounting Officer

Consolidated Cash Flow Statement

	Notes	2019	2018 Restated
		£'000	£'000
Cash flow from operating activities			
Surplus/(Deficit) for the year		1,590	(4,142)
Adjustment for non-cash items			
Depreciation & Amortisation		1,868	6,781
(Increase)/decrease in investments	12	(1,040)	(1,596)
(Increase)/decrease in debtors	13	151	811
Increase/(decrease) in creditors due within one year	14	1,738	1,519
Increase/(decrease) in creditors due after one year	15	(6,363)	(4,855)
Increase/(decrease) in provisions		-	60
(Increase)/decrease in intangible assets		-	(211)
Reclassification of Fixed Assets		-	(439)
Profit / Loss on sale of Fixed Asset		(18)	51
Adjustment for investing or financing activities			
Interest received		-	7
Interest payable		1,017	642
Reclassification of Joint Venture		-	1,583
Net cash flow from operating activities		**(1,057)**	**211**
Cash flows from investing activities			
Proceeds from sale of fixed assets		5,678	487
Disposal of non-current asset investments		-	-
Interest received		-	(7)
Payments received from Joint Venture		500	-
Other investing activities		970	-
Payments made to acquire fixed assets		(723)	(315)
		6,425	**165**
Cash flows from financing activities			
Interest paid		(647)	(283)
Payment of Finance Leases		(164)	-
Repayment of Directors Loan		-	(41)
New Loans		1,000	-
Repayments of amounts borrowed		(5,424)	(293)
		(5,235)	**(617)**
Increase / (decrease) in cash and cash equivalents in the year		**133**	**(241)**
Cash and cash equivalents at beginning of the year		591	832
Cash and cash equivalents at end of the year		724	591

Notes to the Accounts

1. Accounting Policies

Statement in respect of the uncertainty of the carrying value of Fixed Assets

The Financial Statements auditors have qualified the 2018/19 financial statements as they were unable to obtain sufficient appropriate audit evidence regarding fixed assets and thus were not able to form a view as to whether the carrying value of fixed assets was fairly stated both at the year end and at the start of the year, with respect to fixed assets. The College recognises that there have been short comings in the College's historic fixed asset records. Further work is ongoing during 2019/20 to resolve these issues.

Statement of Accounting Policies and estimation techniques

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all the years presented unless otherwise stated.

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 2018 to 2019 and in accordance with Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the College's accounting policies.

The following exemptions have been taken in these financial statements.

• Revaluation as deemed cost – at 1st August 2014, the College has retained the carrying values of freehold properties as being deemed cost and measured at fair value.

• 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.

• The College has taken advantage of the exemptions provided in FRS 102 1.12 and the 2015 FE HE SORP 3.3 and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and the College balance sheet discloses cash at both the current and preceding reporting dates.

Basis of Accounting

The consolidated 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.

The consolidated financial statements are presented in Sterling which is also the functional currency of the College, and all monetary values are rounded to the nearest whole £1,000, except where otherwise indicated.

Notes to the Accounts (continued)

1. Accounting Policies (continued)

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, Highbury College Commercial Services Limited, Highbury Apprenticeships (Birmingham) Ltd, New Work Training Limited and Highbury College Nigeria Limited (Dormant).

Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS 102, the activities of the student union have not been consolidated because the College does not control those activities.

All financial statements are made up to 31 July 2019.

Going concern

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

As at 31July 2019 the College had £1.0m of loans outstanding with bankers on terms negotiated in 2018. This loan is to be repaid by 31 July 2021. The College's forecasts and financial projections indicated at that time that it would be able to operate within this existing facility and covenants for the foreseeable future.

As noted in the strategic report, in January 2020 it became apparent to the interim leadership team that the College was at risk of running out of cash in March 2020. As a result, the College applied for a reprofiling of its main ESFA funding allocation and received £800,000 in March 2020. £400,000 of this was repaid in April 2020 and a further £200,000 repaid in May 2020.The balance is due to be repaid June 2020. The College has been unable to secure additional funding from its banks and as a result it has now become apparent that the College will require emergency funding in June 2020 if it is to continue to operate and an application to ESFA for this was made in May 2020

The loan agreement that the College has with Svenska Handelsbanken AB requires the College to maintain a current ratio of greater than 1:1. This covenant will be breached once these financial statements are finalised and the loan will technically all be due for repayment. The College will discuss the profile of future repayments to the bank once these financial statements are finalised.

In addition to the above, the COVID-19 pandemic has caused significant disruption to the College's activities. The College closed to all students and staff at the end of March 2020. Although the College reopened to a small number of vulnerable students in May 2020, the majority of teaching and learning is being undertaken remotely. The College has lost significant income from its commercial activities; this is, in part, offset by expected cost savings, but the pandemic has placed additional strain on the College's finances. The commitment from the ESFA to continue to pay core funding to the College does reduce the risk to the College.

Based on the information available to it, the Corporation believes that it is appropriate to continue to prepare the financial statements on a going concern basis, on the assumption that sufficient emergency funding will be provided by the ESFA to enable the College to continue to operate for at least a further year. However, these circumstances represent a material uncertainty that may cast doubt on the ability of the College to continue as a Going Concern and therefore to continue to realise its assets and discharge its liabilities in the normal course of business.

Notes to the Accounts (continued)

1. Accounting Policies (continued)

Government revenue grants include funding body recurrent grants and other grants and are accounted for under the accrual model as permitted by FRS 102. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Education Budget is adjusted for and reflected in the level of recurrent grant recognised in the Statement of Comprehensive Income. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Income from Levy-funding and ESFA funding for apprenticeships attracting co-investment is measured in line with best estimates of the provision delivered in the year.

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

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. A proportion (58%) of the capital grant received for the build of the College building “HCPC” and held as deferred income was released in line with the sale of the asset in 2018/19 with the carried balance of £3m released in 2018/19. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

Income from tuition fees including employer funding for co-investment funded Apprenticeships 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 Statement of Comprehensive Income in the period in which it is earned on a receivable basis.

Post-employment benefits

Retirement benefits to employees of the College are provided by the Teachers’ Pension Scheme (TPS) and by the Local Government Pension Scheme (LGPS), which are multi-employer defined benefit schemes.

Teachers’ Pension Scheme (TPS)

The TPS is an unfunded scheme. Contributions to the TPS are calculated so as to spread the cost of pensions over employees’ working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a projected unit credit method. The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Notes to the Accounts (continued)

1. Accounting Policies (continued)

Hampshire Local Government Pension Scheme (LGPS)

The LGPS is a funded scheme and the assets of the scheme are held separately to those of the college. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred. Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

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

Short term Employment benefits

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

Enhanced Pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by the group annually. An estimate of the expected future cost of enhancement to the ongoing pension of a former member of staff is charged in full to the Statement of Comprehensive Income in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the ESFA.

Tangible Fixed Assets

(a) *Land and Buildings*

Land and buildings are stated at deemed cost at the date of transition to FRS102 less accumulated depreciation and accumulated impairment losses.

Freehold land is not depreciated. Inherited freehold buildings are depreciated over their expected useful economic life to the Group of 40 years. Buildings constructed since incorporation are depreciated over 50 years.

Where land and buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred income account and are released to the Statement of Comprehensive Income over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

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.

Notes to the Accounts (continued)

1. Accounting Policies (continued)

Assets under construction are accounted for at cost, based on the value of architect's certificates and other direct costs incurred to 31st July. They are not depreciated until they are brought into use. Where purchases are made as part of a wider project, there is no cost limit below which items are written off to the Statement of Comprehensive Income rather than being capitalised.

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 Group, in which case it is capitalised and depreciated over the shorter of twenty years or the remaining lease term.

(b) *Equipment*

Equipment costing less than £1,000 per individual item is written off to the Statement of Comprehensive Income in the period of acquisition. All other equipment is capitalised at cost.

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy with the related grant being credited to a deferred income account and released to the Statement of Comprehensive Income over the expected useful economic life of the related equipment as follows:

Motor Vehicle and Electronic Equipment	4 - 6 years
Other General Equipment	10 years
Heavy Duty Equipment	15 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 1st 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 1st 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.

Notes to the Accounts (continued)

1. Accounting Policies (continued)

Investments

Investments in subsidiaries

Interest in subsidiaries are assessed for impairment in the individual financial statements.

Investments in Joint Ventures (JV)

Investments in JVs are recognised initially in the consolidated Balance Sheet at the transaction price and subsequently adjusted to reflect the group's share of total comprehensive income and equity of the JV, less any impairment.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the JV recognised at the date of acquisition, although treated as goodwill, is presented as part of the investment in the JV. Amortisation is charged so as to allocate the cost of goodwill over its estimated useful life, using the straight-line method. Losses in excess of the carrying amount of an investment in a JV are recorded as a provision only when the College has incurred legal or constructive obligations or has made payments on behalf of the JV.

Interest in JVs are assessed for impairment in the individual financial statements.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to the Statement of Comprehensive Income in the period in which they arise.

Termination Benefits

The college has a Redundancy Procedure for Staff approved by the Corporation. Termination decisions are made by the accounting officer unless submitted to Corporation due to strategic significance.

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 Chapter 3 Part 11 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 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. The College’s subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

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

Notes to the Accounts (continued)

1. Accounting Policies (continued)

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 certain Discretionary Support Funds. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure account and are shown separately in Note 26, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

Financial instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in full in respect of financial instruments.

Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets measured at fair value through the profit or loss, which are initially measure at fair value (which is normally the transaction price excluding transaction costs), unless arrangement constitutes a financing transaction. A financial asset or financial liability that is payable or receivable in one year is measured at the undiscounted amount expected to be received or paid net of impairment, unless it is a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and financial liabilities are offset only when there is a current legally enforceable right to set off the recognised amounts and the intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Notes to the Accounts (continued)

1. Accounting Policies (continued)

Intangible Assets

Intangible assets are measured initially at cost. The asset is carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful life over which period the asset will be amortised is 10 years beginning from the first full financial year after which the College has acquired the asset. If the asset is linked to a contractual period, the asset will be amortised in accordance with the duration of the contract.

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 group's tangible assets, including goodwill. 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.
- Determine whether inter-company balances held at College level should be impaired. These decisions are based on the expected future financial performance of the Subsidiary, performance against the business plans to date and the viability of the Subsidiary going forward.

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 24, 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 2016 has been used by the actuary in valuing the pensions liability at 31 July 2019. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Notes to the Accounts (continued)

2. Funding body Grants

	Year ended 31 July		Restated Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Recurrent grants				
ESFA Adult	2,939	2,939	2,748	2,748
ESFA Apprenticeships	2,491	2,491	2,649	2,649
ESFA 16-18	6,318	6,318	6,623	6,623
Higher Education Funding Council	188	188	121	121
Specific grants				
Releases of government capital grants	4,405	4,405	3,413	3,413
Total	**16,342**	**16,342**	**15,554**	**15,554**

3. Tuition fees and Education contracts

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Adult education fees	835	835	807	807
Apprenticeship fees and contracts	-	-	-	-
Fees for FE loan supported courses	485	485	428	428
Fees for HE loan supported courses	230	230	205	205
International students' fees	196	196	443	443
Total tuition fees	**1,747**	**1,747**	**1,883**	**1,883**
Education contracts	136	136	99	99
Total	**1,883**	**1,883**	**1,982**	**1,982**

Notes to the Accounts (continued)

4 Other grants and contracts

	Year ended 31 July		Restated Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
European Commission	-	-	-	-
Other grants and contracts	858	858	1,324	1,324
Total	**858**	**858**	**1,324**	**1,324**

5 Other income

	Year ended 31 July		Restated Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Catering and residences	158	158	121	10
Other income generating activities	429	429	338	338
Miscellaneous income	804	72	983	231
Total	**1,391**	**659**	**1,443**	**579**

6 Investment income

	Year ended 31 July		Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Other interest receivable	-	-	(7)	(7)
	-	**-**	**(7)**	**(7)**
Net return on pension scheme (note 25)	-	-	-	-
Total	**-**	**-**	**(7)**	**(7)**

Notes to the Accounts (continued)

7. Staff Numbers and Costs

Staff Numbers

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

	Group	Group	College	College
	2019	**2018**	**2019**	**2018**
	No.	**No.**	**No.**	**No.**
Teaching staff	102	108	102	108
Non-teaching staff	221	235	213	226
	323	**343**	**315**	**334**

Staff costs for the above persons				
	2019	**2018**	**2019**	**2018**
	£'000	**£'000**	**£'000**	**£'000**
Wages and salaries	8,979	9,311	8,759	9,039
Social security costs	727	750	705	729
Other pension costs	2,265	1,613	2,262	1,611
Payroll sub total	**11,971**	**11,674**	**11,726**	**11,379**
Restructuring costs				
Contractual	171	132	171	128
	12,142	**11,806**	**11,897**	**11,507**

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the College Leadership Team which comprised the Principal, Group Finance Director, Managing Directors of Learning Companies and Student Services.

7. Staff Numbers and Costs (cont'd)

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

	2019	2018
	No.	No.
The number of key management post holders including the Accounting Officer was:	5	6

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

	Key management post holders		Other staff	
	2019	2018	2019	2018
	No.	No.	No.	No.
£50,001 to £55,000 p.a	-	-	5	3
£55,001 to £60,000 p.a	-	-	1	1
£60,001 to £65,000 p.a.	-	1	-	-
£65,001 to £70,000 p.a.	1	2	-	-
£70,001 to £75,000 p.a.	1	-	-	-
£80,001 to £85,000 p.a.	1	1	-	-
£95,001 to £100,000 p.a.	-	1	-	-
£110,001 to £115,000 p.a.	1	-	-	-
£150,001 to £160,000 p.a.	1	1	-	-
	5	**6**	**6**	**4**

Key management post holder emoluments are made up as follows:

	2019	2018
	£'000	£'000
Salaries	493	552
NI Contributions	62	63
Benefits in kind	-	-
	554	615
Pension contributions	94	63
Total emoluments	649	678

There were no amounts due to key management post holders that were waived in the year, nor any salary sacrifice arrangements in place.

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

	2019	2018
	£'000	£'000
Salaries	156	156
National Insurance	20	20
Benefits in kind	-	-
	176	176
Pension contributions	26	26
	202	202

7. Staff Numbers and Costs (continued)

The pension contributions in respect of the Accounting Officer are in respect of employer's contributions to the Teachers' Pension Scheme and are paid at the same rate as for other employees. The members of the Corporation other than the Accounting Officer and the staff members did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

Pay Multiple
The accounting officers basic pay divided by the median pay of all other corporation employees (all on a full-time equivalent basis 7.3
The accounting officers' emoluments divided by the median pay of all other corporation employees (all on a full-time equivalent basis 7.3

The Chief Accounting Officer's salary has remained unchanged for a number of years, based on current benchmarking this would fall into the upper quartile of similar colleges.

This reflects the level of responsibility the role requires in order to enable all our students to succeed whilst overcoming human, political, demographic, financial, economic and social issues within the locality and education sector. The salary level set reflects the salary when the College's revenue was circa £24m, in subsequent years revenue has declined, but no downward alignment of salary has taken place.

Compensation for loss of office paid to former key management personnel
No compensation for loss of office was paid to key management personnel during the year (2018: One).

	2019	2018
	£'000	£'000
Compensation paid to former post holder - contractual	-	12
Estimated value of other benefits, including pension provision	-	18
	-	30

8. Other operating expenses

	Year ended 31 July		Restated Year ended 31 July	
	2019	2019	2018	2018
	Group	College	Group	College
	£'000	£'000	£'000	£'000
Teaching costs	1,911	1,819	2,278	2,217
Non-teaching costs	886	832	855	555
Premises costs	1,714	1,670	1,939	1,663
Amortisation of intangible assets	30	28	343	228
Impairment of Group Debtor	-	-	-	302
Total	**4,541**	**4,349**	**5,415**	**4,964**

Other operating expenses include:

	2019	2018
Auditors' remuneration		
Financial statements audit*	88	26
Internal audit**	14	8
Other Services provided by Financial Statements Auditors	0	6
Hire of other assets under operating leases	905	907

* includes £75,000 in respect of the College (2017/18 £18,000)

** includes £14,000 in respect of the College (2017/18 £8,000)

Notes to the Accounts (continued)

9. Interest and other finance costs – Group and College	2019 £000	2018 £000
On bank loans, overdrafts and other loans	647	283
Pension finance costs (note 25)	370	359
	1,017	642

10. Taxation

The members do not consider the College or its subsidiaries to be liable for any corporation tax arising out of its activities during this or the previous period.

11. Tangible Fixed Assets (Group)	Land and buildings Freehold	Long leasehold	Equipment	Assets in the Course of Construction	Total
	£'000	£'000	£'000		£'000
Cost or valuation					
At 1 August 2018 (Restated)	**65,082**	**-**	**11,371**	**-**	**76,452**
Additions	682	-	74	-	756
Disposals	(12,351)	-	(32)	-	(12,383)
At 31 July 2019	**53,412**	**-**	**11,412**	**-**	**64,824**
Depreciation					
At 1 August 2018	**24,644**	**-**	**10,760**	**-**	**35,405**
Charge for the year	1,491	-	347	-	1,838
Elimination in respect of disposals	(6,673)	-	-	-	(6,673)
At 31 July 2019	**19,462**	**-**	**11,106**	**-**	**30,569**
Net book value at 31 July 2019	**33,950**	**-**	**306**	**-**	**34,255**
Net book value at 31 July 2018	40,438	-	611	-	41,048

During the year, one property was sold; there is no profit / loss on disposal. The figures for 2018 are restated in line with the requirements of FRS102. In particular, the sale of a property in 2010 where cost, depreciation and impairment charge of £6.3m (nbv 0) remained on the asset register, additional depreciation of £400k for under depreciated assets, the capitalisation of assets acquired under finance leases, previously not reported in line with FRS102 £157k. and the reclassification of software as an Intangible Asset.

Tangible Fixed Assets (College)	**Land and buildings Freehold**	**Land and buildings Long leasehold**	**Equipment**	**Assets in the Course of Construction**	**Total**
Cost or valuation	**£'000**	**£'000**	**£'000**		**£'000**
At 1 August 2018 (Restated)	64,905	-	11,101	-	76,006
Additions	682		74		756
Disposals	(12,351)		(24)		(12,375)
At 31 July 2019	**52,236**		**11,151**		**64,386**
Depreciation					
At 1 August 2018	24,591		10,605	-	35,197
Charge for the year	1,471		289		1,760
Elimination in respect of disposals	(6,673)		-		(6,673)
At 31 July 2019	**19,389**		**10,895**		**30,284**
Net book value at 31 July 2019	**33,847**		**256**		**34,103**
Net book value at 31 July 2018	40,314	-	496	-	40,809

During the year, one property was sold; there is no profit / loss on disposal. The figures for 2018 are restated in line with the requirements of FRS102. In particular, the sale of a property in 2010 where cost, depreciation and impairment charge of £6.3m (nbv 0) remained on the asset register, additional depreciation of £400k for under depreciated assets, the capitalisation of assets acquired under finance leases, previously not reported in line with FRS102 £157k. and the reclassification of software as an Intangible Asset.

Leased assets are now reported in line with FRS102. Prior year accounts were restated, recognising the upfront cost rather than the payment, increasing Asset cost by £157k, and reducing Depreciation charged in the year by £18k. Software assets were also reclassified from Tangible Assets to Intangible £111k. In the Current year the net book value of equipment includes an amount of £112k (2017/18 – £282k) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £171k (2017/18 – £171k).

If inherited land and buildings had not been revalued, they would have been included at the following historical cost amounts:

Cost	Nil
Aggregate depreciation based on cost	Nil
Net book value based on cost	**Nil**

Notes to the Accounts (continued)

12. Intangible Assets – Group Restated

	Franchise Rights £'000	Software £'000	Goodwill £'000	Total £'000
Cost				
As at 1st August 2018 Restated	144	133	200	477
Additions	-		-	-
Disposals				
As at 31st July 2019	**144**	**133**	**200**	**477**
Amortisation				
As at 1st August 2018	144	28	200	372
Amortisation	-	30	-	30
As at 31st July 2019	**144**	**58**	**200**	**402**
Net Book Value				
As at 1st August 2018	0	105	0	105
As at 31st July 2019	**0**	**75**	**0**	**75**

Intangible Assets – College Restated

	Franchise Rights £'000	Software £'000	Goodwill £'000	Total £'000
Cost				
As at 1st August 2018	-	111	200	311
Additions	-	0	0	-
Disposals		-	-	-
As at 31st July 2019	**-**	**111**	**200**	**311**
Amortisation				
As at 1st August 2018	-	28	200	228
Amortisation	-	28	-	28
As at 31st July 2019	**-**	**56**	**200**	**256**
Net Book Value				
As at 1st August 2018	-	83	0	83
As at 31st July 2019	**-**	**56**	**0**	**56**

Software assets were also reclassified (2018) from Tangible Assets to Intangible £111k, and are now reported in line with FRS102

The College subsidiary NWT Ltd has ceased to trade and the carrying value of the Goodwill has been fully amortised. Software previous included in Tangible Assets has been restated as Intangible Assets per FRS102 requirements.

Notes to the Accounts (continued)

12. Non-Current Investments

	Group 2019 £'000	Restated Group 2018 £'000	College 2019 £'000	Restated College 2018 £'000
Investments in subsidiary companies	-	19	1,204	1,204
Investments in associate companies	2,659	1,600	17	17
Total	**2,659**	**1,619**	**1,221**	**1,221**

The College owns 100% of the issued ordinary shares of Highbury Apprenticeships (Birmingham) Limited, and 100% of the issued ordinary shares of Highbury College Commercial Services Limited, both companies being incorporated in England and Wales. Throughout the period the College owned 1,200,000 ordinary shares in Highbury College Commercial Services Limited, but the amount remained unpaid.

Highbury Apprenticeships (Birmingham) Limited commenced trading in November 2014. The business specialises in provision of IT training.

The principal business activity of the Highbury College Commercial Services Limited was to manage on site student accommodation on behalf of the College. This activity has now been transferred to the college and Highbury College Commercial Services Limited is not currently trading.

Highbury College Nigeria Limited did not trade during the year. The principal business purpose of the entity was to enable the college to operate in Nigeria.

The College has a shareholding in a Saudi Arabian registered company operating as Highbury Burton Saudi Arabia Ltd. The principal activity of the company is to manage and operate an education institution in the Kingdom of Saudi Arabia. The College has a holding of 50% of the shares with voting rights attached to those shares on a share per share basis Accounting for this Joint Venture has been restated for these accounts, recognising the investment as per FRS102 requirements reversing the recognition of share of the profits of the JV in current and previous periods (457k).

The company has issued performance bonds (PB) as a condition of the contract with the Saudi Colleges of Excellence to manage and run the female college in Jeddah. Highbury College's share of the bond is limited to 50% and a value of SAR 12.885m (£2.7m).

The College acquired a 70% holding in the company New Work Training Limited in April 2016 for a sum of £0.2m. The company's business is to establish an apprenticeship jobs board platform that would both create a commercial opportunity providing services to other organisations whilst also driving apprenticeship growth through the College from the Sussex region. Difficult trading conditions and the need for investment led to the Company ceasing operations in 2017/18.

Notes to the Accounts (continued)

13. Debtors

	Group 2019 £000	College 2019 £000	Restated Group 2018 £000	Restated College 2018 £000
Amounts falling due within one year				
Trade debtors	609	462	682	679
VAT	132		93	
Amounts owed by Group Subsidiaries		623	-	733
Prepayments and accrued income	871	816	838	742
Amounts owed by ESFA	205	205	356	356
	1,817	**2,106**	**1,969**	**2,510**

14. Creditors: Amounts Falling Due Within One Year

	Group 2019 £000	College 2019 £000	Restated Group 2018 £000	Restated College 2018 £000
Bank loans and overdrafts	1000	1000	306	306
Payments received in advance	387	387	484	484
Trade creditors	635	546	487	462
Obligations under finance leases	140	140	110	110
Other taxation and social security	250	243	364	364
Pension Creditors	279	278	170	170
Accruals & Deferred Income	3,442	972	2,381	799
Amounts owed to ESFA	-	-	256	256
VAT repayment	288	288	125	125
Deferred Income – Government Capital Grant	876	876	876	876
	7,297	**4,730**	**5,559**	**3,952**

Finance Leases are now reported under FRS102 requirements, the correction to carrying value of lease obligation being £186k

At the balance sheet date, the College had a £1.0m loan with Svenska Handelsbanken AB repayable by 31 July 2021 and in the normal course of events, £750,000 would be classified as due in more than one year. However, the College is in breach of various bank covenants at 31 July 2019 which means that the entire amount has been reclassified as being due within one year.

15. Creditors: amounts falling due after one year

	Group 2019 £'000	College 2019 £'000	Restated Group 2018 £'000	Restated College 2018 £'000
Obligations under Finance Leases	97	97	251	251
Bank loans	-	-	5,118	5,118
VAT Repayment	-	-	320	320
Deferred income - government capital grants	19,110	19,110	23,512	23,512
Total	**19,207**	**19,207**	**29,201**	**29,201**

Notes to the Accounts (continued)

16. Maturity of debt

(a) Bank loans, overdrafts and other loans

Bank loans and overdrafts are repayable as follows:

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
In one year or less	1,000	1,000	457	431
Between one and two years	-	-	639	639
Between two and five years	-	-	1,039	1,039
In five years or more	-	-	3,760	3,760
Total	**1,000**	**1,000**	**5,895**	**5,869**

The bank loan of £1.0m is repayable by 31 July 2021 and is secured against the existing assets of the College. As at 31 July 2019, the balance was £1.0m. This is disclosed in current assets in the balance sheet because of the breach of financial covenants.

(b) Finance leases

The net finance lease obligations to which the institution is committed are:

	Group 2019 £'000	College 2019 £'000	Restated Group 2018 £'000	Restated College 2018 £'000
In one year or less	140	140	110	110
Between one and two years	97	97	251	251
Between two and five years			-	-
Total	**237**	**237**	**361**	**361**

17. Provisions

	Group and College Defined benefit Obligations £'000	Total £'000
At 1 August 2018	13,510	13,510
Expenditure in the period	-	-
Transferred from income and expenditure account	3,630	3,630
At 31 July 2019	**17,140**	**17,140**

Notes to the Accounts (continued)

Defined benefit obligations relate to the liabilities under the College's membership of the **Local Government pension Scheme.** Further details are given in Note 25.

18. Cash and cash equivalents

	At 1 August 2018 £'000	Cash flows £'000	Other changes £'000	At 31 July 2019 £'000
Cash and cash equivalents	591	133	-	724
Overdrafts	-	-	-	-
Total	**591**	**133**	**-**	**724**

19. Financial Instruments

	Group 2019 £'000	College 2019 £'000	Group 2018 £'000	College 2018 £'000
Financial Assets held at Amortised Cost				
Other Debtors	946	668	1131	1,035
Amounts owed by Group Subsidiaries	-	623	-	733
Accrued Income	871	816	838	742
	1,818	2,107	1,969	2,510
Financial Liabilities at Amortised Cost				
Bank Loans	(1,000)	(1,000)	(5,895)	(5,869)
Payments received in advance	(387)	(387)	(484)	(484)
Other Creditors	(2,173)	(2,077)	(1,537)	(1,513)
Accruals	(3,442)	(972)	(2,381)	(799)
Finance Leases and Hire Purchase contracts	(237)	(237)	(361)	(361)
	7,239	4,673	10,658	9,026

20. Capital Commitments

Capital Commitments contracted for at 31 July 2019 were £0, (2018 £290k)

Notes to the Accounts (continued)

21. Commitments under operating leases

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

	Group and College	
	2019	**2018**
	£'000	**£'000**
Future minimum lease payments due		
Land and buildings		
Not later than one year	779	806
Later than one year and not later than five years	2,717	1,345
Later than 5 years	1,991	
	5,487	2,151
Other		
Not later than one year	153	98
Later than one year and not later than five years	97	147
	250	245
Total lease payments due	**5,737**	**2,396**

22. Contingent liabilities

The College is part of a consortium, Highbury Burton Saudi Arabia Limited Ltd, that operates a contract in the Kingdom of Saudi Arabia. A condition of the contract requires the consortium to supply a Performance Bond of £5.5m to cover any non-performance against the terms of the contract. The College's share of that Bond currently is £2.7m. The contract has been extended for a further year ending 31st July 2020 and HBSA has met or exceeded all performance targets to date. The College has successfully operated the contract for 6 years and remains confident a call on the Performance Bond will not be required.

23. Adjustments regarding accounts restatements

There have been a number of restatements to the accounts, and the tables below reflect the changes to the college and group.

	Group		**I&E**	**B/S**	**SOCIR**
			£000's	**£000's**	**£000's**
	2018 Financial statements		0	-719	-719
1	**Joint Venture Accounting Treatment**		1,113		-1,113
		Accrued Income		-1,570	
		Investments	-13	2,802	13
1a		Intercompany Debtor investment	0	-1,200	
1b		Retained Profits	0	-1,570	--457
2	**Treatment of Lease Assets / reclassification of Fixed Assets**		224		-224
		Intangible Assets	0	133	
		Tangible Assets	0	24	
		Intangible Assets Depreciation	0	-28	
2a		Tangible Assets Depreciation	0	-352	
3	**Investment in Subsidiary (NWT)**		-13		13
a	**Non-controlling interest in NWT**		43	-150	-144
4	**Historic Property Disposal posting complete transaction**		29	-29	-29
		cost	0	-6,320	
		depn	0	6,320	
5	**Depreciation charge of non-depreciating assets**		368	-368	-368
6	**Reclassification of Income**		0	0	
7	**Deferred Capital Grants**		-89	89	89
	other		0	-1	
	Total adjustments		1,662	-2,220	-2,220
	Restated 2018 financial statements		-1,662	-2,939	-2,939

	College		I&E	B/S	SOCIR
			£000's	**£000's**	**£000's**
	2018 Financial statements		£-65)	£220	£220
1	**Joint Venture Accounting Treatment**		1,113		-1,113
		Accrued Income		-1,570	
1a		Investments		1,200	
1a		Intercompany Debtor investment		-1,200	
1b		Retained Profits			-457
2	**Treatment of Lease Assets / reclassification of Fixed Assets**		224		-224
		Intangible Assets		111	
		Tangible Assets		45	
		Intangible Assets Depreciation		-28	
		Tangible Assets Depreciation		-352	
3	**Historic Property Disposal posting complete transaction**		29	-29	-29
		Cost		-6,320	
		Depreciation		6,320	
4	**Depreciation charge of non-depreciating assets**		368	-368	-368
5	**Reclassification of Income**				
6	**Deferred Capital Grants**		-89	89	89
	Total adjustments		1,645	-2,102	-2,102
	Restated 2018 financial statements		**-1,710**	**-1,882**	**-1882**

Notes to the Accounts (continued)

Restatement Notes

1. The College has a shareholding in a Saudi Arabian registered company operating as Highbury Burton Saudi Arabia Ltd. The principal activity of the company is to manage and operate an education institution in the Kingdom of Saudi Arabia. The College has a holding of 50% of the shares with voting rights attached to those shares on a share per share basis. Accounting for this Joint Venture has been restated for these accounts, recognising the investment as per FRS102 requirements, reversing the recognition of share of the profits of the JV in current and previous periods (457k).
    a. Represents the amount owed for the Investment in Highbury College Commercial Services Ltd. The company has Share Capital of £1200k, and an amount owing of £1,200k.
    b. Represents the reversal of the share of profits of the JV in Previous periods, not originally in accordance with the requirements of FRS102
2. Finance Leases now reported under FRS102 requirements, resulting in a correction to carrying value of lease obligation £186k, where the capitalisation of the lease assets had not been recognised up front but were instead capitalised with each payment. Software costs were reclassified to intangible assets for separate disclosure in line with the requirements of FRS102. An additional charge for historical depreciation was made on assets reflecting the assets life.
    a. The Depreciation charge relates to the Historic depreciation on Leased Assets from the date of capitalisation.
3. Write down of assets included in the Fixed Asset Register and nominal ledger but which were no longer owned by the college, including the write off of the impairment charge in 2007 against these assets.
    a. Recognition of Prior year Non Controlling interest in NWT, £43k impact to the P&L, £(101)k, to reserves.
4. Accounting for the historical depreciation on assets that were not depreciated in the year.
5. Reallocation of income from other grant income to other income 600k.
6. Deferred capital grants were restated to reflect a grant that had not been released in line with the asset life.

24. Events after the reporting period

The College was placed under Further Education Commission formal intervention on 12th November 2019 following a notice of concern about the College's financial position and management and governance issued by ESFA on 4 October 2019. The College is working with the FEC and ESFA to implement further measures and improve financial control to allow the College to move from the current 'inadequate' financial health to one of 'requires improvement'. The College applied for Emergency Funding Support of £1.5 million from the ESFA on 12 May 2020. The College is currently in the early stages of a Structure and Prospects Appraisal run by FEC., However, this is suspended because of COVID-19.

The COVID-19 pandemic has caused significant disruption to the College's activities. The College closed to all students and staff at the end of March 2020. Although the College reopened to a small number of vulnerable students in May 2020, the majority of teaching and learning is being undertaken remotely. The College has lost significant income from its commercial activities; these are in part offset by expected cost savings, but the pandemic has placed additional strain on the College's finances. The commitment from the ESFA to continue to pay core funding to the College reduces the risk to the College.

The total net impact of Covid-19 to date on the cash flow is estimated to be £124k negative. The College will continue to keep this under review as the current situation develops.

Notes to the Accounts (continued)

25. Pensions and similar 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		**2019 £'000**		**2018 £'000**
Teachers' Pension Scheme: contributions paid		455		505
Local Government Pension Scheme:				
Contributions paid	1,262		1,048	
FRS 102 (28) charge	500		60	
Charge to the Statement of Comprehensive Income		1,762		1,108
Enhanced pension charge to Statement of Comprehensive Income		-		-
Total Pension Cost for Year		**2,217**		**1,613**

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2016 and of the LGPS 31 March 2019.

Contributions amounting to £55k were payable to the Teachers' Pension Scheme (at 31st July 2018: £0k) and are included in the creditors.

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pension Scheme Regulations 2014. These regulations apply to teachers in schools and other educational establishments, including colleges. Membership is automatic for teachers and lecturers at eligible institutions. Teachers and lecturers are able to opt out of the TPS.

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

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

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

Notes to the Accounts (continued)

26. Pensions and Similar obligations (continued)

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

The latest actuarial review of the TPS was carried out as at 31 March 2016 and the results published on 5th March 2019. The key results of the valuation were:

- New employer contribution rates were set at 23.6% of pensionable pay with effect from September 2019 and will remain in place until 2023.
- total scheme liabilities (pensions currently in payment and the estimated cost of future benefits) for service to the effective date of £218.1 million, and notional assets (estimated future contributions together with the notional investments held at the valuation date) of £196.1 million giving a notional past service deficit of £22 million (2012 valuation deficit £15 million);
- the employer cost cap of 10.9% of pensionable pay has been paused until there is certainty about the value of pensions to employees from April 2015 onwards.

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

The pension costs paid to TPS in the year amounted to £455k (2018: £505k)

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by Hampshire Local Authority. The total contribution made for the year ended 31 July 2019 was £1.30m, of which employer's contributions totalled £1.06m and employees' contributions totalled £0.24m. The agreed equivalent total contribution rates for future years are 28.9% for employers, reducing to 23.1% with effect from 1st April 2020 and range from 5.5% to 12.5% cent for employees, depending on salary.

Notes to the Accounts (continued)

25. Pension and Similar Obligations (continued)

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2019 by a qualified independent actuary

	At 31 July 2019	**At 31 July 2018**
Rate of increase in salaries	3.70%	3.60%
Future pensions increases	2.20%	2.10%
Discount rate for scheme liabilities	2.20%	2.80%
Inflation assumption (CPI)	2.20%	2.10%
Commutation of pensions to lump sums	50%	50%

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 2019	**At 31 July 2018**
	years	**years**
Retiring today		
Males	23.10	24.10
Females	25.85	27.20
Retiring in 20 years		
Males	24.70	26.20
Females	27.60	29.40

	Fair Value at 31 July 2019 £'000s	**Fair Value at 31 July 2018 £'000**
Equities	18,927	18,602
Bonds	6,477	7,079
Property	2,264	2,048
Cash	3,773	1,521
Total fair value of assets	**31,440**	**29,250**
Actual return on plan assets	**(1,970)**	**(2,700)**

Notes to the Accounts (continued)

25. Pension and Similar Obligations (continued)

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

	2019 £'000	2018 £'000
Fair value of plan assets	31,440	29,250
Present value of plan liabilities	(46,550)	(40,690)
Present value of unfunded liabilities	(2,030)	(2,070)
Net pensions (liability)/asset	**(17,140)**	**(13,510)**

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

	2019 £'000	2018 £'000
Amounts included in staff costs		
Current service cost	1,130	1,220
Past service cost	600	30
Total	**1,730**	**1,250**
Amounts included in investment income		
Net interest income	**370**	**330**
Amounts recognised in Other Comprehensive Income		
Return on pension plan assets	(1,150)	2,010
Experience losses arising on defined benefit obligations	0	470
Changes in assumptions underlying the present value of plan liabilities	(3,910)	-
Amount recognised in Other Comprehensive Income	**(2,760)**	**2,480**

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

	2019 £'000	2018 £'000
Surplus/(deficit) in scheme at 1 August	(13,510)	(15,600)
Movement in year:		
Current service cost	(1,130)	(1,220)
Past service cost	(600)	(30)
Contributions	1,230	1,190
Expected return on pension fund assets	-	-
Net interest on the defined (liability)/asset	(370)	(330)
Actuarial gain or loss	(2760)	2,500
Unfunded liabilities		(20)
Net defined benefit (liability)/asset at 31 July	**(17,140)**	**(13,510)**

Notes to the Accounts (continued)

25. Pensions and Similar Obligations (Continued)

Asset and Liability Reconciliation

	2019 £'000	2018 £'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	42,760	41,810
Current Service cost	1,130	1,220
Interest cost	1,190	1,020
Contributions by Scheme participants	230	310
Experience gains and losses on defined benefit obligations	3,820	(520)
Changes in financial assumptions	90	-
Estimated benefits paid	(1,240)	(1,110)
Unfunded Liabilities	-	-
Past Service cost	600	30
Curtailments and settlements	-	-
Defined benefit obligations at end of period	**48,580**	**42,760**

Reconciliation of Assets	2019 £'000	2018 £'000
Fair value of plan assets at start of period	29,250	26,210
Interest on plan assets	820	690
Return on plan assets	1,150	2,010
Employer contributions	1,230	1,190
Contributions by Scheme participants	230	260
Estimated benefits paid	(1,240)	(1,110)
Assets at end of period	**31,440**	**29,250**

26. 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.

Katie Danvers-Hewitt is a director of Eduvision Consultants Ltd from whom purchases of £nil (2018: £1,375) were made relating to quality improvement consultancy services. There was £nil outstanding at the year-end (2018 £1,375).

Ian Pretty is Chief Executive of Collab Group, a membership body of further education colleges and college groups for which the College paid a membership subscription of £15,000 in the year (2018: £15,000). There was £nil outstanding at the year end.

Notes to the Accounts (continued)

26. Related Party Transactions (continued)

The total expenses paid to or on behalf of the Governors during the year was £244 (2018: £224). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings and other events in their official capacity. The number of Governors in receipt of expenses was 2 (2018: 1).

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2018: None).

Key Management compensation disclosure is given in note 7.

27. Amounts disbursed as agent

Learner Support Funds

	2019 £000	**2018 £000**
Funding Body Grants	327	354
Disbursed to Students	(304)	(295)
Administration Costs	(12)	(13)
Balance Unspent at 31 July	11	46

These Funding Body Grants are available solely for students; the College acts only as a paying agent. The grants and related disbursements are therefore excluded from the Statement of Comprehensive Income, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant.

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF HIGHBURY COLLEGE AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH THE DEPARTMENT FOR EDUCATION

To: The corporation of Highbury College and Secretary of State for Education acting through Education and Skills Funding Agency ("ESFA")

In accordance with the terms of our engagement letter dated 9th August 2019 and further to the requirements and conditions of funding in ESFA's grant funding agreements and contracts, or those of any other public funder, we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest, in all material respects, the expenditure disbursed and income received by Highbury College during the period 1 August 2018 to 31 July 2019 have not been applied to the purposes identified by Parliament and the financial transactions do not conform to the authorities which govern them.

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

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

Respective responsibilities of Highbury College and the reporting accountant

The corporation of Highbury College is responsible, under 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 Code. 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 2018 to 31 July 2019 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Code issued by ESFA. We performed a limited assurance engagement as defined in that framework.

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.

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE CORPORATION OF HIGHBURY COLLEGE AND THE SECRETARY OF STATE FOR EDUCATION ACTING THROUGH THE DEPARTMENT FOR EDUCATION (CONTINUED)

The work undertaken to draw to our conclusion includes:

• Reviewed the statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding.
• Reviewed the College's completed self-assessment questionnaire on regularity.
• Read the funding agreement with the ESFA.
• Tested a sample of expenditure disbursed and income received to consider whether they have been applied to purposes intended by Parliament and in accordance with funding agreements where relevant.
• Reviewed all payments to senior post holders on termination of employment or in respect of claims made in the year [if applicable]
• Reviewed approved policies and procedures operating during the year for each funding stream that has specific terms attached [if applicable]
• Obtained the policy for personal gifts and/or hospitality.
• Obtained the register of personal interests.
• Obtained the financial regulations/financial procedures.
• Obtained the College's whistleblowing policy.

Matter arising

During the year, as part of a whistleblowing incident, some instances of potentially inappropriate use of College funds were identified. This related to expenditure by a member of the senior management team, some of which arose during the period 1 August 2018 to 31 July 2019. In our opinion, the expenditure was not in line with the principles set forth by Parliament of achieving Economy, Efficiency and Effectiveness.

Conclusion

Except for the above, 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 2018 to 31 July 2019 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Signed:

Mazars LLP

Mazars LLP

Date: 29 May 2020