

**Minutes of the Meeting of the Finance and General Purposes Committee
held remotely on Monday 23 November 2020**

Present: - Mr Mervyn Jones (Chair)
Ms Abigail Appleton (Principal)
Mr Clive Hodgeman
Mr Scott Rolfe

In attendance: - Mrs Linda Watkins (Clerk to the Governors)
Mr Tim Williams (Finance Director)

The meeting was held remotely as a result of the COVID-19 pandemic. The meeting was quorate as there were four Members present.

1. Apologies for Absence

Apologies were received from Peta Darnley and Professor Robin Baker.

2. Declaration of Interests

There were no declarations of interests.

3. Minutes of the Last Meeting

Governors agreed that the Chair should sign the minutes of the last meeting, including the confidential minutes, held on 6 July 2020 as a true record.

Matters arising from the Minutes had been addressed.

The Committee agreed: -

- To approve the minutes of the last meeting

4. Financial Statements to 31 July 2020

The Finance Director referred to the financial statement pages, namely the statement of comprehensive income (SOCl), statement of changes in reserves, balance sheet, cashflow and notes to the financial statements. No material changes would be made to financial data. The Members' Report was not included and would be presented to the Audit Committee for their consideration and to make a recommendation to the Board for approval. This year the Financial Statements must be submitted to ESFA by 31 January 2021.

In summary, the comprehensive statement of income showed a loss of £2.3M. £1.4M of this was as result a result of the actuarial loss in respect of the pension scheme. The deficit before gains and losses was £945K. The Income and Expenditure account within the statement of changes in reserves showed a negative balance of £341K which was as a result of the pension liability. ESFA are aware of this position across the sector, where pension reserves are leading to negative balances on the reserves. This has impacted total net assets which have decreased from £3M to £771K. The net cash flow from operating activities shows a decrease of £403K with overall cash balance decreasing by £533K. This year the actuarial loss, which valued the pension in July 2020, has had a significant impact on the financial statements.

Questions were invited and duly answered.

A Governor asked what the revaluation reserve related to; this was the transfer of assets from the Local Authority to the College in 1993 when the College became a corporation. These were valued at c£1.6M. The revaluation reserve is a credit entry, whereas the property value is debit value. The revaluation reserve is required when an asset is received for no cash, but it has a value which should be reported.

There was a question if the pension deficit was underwritten by Herefordshire Council and who the guarantor would be for the pension liability in the event that the College became insolvent. The liability is £4M. The Finance Director believed there was no back up regime in place. The decrease in discount rate as a result of Covid-19 had been a significant factor in creating the actuarial loss.

Discussion progressed as to whether it would be possible to predict the potential pension liability concluding that this was inconsistent and based on several external factors. The pension valuation was completed for the period to the 31 July 2020 when discount rates had decreased due to COVID-19.

A Governor asked if the College is technically insolvent noting that the College is not insolvent as it has assets and could pay its outstanding bills. Mazars are required to report if the College is a going concern for the next 12 months in the financial statements and the accounts are being prepared on a going concern basis. The Finance Director anticipated that unqualified accounts will be issued. The Finance Director was requested to prepare a summary explanation for the Board. **ACTION: FINANCE DIRECTOR**

The Station Approach nominations agreement is referred to in the Financial Statements and a Governor suggested options to withdraw from the agreement should be referred to.

The Committee agreed: -

- To note the summary data from the financial statements to 31 July 2020
- To note the reconciliation with the management accounts to 31 July 2020
- The Members' Report would be sent to the Chair before being issued to the Board for approval. **ACTION: FINANCE DIRECTOR**

5. Finance Report

- I. The ESFA Financial Return Benchmarking (MIDES) report was presented instead of the dashboard that ESFA issued based on the previous year's financial plan. In comparison with other colleges it was noticed that HCA has a strong cash balance, current ratio and no cash borrowing. The percentage of EBITDA is negative and below the sector. The College is categorised as 'requires improvement'. Loss in income due to COVID-19 was included showing that the impact on the College is in the lower percentage.
- II. Management Accounts to 30 September 2020 showed headline data compared to budget and forecast is better than budget for the first two months of the year. ESFA capital funding of £104K has been received to be spent by 31 March 2021 which is shown as a favourable variance. FE enrolments increased by 15% which may result in additional funding in-year, but as this is uncertain it has not been included in the management accounts. FE student loan income has increased. The short course programme has not

generated income during the first term. It was not possible to run it because of Covid-19. Assumptions have been included for payroll costs and restructuring. There are negative adjustment rates for pensions FRS102 reporting which will not affect the EBITDA. c£100K additional HE income is forecasted. The balance sheet will be closely monitored based on the cash flow.

- III. The cashflow is an additional ESFA reporting requirement and covers the period November 2021. Risks and opportunities mirror the budget submitted in July 2020 and subsequent monthly management accounts. The financial plan underpins this with no adjustments made to next year's financial plan; however, 2020/21 enrolments will improve income. Governors were reminded that the Board had previously set a £1M cash reserve as a trigger for concern and action; the cash reserve is forecasted to remain above £1M. The College is required to submit the cashflow to ESFA by 27 November 2020.
- IV. A confidential minute was recorded on progress of Project 2020.
- V. A confidential minute was recorded on HE and FE course reviews. The bank mandate was presented to recommend to the Board for approval.

The Committee agreed: -

- To note the MIDES benchmarking report showing financial performance
- To note the management accounts to 30 September 2020 agreeing to closely monitor finances during a volatile year created by the COVID-19 pandemic
- To note the cashflow which would be submitted to ESFA by 27 November 2020
- To recommend the Board approve the bank mandate

6. Premises and Accommodation

- I. Station Approach has been delayed following the fire on site with a revised completion date from Engie of late January 2021. Governors were concerned by the delay and impact of COVID-19. City Heart have commissioned an independent review and promptly addressed issues. Temporary student accommodation has been extended with no concerns raised by students. The liability on unfilled rooms has reduced this year with Herefordshire Council exploring options to lease unoccupied rooms. Governors suggested that the obligation for unoccupied rooms should be removed until next year. The impact of the delay means the College is unable to show Station Approach to prospective students as a finished building. The Principal will discuss the project with Herefordshire Council and identify City Heart's position. **ACTION: PRINCIPAL**
- II. The College has received a grant from ESFA of c£104K for capital projects. The College will appoint a project manager to ensure funding is spent by March 2021. Funding will predominantly be used to purchase a boiler. The boiler would be ordered as a priority which may have a lead time.
- III. The College needs to develop a comprehensive 5-year estates strategy and annual plan to meet its strategic priorities using existing information dovetailed to courses and to incorporate growth plans. Clive Hodgeman had agreed to visit campuses in December to clarify key points for the strategy which would also incorporate delivery of the blacksmith course. There was discussion about space utilisation and benchmarks with other institutions which could

be available from the ESFA area review conducted in 2017. It was noted that studio space allocation and occupancy will affect space utilisation. It would be important to complete an academic review to feed into the accommodation strategy. Investment and capital projects could reduce operating costs in the long term. There is an opportunity for Herefordshire to bid for the 'Stronger Towns' grant which the Principal had already proposed should include digital skills and investment in Herefordshire with a three-pronged bid from the College, Rural Media and NMiTE to apply for capital for digital studios, incubation spaces and a gallery in Hereford. It was noted that developing an estates strategy will be a substantive project which will require project management. ESFA require the College to commence preparing an Estates Strategy by March 2021

The Committee agreed: -

- To note the premises and accommodation reports and next steps with further reports to the Committee

7. Annual Reports

- I. Treasury Management Report 2019/20. The College is not receiving any interest on its reserves requesting the Finance Director to explore options to gain a higher return.
ACTION: FINANCE DIRECTOR

- II. Health and Safety Report 2019/20. Accident data had not increased compared to last year. Safety has been a priority since the COVID-19 pandemic creating a demanding year for the Facilities and Health and Safety Manager who worked closely with the Incident Management Group to discuss COVID-19 measures. Consultants have been appointed to review risk assessments and fire safety to ensure compliance. The Committee agreed that key points from risk assessments should be reported to the Committee in future. The report provided Governors assurance that the College meets its statutory responsibilities.

- III. Personnel Report 2019/20. Governors commended the quality of the report which gave informative information and useful sector comparisons. Salary comparison with the sector could be included in future reports.

The Committee agreed: -

- To record appreciation to the authors of the annual reports which would be issued to the Board for information

9. Any other business

The Chair commended the Principal, team, staff and students who had worked phenomenally during the COVID-19 pandemic.

10. Date and time of next meeting

The next meeting was arranged for Monday 18 January 2021 commencing at 5.00 pm. It was agreed to review if this meeting was needed as ESFA no longer require submission of the Integrated Financial Model for Colleges.

ACTION: CLERK TO THE GOVERNORS

Signed as a true record

Chair **Date**