

# HARLOW COLLEGE FURTHER EDUCATION CORPORATION

## RESOURCES COMMITTEE

### Minutes of the meeting held on Monday 24<sup>th</sup> June 2019

Membership: \*E Johnson (Chair)  
J Bedford  
J Breen  
\*B Spencer  
\* Denotes Present \*K Spencer  
\*P Taylor

In attendance: L Lin, Governor  
P Whitehead, Vice-Principal  
D Morgan, Executive Director – Finance & Facilities  
D Sheridan, Clerk to the Corporation  
R Lucas, Deputy Clerk to the Corporation

#### 790 Apologies for absence

Apologies for absence were received and accepted from J Bedford and J Breen.

#### 791 Declaration of Interests

E Johnson declared that he is an Essex County Councillor.

#### 792 Minutes of the previous meeting

The minutes of the Resources Committee meeting held on 9 May 2019 were agreed as accurate record of the meeting and were signed by the Chair.

#### 793 Matters arising from the minutes and confidential minutes (not mentioned elsewhere on the agenda)

P Taylor asked if the VAT issue with Essex County Council had been resolved and K Spencer confirmed that it had.

#### 794 Management Accounts for the period 1 August 2018 – 31 May 2019

The Resources Committee received and considered the management accounts for the period 1 August 2018 – 31 May 2019, presented by D Morgan, Executive Director – Finance and Facilities.

Governors were informed that the year-end forecast surplus is £264k. This is an improved position based on a number of factors as follows:

- The College's auditors have confirmed that STAC Phase 1.5 costs can be capitalised therefore this has resulted in a non-cash movement.
- The jet at STAC had been given a minimal value of £30k last year however the significant value of the jet for future plans at STAC has been realised. Research was undertaken to ascertain a current value and a conservative value of £250k has been used in the accounts. The auditors have confirmed that this value can be used as long as the College has evidence to back up the figure used.

E Johnson asked if the valuation of the jet was based on it being functional. Management confirmed that the jet is able to functional but does not fly. Governors noted that this is also a non-cash movement.

- Where deferred capital grants are Government grants, they can be matched against the depreciation of the asset over a number of years.
- A additional staff member of the finance team is undertaking reconciliations on a monthly basis and not just at year-end.

Governors requested that cash and non-cash items be presented in a different format to make it clearer in the management accounts and that cash position is presented in the accounts. Governors noted that opportunities to generate cash in the sector a very limited.

P Taylor highlighted the fluctuating year-end position for the last four months and asked what the current operating surplus or deficit is from a cash position. K Spencer reported that this is included in the next agenda item on financial forecasts. The College is looking to protect its cash position and having cash days in hand however the potential to invest in the campus is being considered. The modelling of this is being examined. P Whitehead reported that cashflow over a two-year period is reviewed regularly by the finance team, along with the financial health rating and bank covenants.

Predictions on year-end financial out-turn are being made and Governors were informed that the College is working hard to address the significant challenges to earn the allocation from some of the funding streams. Work being undertaken and plans that have been put in place to achieve the income has given the College more confidence that the income will be earnt.

K Spencer highlighted that in the previous month's management accounts STAC Phase 1.5 was treated as revenue expenditure therefore creating higher year-end deficit in the accounts and that the College has been over-cautious in the figures being presented in the management accounts.

The Committee acknowledged that the College is always transparent in presenting the information to Governors. P Whitehead further explained that the reporting and management accounts falls in line with ESFA requirements and takes into consideration the recommendations for the FE Commissioner's reports. The College takes a positive, proactive approach and every line in the management accounts is considered on a monthly basis.

E Johnson asked how having money but not in cash terms affects the College's funding. P Whitehead reported that work on the presentation and format will be undertaken by D Morgan and P Whitehead with a view to making the information and categories clearer. D Morgan reported that the accounts are based on the ESFA requirements and there is a minimum amount of accounting format that will need to be retained however the College can adapt the accounts as they see fit.

E Johnson asked for clarification that the College is predicting a year-end surplus however this is not cash. D Morgan replied that non-cash items can be separated out and K Spencer reported that non-cash items helps to protect the College's financial position and generate a surplus. The College and the Committee recognises that funding is a significant challenge and that inherent risk and what is affordable needs to be one of the College's prime considerations.

The Committee noted the position with the LGPS.

An update was provided to the Committee on the Adult Education Budget (AEB). Governors were informed that there are still challenges to achieve the income however all opportunities are being explored with work planned for June and July 2019. Governors acknowledged that whilst the income is increasing, expenditure is also increasing. Managers are confident that the income predictions can be earned however there could be some slippage into the next academic year. Governors were informed that it is necessary to protect the College's AEB budget as next year's allocation is based on this year's delivery. K Spencer reported on the specific challenges in achieving this budget due to unemployment rates falling, therefore the College has adapted its approach and is undertaking more work with those in low skilled employment, looking to move to up Level 2. A more bespoke offer is being developed and the College is working with smaller cohorts.

K Spencer reported back on correspondence with the ESFA regarding the funding model for STAC. The ESFA has taken on board the points raised in K Spencer's letter on processes and have agreed to review the letter of comfort process. The ESFA has also confirmed that the College could request funding to be released earlier to help with the College's cash position. The mechanism for doing this needs to be discussed between both parties.

Governors were informed that bank covenants are being met and the year-end financial health is forecast to be good.

A question was asked about the exam fees income line and it was confirmed that some students pay for their exams

P Taylor asked about progress on the East Gate site. K Spencer reported that the College is looking to maximise the use of the space and that hair and beauty student numbers needed to be assessed. There is the potential that Brighter Futures could use some of the space as notice has been given on their East Walk premises. D Morgan reported that the College's minor works team have been completing the renovation and that they have also had to complete other work on the main campus which has taken priority.

The Resources Committee noted the management accounts for the period 1 August 2018 – 31 May 2019.

## **795 Two Year Financial Forecast and Draft Budget 2019-2021**

The Resources Committee received and considered the two year financial forecast and draft budget 2019 – 2021, presented by D Morgan, Executive Director – Finance and Facilities.

D Morgan reported that the ESFA template had been completed, that assumptions have been made as part of the forecasts and budgets and that the figures included STAC and on-going projects. She highlighted the KPIs that detail what has been achieved for 2018-2019 and the KPIs set for 2019-2020.

Governors noted that a surplus target of 8% has been set, borrowing is below 30% against income and the staff cost to income is 70% which is a good position, particularly when considering the increased pension costs. Governors were informed that the College will receive a grant for the increased pension costs for 2019-2020 however the situation after this is unknown. The TPS grant will be based on staff data from 2017-2018 however staff numbers have increased since then, therefore additional provision has been put into

the budget and forecasts. Year two forecasts have assumed additional grant funding for the pension costs however the impact of this is not received has been included in the sensitivities. P Taylor asked if 100% grant has been assumed and P Whitehead confirmed that a shortfall in the region of £40k has been accounted for, out of a total cost of approximately £1/2m. If no grant funding is received, the College's financial health will be rated as requires improvement and would place the College in early intervention with the ESFA. Governors noted that there are several external factors which could result in the College's financial health rating dropping. Governors endorsed the approach which the College had taken in accounting for the increased pension costs.

The income stream assumptions were highlighted to the Committee and Governors noted that the a non-cash surplus of in excess of £6m is forecast due to the assumption that the ARU building will come onto Harlow College's books as negotiations are in the final stages, with final approval needed from the Office for Students. The building will be treated as a donation and the value of the College campus will be increased. Governors noted there will be no VAT liability with the ARU building.

The Committee was informed that bank covenants are forecast to be met and that the financial forecasts are based on minimal capital expenditure. The College's strategy is to protect its cash position and look for external opportunities to invest in the campus. Governors were informed that the bank would consider a loan for investment in the campus and that discussions will take place next year with Governors around potential projects and longer-term investment as it is not possible to undertake the work required on campus without loan funding. Governors noted that the College's existing borrowing is due to be reviewed in 2021 and that assumptions in the graphs are based on additional borrowing. The College will still adopt a prudent approach. Governors noted that the College's loan to income ratio is low for the sector and would remain low even when any additional borrowing is taken into consideration.

P Taylor asked if the student number of 2,699 16-18 students for 2019-2020 remained the same for the following year. P Whitehead reported that funding allocations for students follow through to the following year based on current numbers. In 2021 student numbers have been kept as the same due to the increased capacity at STAC not likely to be realised this year. STAC currently has 278 students and next year it is forecast to be 430. The capacity of the building is 530 however there is an increase in apprenticeship provision and delivery which needs to be scoped in. The capacity issues, particularly in the workshop and space for students at break times and when not in class, will be alleviated as part of STAC Phase 1.5 and some internal remodelling of the existing space. Governors noted that work is being undertaken on student numbers and different delivery models are being explored. Governors noted that discussions for STAC Phase 2 are on-going with MAG.

Governors' attention was brought to Schedule 5 – Statement of Cashflow and the three year figures stated under line 4 – increase (decrease) of cash or cash equivalents were noted. Governors noted that the figures demonstrated that the College is a going concern with a healthy bank balance however there is no longer the ability to generate cash reserves.

P Taylor asked why there is an increase in 2021 under line 3c – new long term loans. D Morgan reported that an existing loan matures in 2020-2021 and with the possibility of an additional loan being taken out, the figures reflect the consolidated loan position.

E Johnson asked why there is zero for 2020 and 2021 under line 3c – pension costs less contributions payable. D Morgan reported that last year this was classed as a non-cash item and an increase in costs have been allocated for this year, however due to the

uncertainty going forward, no modelling has taken place for 2020 and 2021.

K Spencer presented a proposal to hold a joint meeting in July 2020 of the Resources and Audit Committees to look at the two year financial forecasts and draft budget so that member of the Audit Committee could use their audit expertise to test the assumptions made in the financial forecasts. These assumptions could be discussed and tested with Governors before being presented to the Corporation for approval. Governors expressed concerns that there would not be sufficient challenge from Governors at the Corporation meeting if this approach was adopted. K Spencer reported that if the forecasts are challenged by the Corporation, there is not enough time to make any necessary changes and gain full Corporation approval of the revised forecasts and budgets.

A detailed discussion took place on the proposal outlined above and member of the Resources Committee reflected on the proposal after the meeting. It was concluded that the Resources Committee agreed in principle to hold a joint meeting of the Resources and Audit Committee next academic year in June to consider solely the two-year financial forecasts and the draft budget subject to all discussions and challenges being documented before being presented to the Corporation for final approval. The Resources Committee would meet first, then the Audit Committee would join the meeting to discuss and challenge the financial forecasts and budget and then the Audit Committee would meet. It was recognised that this proposed approach would, strengthen the process and allow the College and Governors to have a better understanding of the College's position.

P Taylor asked about lease 22 and lease 23 and the balloon payments in April 2020. It was confirmed that the College would keep the assets once the payments had been made and that they will be useable for the College for at least another year.

Governors noted Appendix 4 – financial planning checklist which has been cross-referenced to the appendices presented as part of this agenda item.

Governors noted that the College always starts from a lower base rather than being overly optimistic with figures in the plans and sensitivities. Governors also noted that the associated risks of maintaining income streams and the challenges associated with AEB and higher education funding. 16 – 18 funding, project income and apprenticeship income were all noted. Governors were informed that colleges are heavily reliant on non-levy apprenticeship work however the College has been successful in its work with levy payers. The College has seen good growth in apprenticeship numbers and sub-contracting has reduced.

The Resources Committee agreed to recommend the approval of the two year financial forecasts and draft budget 2019 – 2021 to the Corporation at its meeting to be held on 11 July 2019.

## **796 Financial Regulations**

The Resources Committee received and considered the financial regulations, presented by D Morgan, Executive Director – Finance and Facilities. The Committee was reminded that the financial regulations are reviewed annually by the Committee and the proposed amendments are resulting from recommendations arising from internal and external audit.

The Resources Committee considered the proposed changes to the financial regulations. A question was raised around leasing and D Morgan confirmed that the total overall cost of the finance is looked at when determining the value of the lease. Governors noted that the £25k limit referred to in the leasing section has always been part of the financial regulations however it had not previously been included under the lease section.

The Resources Committee approved the proposed amendments and the financial regulations for use in the forthcoming academic and financial year.

#### **797 Local Government Pension Scheme Statement of Policy**

The Resources Committee noted that there had been no changes to the Local Government Pension Scheme Statement of Policy, set by the Resources Committee in 2014.

#### **798 Harlow College Project Developments**

The Resources Committee received and considered the report on Harlow College Project Developments, presented by K Spencer, Principal.

Governors noted that STAC Phase 1.5 had been previously covered in agenda items 794 and 795. P Taylor asked about the timing of the £100k expenditure. It is anticipated that £50k will be spent by the 31 July 2019 and the remaining £50k in August therefore the expenditure will run over two financial years. D Morgan informed the Committee that the auditors have confirmed that this expenditure is classified as capital.

K Spencer informed the Committee that essential maintenance work on the campus needs to be undertaken, notably the roof of Building B and power in Building I. This work has been scoped into the College's financial planning and cashflow to ensure that the work can be undertaken in a timely manner.

K Spencer reminded Governors of the delay in the LEP's funding process for the application submitted for improvements to Buildings J and K. Due to the slippage in the programme, the College could not undertake the work and meet the match funding requirements within the revised timescales. The project has however been kept on a list of potential projects for the LEP should further funding becoming available.

K Spencer informed the Committee that the College has been successful in becoming a T-Level provider from September 2021 and this should give the College access to central government capital grants.

Governors were informed that discussions are on-going with Harlow Council around the rerouting of the cycle path at The Hides.

Work is on-going at East Gate and the College is looking to make best use of the building. It is envisaged that the building could start to be utilised from September 2019 however the shutters will not be in place by then as planning permission is required.

The Resources Committee noted the report on Harlow College Project Developments and noted the associated capital budgets and timescales.

#### **799 Any Other Business**

There was no items of any other business.

#### **800 Dates of Future Meetings**

The Resources Committee received, reviewed and approved the Calendar of Meetings, the Committee's Terms of Reference and the Committee's Calendar of Business, without any proposed amendments.

