

**MINUTES OF THE OF PART A MEETING OF THE HADLOW GROUP FINANCE
COMMITTEE HELD 22 FEBRUARY 2018**

Present: Mr P Dubrow -Chair
Mr C Hearn
Mr J Dinnis
Mr P Hannan

In attendance Mr J Allen
Mr M Lumsdon-Taylor
Mr D Ebdon
Dr L Pamphilon
Dr J Mowby
Ms B Cleeves

The meeting commenced at 09.00

WELCOME, APOLOGIES FOR ABSENCE & DECLARATION OF INTERESTS

52. The Chair welcomed everyone to the meeting. Apologies were received from Mr C Porter. The membership of the Hadlow Corporation and West Kent & Ashford Board was noted for Mr P Dubrow and Mr P Hannan. Mr C Hearn declared an interest against agenda item 7, 'Bank Financing & Disposals' as his company provided remunerated professional advice to the College on its bank financing proposals.

PAPERS

53. The Chair and Committee welcomed the new approach being used in making available, to the Committee, more summary information on the agenda coversheets, with a reduction in the volume of appendices to support the main agenda paper. It was **AGREED** that any 'history' in the reports which is no longer applicable should be removed. In terms of further improvements, it was **AGREED** more use could be made of graphs and KPIs, supported with an analysis of trends from the previous year to in-year performance and, if the information is available, with a link to following year budget. When graphs are used, the Committee requested that the graphs be annotated with textual commentary, either on the coversheet or in the text of the report. It was also important to support any textual statement with numbers/facts.

MINUTES

54. It was **RESOLVED** that the minutes of the meeting of the Hadlow Group Finance Committee, held 17 November 2017, be approved as a correct record.

SUMMARY ACTION LIST & MATTERS ARISING

55. The '*Summary Action List*' was received and the following updates were made available against each outstanding action pointy from the last meeting.

MIN REF	DETAILS OF RESOLUTION/ACTION POINT	REVIEW UPDATE
30	It was AGREED to show the video 'Vision 50' at the December Corporation meeting and to arrange a spring strategy meeting to discuss strategic issues arising from the video and the suggested direction of travel.	Completed
31	To include the Vineyard Project in the next 'Capital & Commercial Portfolio' report	<p>This will be an agenda item at the June meeting of the finance committee where a business case to support the proposals will be made available for review, before submitting to the Board for approval.</p> <p>The Deputy CEO/Deputy Principal confirmed that there has to be no costs incurred by the College on the development work to date undertaken on the project.</p>
32	It was AGREED at this stage not to progress the COAPE proposals.	This will no longer be pursued.
33	An estates strategy and an estates plan have to be finalised. Once agreed by the Corporation, and once the receipt of monies from land disposals has been received, then the estates strategy can be implemented. It was confirmed the Corporation would be actively involved in setting the estates strategy	This will be made available at the June Strategy meeting for review by all governors.

56. It was **RESOLVED** to note the '*Summary Action List*'.

57. At the last meeting, there was a discussion, but not minuted, as to the need to try to ensure that the Management Accounts are in line with the year-end audited accounts, with an explanation to be provided for any variances.

FINANCIAL PERFORMANCE REPORTS HADLOW GROUP, HADLOW COLLEGE & WEST KENT & ASHFORD COLLEGE

(i) Group Performance Indicators

58. The Committee noted the following KPIs.

		Target Current Year 2016/2017 £	Projection Actual 2016/2017 (Pre Audit) £	Target Following Year 2017/2018 £	Projection Actuals 2017/2018 £
Turnover +		48,000,000	45,500,000	46,000,000	46,000,000
~Cash Holdings - operating - reserves		3,000,000 2,500,000	1,750,000 3,000,000	2,000,000 2,500,000	2,000,000 2,000,000
Borrowing %		14,000,000: 30%	14,600,000: 33%	14,600,000: 31%	14,600,000: 31%
Profit		834,000	350,000	907,680	1,491,000 (FRS 102: £1.7m)
Global Student Numbers	Apprentices	<u>Numbers</u> (count)	<u>Numbers</u> (count)	<u>Numbers</u> (count)	<u>Numbers</u> (count)
	19+FE	750	545	750	750
	19+HE	3000	2500	3000	2900
	Core 16-18	800 3500	700 2000	800 3750	700 3450
Staff Count		1,150	1,040	1,020	980
Capital -general Investment -major Committed projects		1,500,000 9,500,000	650,000 9,500,000	1,500,000 4,000,000	1,000,000 4,000,000
Hadlow		D: 40 C: 35-40	D: 35 C: 35-38	D: 30 C: 28-32	D: 28-30 C: 8
Debtors (D) / Creditors (C)		D: 35 C: 38-42	D: 30 C: 32-35	D: 30 C: 28-32	D: 28-30 C: 28

(ii) **Hadlow College**

59. The following key points were **NOTED**:

- Operating surplus before incorporated subsidiaries £86k. Total incorporated subsidiaries contributed £20k (Note HRCS, High Risk Funding and Betteshanger Country Park visitor number risk).
- Commercial portfolio has performed well with the exception of Farm Shop which is being repositioned and rebranded for Open Day (Including wholesale business expansion).
- Underlying profit after FRS 102 and disposal £4.19m. Treatment of associated costs to be agreed with auditors.
- Debt book and credit book were at 30 days +/- 3 days at December 2017. Start of new calendar year has seen creditor days increase to 35 days whilst cash flow remains restricted. Cash at Year End projected £2.750m.
- Projected balance sheets are expected to be covenant compliant, notwithstanding Barclays Bank Strategy – agenda item 7.

60. The following shortfalls against the original budgeted income have been identified:

			Dec 2017 Update
High Needs Funding From Local Authorities	£150k	Tasking for growth will not be delivered and KCC are restricting funding this year	Shortfall reduced by £100K, and likely to show positive variance by year-end.
Schools Links on roll activity	£68k	Less schools and fewer pupils	No change. Impact confirmed.
Higher Education	£200k	Recruitment below target in all curriculum areas (£700k) has been offset by anticipated compensation from the University of Greenwich (£500k) – high risk	No change. Relationship with UOG remains positive however financially constrained. FD meetings now in regular cycle.
Residential Boarding Fees	£110k	Vacant rooms and changes to the fee profile for different catering offers	Currently 18 rooms are vacant. Considering offering vacant Grove Farm rooms to key workers – more impact 1819.
Interest	£154k	New loan, additional finance leases	In liaison with the bank – early stages of negotiation – treatment against disposals to be confirmed.
General Tuition Fees	£65k	Lower recruitment in fee paying categories	No Change and will be static at year end.
		@ P5: £550K RISK	

61. In order to retain the original budget, which is considered to be essential as a minimum for financial sustainability, the following new income streams and additional activity in respect of existing income streams, and cost savings, have been identified.

			Dec 2017 Update
Tuition Fees	£100k	Reduction in the level of provision made against the short course and part time programme.	Cost reduction programme is in progress and will result in +50k improvement.
School links funding	£50k	New relationships with additional schools	One new relationship, lost another. No improvement

High Needs Funding	£100k	Further claims to be submitted to KCC	Submitted, and positive impact will be delivered by DP.
Work Placement Grant	£190k	New government initiative. Bid to be submitted late November	Confirmation due 28/2/18. Positive outlook
Additional Residential Bursary funding in relation to 16/17	£90k	Claim submitted to SFA. Outcome uncertain until funding allocated.	Expected February 2018 and won.
Innovation UK Bid	£98k	Bid currently being worked up	On track for 2018
Summer school	£50k	Additional bookings in residential through letting of further rooms or letting over the vacation periods	Possible interested parties have been contacted – this is a priority area for commercial team.
Salary Savings	£100k	Full review undertaken	Non pay review carried out (savings of £42K). Pay review within BPC February 2018 – savings £75k Planning
Partial disposal of Court Lane	£4,000K	Disposal of buildings and land now surplus to requirement to WKAC and to a developer	Expected to complete 31/3/18
	£4,778k	@ P5 £650K MITIGATION BEFORE DISPOSALS.	

62. The Committee welcomed the detail in the report on the income and expenditure profiles, and of the summary of the risks and available opportunities that may either hinder, or help deliver, and achieve the budget out-turn for 2017-18.

63. The Deputy CEO/Deputy Principal confirmed that the current Hadlow cashflow is very constrained and will improve with the planned capital disposals, a later agenda item.

64. An issue was raised on non-compliance with the bank covenants. When the College signed the new covenants, which were signed a day after the 2016-17 accounts were signed, the College was in breach of three of the four covenants. This was due to the tighter margins in the new covenants. Detailed discussions have taken place with the bank and they are comfortable that the year-end forecasts are showing full compliance against all the covenants. However, even though the bank is comfortable with the College's position, the Committee agreed that we must not hide from the serious nature of being in breach with bank covenants. As there remains a risk of non-compliance if year-end forecasts are not met, it was **AGREED** to inform the Audit Committee of this risk and for it to be added to the College's Strategic Risk Register

65. FRS Pension liabilities as at 31 December stood at £1.1m, compared with WKAC's of £600k. The Committee welcomed confirmation that a meeting has been arranged with the Actuaries to discuss their assumptions given these will inform the FRS 17 pension liabilities for both Hadlow and WKAC. The Executive needs to work with the Actuaries as any small change in their assumptions could result in a reduction in FRS17 liabilities. Any reduction in assumptions could also have a positive impact on performance against the bank covenants. It was **AGREED** to keep the Committee informed of the outcomes of the meeting. It was further **AGREED** to inform the Audit Committee of the strategic impact of FRS 17 costs and to request for the Audit Committee to add this risk to the Strategic Risk Register.

(iii) West Kent & Ashford College

66. The following key points were **NOTED**:

- Operating surplus of £229k profit against budget of £209k includes provision release against poor performing tuition fees.
- Payroll remains under budget against student numbers whilst growth also remains under budget.
- Cash at December 2017 remains restricted. WKAC currently operating in temporary overdraft January through to March (before disposals).
- Year End projections underlying surplus of £1.7m after disposals and FRS 102 operating position of £300k surplus (Note: individual costs and other income may fluctuate upon receipt of grant applications in excess of £2m with associated costs).
- Cash position at baseline of £1.5m potentially rising to £2m+ after Group transition transfers.

67. It was **RESOLVED** to note the financial performance reports for the Hadlow Group, Hadlow College, and WKAC.

HADLOW GROUP PRE-BUDGET STATEMENT

68. As the agenda item covered commercially sensitive information, it was **RESOLVED** to declare this agenda item confidential and for the minutes to be recorded separately.

HADLOW CAPITAL PORTFOLIO UPDATE & COLLEGE PROPERTY STRATEGY

69. The report confirmed that the Committee is being asked to support the proposed 'direction of travel' either to rent or purchase additional teaching space at Ashford to house Trowel, Plumbing, Energy centre and AM2 Testing. This is required as Phase 1A of the new build has not yet been commissioned with a contractor and the College needs to be vacated from Jemmett Road from August 2018.

70. Discussions have focused on a lease arrangement for 12 months and then a purchase of the identified site for £890,000k in 2019. As the Executive does not want to increase the College's debt provision, further work is required as to how this is to be financed.

71. The Committee **AGREED** that this must pay for itself through either leasing or purchase.

It must be self-financing. The Committee **AGREED** and **FULLY ENDORSED** the proposed 'direction of travel' outlined on the understanding that the final proposal must be self-financed and be subject to further review from the Committee before Board approval is sought.

BANK FINANCING AND DISPOSALS

72. As the agenda item covered commercially sensitive information, it was **RESOLVED** to declare this agenda item confidential and for the minutes to be recorded separately.

TUITION FEE POLICY & FEES 2018-19

73. The draft '*Tuition Fee Policy & Fees 2018-19*' for both Hadlow College and WKAC were received for review.

74. It was confirmed both policies are still in draft, with further work required before they can be submitted to the respective Boards for approval.

75. It was **RESOLVED** for both policies to be submitted to the Boards of Hadlow College and WKAC for Board approval.

HADLOW GROUP TENDERS

76. The termly reports on '*Tenders*' for Hadlow College and West Kent & Ashford College were received. The Committee received details of all tender outcomes with confirmation that the Group's Financial Regulations were followed.

77. It was **RESOLVED** to note the report.

HADLOW GROUP HUMAN RESOURCES

(Jane Salzer attended this part of the meeting to present the reports for this agenda item)

78. The following reports were received:

- (i) Hadlow College HR Report
- (ii) WKAC HR Report
- (iii) Pay Gap and Harmonisation Project

79. From the review of the reports, the following key points were **NOTED**:

- Termly report for Hadlow College and West Kent & Ashford College outlined key HR themes.
- Implementation of the harmonisation project is underway. First full communication to staff end of March 2018 (Linked to Pre-Budget Statement – agenda item 5).
- Currently no live disputes and no disciplinary investigations.
- Sickness remains controlled and well-managed. Bradford score receipted and reviewed by SMT termly.
- Gender Pay Gap Report outlines marginal pay gaps in both Colleges and its variances are being picked up in Harmonisation Project. Formal publication of Gender Pay Gap data is to be finalised.

80. Following review, it was **RESOLVED**:
- (i) For the Executive to set a KPI covering gender pay gap and the KPI to be added to the current list of HR KPIs; and
 - (ii) To note the HR reports.

HADLOW GROUP HEALTH & SAFETY

81. The Committee received and **NOTED** the Hadlow Group Health & Safety Termly Report.

MONITORING OF PERFORMANCE & ASSESSMENT OF RISK FOR HADLOW COLLEGE AND WEST KENT & ASHFORD COLLEGE

83. The report '*Monitoring of College Performance*' was received. The Committee is responsible for making assessments in the two areas of finance & estates, and staff & human resources, and to report the outcomes of the assessments to the Boards of Hadlow College and West Kent & Ashford College

(i) Hadlow College:

84. Against the 14 agreed performance indicators for the area of finance & estates, five 'Amber' assessments were recorded against cash days in hand, borrowing as a % of income, income diversity, creditor days, and debtor days. All other assessments were confirmed as 'Green'.

85. As there were some risks identified which could impact on the year-end forecast, it was **AGREED** to inform the Corporation of Hadlow College of an '**Amber**' assessment (Some concern/Some risk) against finance and estates.

86. It was **AGREED** to inform the Corporation of Hadlow College of a '**Green**' assessment (No concern/No risk) against human resources

(ii) West Kent & Ashford College:

87. Against the 13 agreed performance indicators for the area of finance & estates, four 'Amber' assessments were recorded against cash generated, current assets to liabilities ratio, cash days in hand, and borrowing as a % of income. All other assessments were confirmed as 'Green'.

88. As there were some risks identified which could impact on the year-end forecast, it was **AGREED** to inform the Board of West Kent & Ashford College of an '**Amber**' assessment (Some concern/Some risk) against finance and estates.

89. It was **AGREED** to inform the Board of West Kent & Ashford College of a '**Green**' assessment (Some concern/Some risk) against human resources.

RISK REGISTER REVIEW

90. The Audit Committee, at its meeting on 4 July 2017, agreed the following:
- (i) For each Committee of the Board to review, at each meeting, those risks from the Strategic Risk Register that fall within the scope of the

Committee's terms of reference and to report the outcomes of this review to the Audit Committee;

- (ii) For each Committee of the Board to be asked as to whether any new risks had been identified during their meeting requiring to be reported to the Audit Committee.

91. Due to an oversight, the Strategic Risk Register, for those risks that fall under the scope of the Finance Committee, was not made available but it was confirmed the only change was the addition of the new risk on High Needs Funding that was agreed at the last meeting.

92. In terms of any new risks identified during this meeting, for inclusion on the risk register, it was **AGREED** that the following risks should be added to the Strategic Risk Register and for the Clerk to report this to the Audit Committee when it meets on 01 March 2018:

- Risk of being in breach of banking covenants at year-end
- Impact of FRS 17 pension accounts on year-end accounts

ANY OTHER BUSINESS

93. There was no other business.

DATE OF NEXT MEETING

94. Thursday 14 June 2018 @ 09.30

The meeting closed at 12.00

Signed: _____ Date: _____
(Chair)

CURRENT SUMMARY ACTION LIST

MIN REF	DETAILS OF RESOLUTION/ACTION POINT	REVIEW DATE
31	To include the Vineyard Project in the next 'Capital & Commercial Portfolio' report with a business plan to be presented for the Committee's review before seeking Board approval for the project.	14/6/18
53	Meeting Papers: It was AGREED that any 'history' in the reports that is no longer applicable should be removed. In terms of further improvements, it was AGREED more use could be made of graphs and KPIs supported with an analysis of trends from the previous year to in-year performance and, if the information is available, with a link to the following year's budget. When graphs are used, the Committee requested that the	14/6/18

	graphs be annotated with textual commentary, either on the coversheet or in the text of the report. It was also important to support any textual statement with numbers/facts.	
57	At the last meeting, it was discussed, but not minuted, as to the need to try to ensure that the Management Accounts are in line with the year-end audited accounts with an explanation to be provided for any variances.	November 2018 meeting
65	Meeting with Actuaries. It was AGREED to keep the Committee informed of the outcomes of the meeting. It was further AGREED to inform the Audit Committee of the strategic impact of FRS 17 costs and to request for the Audit Committee to add this risk to the Strategic Risk Register.	14/6/18
71	Ashford/Cummings House: The Committee AGREED that this must pay for itself through either leasing or purchase. It must be self-financing. The Committee AGREED and FULLY ENDORSED the proposed 'direction of travel' outlined, on the understanding that the final proposal must be self-financed and be subject to further review from the Committee before Board approval is sought.	14/6/18
80(i)	For the Executive to set a KPI covering gender pay gap and the KPI to be added to the current list of HR KPIs	14/6/18
92	It was AGREED that the following risks should be added to the Strategic Risk Register and for the Clerk to report this to the Audit Committee when it meets on 01 March 2018: <ul style="list-style-type: none"> • Risk of being in breach of banking covenants at year-end • Impact of FRS 17 pension accounts on year-end accounts 	14/6/18