SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
RESOURCES COMMITTEE
held on 13 June 2019 at 9.30 am

[1]PRESENT M Coombes (C); T Floyd (E); A Hoad (C); N Hopkins (E); T Jackson (P); A Neal (E)

In attendance: S Evans, Finance Manager
D Hill, Premises & Facilities Manager (mins 40 to 54)
A Whitworth, Director of Finance
S Willson, Clerk to the Corporation

APOLOGIES

66. Apologies were received from D Beaven.

DECLARATION OF INTERESTS

67. There were no interests to declare.

MINUTES

68. **Resolved –** that the minutes of the meeting held on 14 March (Parts I and 2) be confirmed as a correct record.

69. There were no other matters arising not covered by matters on the agenda.

COLLEGE HEALTHCHECK REPORT

70. The Committee had received the latest College Healthcheck Report (2019/05).

71. Members discussed the latest update on enrolments and applications, noting positive trends for 2019-20 although there was disappointment expressed about the slight decline in Year 11 applicants to Andover College. The Principal assured the Committee that the College was doing everything possible to support applications. It was noted that the FE funding return for enrolments would be submitted six weeks into the Autumn term.

72. Members also noted that, following the transfer of business support staff to Sparsholt College Services Limited (SCS), the "College Group" staff turnover and sickness key performance indicators did not indicate any negative trends at this early stage.

FINANCE

Management Accounts

73. The Director of Finance highlighted key points in the latest management accounts (to 30 April) circulated to Members, explaining that the cash position was forecast to improve between April and the end of the year.

74. Asked about the latest anticipated 2018-19 year-end position, the Director of Finance reported an expected surplus of c£400k (on the basis of the College's bank loan arrangements remaining unchanged). The Director of Finance also confirmed that management had been reviewing any non-pay expenditure which could be brought

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

forward into 2018-19 and the timing of the planned property sale, in order to benefit where possible the financial position in 2019-20.

Financial Plan

75. The Committee had received the financial forecast for the two-year period 2019-20 and 2020 -21 and the draft estimates of income and expenditure for 2019-20.

76. The Director of Finance drew the attention of the Committee to key points in the budget commentary, noting the estimated 2019-20 budget deficit of £460k (including provision for general capital expenditure of £800k (including VAT) but not capital expenditure in relation to the proposed new animal health and welfare facility) and the estimate of a surplus of £141k to be achieved in 2020-21 (including the same level of general capital expenditure and a further inclusion for the animal health and welfare facility).

77. Responding to questions from Members, the Director of Finance clarified that the expenditure for the animal health and welfare facility in 2019-20 would impact the cash and capital expenditure figures but not income and expenditure and confirmed that, other than this project, the cash position remained more or less neutral.

78. The Director of Finance summarised the variations in income and expenditure in 2019-20, noting the national increase in Teacher Pension Scheme (TPS) costs which were confirmed to be funded by the Government up to the end of July 2020. The future funding of the increased TPS costs was less certain and this presented a risk to the 2020-21 forecast. This was outlined in the 2019-20 budget and 2020-21 sensitivity analysis, along with other key potential risks/gains.

79. Asked about the risk profile for the anticipated increases in halls of residence income in 2019-20, the Director of Finance explained that the budget included an increase of c30 rooms (FE and HE) in line with enrolment forecasts which was below full capacity.

80. The Principal noted that potential income from Ecotricity's anaerobic digester was not included in the budget for reasons reported separately.

81. The Director of Finance confirmed that the bank loan covenants had been tested against the 2019-20 budget and 2020-21 forecast and were expected to be met. A year end deficit in 2019-20 would mean some covenants would be tighter. Responding to a Member's question, the Director of Finance confirmed that there would be no increase in the risk of breaching covenants if the proposed animal health and welfare facility went ahead. Governors asked for more detail about the available "buffer", in relation to the covenants, given the 2019-20 deficit budget. The Finance Manager explained that one of each bank's covenants had an EBITDA requirement and that the calculated results of these covenants using the 2019-20 budget showed c£600k headroom, so, while there was some buffer, caution was still required.

82. The Committee noted that the budget had been assessed against the ESFA financial health model and that the College was expected to retain a financial health rating of Good. The Director of Finance explained that this was possible with a deficit budget, depending on the level of the deficit, because the model took into account earnings before depreciation. It was also noted that the ESFA category below 'Good' had been renamed 'Requires Improvement' and could trigger intervention.

83. Members interrogated the proposed deficit budget in the context of the College's strategic plan, discussing the College's overall financial aims and the extent to which the College could be confident about an upward income trajectory. It was recognised that the static

funding for FE and the demographic trend in recent years had made achieving surpluses to invest in delivering the curriculum and enhancing the student experience increasingly challenging, despite robust management of expenditure and innovations by the College to maximise income.

84. The Principal summarised the financial environment for the College, noting that enrolments 2018-19 had been a low point, given the local demographics, and this was reflected in the budget for 2019-20 because of the lagged ESFA funding. The College's curriculum and marketing planning was supporting improved recruitment for new students and progressors for 2019-20. Nonetheless, it remained challenging to move beyond breakeven budgets and this was reflected in college interventions in the FE sector as a whole. Longer-term, while there were positive indications from government recognising the value of skills education and that under funding of FE and required addressing, there were also uncertainties in relation to the future policy for HE funding. The timing of Brexit and its potential impact on the timing of funding decisions also added uncertainty.

85. Members and management agreed that a deficit budget was reasonable in the short-term to maintain the curriculum offer, given that the forecast position for the following year was positive and providing that other financial health indicators such as cash remained strong. Specifically, it was noted that risk of a higher deficit in 2019-20 was low because the FE income was known and projected applications for HE were positive and had been robustly tested by management.

86. Members agreed that it was important that the College was confident about achieving a surplus in 2020-21. The Principal confirmed that retention and progression in FE had been modelled thoroughly and it was noted that the forecast FE income for 2020-21 could be tested when 2019-20 FE enrolments were known and, if less than forecast, the two-year financial plan would require review.

87. The Director of Finance endorsed a Member's analysis that it was important for financial control to maintain cash on the balance sheet, noting that a current ratio below 1 would trigger ESFA intervention.

88. The Committee agreed the imperative for the College to keep income and expenditure under tight review, including confirmation of enrolment data in the Autumn term. The Director of Finance stressed that management would always seek to improve the budgeted position where possible. It was also noted that reporting would continue in relation to contribution analysis and that work was underway reviewing staff utilisation.

89. Asked about whether there were potential future non-core asset disposals available to the College, the Director of Finance reported that only one of the College's properties was rented externally, the rest provided staff accommodation. It was noted that properties at Garstons and Westley Cottages had been sold with the approval of the Board to provide match-funding to reinvest in the College's educational facilities and that there had been discussions at a previous Governors' Seminar about opportunities for redeveloping an area of the Sparsholt College estate to release sites for potential commercial development in the future.

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

a) A budget for 2019-20 which shows a deficit of £460k before FRS 102 pension charges or credits, and where the College's underlying operating cash flow is neutral prior to the inclusion of the animal management centre project;

b) A high-level forecast for 2020-21 before FRS 102 pension charges or credits showing a surplus of £141k;

c) A capital spend allocation of £800k for 2019-20, fully funded by the College.

Banking

91. The Director of Finance reported the outcome of negotiations with Handelsbanken following the agreement in principle of the Board in October 2018 for the College to seek a suitable Revolving Credit Facility (RCF) with Handelsbanken and repay a loan with NatWest bank, within an agreed timetable, subject to a number of conditions being met. Despite some progress in agreeing contractual terms with Handelsbanken, there remained a number of requirements in the draft contract which the College's lawyers had identified as potentially significantly problematic to the College and which Handelsbanken had not agreed to revise.

92. The Principal and Director of Finance had reviewed the draft contract and legal advice and concluded that the contract was not in the interests of the College and that the full conditions set by the Board to enter into the RCF with Handelsbanken and repay the NatWest loan had therefore not been met.

93. **Resolved** – that the Board of Governors be recommended to note that a suitable RCF contract could not be agreed with Handelsbanken and that the loan with NatWest bank would remain in place.

94. Members noted that the £150k 'breakage' provision in the 2017-18 accounts, which would have been required following the repayment of the NatWest loan would now be released in the 2018-19 accounts and asked management to consider resulting options for additional expenditure in the interests of the College, including affordability of a one-off staff remuneration payment, and report to the Board in July.

Sparsholt College Services Limited

95. The Committee had received the latest management accounts of SCS (to 30 April 2019) for information.

96. Responding to a Member's question seeking assurance about the level of cash balance, the Director of Finance explained the income and cash flow in relation to the mark up due under the Services Agreement and the timing of payments to HMRC. There was a build-up of cash during the year so that the company remained financial viable and a forecast gift-aid annual payment to the College. It was also noted that there was a three monthly reconciliation process of actual costs to estimated costs and any over payment to SCS was reimbursed to the College.

HUMAN RESOURCES

97. The Committee had received the report of the Principal and HR Manager updating on Human Resources (HR) matters, including in relation to trade union facility time publication requirements and the review of College and SCS HR policies.

98. Responding to a question about the response of managers and staff to the reported review of staff utilisation and changes to timetabling guidelines for 2019-20, the Principal reported the guidelines had been discussed at the ICE committee meeting and had been relatively uncontroversial and that the Deputy Principal Curriculum was working with managers to support the implementation.

Staff Remuneration

99. Members noted management's assessment that it was not affordable at the current time to award staff a cost of living award and acknowledged the pressures on costs demonstrated by the deficit budget. The Principal explained that there were challenges in recruiting some specialisms and some areas with higher staff turnover than previously. However, these were manageable and not out of kilter with the FE sector generally.

100. Responding to a Member's question, the Principal agreed to provide updated trend data on the award of pay increases, including incremental salary increases, by the College.

101. **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.

Staff Charter & Code of Conduct

102. Members noted the new appendix on physical contact with students to be published in the Staff Charter & Code of Conduct to provide more detailed guidance for staff and to add more direct reference to Code of Practice on transporting students and endorsed the approach taken.

103. Responding to a Member's question, the Principal agreed to follow-up with the Deputy Principal Curriculum a question about ways in which learners/students were supported in understanding what physical contact from staff was appropriate and ways of reporting any concerns, within an overall safeguarding culture.

104. Members also discussed safeguarding of students while on work placements. The Principal confirmed students were briefed on safety and undertook to review the Work Placement guidance in light of the additional guidance now provided to College staff.

PROPERTY

105. The Committee had received the report of the Principal on progress with the Property Strategy in 2018-19 and presenting the latest Three Year Property Strategy for review.

106. The Principal highlighted a number of key points in the report, including updates on current capital projects. It was noted that the Andover Cultural Quarter project remained a potential opportunity for the College to redevelop the Andover College facilities but that the latest insights from Test Valley Borough Council (TBVC) suggested this would be on a lengthier timescale than previously reported to the Board and that obtaining matched-funding remained predicated on the overall development area and budget. Asked about the impact on the short to medium term strategy for the Andover College campus, the Principal asserted that the fabric of the buildings should not be allowed to deteriorate and the Premises Manager confirmed that essential maintenance and improvements continued to be delivered.

107. The Committee noted the confirmation of delivery of the Building Condition Improvement programme, with an LEP grant match-funded by the College, and the detailed summary of projects completed in line with the spend deadline.

108. The Committee commended the amount of improvement and maintenance project work achieved during the last 12 months across the College estate and overseen by the Premises Manager and his team.

109. Asked by a Member about the relationship between the College's environmental strategy and the property strategy, the Premises Manager confirmed the College's continuing

commitment to environmental aims, noting achievements to date such as the installation of LED lighting at Andover College, measures taken to control energy and water usage and installation of new boilers adaptable to 'green gas' supply. The Principal agreed the value to the College of managing its impact on the environment while recognising that limited availability of capital spend required prioritising, such as on continuous improvement of teaching and learning facilities. It was noted that the annual report on environmental matters would follow to the Committee in the Autumn term.

Animal Health and Welfare Research Facility

110. Following previous reporting to the Committee on the development of the project and the capital proposal to the EM3 LEP for the "Sparsholt Animal Health & Welfare Research Facility" (annexed to the report), the Principal reported that the due diligence on LEP bid had been approved on the basis of a revised budget of £1.95m (from £1.65m), based on LEP grant funding of £1.15m (c60%) and College cash of c£650-700k. The contract with the LEP was due to be signed shortly and it was proposed that approval be sought from the Board of Governors for the project proceed to full construction and delivery. The bid set out the timescales, with the dates to be adjusted in line with the timing of confirmation of contract.

111. The report to the Committee set out the detailed objectives of the project in relation to the extension and repurposing of facilities, including to enhance the student experience across veterinary care, animal welfare and animal science, and to disseminate best practice across the nursing and animal welfare care sector. The project also included the integration of digital technologies to support research and skills development, supporting providing industrial placement and practical trials for technical qualifications and responding to employer needs, contributing to extending higher level skills student capacity and developing highly skilled technicians to maintain animal welfare in the agriculture industry.

112. Members noted that the College spend would be from the current balance of £956k from property asset sales (with the balance to be increased by a further forecast £390k from anticipated sale of the remaining Westley Cottage).

113. Asked about the draw-down of the LEP grant, the Director of Finance reported that the College would submit applications periodically, linked to invoices and confirmed spend.

114. **Resolved** – that the Board of Governors be recommended to approve the implementation of the Animal Health and Welfare Research Facility project at a total project cost of £1.95m.

115. The Principal set out the initial scoping, design and cost plan work undertaken by architects, Hyphen, and the assessment by College management that continuing to use Hyphen for the next stages of the project represented best value for money for the College, based on the evidence set out in the report. It was confirmed that fee percentage quoted included project management.

116. The Committee agreed that management move to RIBA stage 2, detailed design and appoint Hyphen at the lead architects on the basis that the Principal, authorised under the Financial Regulations, intended to waive the need to tender the architectural design following careful consideration that this was in the interests of the College. It was noted that, should the overall project cost increase, the amount payable to the architects would increase proportionally.

117. The Committee asked the Principal to consider the risk to the project not be achieved within the £1.95m and to advise the Board as to protections against over-spend.

Property Strategy

118. The Principal highlighted the ambitions for other capital projects, subject to affordability, in the next year and noted that the FE enrolment tables on pages 12-13 of the Property Strategy were still to be finalised with the 2017-18 and 2018-19 updated data.

119. **Resolved** – that the Board of Governors be recommended to approve the Property Strategy for 2019/20.

PROCUREMENT

120. The Committee had received the report of the Director of Finance 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.

121. The Committee noted the 10 tender waivers raised and approved (up from 8 the previous year) and that the Principal and Director of Finance had approved the waivers on the basis that best value for money for the College had been achieved. This would increase by one with the decision to appoint architects for the animal management and welfare centre project.

122. Asked for more information about the 'associates' tender listed given the value, the Director of Finance explained that this related to the total amount for the subcontracting of apprenticeships from a number of specialist suppliers. Similarly, the spend for 'exam fees' related to more than one exam board.

STRATEGIC PLAN

123. The Committee had received the draft Three Year Strategic Plan Priority 2 Objectives 7-11 in order to consider the financial and commercial annual milestone and objectives and key measures for 2019-20.

124. The Principal noted that the annual milestone objectives and key measures in relation to the Ecotricity project would be updated to reflect the latest position.

125. **Resolved** – that the Board of Governors be recommended to approve the Annual Milestone Objectives under Priority 2 in the Three Year Strategic Plan, with the updates noted.

COMMITTEE PERFORMANCE REVIEW

126. 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 and a letter of 7 May 2019 from the FE Commissioner to all colleges in relation to financial governance and the characteristics of a well-run college.

127. The Committee discussed the FE Commissioner's statement that boards must include two financial qualified members, noting that current governors had a range of substantial financial experience from a variety of senior management roles, including one Member who was a current finance director and one with an accountancy qualification earlier in his career. Co-opted members of the Resources and Audit committees brought additional expertise to the work of the committees being (or having previously been) qualified accountants. The Committee noted that the skills mix on the Board was reviewed annually

by the Search Committee and that financial expertise was one of the key areas kept under review when vacancies arose.

128. Members also discussed the respective responsibilities of the Resources and Audit committees in relation to oversight of the annual financial statements. The Director of Finance pointed to the management accounts as a key in-year mechanism for scrutinising the College's finances, although acknowledging that there were elements of the annual accounts which could only be finalised at/after year end. The Director of Finance undertook to consider how best to give an early indication of year-end to the Committee.

129. It was noted that reporting to the Committee now sought to differentiate/cross-reference matters under the remit of the College or SCS and amendments to the terms of reference recommended to reflect the "College Group" structure and more clarity around oversight of financial controls and information to monitor the future financial sustainability of the College.

130. The Clerk explained further proposed revisions to the terms of reference to reference forecasting and reporting of cash flow, following advice from the Director of Finance.

131. The Director of Finance explained the intention to move to a monthly rolling forecast against budget from about October, in place of a fixed mid-year forecast. Management would still exercise budget controls throughout the year and report to the Committee and Board but would be able to focus levels of scrutiny on different areas proportionate to the level of risk. The Committee endorsed this approach.

132. **Resolved** – that the Board of Governors be recommended to approve the revised terms of reference.

133. The Committee was satisfied that, overall, it had performed effectively during the year and welcomed developments to the terms of reference and reporting.

134. The meeting ended at 1.00 pm. Confidential items were discussed and are recorded separately.