huish | RICHARD HUISH COLLEGE

Minutes of a Meeting of

the Finance and General Purposes Committee

on Monday 10 June 2019 at 5.30pm at Richard Huish College

Committee Governors in Attendance: Jonathan Langdon (Chair), Guy Adams, Barbara Barratt (part), Anthony Smith, John Abbott (Principal) and Karuna Tharmananthar.

Also in Attendance: Xanne Blythe (Clerk to the Corporation) and Paul Lonsdale (Vice-Principal - Finance).
Apologies: David Tomaney (Vice-chair) and Duncan Alexander.

The Chair welcomed Barbara Barratt to the Committee meeting to enable an independent Committee quorum during agenda item 6 entitled 'RHC Base Budget 2019-20 and RHC Base Budget Forecast for 202-24'.

FGP 47 **Declarations of Interest (agenda item 2)**

Jonathan Langdon, Guy Adams and John Abbott declared an interest under agenda item 6 'RHC Base Budget 2019-20 and RHC budget forecast for 2020-24', in connection with their dual membership with Richard Huish College and Richard Huish Trust.

FGP 48 **Minutes of the Meeting of the Previous Committee (agenda item 3)**

RESOLVED: that the Finance and General Purposes Committee minutes dated 7 May 2019 be agreed and signed as a true record and that the identified sections of the minutes be withheld from publication for a 12 month period due to commercial sensitivity.

FGP 49 **Matters Arising Report 2018-19 (agenda item 4)**

The Matters Arising Report was noted.

FGP 50 **Financial Reports (agenda item 5.1 - 5.3)**

(a) RHC Management Accounts – April 2019 (Period 9)
The Committee considered the management accounts for period nine of the financial year and the performance ratios for 2018/19. The mid-year forecast was being used for comparison against actual performance. As at the end of April 2019 the College was showing a £41K positive variance to forecast.

In response to detailed questions and challenge, further information and clarification was provided on the following:

- performance ratios were discussed, creditor days stood at 37 (24 days lower than the previous month) reflecting catching up on payments to coincide with the increased ESFA core grant receipts,
- Income - £2.5K positive variance to mid-year forecast profile, £14K reduction in outturn forecast compared to Mid-year forecast,
- apprenticeship income forecasts remained in line with the mid-year forecast and could improve, the focus on retention and achievement remained a priority for the team,
- income from shared service delivery had been reduced to £266K reflecting the employment of more staff directly by the Trust rather than through the College as originally envisaged. A reconciliation of remaining staff was being undertaken to ensure that, wherever possible,

more staff were directly employed thus limiting the related party transaction disclosure,

- the new requirements, as detailed in the Academies Financial Handbook, for related party transactions (made on or after 1 April 2019) were applied. Trusts had to report all transactions with related parties to ESFA in advance of the transaction taking place, using ESFA's on-line form. The threshold for reporting was £20K.

(b) Capital Projects (agenda item 5.2):

- Futures for Somerset were in the process of agreeing the final account with the Administrator appointed for the sports hall main contractor. Some considerable work had been procured by the College to remedy defects or to establish the cause of defects with a view to accessing warranties where appropriate,
- the 3G pitch project had unfortunately been delayed due to pre-planning application discussions with the local Ecology officer. Therefore the location of the 3G pitch had been reoriented to incorporate some of the triangle of land recently purchased by the College (Land on the west side of Mount Walk). In response to the Chair's query it was confirmed that the current orientation of the 3G pitch would not provide any constraints should the College wish to extend its building footprint in the future.
- the re-cladding of the Redwood building project had commenced with Futures for Somerset undertaking the tender exercise for the design work. Project fees would be kept to a minimum to maximise the benefit of the grant,
- there was no mechanism to reclaim the VAT for sixth form colleges, and VAT would need to be deducted from the total project fund,
- the Corporation, on 20 May 2019, had delegated approval to this Committee to make decisions on the new Redwood capital project, provided that the total projected costs did not exceed those originally approved by the Corporation. A design specification would go out to tender and the Committee would be asked to make a decision following a tender process,
- the Government's 'Little Extras' College payment was being used to improve and extend the hall seating to create an auditorium.

(c) RHC Financial Regulations – Annual Review

The Financial Regulations had been reviewed for 2019 with slight amendments. The Committee agreed to recommend the reviewed Financial Regulations 2019 for Corporation approval.

RESOLVED:

1. that the RHC management accounts for April 2019 be noted,
2. that the RHC Capital Bids update be noted, and
3. that the Financial Regulations 2019, following the annual review, be recommended for Corporation approval on 1 July 2019.

FGP 51 **RHC Base Budget 2019-20 and RHC Budget Forecast for 2020-24 (agenda item 6)**

The budget and forecast contained some assumptions that had a significant bearing on the long term financial sustainability of Richard Huish College. The recently released review of post-18 Education and Funding Report and subsequent launch by the Prime Minister had suggested that there was recognition that the funding for 16-18 was inadequate. No immediate improvement was available in the funding tariff for 16-18 for an improved budget for 2019/20, but it was not unreasonable to assume that there could be some good news at some point in the future.

What was less clear was when any increase in 16-18 funding would occur and at what level. Therefore two budget scenarios had been created. Firstly, 16-18 funding remained at £4000 but the increases in teachers' pension liability would be covered in the same way as in 2019/20 throughout the plan. Secondly, 16-18 funding increased by £300 but the teachers' pension liability grant fell away after 2020. Both scenarios had been tested with ESFA colleagues and they had agreed that this was a sensible approach, particularly around the continuing of the teachers' pension liability grant considering the significant impact it had on schools and colleges. What was fundamentally clear from the comparison was that at a rate of £4,300 the financial position of Huish improved dramatically.

The tables within the report showed the comparative financial performance indicator targets adopted. The first table (using £4K 16-18 funding rate) showed the declining financial position of the College, the key concern being the weakening adjusted current ratio. Cash in hand days had dropped below 30 days at the year end from 2020/21. Overdraft facilities would be needed at key points in the year (February to mid-April), future own-funded capital investment would be seriously compromised.

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 timing of the anticipated spending review and the year of its impact,
- the College was relatively financially strong compared to the rest of the sector. However, some colleges held greater reserves, Huish had used a proportion of its reserves on financing capital bids to improve the site and curriculum offer for students. Going forward there would be no capital investments and a reduced contingency,
- ESFA TPS employer contribution grant – it had been assumed that, in the absence of a funding rate increase, the grant would remain in place for the life of the plan. There was some suggestion that this may take the form of a consolidation into an uplifted funding rate. Without the grant the College's financial sustainability was compromised. Other colleges were taking the view that we should not assume that this income would continue. Within the life of the plan there were further increases to both TPS and LGPS employer contributions that we had assumed would not be funded,
- should the sector be faced with funding the TPS pension increase beyond August 2020 it was likely that a number of colleges would be facing perilous financial positions and the negative impact on the bottom line as the plan would be circa £240K per annum,
- the removal of the pension grant was unfathomable and would need to be replicated across the sector, the impact of the pension grant removal would give a budget deficit of £500K and the entire education sector's sustainability would be placed at risk,
- the ESFA's assessment of the College for early intervention and prevention would require additional financial submissions to ESFA using standard templates at regular intervals for monitoring purposes, Governors were cognisant of the potential intervention consequences,
- the £4,300 was the lowest increase for a potential increase in the 16-18 funding rate,
- the potential impact of including staff pay increases in the budget was discussed,
- 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 assumptions on cost savings were covered for next year's budget and the following year, the assumptions were challenged,
- the College's depreciation policy was discussed, as recommended by the external auditors to spread the depreciation over a 60 year period,
- discussion focused on a number of unpalatable decisions around removing the pay award (1.5%), removing enrichment costs and possible mergers, and the associated impact,
- should the College decide to move away from the national SFCA pay agreements this would have detrimental consequences on other areas such as recruitment, a loss in the market share and a strategy would need to be devised in this event,
- Governors were against recommending to the Corporation the 2019-20 budget deficit of £328K (pre FRS102 LGPS charges) with an expectation of a £773K deficit, the College had little reserves to sustain any financial loss and in three years' time, a permanent overdraft would be needed. Governors noted that the banks were no longer prepared to extend their loan exposure to colleges,
- next year's budget, in terms of expenditure, was difficult to improve. Discussion focussed on the income, specifically international students and apprenticeships with the newly appointed Apprenticeship Manager and whether the improvements could be brought forward and be more optimistic,
- there was no government funding to expand the non-levy apprenticeship grant (SME) and the levy grant was highly competitive with other colleges obtaining bigger contracts. There had been a realistic apprenticeship income increase of 6%. The Chair challenged the

rationale for the appointment of the Apprenticeship Manager, as the role's raison d'etre was to generate a significant increase in apprenticeship income. The Apprenticeship Manager had been recruited to deliver both quality and growth to provide a better product. Increases were included in year 2 and 3 for these budgets,

- local demographics were increasing for the next two years with a dip before it started to rise again. The Chair noted that this had been inconsistent with the local authority's presentations at various strategy events,
- the Corporation had received a presentation on the new tutorial model and it had been understood by one Governor that this had been cost neutral when the budget showed a cost of £70K for 2020-21. The meeting noted that the first year of the tutorial model was cost neutral and if the College had stayed with the old tutorial model it would have cost more. The new system was not costing any more than it would have cost if we had stayed with the current tutorial model. The new model released teaching staff and this would impact directly on learners' outcomes, retention and, a direct impact on international students,
- a funding turnaround was evidenced in year five of the 2019-24 presented forecast.

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 that was based on a combination of assumptions used in the budget paper for the meeting was the most appropriate way forward. Committee members asked management 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.

RESOLVED: the Committee agreed that the 2019-20 budget and 2020-24 as presented could not be submitted to the Corporation for approval and asked for a revised version to be circulated electronically for comments prior to submission to the Corporation on 1 July 2019 for approval.

FGP 52 **Dispute Trigger Mechanisms for Oak House (agenda item 7)**

As requested by the Committee, a report was circulated providing a brief resume of the issue and actions in relation to the number of beds available at Oak House and a summary of the legal advice given around the possible process of redress.

The Corporation at a meeting dated 24 September 2018 had agreed to pursue a claim with the project architect and developer for not delivering a fit for purpose building, in relation to some dual occupancy rooms being used as single occupancy.

The Committee discussed and agreed the proposed recommendations in the report with the intention to initiate discussion around compensation without any further legal action.

RESOLVED:
1. that the financial compensation for the works needed to resolve the room layouts in the affected rooms at Oak House be held in abeyance. Should we have 61 or more students wishing to stay in Oak House, and there were some willing to share a room, the three rooms would be converted to double occupancy (for circa. £3K),
2. that financial compensation be sought on the basis that the maximum number of usable beds provided, based on the design, was 61,
3. that advice be sought from the solicitor on engaging an architect (circa. £2K) to provide a second expert professional opinion on the ability of the two rooms to provide double occupancy,
4. that, on the advice of the solicitor, the College commission a pre-notice letter, outlining the intention to proceed with further legal action, to both the developer and the Oak House architect with a report to include the newly commissioned architect's view (if supportive) with the BSA and the Health and Safety Inspector's opinions,
5. that a further update be provided to the Committee on either the legal advice or the outcome of

the pre-notice letter prior to further legal action.

FGP 53 **RHC Health and Safety Committee Monitoring Report (agenda item 8)**

RESOLVED: that the College Health and Safety Committee minutes dated 29 April 2019 be noted.

FGP 54 **Policies Approval (agenda item 9)**

RHC Fees Policy for 2019-20 was reviewed annually and would be circulated electronically for submission to the Corporation on 1 July 2019 for final approval.

FGP 55 **Huish Strategic Development Plan 2019-22 (agenda item 10)**

As part of the developing Huish group structure there had been collective agreement on the Huish Vision and Values at the strategy event in February 2019. The next step was to develop a set of top level Huish Strategic Drivers that articulated how this Strategic Vision would be delivered. The suggestion was that Governors and leaders from all the organisations within the group should have the opportunity to make comment and suggestions to this drafted list.

The Richard Huish College Drivers described how the College was going to more specifically contribute to the Huish Drivers and ultimately support the delivery of the Vision. These College Drivers had been drafted by the College Senior Management Team and required Governor input in order to check that they best capture the needs of the community and our students during the next period. This model of strategic planning would be rolled out to the other organisations within the group where they would be asked to develop a similar approach**.**

Minor amendments were recommended to the Richard Huish College drivers to read as follows:

Richard Huish College Drivers :

a. Maintain and seek further improvements in student outcomes and progression through highly effective teaching, learning and curriculum delivery.
b. Maintain and further improve the range and quality of enrichment activities.
c. Further develop formal and informal partnership working through our links with other organisations both in the Huish group and the local and wider community.
d. Develop current or new income streams and grow our total number of international students and apprentices.
e. Seek further financial efficiencies and cost savings.
f. Retain and grow our local, regional and national reputation as a highly effective and forward thinking educational organisation.
g. Further improve the quality of the College's campus and facilities.

RESOLVED: that the Huish Drivers for 2019-22 be noted and the Richard Huish College Drivers for 2019-22 be recommended for Corporation approval.

FGP 56 **Local Government Pension Scheme (LGPS) Consultation (agenda item 11)**

The Ministry of Housing Communities and Local Government (MHCLG) had published a consultation inviting views on planned changes to the Local Government Pension Scheme (LGPS) regulations. The consultation included an important issue for colleges, which was a proposal to remove the regulation, which required them to offer LGPS pensions to newly employed support staff. The meeting noted that some colleges had set up a subsidiary company for new staff entering a pension scheme. An argument against having fewer employees in the pension scheme was that the liabilities would become more expensive for the remaining employees left in the scheme.

RESOLVED: that the Local Government Pension Scheme (LGPS) Consultation dated May 2019 be noted.

FGP 57 **College Financial Planning Handbook and Financial Plan (agenda item 12)**

The ESFA had now issued the college financial planning handbook and financial plan for 2019. This guidance was noted.

FGP 58 **AoB – Items for next Committee Meeting dated 9 September 2019 (agenda item 13)**

(a) ESFA Early Intervention and Prevention Letter dated 10 June 2019

The Chair informed the meeting of the recently received ESFA Early Intervention Letter dated 10 June 2019 and asked the Clerk to circulate this letter to all Finance and General Purposes Committee Governors for information. The Corporation would be informed at their next meeting on 1 July 2019.

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 asked for a number of financial documents, including the cash flow forecast, in suggested model formats for monthly monitoring. **Clerk**

With no further business the meeting concluded at 7.45pm

The minutes were agreed and signed

Chair………………………………………………… Date…………………