

**SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
RESOURCES COMMITTEE
held on 14 June 2018 at 9.30 am**

¹PRESENT E Bolton (St); M Coombes (E) (mins 83 to 135 and 154 to 158); T Floyd (E); A Hoad (E); N Hopkins (E); T Jackson (P); P Lloyd (C) (mins 83 to 189 and 149 to 158).

In attendance: S Cameron, HR Manager (mins 117-132)
S Horrobin, Director of Finance & Facilities
S Willson, Clerk to the Corporation

APOLOGIES

82) Apologies were received from S Shaw.

83) The Chairman explained that he would need to leave the meeting early and that the Vice Chairman would chair the remainder of the meeting.

DECLARATION OF INTERESTS

84) There were no interests to declare.

MINUTES

85) **Resolved** – that the minutes of the meeting held on 8 March 2018 (Parts 1 and 2) be confirmed and signed as a correct record.

Human Resources (Min 34/18)

86) As part of the Board of Governors' considerations in relation to staff remuneration, the Chairman asked that College management bring forward information as to the proportion of staff having received increases in salary (for reasons such as movements within pay grades), updated since this was last reported to the Committee.

Property (Min 19/18 & 73/18)

87) The Committee discussed oversight of the College's estate noting that aspects of this had been covered at the Governors' Seminar in May and agreeing to keep under review the option of a special session of the Resources Committee on property matters at a future point.

88) The Principal reported that, subsequent to the resolution of the Board of Governors on the recommendation of the Committee to approve a budget of £250k, including a contingency and HEFCE capital grants, management had identified the need for investment in enhanced digital movement camera technology and associated software of c£40-50k to further support the use of the equine simulator, in particular for higher education research purposes. The Principal was therefore seeking the agreement of the Resources Committee to increase the total budget to £275k, with the intention of completing the project for less if possible. The EM3 LEP had indicated that match funding could be agreed for this new element of the technology but the amount was not yet confirmed.

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

- 89) In discussion, Committee Members sought clarifications as to the procurement process for the project and why there was variability in the costs at this point.
- 90) The Finance & Facilities Director confirmed that the construction costs element of the project had followed a tendering process carried out by the project architect on behalf of the College. The equine simulator, as previously reported, and the digital movement camera technology were only available single suppliers.
- 91) The Vice Principal, Corporate explained that the management were unable to give a fixed amount of the additional investment needed to be funded by the College because discussions were ongoing with the EM3 LEP as to the level of match funding.
- 92) Asked by a Member if the research opportunities extended outside of the College and could generate new income, the Principal explained that, at this point, management anticipated linking up with another college(s) on national equine research.
- 93) **Resolved** – that the Board of Governors be recommended to approve the increase in the budget for the development of the Equine Rider Performance Studio to a maximum of £275k, including £78k of funding from HEFCE capital grants (from 2017/18).

COLLEGE HEALTHCHECK REPORT

- 94) The Committee noted the latest College Healthcheck Report (2018/04), together with the April Management Accounts.
- 95) The Principal highlighted the “Red” rating in relation to the decrease in HE applications year on year, explaining that enrolments were being cautiously forecast and included in the 2018-19 budget and two-year financial plan. Feedback on HE applications from other land-based colleges, where available, suggested a mixed picture.
- 96) Responding to a Member’s question about the performance data reported in relation to apprenticeships, the Vice Principal, Corporate confirmed that the data reflected the changes in the funding and policy environment, as previously reported to the Board.
- 97) Asked to clarify the approach to an accrual in the April Management Accounts for “other expenditure”, the Director of Finance & Facilities confirmed that this was not a new accrual and that it represented a high level estimate of costs which had not yet been accounted for via the normal purchase-to-pay route. It was broadly the same each year and therefore not considered a risk to the end of year forecast.

FINANCE

- 98) The Committee had received the financial forecast for the two-year period 2018-19 and 2019 -20 and the draft estimates of income and expenditure for 2018-19
- 99) The Director of Finance & Facilities gave a detailed summary of the Income and Expenditure budget for 2018-19 and high level budget for 2019-20.
- 100) The Committee commended College management in having addressed the need for reduction to staff costs through restructuring, recognising that this was an unfortunate necessity in response to funding and required professional and effective management. Members also welcomed the evidence of effective management through the savings achieved in tenders and other operating expenses.
- 101) The Committee discussed the list of “items to note” which the Director of Finance & Facilities had identified as potential variables and the other opportunities and risks which informed the estimated range of +£150k to -£450k by which the end of year budgeted

surplus could vary. Notwithstanding this range, the Director of Finance & Facilities confirmed that his best estimate was a budget surplus at year end 2018/19 of £370k.

- 102) Responding to Member's questions about the likelihood of some of the variables occurring, the Director of Finance & Facilities and Principal provided their assessments, confirming that the SLT as a team were clear that the College needed to achieve a surplus at year end and that the financial plan was expected to maintain an ESFA financial rating of "Good".
- 103) The Committee recognised that College management had undertaken substantial work to forecast and internally test the income and expenditure budget and was assured that the budget did not result in a deficit in either year. Nonetheless, the Committee confirmed it would expect to see the estimated range on the final budget narrowed during the course of the year once enrolments figures and other factors were known.
- 104) The Principal confirmed that management would report, as normal, to the Resources Committee on any risks to the two-year financial plan at the Autumn and Spring term meetings including the mid-year financial forecast.
- 105) Noting that the 2018-19 budget and 2019-20 high level budget did not include costs for a staff bonus or pay award, a Member challenged whether it would be affordable to pay a bonus from the 2017-18 surplus, providing that did not negatively impact the financial assessment of the College by external bodies.
- 106) The Vice Principal, Curriculum highlighted summer school and apprenticeships income as potential risks and cautioned against making a decision at this point.
- 107) The Principal noted the process by which a staff bonus award had been decided by the Board in July 2017 and stated that, while he still believed any decision had to be carefully balanced with the financial risks, it was open to the Committee to decide not to accept the management recommendation in the paper and, instead, recommend a bonus on the basis of this being subject to affordability and other conditions.
- 108) The Director of Finance & Facilities reminded the Committee that any such decision by the Board would be required to be supported by the information required by the external auditors. He also stressed that a reduction in year-end surplus for 2017-18 could increase the challenge to achieve the optimal outcome in terms of both the LGPS triennial review employer covenant and potential future bank loans.
- 109) The Chairman proposed that the options be discussed under the later agenda item on HR matters and that the Committee then revisit the resolutions with regard to the budget and financial plans if necessary.
- 110) Turning to the high level budget for 2019-20, the Committee discussed the work undertaken by management to model the impact of FE and HE enrolments and that the assessments in the budget sensitivity analysis, noting that the modelling provided a best estimate rather than a range analysis. The Director of Finance & Facilities explained the budget included both a £300k "donation" (which was a new building) and the figure for the annual rent both connected to the Ecotricity project.
- 111) The Principal reported that Ecotricity's revised plans for the education building were due to be considered by the Winchester City Council planning committee in July.
- 112) Members also sought and received additional explanation from the Director of Finance & Facilities with regard to the accounting approach to deferred capital funding and to Ecotricity's funding of an education building linked to the anaerobic digester development

(should this proceed); noting that both were consistent with previous accounting treatments.

- 113) The Committee then reviewed the proposed provision in the 2018/19 budget for capital expenditure and noted the list of capital bids from College managers exceeded the budget available and that bids would be prioritised by the SLT during the year.
- 114) Responding to a Member's question as to the certainty of the £720k of LEP funding towards Premises and IT bids, the Vice Principal, Corporate explained that the match funding grants had been approved by the LEP Board and were now undergoing due diligence.
- 115) The Committee noted that the Board had oversight of grant funding expenditure through the approval of capital expenditure for individual projects and approval and monitoring of the Property Strategy. The LEP required evidence of the Board's approval of capital projects before releasing grant funding.
- 116) **Resolved** – that the Board of Governors be recommended to agree:
- a) a budget for 2018/19 which shows a surplus of £370,000 before FRS 17 and FRS 102 pension charges or credits, and where the College's underlying operating cash flow is positive for 2018/19;
 - b) a budget for 2019/20 which shows a surplus of £521,000 before FRS 17 and FRS 102 pension charges or credits;
 - c) a 2018/19 general capital spend provision of £1,817,000 including VAT and includes £720,000 of matched LEP funding.

HUMAN RESOURCES

- 117) The Committee had received the report of the Principal and HR Manager updating on Human Resources (HR) matters, including staff remuneration and restructuring and the statutory reporting in relation to trade unions.
- 118) The Committee noted that the staff survey would be carried out in the Autumn term, as in the previous year, and reported to the November meeting of the Committee.

Staff remuneration

- 119) Returning to the discussion about staff remuneration during the Committee's consideration of the two-year financial plan, the Chairman noted the desire of some Members to afford a one off staff bonus payment in the event that a consolidated salary increase was not possible.
- 120) Members discussed the overall approach to staff remuneration, with varying views as to the appropriateness of alternative pay models, such as variations on spot salaries and performance related pay.
- 121) A Member suggested that the staff survey and turnover figures suggested that reasonable morale was being maintained, despite the affordability restrictions on pay rises, and that a pay policy which moved away from a shared impact on staff to greater differentiation of remuneration could be divisive. The Principal noted that a historic practice of performance related bonuses for College managers had been withdrawn because it was found to be

unhelpful and highlighted potential challenges in relation to recruitment and to maintaining salary base rates.

- 122) However, some other Members were of the view that the College could not sustain a continued position for not awarding all staff a pay rise or developing more flexible pay options for the future, despite the current indicators, given that the cost of living was likely to rise in the next two years, with higher inflation and interest rates, and proposed that the SLT undertake a more fundamental review of the pay affordability strategy to identify radical options, even these were not recommended. It was suggested that this work could also support lobbying for funding increases.
- 123) The Vice Chairman expressed sympathy with the challenges for the SLT in relation to staff pay, recognising that the College's options for pay strategy were constrained by the lack of increase in FE funding over a number of years, meaning that funding pay rises was mainly dependent on increasing enrolments and class sizes.
- 124) Returning to the discussion of a potential all staff unconsolidated bonus award to be provided for in 2017-18, given a pay increase was unlikely to be affordable in 2018-19, the Chairman noted that this option did not prevent further work on developing pay strategy options for future years.
- 125) The Director of Finance & Facilities noted that any reduction in the 2017-18 year end surplus could present a risk in terms of the LGPS triennial review and that cash generation continued to be important for the College's financial status assessments, and that a surplus of less than c£300k would be likely to increase that risk.
- 126) The Principal stressed that, while there appeared to be a growing awareness in government that the FE sector was in funding crisis, there was no certainty of increased funding and that it was therefore difficult to see ways to fund increases in staff pay. The Principal stated that he was not convinced that paying a one-off unconsolidated bonus was in the best interests of the College at this time but would understand the collective decision of the Board if it was the wish of the Resources Committee not to accept his recommendation contained within the paper to the Committee.
- 127) With regard to the proposal for a fundamental review of pay affordability, the Principal expressed the view that staff were most concerned to retain their jobs and that it was a testament to the College that staff morale and motivation had been largely maintained despite pay constraints. The Staff Governor echoed the view that members of staff did not want to lose their jobs and understood that pay rises or bonuses needed to be affordable.
- 128) The Committee discussed the approach to deciding the amount of any staff bonus, noting the requirements of the auditors in providing for the costs (circa £70k) in the 2017-18 accounts, and whether to set the rate at £130 pro rata as previously or to make a gesture of a small amount if this more affordable.
- 129) **Resolved** – that the Board of Governors be recommended to agree an unconsolidated bonus be paid to each qualifying individual employee on the basis of a fixed amount to be calculated by management and presented to the Board to ensure that a surplus of at least £300k was achieved at year end, after payment of the bonus, and that this did not lead to

a breach of the College's bank covenants or reduce the College's anticipated ESFA financial health rating from Good to Satisfactory.

- 130) Returning to the proposal that management bring forward a pay affordability strategy, a Member questioned the value in the exercise, particularly given potential risks in terms of distraction of College management from other priorities and to staff morale and the reputation of the College if radical or hypothetical options became known outside of the Board's discussions. However, another Member stressed that, while recognising the reality of funding constraints, there would still be value in exploring different options to protect against increased risks of ongoing static pay for a significant proportion of staff.
- 131) Given the difference of opinions held by Members, the Chairman called for a vote by show of hands. The Principal abstained from the vote.
- 132) **Resolved** - by five votes in favour and one against, with one abstention, that the Principal be asked to undertake a review of the College's pay strategy and to present to the Committee during 2018/19 options for funding a pay increase for staff.

PROPERTY

- 133) The Committee had received the revised Three Year Property Strategy, together with an update from the Principal on progress with property matters in 2017-18.
- 134) The Principal's report updated the Committee on the financing of the Property Strategy, including in relation to sale of the Westley Cottages and the position of the EM3 LEP with regard to match-funding. The sale of No 4 Westley Cottages had previously been agreed by the Board, with the decision over the timing delegated to the Resources Committee.
- 135) **Resolved** – that sale of No 4 Westley Cottages be progressed by College management on the basis that the income generated would be ring-fenced to be used in capital property development approved by the Board of Governors.
- 136) The Vice Principal, Corporate provided an update on discussion with Test Valley Borough Council in relation to development of the proposed Andover Cultural Quarter, noting that the requirements the scheme needed in order to meet LEP economic priorities for match-funding and how the College would match any LEP investment.
- 137) Asked about the potential impact of involvement in the Andover Cultural Quarter on the current ratio and accounts, the Director of Finance & Facilities explained that current ratio was of less risk than impact on the income and expenditure and depreciation in relation to the bank loan covenants and, at an appropriate time, that this would be reviewed with the auditors.
- 138) The Committee noted the management's assessment that the priority areas for strategic investment at the Sparsholt College campus were Animal Management and HE facilities and discussed this in relation to enrolment trends and potential external partnerships.
- 139) **Resolved** – that the Board of Governors be recommended to approve the Property Strategy.

PROCUREMENT

- 140) The Committee had received the report of the Director of Finance & Facilities and the Head of Procurement on the use of the option to waive the standard tender process as defined in the Financial Regulations and Procurement Policy.

- 141) The Committee noted the 8 tender waivers raised and approved and that the Principal and Director of Finance & Facilities had approved the waivers on the basis that best value for money for the College had been achieved.

STRATEGIC PLAN

- 142) 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 2018-19.
- 143) The Principal undertook to further review the wording of Annual Milestone as to whether the key measures should include specific reference to not breaching bank loan covenants, Annual Milestone 16 and related key measures on the basis of confidentiality, and to update the wording of key measures for Annual Milestone 21.
- 144) **Resolved** – that the Board of Governors be recommended to approve the Annual Milestone Objectives under Priority 2 in the Three Year Strategic Plan, as updated by the Principal.

COMMITTEE PERFORMANCE REVIEW

- 145) The Committee had received the report of the Clerk to the Corporation which provided 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.
- 146) The Committee noted that, when S Shaw completed her term of office as a Co-opted Member, there would not be a Member who was a practising accountant, although other members had either qualified as accountants in the past or had significant experience in overseeing financial decisions. The Vice Chairman noted that the skills mix of members of the Board and its committees would be considered by the Search Committee following completion of the current recruitment round for new Board Members.
- 147) The Committee also discussed its terms of reference in relation to monitoring College policies in relation to non-education services and whether this was sufficient covered by the annual business plan, beyond the regular reports on HR matters. Policies on matters such as equality and safeguarding also fell within the remit of the Quality & Standards Committee and management's Wellbeing Committee. It was agreed to keep this under review.
- 148) The meeting ended at 12.45 pm. Confidential items were discussed and are recorded separately.