SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
RESOURCES COMMITTEE
held on 11 JUNE 2020 at 9.30 am

PRESENT[1]	M Coombes (C); J Emm (SCS); T Floyd (E); A Hoad (E); N Hopkins (E); T Jackson (P); J Lander (E); A Neal (E).
In attendance:	S Cameron, HR Manager (mins 112 to 119) J Milburn, Deputy Principal – Curriculum A Whitworth, Director of Finance S Willson, Clerk to the Corporation

MEMBERSHIP

72. The Chair welcomed John Lander to his first meeting of the committee and noted that it was the last meeting to be attended by the Principal prior to his retirement, conveying the gratitude of the Board for his immense contribution to the College over twenty-two years as Principal. The Principal responded indicating he was very humbled by the appreciation, had very much appreciated the support of the Board and wished the College the very best for the future.

DECLARATION OF INTERESTS

73. The Principal reported that a potential future professional involvement in a biogas project had been suggested to him, given his knowledge and contacts in this sector, and that, while only very tentative, he had reported this to the Chair of Governors and Clerk to the Corporation. To prevent a conflict of interest, he would also not take part in decisions which had any relevance to this project and the Principal Designate would oversee related matters at SLT level.

MINUTES

74. **Resolved –** that the minutes of the meeting held on 12 March 2020 (Parts I and 2) be confirmed.

Banking (mins 19 & 21/20)

75. The Director of Finance confirmed that there had been no changes as yet to the investment of surplus funds and that a proposed treasury policy would follow to a future meeting of the committee.

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

PERFORMANCE MONITORING

Management Accounts

77. The Committee had received the latest College Group management accounts (to 30 April) and the Director of Finance summarised key points.

78. The Committee noted the updated schedule of variances and that the latest estimated net loss as a result of Covid-19 in 2019-20 was estimated to be £713k. The forecast outturn for

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

2019-20 was now a deficit of c£392k and it was expected that bank loan covenants would be met.

79. The Director of Finance explained changes to Local Government Pension Scheme (LGPS) costs in April and noted that she would re-look at how LGPS and NEST costs were reported going forward to assist with ongoing monitoring.

80. Responding to a member's question as to the management strategy for allocation of costs in 2019-20 or 2020-21 at this point of the financial year, given the significant deficit forecast in 2020-21 as a result of Covid-19, the Director of Finance confirmed that, where there was some discretion over the timing of activities (such as estate maintenance), spend was being brought forward to 2019-20.

81. The Director of Finance reported that the ESFA required colleges to submit an additional, Covid-19 specific financial return by 31 July which would include monthly cash flow, a financial health calculation and a commentary. The templates had yet to be issued and the return required sign-off by the Accounting Officer as it was acknowledged the timetable might not allow for full governing body sign-off.

82. It was noted that it was unclear whether the monitoring by the ESFA might result in financial assistance for the sector and that the College continued to work with Landex to present the impact of Covid-19 on land-based colleges to the DfE.

83. Asked about business interruption insurance, the Director of Finance confirmed that the impact of the Covid-19 pandemic was not covered by the College's insurance policy.

<u>Healthcheck Report</u>

84. The Committee had received the latest College Healthcheck Report (2020/05).

85. With reference to Human Resources matters, the Principal drew the attention of the committee to the report of an employment dispute between a former member of staff and the College. The Principal confirmed that the College's insurers had been made aware.

86. Responding to a member's question about 'engagement by course' data and Level 3 students, the Deputy Principal explained that there had been some drop-off in engagement once the publicly known deadline for colleges to submit predicted grades to awarding bodies had passed. Lessons had continued to be delivered and attended and therefore there was no impact on funding. There had also been some changes to the way attendance registers were recorded.

CONTRIBUTION MODEL

87. The Committee had received the report of the Director of Funding and Information Management on the overall findings of the curriculum contribution model. The analysis had also been provided to the Curriculum, Employers & Market Requirements Committee to inform its consideration of the curriculum plan and was being presented to the Resources Committee in relation to the effective planning and efficient management of resources.

88. The Director of Funding & Information summarised key elements of the model, including the way in which costs were attributed to areas of learning, and the findings in 2019-20.

89. The Committee noted the progress that management had made in providing a robust contribution model and that the model had highlighted that there were areas of the curriculum where further review was required to address high delivery costs. This would

be undertaken alongside a review of staff utilisation to ensure that none of the curriculum areas were operating with financially inefficient delivery models.

90. The Committee agreed that analysing curriculum contribution annually was a valuable exercise to inform strategic considerations. It was understood that there were elements of the model, such as allocation of central costs, which could be further finessed.

91. The Committee discussed the findings, noting the difference in contribution between the two college campuses and that Andover, for the eleventh year, had failed to make a profit when measured as a whole business although there had been some reduction in that loss and the gap with Sparsholt from the previous year. The Committee acknowledged that there is a point of debate concerning the exact attribution of central costs but noted that the Director of Funding and Information had refined these calculations each year, therefore the margin for further adjustment with any meaningful output was probably limited.

92. Responding to a member's challenge as to whether a more fundamental strategic review was required to assess alternative ways of delivering curriculum provision over one or two sites in the interests of the long-term financial sustainability of the College, the Committee acknowledged the current situation and reflected on previous strategic deliberations. It was noted that, while Andover College made less of a contribution to overheads than Sparsholt College, the latter's higher contribution was largely as the result of FE Animal Management and HE. The committee also noted that, without the Andover campus activities, the allocation to the Sparsholt campus of the current level of central costs would not produce a profitable and long-term sustainable business. The committee also acknowledged that any assessment of alternative organisation of the offer would need to take into account factors such as impact on student numbers due to different travel requirements or as a result of a less expansive curriculum offer.

93. The Principal noted the increase in student numbers at Andover College since the merger and the current focus of the Deputy Principal Curriculum and the Assistant Principal Andover College to refocus the curriculum offer and the efficiency of delivery, and to capitalise on the predicted local population growth. The Principal gave the additional context that, in general, the funding constraints in the FE sector presented challenges for smaller GFE (General FE) colleges to break even.

94. The Committee endorsed management's immediate approach of working to improve efficiency through an aligned strategy of income growth, increased class sizes, reduction in direct costs and reduction in central costs.

FINANCE

95. The Committee had received the financial forecast for the two-year period 2020-21 and 2021 -22 and the draft estimates of income and expenditure (I&E) for 2020-21, including an assessment of compliance with bank loan covenants and a sensitivity analysis.

96. The Director of Finance explained that careful consideration had been given to how Covid-19 and continued social distancing measures might impact on I&E budgets for 2020-21 but that it had been assumed that from 2021-22 business and life would, on the whole, return to normal with a resulting estimated surplus in 2021-22 of £96k (including provision of £800k capital spend including VAT).

97. The Committee noted that, had the College been operating on a 'business as usual' basis, the 2020-21 budget would have been a surplus of c£337k. However, the impact of Covid-

19 was a deficit budget of £2,231k, including provision for general capital expenditure of £800k including VAT (with details of the capital expenditure to follow at the Board of Governors meeting). The budget assumed the reduced income and increased costs would be met by the College, without compensation in some form from the DfE.

98. The Director of Finance highlighted the unusually high number of financial planning uncertainties and risks associated with Covid-19 and the approach which had been taken to modelling the budget, explaining that each factor had been considered by the SLT and a view taken on the basis of probability.

99. The Director of Finance emphasised that management would also seek to improve the financial position where ever possible without causing long-term detriment to the College.

100. The Deputy Principal Corporate also reported that there was an opportunity to review current EM3 LEP grants in the light of the impact of Covid-19 and to apply for additional funding (more details of which were reported under the Property Strategy agenda item).

101. The Director of Finance noted that, although the cash flow associated with the 2020-21 income and expenditure budget would deteriorate over this period, it was expected that it would not fall below £2m at any point in the planning period and therefore the College was able to continue operating and would not require any overdrafts or additional loans (subject to the position regarding bank loan covenants).

102. Asked whether the Board was required to consider whether the College was 'a going concern' at the point of approving the budget, the Director of Finance explained that this would be a matter for the auditors and the Board in December when considering approval of the annual statutory accounts. The auditors would also keep under review the position regarding bank covenants.

103. If the 2020-21 budget remained as forecast (or the financial position worsened), the Director of Finance explained that four of the eight bank loan covenants would not be met. College management had therefore begun pre-emptive discussions with the banks and the Director of Finance reported a recent meeting with Barclays. It noted that breaching one covenant would automatically cause a breach of all covenants and that the banks would be likely to require a renegotiation of the loans.

104. In discussion, members questioned what other actions could be taken in relation to cost savings, such as a recruitment freeze, to minimise the risk of breaching the bank covenants, with reference to the difficult decisions being taken in other sectors. However, members also recognised that short-term gains had to be balanced with the need for the College to be able to continue to deliver the curriculum and maintain standards to avoid longer-term damage. Members expressed caution about the wider political and economic context and the impact that potential constraints on future public spending might have on the sector.

105. The Principal agreed with the need to exercise cost controls and to make savings where possible and reiterated that efforts being made through Landex to set out to the DfE the detrimental impact of Covid-19 on land-based colleges, with a data evidence base. The Principal also noted that prudent financial management by the College in previous years had led to healthy cash reserves which would enable the College to continue operating in 2020-21.

106. The Deputy Principal Corporate suggested that there were also possible routes for increased ESFA in year funding (if the College recruited at more than 5% over its grant allocation) or loans from the LEP.

107. The Committee discussed the budgeted staff costs, noting that these included an assumption of a small cost of living pay award given that it had been the intention to pay an award in 2020-21 when the pre-Covid financial planning had indicated this would have been a surplus year. Members recognised that, while a cost of living pay award would not normally be approved in a deficit budget year, there had been a long-standing desire from the Board to address the lack of a pay award over a number of consecutive years. The Committee noted that the Board would need to consider the financial sustainability of the College, including in relation to whether a pay award would be a factor in breaching bank covenants.

108. The Finance Manager reported research via the FE colleges finance network which had indicated there was a mixed picture as to whether colleges were intending to make pay awards.

109. Asked by the Staff Governor about the impact on recruitment and retention of a continued lack of all staff pay award, the Deputy Principal Curriculum explained that there were some specific specialist roles which were difficult to recruit to and an increasing use of market supplements to retain staff in certain skills categories. The Principal pointed out that, on the other hand, pressures on recruitment and retention of some roles might ease in the event of an economic downturn and likely increases in unemployment in other sectors.

110. **Resolved** – that Board of Governors be recommended to agree that the increase in staff costs related to an all staff pay award remain in the 2020-21 budget for now but that the affordability, appropriateness, amount and timing of any pay award, particularly in light of the bank covenants, be reviewed in the Autumn term when there was more clarity over the College's financial position.

111. Given the Covid-19 related uncertainties, the Committee agreed that, while it was a requirement to approve the annual income and expenditure budget, the Board would do so in the knowledge that the budget would require review in the Autumn term.

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

    a. A budget for 2020-21, which shows a deficit of £2.2m before FRS 102 pension charges or credits, on the basis that the budget would be reviewed in the Autumn term because of the significant number of uncertainties linked to the impact of the COVID-19 pandemic on the College's income and expenditure.

    b. A high-level forecast for 2021-22 before FRS 102 pension charges or credits showing a surplus of £96,000.

    c. A capital spend allocation of £800k for 2020-21, fully funded by the College, in addition to the approved capital expenditure relating to the Animal Health and Welfare Research Centre.

HUMAN RESOURCES

113. The Committee had received the report of the Principal and Human Resources Manager updating on Human Resources (HR) matters, including staff remuneration, the Covid-19 restrictions, staff surveys and an update on statutory reporting. It was noted that consideration of staff remuneration had taken place under the previous agenda item.

114. The Committee noted the update on risk assessment and staff consultation activity linked to Year 12 students, apprentices and other technical and vocational learners returning to

face-to-face sessions in line with Government guidance and the HR Manager provided an update on communications with the unions.

115. Responding to an observation about the potential benefits of more home working and possible cost savings in the future, the Principal suggested that it might enable recruitment of staff from a wider geographical area but reflected on the needs for staff to also work on campus. The HR Manager further explained that formal home-working requests could be considered under the College's flexible working policy and that there were requirements and associated costs attached to permanent home-working arrangements.

116. Asked by the Staff Governor about the support for staff returning to campus who might have Covid-19 related emotional concerns or mental health needs, the HR Manager explained the approach being taken was to keep communicating and sharing information, such as risk assessments and safe working practices, to try to seek to address concerns. Information was also being made available about support e-learning, websites and helplines. Where appropriate support and information had been given and staff remained reluctant to return, management would follow normal policies and procedures.

117. The Principal reported the use of an online Employee voice mechanism ('The Happiness Index') to help to gauge at a cross-college, high level staff's feeling during the current time, although the uptake had been relatively low. Consideration was continuing to be given to the approach to staff surveys going forward.

118. The Committee welcomed the benchmarking data for other colleges in relation to Gender Pay Gap and that the College's data was more favourable than the majority of other land-based and/or local colleges/public sector organisations.

119. The Committee noted that matters were in hand for the College to comply with the annual reporting on Trade Union (Facility Time Publication Requirements).

PROPERTY

120. The Committee had received the report of the Principal on progress with the Property Strategy in 2019-20, including a project progress report on the Animal Health and Welfare Centre development, and the proposed Three Year Property Strategy 2020-23.

121. The Committee discussed the progress updates on a number of property developments.

122. The Committee noted the update on the Animal Health and Welfare Research Centre project and that the timescales for project completion had needed to be adjusted in light of delays resulting from Covid-19. A confirmed revised schedule was expected from the building contractors shortly, but planning was already in place to ensure that teaching could be delivered safely from the start of term, separately to the building areas. The Deputy Principal Curriculum drew the Committee's attention to two problematic issues which had arisen for the project team and the actions being taken.

123. It was noted that the bid to the EM3 LEP for funding towards a new HE building had been delayed given the EM3 LEP's current focus on post Covid-19 economic recovery. However, the Deputy Principal Corporate was leading two separate bids to the LEP on behalf of seven colleges – one for c£50k of matched funding per college towards post-Covid 19 property upgrades and the other for up to £100k per college for digital enablement.

124. In addition, subsequent to the report being written, the Deputy Principal Corporate reported that the EM3 LEP had invited colleges to bid for additional extension funding to the previous technology grant and general condition works grant. Management was also considering whether to seek additional funding for the Animal Health and Welfare Centre and Innovation South virtual learning project. In all cases, this would be on the basis of match funding already agreed by the Board as part of the original bids.

125. The Committee noted that LEP bids may be time critical and require the approval of the Chair of Governors or a written resolution of the Board.

126. The Principal reported that there had been no further details issued by Government about the £1.8bn of FE capital funding committed to in the Conservative Party Manifesto and that management were keeping this under close review.

127. The Principal reported that there had been water ingress as a result of a previously unidentified inadequate design feature (an unapproved variation to the design specification) in the roof of the Technology and Future Skills Centre at Andover College and that the College was in dispute with the building contractors to seek reparations. The cost of repairs was not yet known.

128. **Resolved** – that the Board of Governors be recommended to approve the Property Strategy for 2020-23, including the replacement of the flat roof on the Arts Block at Andover College during the summer/early autumn at a cost of £140k plus VAT which was included in the capital expenditure in the proposed 2020-21 College budget.

STRATEGIC PLAN

129. The Committee had received the draft financial and commercial annual milestones and objectives and key measures for 2020-21, together with the full Three Year Strategic Plan.

130. The Director of Finance explained the decision to include ‘business as normal’ financial key measures in relation to cash, ESFA financial health scores and bank loan covenants even though these were at risk of not being achieved as a result of the impact of Covid-19 because it was important to continue to aim to achieve them.

131. The Committee agreed that, even if the 2020-21 budget be approved with the deficit currently stated, the intention should be to reduce this deficit and therefore annual milestone objective 17 needed to be understood in this context.

132. It was noted that the Principal Designate intended to lead a more fundamental review of the overall College strategy during the next year if time allowed but that her immediate priority would be the Covid-19 situation.

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

TENDER WAIVERS

134. The Committee had received the annual report of the Director of Finance and Head of Procurement on the tender waivers process, noting that there had been 11 waivers agreed by the Principal and Director of Finance from April 2019 to March 2020 on the basis that the purchases represented ‘best value’ for the College.

135. Under the authority defined by the Financial Regulations, the Committee was asked to approve three tender waivers which would be required for the following year above £100k.

136. **Resolved** – that the following tender waivers be approved;

a) University of Winchester, Halls of Residence fee of c£260k;

b) Pig feed from ABN of c£170k

c) Awarding Bodies fees; City & Guilds (c£350k); Pearson (c£140k); University of Portsmouth (c£110k).

COMMITTEE PERFORMANCE REVIEW

137. 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, recommending a minor change to the terms of reference to reflect changes to the Financial Regulations approved by the Board in April.

138. The Committee was satisfied that, overall, it has performed effectively during the year and agreed that the terms of reference provided an appropriate framework for effective financial oversight, including in relation to the financial consequences of Covid-19.

139. It was noted that the Director of Finance had introduced additional information to the monthly management accounts in relation to the impact of Covid-19 and that this, and other developments to the management accounts, had been welcomed by the Board.

140. **Resolved** – that the Board of Governors be recommend to approve the addition to the committee's terms of reference of, '*To undertake such responsibilities and determine decisions on behalf of the Board of Governors as defined in the College's Financial Regulations'.*

SPARSHOLT COLLEGE SERVICES

141. The Committee had received the latest Sparsholt College Services Limited (SCS) management accounts (to 30 April) for information. There were no matters which required discussion under confidential cover.

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