

**Minutes of a Meeting of
the Finance and General Purposes Committee
on Monday 4 November 2019 at 5.30pm at Richard Huish College**

Committee Governors in Attendance: Jonathan Langdon (Chair), Dave Tomaney (Vice Chair), Guy Adams (part), Duncan Alexander, Anthony Smith, John Abbott (Principal) and Karuna Tharmananthar.

Also in Attendance: Xanne Blythe (Clerk to the Corporation), Paul Lonsdale (Vice-Principal - Finance) and Anton Sweet (SCC Funds and Investments Manager)(part).

Prior to the start of the meeting, at the request of the Chair, it was agreed to welcome Anton Sweet, (SCC Funds and Investments Manager) to the meeting to discuss the LGPS valuation for the College, and its disparity with other college valuations. The LGPS pension liability for Huish was approximately three times greater than sixth form colleges of a similar size nationally. Pensions were a complex area and had been designated as medium risk for the College by the external auditor, Bishop Fleming.

The SCC Funds and Investments Manager joined the meeting and introductions were made. The RHC Somerset County Council Pension Fund Pension accounting disclosure as at 31 July 2019 prepared in accordance with FRS102, was provided, with a number of presentation slides.

The College was a member of the Somerset County Council defined benefit pension scheme. The scheme actuaries had calculated an estimate of the College's share of the scheme assets and liabilities at the year-end. The liability was calculated based upon a number of assumptions around the future growth in salaries and pensions and expected mortality rates of members of the scheme. The present value of the liabilities was calculated using a discount rate to apply to future pension costs. Small changes in these assumptions, especially the discount rate, could result in significant variances in the overall liability. The pension costs were assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the LGPS was 31 March 2016.

Governors questioned why the SCC pension scheme liability was out of proportion compared to other colleges and how this liability figure was derived. The SCC F&I Manager explained that he was working on understanding the disparity, the work was complex, and could potentially relate to decisions that the College had made over the past 15-20 years.

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

- the size of the pension liability deficit on the balance sheet, and that the actuary was currently carrying out a reassessment of the College's deficit liability. There was a £70m deficit on the 2018-19 balance sheet, with an annual payment from the College of £70k for a 22 year repayment plan,
- key assumptions around inflation CPI, RPI inflation, salary increase, discount rates and the prudence allowance,
- key assumptions around mortality, life expectancy and longevity experience,
- the new CMI model 2018,
- the running cost of the fund,
- legislative uncertainty with recent rulings (McCloud),
- the Ministry of Housing Communities and Local Government (MHCLG) consultation (July 2019) on planned changes to the Local Government Pension Scheme (LGPS) regulations.

The consultation had 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 Insolvency Regime, and the lack of lending to the FE sector,
- the difference between the accounting valuation and the funding valuation assumptions, and the potential crystallisation of the liability payment and its impact on the College.

At this point the Committee thanked the SCC F&I Investment Manager for his presentation and he left the meeting.

RESOLVED:

1. that an additional LGPS note in the RHC Members' Report and Financial Statements be included to inform the ESFA of the true value of the LGPS pension liability rather than the accounting valuation, as detailed in the balance sheet, **PLO**
2. that the disparity between other colleges nationally on the LGPS pension deficit be investigated by the SCC F&I Investment Manager and the VP-F for a further report to this Committee with information once available. **PLO**

FGP 13 **Declarations of Interest (agenda item 2)**

John Abbott, Jonathan Langdon, Duncan Alexander and Guy Adams declared an interest in agenda item 5.1 Draft Members' Report and Annual Financial Statements 31 July 2019, due to their dual membership with Richard Huish Trust.

FGP 14 **Minutes of the Meeting of the Previous Committee (agenda item 3)**

RESOLVED: that the Finance and General Purposes Committee minutes dated 9 September 2019 be agreed and signed as a true record.

FGP 15 **Matters Arising Report 2018-19 (agenda item 4)**

The Matters Arising Report was noted:

- a further report on the 3G pitch would be brought to this Committee in January 2020.
- Oak House Disputes mechanism – an email had been circulated to the Committee in September 2019 from the College's legal adviser for discussion.

RESOLVED: it was agreed to instruct an architect directly, with experience in student accommodation new builds, to provide a report and act as an expert witness if required.

FGP 16 **Financial Reports (agenda item 4)**

(a) Management Accounts to September 2019 and Capital Project Update

The Committee considered the management accounts for the new financial year and the performance ratios for 2019-20. The report also provided the Committee with the ESFA financial health score forecast for 2018-19 and 2019-20. The 2019-20 base budget indicated a RI financial health score forecast.

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

- it was early in the new financial year to be making informed predictions as to likely outturn values for income, pay and non-pay, there were a number of factors that could materially impact on the 2019-20 financial year,
- the ESFA funding audit had used up a high level of staffing resource that would, at this time of year, be focussed on generating new starts. In addition, the apprenticeship team had seen some significant turbulence in staffing across delivery and manager positions. A new apprenticeship director had been recruited and would start towards the end of November

2019. Discussion ensued on the provision of both funding criteria and quality of delivery assurance for governors going forward,
- an improved Adult Education allocation of £111K (£25K higher than the previous allocation) had been received,
 - the pay settlement for 2019-20 had still not been finalised but the National Education Unions position was that Sixth Form College teachers should receive a pay award that was in line with teachers in schools. A 1% uplift was included within the budget across teaching and support staff. Future decisions for the Corporation would be to remain with the SFCA national pay award or look at the affordability option and the subsequent impact on other factors such as staff recruitment, retention, student experience,
 - the National Education Union (NEU) three days' strike and its impact on the student experience,
 - utility contracts and the transfer to other contractors by March 2020,
 - the latest financial forecast deficit for 2019-20 (as detailed in the appendix to the Management Accounts) would be added to the front sheet of the management report as a key KPI for Governors, **PLO**
 - the Redwood capital project specification and the introduction of windows with obscure panels in the hall,
 - outstanding loan repayments for the Sports Hall (Sycamore) and the subsequent inflated cash position,
 - the latest 2019-20 forecast as detailed in Appendix 1 of the management report was discussed, the VP-F and SMT were asked to provide a strategy to the next Committee meeting in respect of bringing the latest forecast to within the agreed 2019-20 budget, and reducing the total by £14K. **PLO**

(b) Verbal Update on the Impact of 16-19 Recruitment for 2019-20

Governors discussed the impact of the lower 16-19 student recruitment for 2019-20 (1815). This was 15 students less than at the same point last year. An error in the application/enrolment reporting process had meant that the new lower sixth total numbers had been over reported. The consequence of this meant that irrespective of any recently announced increase in funding for Sixth Form Colleges, RHC would receive less funding than expected in the 2020-21 academic year, when a demographic upturn had been predicted.

The Committee noted the recent government funding announcement (4 Nov 2019). The SFCA had been lobbying for the £120 million to be announced ahead of the spending review for 'expensive but crucial subjects' to be attached to A levels and Applied General Qualifications (AGQs). It had been confirmed today that a number of A levels and AGQs would be in scope for a significant funding uplift in 2020-21. This was in addition to the funding rate increase to £4,188. A funding boost for English and maths GCSE students on Level 3 programmes had also been announced.

The overall impact on the 16-18 funding for the 2020-21 College financial year, taking into account the £188 uplift in the funding tariff, would be a circa £10K shortfall on the forecast in the 3-year financial plan. Recently announced additional tariff increases in relation to national priority subjects (STEM and Technology) would improve the College's 16-18 funding in 2020-21, the meeting noted the necessity to wait for the General Election (12 Dec 19) outcome before these increases could be relied on.

The meeting discussed the underlying stress factors of the College and its most critical and high risk vulnerabilities. Further assurance processes for Governors were discussed going forward, which required a more detailed discussion at a Governor strategy day. There were very few comparator colleges of the same size offering the same delivery with a similar structure.

(c) DfE Conditions of Funding for Condition Improvement Fund (CIF) Capital Project Bid 2019-20

The grant funding agreement – terms and conditions for 2019-20 had been circulated with the

meeting papers. Governors noted that eligible expenditure did not include any VAT that was recoverable from HM Revenue and Customs.

In addition, further information dated 28 October 2019, was circulated to Committee Governors.

The new 2020-21 CIF funding criteria was built on a number of steps taken by the Government to bolster academy trust finances and clamp down on high pay.

The strengthened criteria for next year's Condition Improvement Fund was aimed to incentivise academies and trusts to improve finances and governance. Bids were assessed on a point based criteria and applicants would get a four-point deduction if they paid two or more salaries in excess of £100,000 or one salary over £150,000, and had failed to take appropriate action in response to the high pay challenge. Alongside this, Academies Minister Lord Agnew had also introduced:

- an extra point for applicants that had signed-up to the most recent government funding agreement;
- deductions of up to four points for applicants that had not submitted a financial improvement plan following a visit from a School Resource Management Adviser; and
- further scrutiny for successful projects worth more than £1 million.

(d) ESFA Financial Health Grade for RHC 2018-19 and 2019-20

The Education and Skills Funding Agency (ESFA) approach to assessing the financial health of colleges was set out in Part 3 of the Financial Planning Handbook (published April 2019). In accordance with this approach the appropriate assessment grade, based on the College's financial plan, was:

- Requires Improvement for 2018-19 (the latest outturn forecast year), and
- Requires Improvement for 2019-20 (the current budget year).

A financial dashboard dated October 2019 was also included compiled from the information that all colleges had submitted to the ESFA. The dashboard incorporated various key performance indicators and measured those against both target benchmarks and sector benchmarks.

The meeting noted that this financial health was based on the forecast and discussed how the 'Requires Improvement' rating could be turned into a 'Good' rating.

RESOLVED:

1. that the RHC management accounts for September 2019 be noted,
2. that a revised iteration of the 2019-20 forecast be represented to the next Committee with a strategy to remain within the agreed allocated 2019-20 budget,
3. that the Condition Improvement Fund conditions of funding be noted for this year and next,
4. that the ESFA Financial Health Grade for RHC 2018-19 and 2019-20 be noted.

FGP 17 Draft Members' Report and Annual Financial Statements (MRFS) 31 July 19 (agenda item 5)

The draft members' Report and Annual Financial Statements 31 July 2019, the External Auditor's Key Issues Discussion Document (KIDD) for the year-end 31 July 2019, and the Letter of Representation had been circulated ahead of the meeting. The VP-Finance provided an overview of the key areas raised within the document.

The end of year financial statements were the same as the July 2019 management accounts. Discussion centred around the risks and sensitivities, as detailed in the MRFS document and the associated mitigating actions. Creditor days were queried compared to the target and that there was no impact on cash flow, and the accrual of the auditor fees. An amendment would be made to explain that the College had aligned its practices to the AoC Remuneration Code for 2018-19 without formal adoption. The Remuneration Committee were due to review the adoption of the Code for a decision at the December 2019 Corporation.

RESOLVED:

- 1. that the Members' Report and Financial Statements to 31 July 2019 be noted and be circulated to the joint meeting of the Audit Committee and Finance and General Purposes Committee on Monday 11 November 2019,
- 2. that the key areas within the external Auditor's Key Issues Discussion Document (KIDD) for the year-end 31 July 2019 be noted.

FGP 18 FE and Sixth Form Governance Guide (agenda item 6)

Governors NOTED the FE and Sixth Form Governance Guide published in June 2018 and the Clerk's associated compliance checklist. This guide replaced the College Governance: a guide, published by the Department of Business, Innovation & Skills (BIS) in 2014.

FGP 19 RHC Strategic Development Plan 2019-22 (agenda item 7)

Governors NOTED the Huish Strategic Development Plan 2019-22. Governors had been involved in its formation during strategic discussions at a meeting in February 2019 and the Plan's approval at subsequent Corporation meetings.

FGP 20 AoB – The next joint Audit and F&GP Committee Meeting was scheduled for 11 November 2019 and the next F&GP Committee was scheduled for 27 January 2020.

With no further business the meeting concluded at 8.15pm

The minutes were agreed and signed

Chair.....

Date.....