

**SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
RESOURCES COMMITTEE
held on 14 March 2019 at 9.30 am**

¹PRESENT D Beaven (E); M Coombes (C); T Floyd (E); N Hopkins (E); T Jackson (P)

In attendance: S Hermiston, Director of Funding & Information Management (mins 47 to 55)
D Hill, Premises & Facilities Manager (mins 56 to 61)
S Horrobin, Director of Finance & Facilities
S Willson, Clerk to the Corporation

APOLOGIES AND MEMBERSHIP

1. There were no apologies received.
2. The Chair welcomed D Beaven to her first meeting of the Committee. It was noted that P Lloyd had completed his term of office as a Co-opted Member and the Committee recorded its gratitude for his contribution and noted his continuing association with the College Group through its subsidiary companies.

DECLARATION OF INTERESTS

3. D Beaven noted her position as Group Finance Director at Simply Health, one of the organisations involved with the College in the Andover Cultural Quarter development project, as recorded in the Register of Interests. The Committee noted that D Beaven would exclude herself from commercially confidential matters in relation to the project and would not receive commercially confidential Committee papers. There were no commercially confidential matters in relation to the project on the agenda for this meeting.

MINUTES

4. **Resolved** – that the minutes of the meeting held on 15 November 2018 (Parts 1 and 2) be confirmed.

Property (288/18)

5. The Director of Finance & Facilities reported that No 4 Westley Cottages was still under offer but that the sale had been held up by issues arising in relation to boundaries. Actions were underway to resolve these but the delay could present a risk to the sale in terms of the purchasing chain.

College Group (361/18)

6. The Chair noted that the College and Sparsholt College Services Limited (SCS) had signed the supply of services and other agreements in relation to the transfer of staff and framework for the commercial relationship between the two bodies.
7. There were no other matters arising not covered by matters on the agenda.

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

FINANCE

Two Year Financial Plan

8. The Committee had received the report of the Principal and Director of Finance & Facilities updating on the financial position of the College in 2018-19 and matters influencing the two-year financial plan, including the mid-year budget forecast and ESFA's revenue funding allocation statement 2019-20.
9. The Committee noted that the forecast of the 2018-19 Income and Expenditure account indicated that the College would achieve a surplus of c£326k. This was a significant improvement on the high-level estimate of £55k reported to the Board in December. However, it should be noted that, in addition to reductions in staffing costs, the £326k included c£430k of various one-off items, such as the £100k donation in relation to the construction of the rifle range.
10. Members noted that, where high needs income had increased, this needed to be considered alongside any associated additional expenditure requirements.
11. It was noted that there was a level of risk around income from language schools as contract negotiations for 2018-19 had not yet been completed. The Principal reported potential opportunities for growing language school income in the future through block booking under-utilised residential student accommodation for use by language schools (for school-age pupils) and mitigating the risk of lowering demand for residential accommodation from students enrolled at the College. This would also require provision of teaching facilities and options were being explored by management. It was recognised, however, that with the uncertainty in the FE sectors, the College needed to have the ability to respond flexibly to changing demands.
12. Members sought additional information about the approach to use of agency staff and to related budget planning. The Director of Finance & Facilities reported that agency staff were sometimes used temporarily for key staff vacancies and that the budget was planned on the basis of staff costs, taking into account factors such as some posts not being filled.
13. It was noted that there was a small deterioration in net income as a result of not holding a Countryside Day event in 2019, although not all of the hidden costs were captured and the alternative Sparsholt Futures STEM day for school children had the potential for longer term benefits to the College.
14. In respect of the two-year financial plan 2018-2020, the Committee noted that the ESFA funding allocation for 2019-20 was in line with the forecast reported to governors in the August term and represented a decrease of £386k from 2018-19. Current HE applications were tracking at c5% higher compared to the previous year and were on course to redress the decline experienced in 2018-19.
15. Members discussed the management of the outturn for 2018-19, expressing a caution that careful consideration be given to financial planning of expenditure, such as grant capital expenditure, in the final months of 2018-19 and the level of surplus to be achieved this year, given the anticipated significant challenges for the 2019-20 budget in order to avoid or reduce any deficit. The Director of Finance & Facilities reported that he would seek confirmation from the external audit partner at the audit planning meeting in May about the accounting of LEP grant funds.

16. It was noted that, although the current bank loan covenants were not impacted by capital expenditure, there was an impact on current ratio which was relevant to the ESFA financial rating, pension evaluations and going concern assessment.
17. The Principal confirmed that the SLT were reviewing a high-level forecast for 2019-20 alongside decisions about future provision to inform the budget to be submitted to the next meeting.
18. The Committee noted that the College was continuing to work towards the general capital expenditure of £1,917k for 2018-19.

Banking

19. The Committee had received the report of the Director of Finance & Facilities on bank loan arrangements and a review of the College's bank loan covenants.
20. The Committee noted the progress made to reduce and simplify the bank covenants held by the College and how it aimed to ensure their compliance. It was understood that, nonetheless, the covenants remained challenging and Members sought more information about the ongoing monitoring process by College management, such as in relation to tolerance level analysis and escalation processes.
21. The Director of Finance & Facilities explained the regular analysis undertaken by the Finance Manager and reviewed monthly by the Director of Finance & Facilities and the Principal. Full testing of cash flow movements was undertaken at financial year end because of the significant variation in income and cash through the year. Updates were given to the Committee each term, together with the Spring term report and confirmation after year end. The report included information about the key assumptions used.
22. Members discussed the summary analysis of covenants, seeking and receiving additional information about the two covenants with an Amber rating (the other covenants being rated Green) and noting that these would continue to be monitored closely by management to ensure compliance. Asked how the College would respond in "worst case" scenarios and how governors would be made aware, the Director of Finance & Facilities confirmed that the processes undertaken by management would take into account cash flow variations between May to July to monitor the year end forecast and make adjustments through debtor and creditor management if required. Cash flow would be reported via the Monthly Management Accounts to the Board and Committee and any issues arising from covenant monitoring escalated by the Principal to the Chairman.
23. The Committee noted the update on the refinancing of the NatWest loan with the Handelsbanken Revolving Credit Facility (RCF), approved by the Board in October 2018 subject to satisfactory negotiation of the new RCF, the final estimated breakage costs with NatWest and to adjustments to the Barclays and Lloyds covenants in 2018-19. In December, the Board approved a letter of variation with Barclays for the year ended 31 July 2019 to remove the NatWest loan repayment from their covenant calculation for Debt Service Costs to avoid a breach of the covenant. The Board had last received an update on progress with the other conditions in January 2019.
24. The Committee noted the updates on discussions by management with Lloyds to revise the covenants in order to change to the FRS 102 accounting standard (in line with the College's statutory accounts), remove the covenant requiring a surplus at least one in every three years, and to obtain an amendment for the year ending 31 July 2019 to avoid the repayment of the NatWest breaching the covenant relating to Borrowing Costs to Total

Income. It was noted that good progress had been made in agreeing with the Banking Relationship manager which covenants would be removed and the replacement covenants but there had been some delay in finalising these. Management confirmed that the proposed covenants represented a sensible move for the College, with the three replacement covenants being the same or very similar to those with either Lloyds or Barclays.

25. If the change to covenants required in relation to the NatWest loan were not made, Lloyds had agreed to issue a letter to confirm the exclusion of the NatWest repayment from Covenant 4 for the year ending 31 July 2019. An update would follow to the next Board meeting.
26. The Committee noted the key feature of the draft agreement with Handelsbanken set out in the report and that the changes requested by management on the advice of the College's lawyers were currently being reviewed by Handelsbanken. It was hoped to have final contract paperwork in time to confirm by the Board meeting in April that the conditions of Board approval had been met. The Board had previously delegated authority to the Principal and Chair of Governors to authorise the RCF agreement.
27. Questioned about the risks and consequences of not reaching an agreement with Handelsbanken, the Director of Finance & Facilities explained that he believed that the outstanding matters were negotiable and that, if the RCF did not go ahead, the College had the contingency option to retain the NatWest loan, albeit with the negative financial impact of c£40-50 pa higher interest than with the RCF and the loss of the benefit of the College holding cash. Additionally, the College had made an accrual for the NatWest loan breakage fees in last year's accounts which would need to be released if the loan was not repaid.
28. The Finance Manager reported that the agreement of the Board would be sought to changes to the authorised signatories for the College's bank accounts following the departure of the current Director of Finance & Facilities.

COLLEGE HEALTHCHECK REPORT

29. The Committee noted the latest College Healthcheck Report (2019/02) and Management Accounts (January).
30. Members discussed the latest application numbers for FE and HE students, which were positive year-on-year in relation to the marketing strategy and demographic trends.

HUMAN RESOURCES

31. The Committee had received the report of the Principal and HR Manager updating on Human Resources (HR) matters, including in relation to the transfer of staff to SCS, and providing the latest Gender Pay Gap report.

Gender Pay Gap

32. The Committee noted the College's Gender Pay Gap report to be published by 31 March 2019 which analysed mean and median pay data by gender at 31 March 2018 in line with statutory requirements. The data pre-dated the transfer of staff to SCS and therefore included all academic and business support staff. The data showed a gender pay gap of 7.87%, slightly lower than the previous year, and positive compared to the reported gender pay gap for 198 colleges in 2017 of 10% and national data of 18.4%.

Staff Remuneration

33. The review by the SLT of lower than expected enrolment of students (16-18 and HE) in September 2018 against the budgetary position for 2018-19 and the budgetary prospect for 2019-20, continued to consider that it was not affordable to award a cost of living pay award to staff. More challenging recruitment in some areas of staff specialism was being managed.
34. **Resolved** – that the Board of Governors be recommended that it was not affordable at the current time to award staff a cost of living pay award.
35. It was noted that terms and conditions of SCS employees were a matter for the SCS Board and that decisions of the Board of Governors in relation to remuneration for College staff would be reported to the SCS Board for information.

Staff Survey

36. The Committee noted that the SLT did not intend to undertake an all staff survey in 2018-19 and was considering formats for the following year. In the meantime, some academic staff had taken part in a survey of FE colleges for the DfE and the College's results in relation to questions about career development and retention were shared with the Committee for information. While only a low number of staff had participated, the responses were significantly more positive than for the sector as a whole.

Pensions

37. The Committee noted the response of the College to a DfE consultation in relation to the increase in employer contribution rate for the Teachers' Pension Scheme (TPS) from 16.48% to 23.68% of contributory pay with effect from 1 September 2019. The Government had announced the cost would be covered in 2019-20 (c£351k).
38. Asked about the certainty that the costs in 2019-20 would be covered by Government, the Principal reported that this had been confirmed up to 31 March 2020 to the AOC by Government but that there was some uncertainty for the remainder of the College's 2019-20 financial year and therefore the budget planning assumed that the College would have to pay the increase (unfunded) from April to July 2020.

HR Policies

39. The Committee noted that a review of College Group HR policies (and some SCS/College specific policies) was underway, with the advice of lawyers Warner Goodman, to ensure that all policies were up-to-date with legislative requirements and appropriate for the new College Group arrangements.
40. The Committee noted that management was keeping a "watching brief" on the impact of Brexit matters relating to employment of staff and would review policies and procedures if necessary once the situation was clear.

Sparsholt College Services

41. The Principal confirmed that the transfer of staff to SCS on 1 February had proceeded as planned and that SCS staff had been paid by SCS in February. SCS staff had been set up with SCS and College Group email addresses and it was understood that SCS email address had to be used in relation to formal employment and other matters in relation to SCS staff.

PENSIONS

42. The Committee had received the annual report of the Director of Finance & Facilities and the HR Manager on the two pensions offered by the College (the Teachers' Pension Scheme – "TPS" and the Local Government Pension Scheme – "LGPS") and updates to the LGPS Discretions Policy.
43. The Director of Finance & Facilities highlighted the key points, including the increase in the LGPS costs in April 2019 as the employer's rate increased to 16.6% of contributors' pay and the potential increase in the TPS costs in relation to the increase in contribution rates from 1 September 2019. The outcome of the latest LGPS triennial review was expected in the next four to six weeks, the College having been confirmed as being evaluated as a "medium" risk employer (no change).
44. The Committee noted that the LGPs Discretions Policy had been amended to reflect recent regulation changes and to use Hampshire Pension Fund's model policy template. The number of discretions had increased from 10 to 13 from the previous version and the same approach had been applied to mandatory and optional discretions, seeking to minimise the potential costs to the College.
45. **Resolved** – that the Board of Governors be recommended to approve the revised Local Government Pension Scheme Discretions Policy, including the delegation of authority to the Resources Committee to make discretionary decisions where defined in the policy.
46. An updated LGPS Discretions Policy would also be submitted to the SCS Board in relation to SCS staff.

CURRICULUM CONTRIBUTION

47. The Committee had received the annual report of the Director of Funding & Management Information on the last analysis of the curriculum contribution model, produced using in-year achieved/projected funding and income and the annual budget.
48. The Director of Funding & Management Information summarised the methodology and main findings, explaining changes since the previous year. It was noted that there was a sub-set of areas not making a sufficient contribution, although the majority were moving in the right direction. Where the improvement was insufficient, this was being addressed with targeted actions.
49. Members noted that it remained the case that faculties at Sparsholt College made a greater contribution than those at Andover College (even if HE was excluded), although the gap had reduced. Members discussed the actions being taken by the College to seek to increase A Level class sizes at Andover College. Of the FE faculties, Animal Management remained the greatest contributor due to economies of scale and the land-based funding formula and the Principal noted actions underway to ensure a positive learner experience and support progression.
50. Members discussed the detailed analysis, reflecting on strategic questions for the College about the future curriculum development and delivery, including opportunities for increasing student numbers in areas which could enhance the bottom-line and support more specialist offers. In a scenario-planning situation where the College faced extreme financial challenge, it was noted that any options for closing areas would need to be tested in relation to whether sufficient College overheads would also be saved.

51. Responding to a question about the contribution data in relation to Foundation Studies, the Director of Funding & Management clarified that this included the English and maths GCSE studies on both campuses required as a condition of funding.
52. The Committee noted that the model had highlighted some areas of the curriculum where review was required to address unacceptably high delivery costs, when compared with the norm. It was noted that management would have to take a view on the longer-term viability of some areas, where high costs related to small class sizes, with staff utilisation also been assessed to ensure that curriculum areas were not operating with inefficient delivery models.
53. The Committee welcomed the work undertaken by management to provide a robust contribution model to help to ensure efficient delivery without undermining the effectiveness and quality of the delivery.
54. The Committee endorsed management's approach of working to improve efficiency through an aligned strategy of income growth, increased class sizes, and reductions in both direct and central costs.
55. It was agreed that the report also be provided to the Curriculum, Employers & Marketing Requirements Committee for information, alongside the Curriculum Plan.

PROPERTY

56. The Committee had received the report of the Principal on progress with the Property Strategy in 2018-19.
57. The Committee noted that the capital proposal to the EM3 LEP in relation to the Sparsholt Animal Health and Welfare Research Facility had been increased from £1.65m to £1.95m (including College cash of c£700k) and had been approved at the preliminary stage. It was now undergoing due diligence before final sign off.
58. The Committee also noted that the Equine Centre building modification and Rider Performance Studio had been completed with an overall spend of £375k (including all HE equipment), including £197k of College funds approved by the Board, and that the construction of the new outdoor Rifle Range butt (valued at c£100k) had gone well and at negligible cost to the College and that the range area and firing points were at the final stages prior to sign-off by the National Rifle Association (NRA).
59. The Committee noted that the installation of LED lighting throughout the Andover College campus a year previously, funded through the Salix grant approved by the Board, was achieving savings in electricity costs to the College.
60. The investment in new boilers and hot water cylinders made possible by a LEP grant was welcomed by Members, although it was noted that LEP grant funding for essential upgrades to the College estate were unlikely to be available in the future.
61. Following discussions at the Governors' Seminar in January, the Committee noted the update in relation to differentiating the HE experience of University Centre Sparsholt (UCS) students by both differentiating research areas and increasing specialist study areas and that identifying sources of funding for this remained a priority.
62. The Chair noted that it was the last meeting of the Committee to be attended by the Director of Finance & Facilities and thanked him for his considerable contribution to the financial management of the College during his time in post.

63. The meeting ended at 12.30 pm. Confidential items were discussed and are recorded separately.