

HARLOW COLLEGE FURTHER EDUCATION CORPORATION

JOINT AUDIT & RESOURCES COMMITTEE MEETING

Minutes of the meeting held on virtually on Zoom Tuesday 27 June 2023

Membership	*Julia Fillary *Liz Laycock *Ray Levy *Rachel Miller *Karen Spencer	*Paul Taylor (Chair) Michael Travers *Dawn Turner *Ed Whittle
*denotes present		

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

1 Chair for the Joint Meeting

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

2 Apologies for Absence

Apologies for absence were received from Michael Travers due to annual leave.

3 Declarations of Interest

There were no additional declarations of interest.

4 Minutes of the Previous Meeting

The minute of the Joint Audit and Resources Committee meeting held on 6 December 2022, which have been approved by the Audit and Resources Committees individually, were received and noted.

5 Two Year Financial Forecast 2023 – 2025 and Draft Budget 2023 – 2024

The Resources Committees and Audit Committee received and considered the report of Deanne Morgan, Executive Director – Finance, on the two year financial forecast 2023 – 2025 and draft budget 2023 – 2024.

Deanne Morgan reported that the indicative figures have previously been considered by the Resources Committee and Corporation and that management have worked through the figures in more detail to produce a final draft for consideration. Governors were informed that once the plans have been approved by the Corporation at its meeting on 6 July 2023, they will be submitted to the ESFA.

Governors were informed that the College needs to complete a College Financial Forecast Return (CFFR) which sits alongside the commentary. The figures in the

paper presented at this Committee will be input into the CFFR and this, along with the commentary, needs to be submitted to the ESFA by 31 July 2023.

Governors' attention was brought to the checklist for Governors which ensures that the College has covered all the required elements in either the figures or the narrative.

Governors were informed that the indicative target was a £800k deficit for 2023-2024 however due a more positive position being reported in the May management accounts, this has a positive impact going into next year. The current year-end forecast is approximately a £700k deficit which is an improved position due to increased income from interest and a reduction in staff costs.

The College's EBITDA (Earnings Before Interest Tax Depreciation & Amortisation) is at 4% for this year and next year, with a slight improvement in 2024-2025.

The forecasts are not showing any new borrowings and staff costs to income has increased slightly due to incremental pay rises.

Governors' attention was brought to the financial objectives. The College's financial health is predicted to be good in 2023-2024. The indicative figures showed financial health as requires improvement however good financial health for next year is now being forecast. The current ratio is also better than in the indicative figures. This is all mainly due to the increased income from interest rates.

Governors were informed that both bank covenants are forecast to be met. A positive discussion has been held with the bank to reduce one of the covenants from 1.4 to 1.25. It is hoped that this waiver will be in place by the 30 June 2023. It will need to be in place before the CFFR is submitted by 31 July 2023 otherwise the College will be judged as breaching the covenants which would place the College in financial intervention. It is forecast that the bank covenant will be lower next year as the College does not have as much cash and is using some of its reserves, however recovery in 2025 is forecast.

Deanne Morgan informed Governors that the finances align with the College's objectives, such as the Digital Strategy and Property Strategy.

Governors' attention was brought to year-on-year movements. The College is more confident in achieving its adult income target however no pay award is proposed to be paid at present due to financial indicators not being met. The Committees noted that the Corporation, at its meeting on 18 May 2023, agreed that this position should be revisited by management in the Autumn Term.

The balance sheet includes capital investment. The College has been awarded approximately £1.6m in capital grants from the DfE and this has been ringfenced for expenditure in line with the College's Property Strategy.

The Resources Committee had approved for the College to invest cash in fixed-term investments however this has not yet taken place due to the fixed-term investment interest rates not being higher than the College's current account

interest rate.

Governors were informed that elements around the bank waiver still need to be finalised and that the financial health rating might alter once the figures are transferred into the CFFR, however there is the facility to manually enter financial health rating on the return.

Governors noted that the budget is extremely tight. If income or expenditure changes by £250k, the bank covenants would not be met and the College's financial health rating would be requires improvement. These could bring about some form of intervention. The College could defer some of its capital expenditure to mitigate this. If income increases, both bank covenants would still be met and the financial health rating would still be requires improvement. An additional £1m of income would be required for outstanding financial health.

The Resources and Audit Committees acknowledged that a lot of effort and hard work had gone into producing the plans. The figures reflect the reality of the challenging position the sector is in and reflect accurately previous discussions held at the Resources Committee and Corporation meetings.

A Governor asked about how sound the assumptions were around no additional staffing costs and no increase to the non-pay budget, particularly around the assumed increase in high needs funding. Paul Whitehead reported the need to look at both growth in provision and non-rising costs. A small increase in funding rates is anticipated however staff budgets need to be kept at the same level. If additional high need groups were required, the staffing budget across the College will be considered in order to meet any new requirements.

Paul Whitehead highlighted that with the plan for 2024-2025, there is so much uncertainty, particularly linked to qualification reform and funding rates. It is very difficult to forecast and there will be a need to revisit the 2024-2025 plan next academic year,

Karen Spencer highlighted the difficulty with the approach being taken by the Government in removing qualifications and with the complexities around trying to plan financially without knowing what the new rules post reclassification are going to be. There is a huge amount of risk however the College is in a more fortunate position than some other colleges due to having cash in the bank.

Paul Whitehead reported that management has worked through the budget and forecasts over a number of months and improvements have been seen in the forecast outturn this year. There is work that needs to be done on reducing revenue spend and a lot of scrutiny is going into this. Work has already commenced on looking at the non-pay expenditure for 2023-2024 along with ways to bring in additional funding. Management are focused on the challenge and some positive outcomes have already been realised. The College's strategy will be to reduce costs and increase income.

Karen Spencer reported that discussions have been held by management around whether the forecast deficit for 2023-2024 should be reduced as the College will be in a better position than forecast at the end of this academic year. It was however

agreed to set the deficit at £800k due to the number of uncertainties the sector still faces.

A Governor asked about the students at STAC not returning for year 2 this academic year and asked if this is predicted to continue next academic year. Paul Whitehead reported that whilst the College has good numbers of new student applications, it has been prudent in its 16-18 growth predictions. STAC students have had opportunities to gain employment at the airport which has affected the year 2 figures therefore this has been factored into the College's planning. Karen Spencer reported that the College historically had high retention rates in Early Years however this is lower on the T-Level as employers are offering them employment. There has been a change in the labour market and more young people are being recruited. Will Allanson reported that the College is working proactively with employers at the airport as their recruitment timeframes often do not align with the end of the academic year. STAC is offering a fast-track programme on some courses, such as the engineering pre-apprenticeship, to address this.

The Resources and Audit Committees approved the two-year financial forecast 2023 – 2025 and draft budget 2023 – 2024 and recommended it to the Corporation for approval at its meeting on 6 July 2023.

6 Any Other Business

Will Allanson informed the Resources and Audit Committees that the College owns a 0.04 acre piece of land in College Square in the town centre. The College has been approached by Harlow Council as the area where the land is is part of the Council's redevelopment plans for the area. Options are being explored with the Council around this piece of land, together with leases that are in place between the Council and the College.

A Governor asked if the land is covered on the College's insurance. Will Allanson confirmed that this will be addressed going forward as the College was only made aware of the land the week before this meeting.

Key Points From The Meeting For Corporation:

1. Two Year Financial Forecast 2023 – 2025 and Draft Budget 2023 – 2024

To approve the two-year Financial Forecast 2023 – 2025 and Draft Budget 2023 – 2024.