huish | RICHARD HUISH COLLEGE

Minutes of a Meeting of

the Finance and General Purposes Committee

on Monday 1 July 2019 at 5.00pm at Richard Huish College

Committee Governors in Attendance: Jonathan Langdon (Chair), Barbara Barratt, Duncan Alexander, Moira Reynolds and Karuna Tharmananthar.

Also in Attendance: Xanne Blythe (Clerk to the Corporation) and Paul Lonsdale (Vice-Principal - Finance).
Apologies: John Abbott (Principal), Guy Adams, Anthony Smith and David Tomaney (Vice-chair).

The Chair welcomed both Barbara Barratt and Moira Reynolds to the Committee meeting to enable an independent Committee quorum during agenda item 3 entitled 'RHC Base Budget 2019-20 and RHC Financial Forecast for 2020-24'.

The additional Finance and General Purposes Committee had been convened to enable the Committee to review the second iteration of the 2019-20 RHC budget prior to final recommendation to the Corporation for final approval (1 July 2019).

FGP 59 **Declarations of Interest (agenda item 2)**

Jonathan Langdon and Duncan Alexander declared an interest under agenda item 3 'RHC Base Budget 2019-20 and RHC financial forecast for 2020-24', in connection with their dual membership with Richard Huish College and Richard Huish Trust.

FGP 60 **RHC Base Budget 2019-20 and RHC Budget Forecast for 2020-24 (agenda item 3)**

A budget and forecast had been submitted to this Committee on the 10th June 2019. After some considerable debate, particularly around the assumptions that had the greatest bearing on the outturn and the relative likelihood of various assumptions, it was felt that a revised budget based on a combination of assumptions used in the paper for the meeting on 10 June was the most appropriate way forward. As such Committee members had asked the management team to revise the plan to reflect the uncertainty around 16-18 funding and the ongoing grant support for the Teachers' Pension Scheme (TPS) and the increasing likelihood of an increase to the base funding rate for 16-18 funding. There was still likely to be sensitivities linked to key assumptions that would need to be addressed within the supporting narrative.

A revised base budget and forecast had been compiled with the following primary assumptions:

- the 16-18 Funding rate remained at £4,000 for 2019/20 and 2020/21 and then increased to £4,300 from 2021/22,
- the TPS employer contribution grant was extended to cover the 2020/21 year and then fell away in 2021/22 coinciding with funding uplift,
- Apprenticeship income targets had been increased by a further £40K in 2019/20 on original plan then by £55K in 2020/21, £55K in 2021/22, £30K in 2022/23, and £40K in 2023/24,
- improvements in delivery efficiency and overhead cost reductions were expected to contribute to a much improved financial margin,
- International income had been increased to account for Huish+ and slightly better Year 2/Year 3 numbers,
- pay inflation was set at 1% for 2019/20 and 2020/2, 2% in 2021/22 and 2.5% in 2022/23,

The impact of the above yields was detailed in a table. Tables on page four of the report also showed the impact of the various assumptions on the key financial performance indicator (KPI) targets. The ESFA financial health grading criteria was based on three indicators, namely:

- an adjusted current ratio that compared current assets (debtors, accrued income, cash) against current liabilities (overdrafts, loans due within one year, trade and other creditors, pre-paid income – excluding deferred capital grants held as liabilities),
- a sector specific EBITDA measure (Earnings Before Interest, Tax, Depreciation and Amortisation), for the College this meant adding back the annual charges levied by the Actuary on valuation of the Local Government Pension Scheme to the EBITDA,
- our borrowing (including any temporary overdrafts and finance lease liabilities) compared to an adjusted income figure that used total income reduced by deferred capital grants released to offset depreciation charges on grant funded assets.

The likely scores and subsequent grades had been forecasted within a table at the bottom of page 3 of the report. The College's EBITDA and current ratio were the main contributors to declining scores. The borrowings score in 2023/24 assumed a College owned student accommodation block funded by third party investment.

In response to detailed questions, rigorous challenge and scrutiny of the 2019-20 budget and forecast, further information and clarification was provided on the following:

- the presented budget and forecast report contained a pay assumption of a 1.5% increase, compared to a 1% pay assumption that had previously been discussed, this had a significant impact on the 2019-20 budget. Discussion focused on a 1% pay assumption providing a smaller budget deficit and the associated impact,
- the Corporation had, since the incorporation of Colleges in 1992, always recommended that, subject to affordability, the College should remain in line with the nationally agreed terms and conditions adopted by the Sixth Form Colleges Association [SFCA]. Annual negotiations were undertaken by the SFCA for a conclusion by September/October, however this year the teachers' pay increase percentage wasn't agreed until much later in March,
- in the current climate the original budget proposal pay award percentage of 1.5% was deemed unaffordable. Debate ensued on the option of not making a pay award in future years but, on balance, felt that this could have significant consequences for retention and recruitment of teachers given that we are competing with the school rather than FE sector,
- for 2021/22, to coincide with the assumed increase in the funding rate, the award was increased to 2%, 2.5% in 2022/23 and 2% in 2023/24 to clawback any shortfall that paying 1% might leave us with in the first two years of the plan. Should we ultimately not need to do this we would pay whatever the nationally negotiated rate was approved. The Executive had considered the option of applying differential percentage increases for teaching/support pay awards and for different contract classifications, but on balance it was felt that taking an average approach was close enough,
- a Governor asked for assurance if the assumptions in the budget were proven wrong and the College would then not be in a position to automatically default to a 1% pay award and would need to consider withdrawing from the national agreement. The Governor asked whether the budget would then be reconsidered by the Corporation with options for mitigation,
- in response to the Governor's query the Committee Chair explained that the Personnel Committee would be updated on the SFCA nationally agreed pay rate and make any recommendations to the Corporation for final approval. The Finance & General Purposes Committee would consider the budget affordability and associated consequences for Corporation approval,
- the option of having a longer term strategy, for dealing with 1% pay award, to be set out in the longer term forecast was discussed,
- the pay assumption plus other assumptions within the budget were out of the College's control, it was not implicit that the staff pay assumption of 1.5% would be made and it would be based on affordability,

- there were a number of potential assumptions, that if not delivered, would mean a series of very difficult decisions to be made now about next year's student provision,
- discussion focused on what remedial action was being taken in advance of the assumptions crystallising and the consequential impacts,
- the staff to income ratio was highlighted as a key KPI compared to the sixth form college norm of 68-70%, and the associated Richard Huish Trust cross charge, there was a high number of long standing senior staff at the top end of the pay scales,
- the ESFA's Early Intervention and Prevention Letter dated 10 June 2019 had been circulated to all Governors ahead of the 1 July 2019 Corporation meeting. The ESFA assessment was based on the College's financial plan for 2017/18 to 2019/20 (sent July 2018) and the College's financial record for 2017/18 (sent in December 2018). The letter had asked for a number of financial documents, including the cash flow forecast, in suggested model formats for monthly monitoring,
- the recommendation to the Corporation would be made on the budget assumptions, if the circumstances changed and the assumptions were not correct the budget would need to be modified. If the 16-18 funding and the ongoing grant support for the Teachers' Pension Scheme (TPS) did not materialise, the Executive and Governors would be required to make some difficult decisions,
- a table in the report detailed student enrolment predictions using the 2017 SCC school demographic data. Despite previous iterations there was now a dip in the 16-18 demographics for 2021/22, which had been moderated by 0.5% to reduce the impact of the demographic trend (increasing the number of students predicted), the following two years had also been reduced by 0.5% (reducing numbers).

After further debate, particularly around the assumptions that had the greatest bearing on the outturn and the relative likelihood of various assumptions, it was felt that the revised budget, as presented, based on a combination of assumptions used in the budget paper for the meeting was the most appropriate way forward.

RESOLVED: that the 2019-20 RHC budget be submitted to the Corporation for approval and the financial forecast 2020-24 be submitted to the Corporation for noting.

FGP 61 **RHC Fees Policy 2019-20 for Courses 1st August 2019 to 31st July 2020 (agenda item 4)**

RESOLVED: that the RHC Fees Policy and procedures for 2019-20 be recommended for Corporation approval on 1 July 2019.

FGP 62 **RHC External Audit Arrangements and Key Dates with Bishop Fleming (agenda item 5)**

RESOLVED: that the external Auditor arrangements and key dates be noted for the financial year ending 31 July 2019 be noted.

FGP 63 **AoB – Items for next Committee Meeting dated 9 September 2019 (agenda item 6)**

With no further business the meeting concluded at 5.30pm

The minutes were agreed and signed

Chair………………………………………………… Date…………………