

HARLOW COLLEGE FURTHER EDUCATION CORPORATION

JOINT RESOURCES & AUDIT COMMITTEE MEETING

Minutes of the meeting held at 10.15am on Zoom on Tuesday 21 June 2022

Membership	*Paul Bartlett (Chair)	*Brian Spencer
	*Julia Fillary	*Karen Spencer
	*Eddie Johnson	*Paul Taylor
	*Brian Keane	*Dawn Turner
	*Liz Laycock	Michael Travers
*denotes present	*Ray Levy	

In attendance

Will Allanson, Deputy Principal
Paul Whitehead, Vice-Principal
Deanne Morgan, Executive Director – Finance
Ruth Lucas, Head of Governance

Chair for the Joint Meeting

Paul Bartlett was elected as the Chair for the joint meeting.

2 Apologies for Absence

Apologies for absence were received from Michael Travers, due to being on annual leave, and Wendy Martin, Assistant Principal, who attends as an observer.

3 Declarations of Interest

Eddie Johnson declared that he is an Essex County Councillor.

4 Minutes of the Previous Meeting

The minutes of the joint Audit and Resources Committee meeting held on 14 December 2021, previously agreed individually by the Resources Committee and the Audit Committee, were noted at the meeting.

5 Two Year Financial Forecast 2022 – 2024 and Draft Budget 2022 – 2023

The Resources and Audit Committees received and considered the two-year financial forecast 2022 – 2024 and the draft budget 2022 – 2023 presented by Deanne Morgan, Executive Director – Finance.

Deanne Morgan informed Governors that the report comes in two parts – the numbers which are mostly the same as those presented to the Resources Committee at its meeting on 10 May 2022 and the commentary which also gets submitted. The information is uploaded into the College Financial Forecast Return (CFFR) and submitted to the ESFA by 31 July 2022 along with the commentary. The CFFR is too cumbersome to present to Governors therefore the information has been taken from it and presented in a more user-friendly format.

Governors' attention was brought to the forecast outturn for this year and the next three years. A deficit is expected this year and next year, as agreed at the previous Resources and Corporation meeting to include a staff pay award. Recovery to a surplus is expected in the following year, however good financial health and meeting the bank covenants are forecast for the next three years. The figures take into account the strategic direction of the College and the forecast includes recovery from the pandemic and Adult Education Budget (AEB) recovery. There are good signs of student number recovery at STAC with increased student numbers for next academic year.

Governors were informed that the figures factor in the increase in national insurance, an increase in non-pay costs, a 1.5% pay award for 2022 – 2023 and a 2% pay award for 2023 – 2024 subject to meeting key financial indicators, including generating cash, meeting the bank covenants and maintaining good financial health.

Deanne Morgan highlighted the position of the College's loans.

The College assess its financial health grade as good. The ESFA is in the process of consulting on how financial health is calculated. This year the College is predicting a deficit however as it generating cash, it will maintain good financial health. If the College does not generate sufficient cash and the ESFA changes its methodology, there is a risk that the College could drop out of good financial health.

The College classes itself as a going concern as recovery from the deficit budget is planned for 2023 – 2024.

Deanne Morgan highlighted the sensitivities and risks.

The LGPS sits on the College's balance sheet and there is a risk around the 2023 review of the pension scheme based on the performance of the scheme and servicing costs. The College will not know until August 2022 the performance of the scheme for this academic year therefore the impact on the accounts is not yet known.

The College is expecting an Ofsted inspection next academic year and if the College's grade drops, it limits the opportunities the College has for applying for some types of project funding.

If the College's income is reduced by £50k next academic year, both bank covenants will still be met and good financial health will be maintained. If income dropped by a further £50k, this would have an impact on the College. If income is reduced by up to £900k, leaving a £1.4m deficit, test 1 of the bank covenants would not be met and financial health would be satisfactory. The College does however have plans for recovery and to mitigate this risk by revising its planned capital programme. If income increases by £300k, the College would have outstanding financial health and would meet the bank covenants.

Deanne Morgan highlighted Annex A which details areas to be covered in the

commentary and confirmed that all areas have been included in the figures and / or the commentary.

Paul Bartlett highlighted that the deficit includes £2m depreciation costs which are a non-cash item. Paul Bartlett suggested a review of the College's depreciation policy. Deanne Morgan reported that this is part of the fixed asset review recommended by the external auditors and that five years ago the College extended the life of its buildings. Paul Bartlett asked if the College has set a residual value for the buildings to depreciate down to. It was confirmed that currently the buildings depreciate to zero however there will always be a residual value to the buildings therefore it was agreed that this would be looked at by Deanne Morgan. Deanne Morgan reported that some modelling will be done first before actioning anything to see if there is any impact on the balance sheet or on test 2 of the bank covenants.

Karen Spencer reported that the Office for National Statistics (ONS) is undertaking a review of colleges and their statuses, with the potential of them being moved back to the public sector. This process is outside of colleges' control and there is nothing that Governors or senior leaders can do to influence the decision or address any implications for the College until a decision is made by the ONS.

Paul Bartlett asked about the increase in long-term lease costs. Deanne Morgan reported that this is due to the College's iPad strategy. Cash has been used previously however a provision has been put into the forecasts in case a lease agreement is required. This is not yet known therefore a provision has been included.

Karen Spencer reported that the figures presented could change as the College is waiting to hear the outcome of a £2.75m funding application, however the College has received positive signs that it will be approved. It was agreed that the figures would be readjusted when the College does its reforecasting next term rather than putting the new figures in the current plan however if the outcome is known prior to the Corporation meeting on 7 July 2022, it can be included in the commentary,

Governors were informed that the College has received some free airline equipment donated by Emirates which is of value. This will need valuing and treating as a donation.

Julia Fillary asked about inflation and whether inflationary increases have been factored into the financial plan as £50k is a small margin. Paul Whitehead confirmed that the non-pay budgets have been increased by 5% for next year and the College has a fixed deal for gas and electric. The College will monitor budgets closely however feels that it is manageable. A 2% inflation increase has been factored into the 2023 – 2024 forecasts and the pay award has already been mapped into the forecasts. Karen Spencer highlighted that capital projects are the biggest area of risk for inflationary increases and the College ensures regular monitoring and review of capital spending. Will Allanson reported that capital projects are reviewed and monitored on a regular basis in-year and can be rescheduled if required. The Institute of Technology cost plan was submitted in February 2022 and the funding agreement is likely to be received in August 2022

with the funding needing to be spent by March 2023 and costs have increased in this period. The College has requested additional funding however if this does not come to fruition, the scope will have to be reduced.

Julia Fillary reported that 5% still seems quite low with the knock-on effect of the fuel crisis and cost of living crisis not yet known. Karen Spencer reported that the majority of the College's business is the delivery of teaching therefore there is a lot of fixed costs largely linked to staff pay. Consumables vary from area to area, with some using a limited amount, therefore Paul Whitehead has factored in some teams having higher rates. The 5% increase is an average with some areas in the College requiring less than a 5% increase and others requiring more. Deanne Morgan agreed to amend paragraph 33 around mitigating inflationary increases.

Governors noted that the two-year financial forecast for 2022 – 2024 and the budget for 2022 – 2023 will be presented to the Corporation for approval at its meeting on 7 July 2022 giving authority for Karen Spencer to sign it and submit it to the ESFA by 31 July 2022.

The Resources and Audit Committees approved the two-year financial forecast 2022 – 2024 and draft budget 2022 – 2023 and recommended it to the Corporation for approval at its meeting on 7 July 2022.

Key Points From The Meeting For Corporation:

- 1. Two Year Financial Forecast 2022 – 2024 and Draft Budget 2022 – 2023**
To approve the two-year Financial Forecast 2022 – 2024 and Draft Budget 2022 – 2023.