SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
RESOURCES COMMITTEE
held on 15 June 2017 at 9.30 am

[1]PRESENT Mrs E Bolton (S); Mr N Hopkins (E); Mr T Jackson (P); Mrs S Shaw (C)

In attendance: Mrs S Evans, Finance Manager (minutes 87 to 110)
Mr S Horrobin, Director of Finance
Mr M Simmons, Deputy Principal (minutes 111-125)
Mrs S Willson, Clerk to the Corporation

APOLOGIES

87. Apologies were received from M Coombes, A Hoad and P Lloyd. The Chairman had asked the Vice Chairman to chair the meeting in his absence.

DECLARATION OF INTERESTS

88. There were no declarations of interest.

MINUTES

89. **Resolved –** that the minutes of the meeting held on 9 March 2017 (Parts I and 2) be confirmed and signed as a correct record.

COLLEGE HEALTHCHECK REPORT

90. The Committee had received the latest College Healthcheck Report (no. 2017/04) and the April Management Accounts.

91. The Committee discussed the latest information regarding student applications and the forecast decline in enrolments for 2018/19 across some subject areas, noting the impact of the demographic dip in 16-18 years olds.

92. Summarising headlines from the latest Management Accounts, the Director of Finance & Facilities noted that the Income & Expenditure figures did not include end of year adjustments (pensions and interest rate SWAPs) which were somewhat unpredictable and could present either losses or gains. The end of year adjustments would be reported in the statutory accounts but had no bearing on compliance with the UK GAAP banking loan covenants and minimal impact on Barclay's proposed FRS 102 bank covenant.

93. The Committee noted the success of Countryside Day and congratulated the SLT and all the teams involved.

FINANCE

Finance Report

94. The Committee had received the report of the Principal and Director of Finance on the delivery of the 2 Year Financial Plan 2016/17 and 2017/18.

[1] (E) = External; (S) = Staff; (C) = Co-opted Committee Member

95. The Committee noted that the sale of two Westley Cottages (numbers 1 & 2) had been completed and that the sale of the Westley Bungalow was anticipated in the summer. The property sales would result in a gain in the statutory accounts for 2016/17 on top of the forecast end of year surplus, regardless of whether the sale was actually achieved by 31st July 2017 or not.

96. The Director of Finance & Facilities reported discussion with the College's lending banks regarding the application of accounting standards to the covenants and the terms in the loan agreements as to the process of agreement for amending the covenants. For the financial year to 31 July 2016, whilst the statutory accounts were prepared under FRS 102, the covenants with the three banks were prepared under old UK GAAP. The position of the three banks in relation to the year ending 31 July 2017 varied: NatWest had confirmed the covenants could continue to be prepared under UK GAAP; discussion were ongoing with Lloyds; and Barclays had confirmed it would require the College to transition to FRS 102 based covenants.

97. Members discussed the College's loan arrangements, the way the banks were approaching lending to the FE sector in general and alternative approaches that were in use in other sectors, such as giving security on loans which could enable more flexibility in managing other aspects of the College's finances. The Co-opted Member suggested that the College continue to challenge itself from time to time to ensure that it continued to have the most appropriate arrangements in place. The Director of Finance & Facilities explained that, if the College were to provide security against loans, this could have an impact on its employer covenant with the LGPS. He would continue to take all factors into account while engaging in future discussions with the banks and the pension actuaries.

98. The Committee noted that the change of the Barclays covenant would require the approval of the Board of Governors in October and might necessitate a special meeting of the Resources Committee in advance of that. The Director of Finance & Facilities and his team were assessing the terms proposed by Barclays and would report on whether these presented additional risks to the College.

Two Year Financial Plan 2017/18-2018/19

99. The Committee has received the financial forecast for the two year period 2017/18 and 2018/19 and the draft estimates of income and expenditure for 2017/18.

2017/18

100. Asked about the risk around apprenticeship funding, the Principal explained the latest funding allocation (for non-levy payers) awarded until 31 December 2017, which was significantly lower than the for the equivalent period in the previous year, and that no allocation had yet been made for 1 January to 31 March 2018. A detailed report had been provided to the Curriculum, Employers & Marketing Requirements Committee on how management was mitigating the risks resulting from the allocation decision, as well as appealing the decision.

101. Noting that further cost savings were forecast to be necessary, the Co-opted Member observed that the College was generating cash and sought assurance that, in a situation where cash generation was occurring but that the budgeted surplus was marginal, the College strategic plan was not unintentionally distorted by the need to be seen to achieve operating financial surpluses and that the longer-term cash generation trend was appropriately recognised in the planning process.

102. The Director of Finance & Facilities explained that the level of underlying cash generation, when measured on an EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) basis less unfunded annual Capex, was a positive c£300k in 2017/18. The Director of Finance & Facilities went on to explain the significance of the College's cash generation in maintaining confidence with the SFA, lending banks and the pension actuaries.

103. Given the funding uncertainties going forward, the view of the Director of Finance & Facilities was that there would be too great a risk currently in planning for a short-term deficit, notwithstanding continuing positive cash generation, with the then aim of moving back into surplus in the longer-term. Although the demographic decline would start to improve in 2021, he indicated that there was no certainty that funding levels would be maintained by the government if student numbers increased.

104. The Committee noted that the College was also required to take into account the objective of the ESFA for colleges to maintain a surplus.

105. Members discussed the depreciation policy, which was based on a 50 year life span and whether varying this could further improve the reported surplus or deficit. The Director of Finance & Facilities explained that the policy was needed to protect the value of the College's assets and to ensure that the audit partner signed off our statutory accounts.

106. Asked about bank loan repayments, the Principal agreed that it was right raise the challenge as to whether it would be more financially beneficial to the College to pay off one of the loans but noted that, at the current time, it was anticipated that the cost of doing so in terms of repayment fees and due diligence would be prohibitive.

107. The Committee expressed disappointment about the reduction in income and forecast surplus from the figures a year ago, with regard to the previously discussed ambition to seek to award a pay rise to all staff. It was noted that the options for staff pay within these budget constraints were covered by the HR report.

<u>2018/19</u>

108. Responding to a question about the timing of the forecast rental income from the Green Gas Mill, the Principal explained that the RHI regulations had been further delayed by the General Election and were now expected in September. On this basis, construction would be likely to commence in Spring 2018 with rent payable once the plant was producing gas. The rent would there be less than forecast and the Director of Finance & Facilities confirmed that has been addressed by inclusion of contingency in the financial plan.

109. **Resolved** – that risk to the forecast rental income from the Green Gas Mill be added to the Sensitivity Analysis to be presented to the Board of Governors.

110. **Resolved** – the Board of Governors be recommended to approve:

    a) a budget for 2017/18 which shows a surplus of £302,000 before FRS 17 and FRS 102 pension charges or credits, and where the College's underlying operating cash flow is positive for 2017/18;

    b) a financial plan for 2018/19 which shows a surplus of £150,000 before FRS 17 and FRS 102 pension charges or credits;

    c) a 2017/18 provision for £1.023 million (excluding the Education Building and the Equine Stables but including VAT) of capital spend.

STRATEGIC PLAN

111. The Committee had received the draft Three Year Strategic Plan Priority Objectives 2 and 3 in order to consider the financial and commercial objectives for inclusion in 2017/18.

112. The Principal explained that the format of the Plan would be revised to reduce the number of Priority Objectives from four to three for clarity, with the current Priority 3 objectives redistributed.

113. Responding to a Member's question about where it was necessary to maintain an ESFA financial health score of "Good" in 2017/18 and 2019/19 (Measure 16.2), the Director of Finance & Facilities explained that the rating provided assurance to the banks and ESFA.

114. Members discussed the annual milestone objective relating to reducing the exposure of the College to large increases in pension contributions and the Director of Finance & Facilities confirmed that the College would need to seek legal and professional advice on the impact of any options considered. Any changes would also involve consultation. Initial advice had been commissioned and received jointly with other Hampshire colleges and management had also sought to engage with the AOC about sharing experiences across the sector.

115. The Committee noted that the key measure regarding property sales (18.1) would be discussed under the Property Strategy report and that, if necessary, the Committee could return to this key measure and make recommendations to the Board.

116. **Resolved** – that the Board of Governors be recommended to approve the Annual Milestone Objectives under Priority 2 and Priority 3 in the Three Year Strategic Plan.

HUMAN RESOURCES

117. The Committee had received the report of the Principal and HR Manager on current human resource matters.

118. The Committee noted that management had agreed with the ICE Group to delay conducting the annual staff survey until the Autumn term when the staff restructuring would have be completed.

119. The Director of Finance & Facilities explained the process that HR, supported by the Finance team, had undertaken to ensure that the College's arrangements for paying contractors/employees was compliant with the new IR35 requirements (6 April 2017). Around 100, a significant proportion, of the College's "contractors" had been checked, rather than relying on the individuals' self-assessing, and the methodology would be written up by the HR team to provide evidence for any subsequent audit activity. The College presently relied on contracts which were on the basis of the term and conditions in a purchase order or a different contract format, rather than an IR35 compliant contract.

<u>Pay strategy</u>

120. The Committee considered the latest budgetary position regarding staff pay and noted that, while measures such as staff turnover remained satisfactory, the Board had sought an opportunity to recognise the staff's commitment to the success of the College.

121. **Resolved** – that the Board be advised that it was not affordable at the current time to award all staff a salary increase and to consider agreeing an "in principle" bonus sum to be paid to staff from the 2016/17 financial year, providing that there was sufficient surplus and no risk with regards to compliance with the banking covenants.

IT STRATEGY

122. The Committee had received the draft revised IT Strategy for review and comment prior to its further development, including reviewing the existing IT Policy.

123. The Deputy Principal explained that the proposed approach regarding "bring your own device" for students was intended to support the student's informal use of their own devices while recognising that to move to a fully enabled "bring your own device" learning environment would involve significant IT infrastructure and systems development costs.

124. Asked about the ever increasing demand on the College's Wi-Fi, the Deputy Principal noted that the Property Strategy included proposed capital expenditure to support installing separate network points for College and personal use in Halls of Residence.

125. The Committee noted that the draft IT Strategy would be subject to further development before being presented for approval to the Board in the Autumn term.

PROPERTY

<u>Property Strategy</u>

126. The Committee had received the revised Three Year Property Strategy, together with an update on progress with property matters in 2016/17.

127. **Resolved** – that the Board of Governors be recommended to approve the Property Strategy.

128. The Committee noted that the Board had previously approved to the sale in principle of No 3 and No 4 the Westley Cottages and had delegated to the Committee the authority to approve the timing of the properties being put on the market. The Director of Finance & Facilities explained that advice had been provided from estate agents that the upward trend of local property prices had levelled out. The property sales were proposed in order to free up match-funding for investment in development of the College estate and management's assessment was that best value could be achieved by realising the assets now, to get the best price and to be ready to act on grant funding opportunities as they arose.

129. Member discussed the drivers for the proposed timing of the property sales, the factors by which the LEP set the level of match-funding and the process for making strategic decisions about how and when to spend the income from property sales.

130. The Committee noted that that the Board had reached the decision to sell the properties only after very careful consideration of the benefits of releasing cash versus retaining property assets, one of the previously agreed benefits having investing in parts of the estate in order to maintain and improve the facilities for students.

131. **Resolved** – that marketing for sale of No 3 and No 4 Westley Cottages could commence from June or July 2017.

FINANCIAL REGULATIOINS

132. The Committee had received the report of the Director of Finance & Facilities on his review of the College's Financial Regulations (Parts 1 and 2) and the Procurement Policy.

133. The Director of Finance & Facilities requested an additional proposed change to the Financial Regulations (Part 2) – that the Finance Manager be added to the Finance Office

Manager as a second approver of PAYE and Pension contributions, with the Director of Finance & Facilities still as the authoriser.

134. With reference to the collection of income for student payments, the Committee Chair advocated the College applying caution to any use of the condition in the Financial Regulations that the College “may refuse” to process marks and grades if a payment plan was not in place at the end of a student’s course. The Principal explained that College management were clear that this could not be used in order to recover debts for non-course items (eg accommodation). This was different to course related fees on the basis that, if a student did not pay or enter into an arrangement to pay course related fees, then the College was not under any obligation to complete delivery of the services covers by the fees, including teaching, marketing or assimilating grades.

135. **Resolved** – that the Board of Governors be recommended to approve the revisions to the Finance Regulations (Parts 1 and 2) and to the Procurement Policy.

COMMITTEE PERFORMANCE

136. The Committee had received the report of the Clerk to the Corporation which provide information to inform the Committee’s annual review of its performance and terms of reference, including reference to relevant sections of the Code of Good Governance for English Colleges.

137. Members discussed whether to recommend a change to the quorum of the Committee from four to three to reduce the risk of an inquorate meeting but agreed that a quorum of four ensured a useful range of knowledge and effective scrutiny.

138. Members discussed the committee structure of the Board and the flow of information from the Committee to the Board in the form of minutes and reports. While the processes were designed to ensure detailed scrutiny of proposals and reports, while avoiding unnecessary duplication and supporting efficient use of Members’ time, the Committee recognised that it was reasonable for Members of the Board to want to receive more detailed information in some cases. In some cases, it would be appropriate to append to the minutes the related management reports for substantial strategic or financial decisions or to bring these to the Board as separate agenda items.

139. The meeting ended at 12.40 pm. Confidential items were discussed and are recorded separately.