Minutes of a Meeting of the Finance & Capital Projects Advisory Group held on Friday 23 November 2018 in the Directors' Room @ 1400

Present Mr T White
Mr S Wilcox
Ms T Aust

Also present Mr M Cooper
Mr M Michaelides
Mr J Allen

The meeting commenced at 18.00.

APOLOGIES & DECLARATION OF INTERESTS

1. There were no apologies. The Clerk confirmed the meeting was quorate. There were no declared interests against any of the agenda items.

MINUTES

2. It was **RESOLVED** that the minutes of the meeting held 20 June 2018 (Paper 1) be confirmed as a correct record and signed by the Chair.

SUMMARY ACTION LIST & MATTERS ARISING

3. The following updates were made available from the Summary Action List (Paper 2):

MIN REF	**DETAILS OF RESOLUTION/ACTION POINT**	**COMMENTARY / UPDATE FOR MEETING 23/11/18**
48	The Capital expenditure planning process is already underway, having launched at the start of June 2018 and will be completed by the end of June 2018, and finalised by 09 July 2018. The full detail will be made available to the Finance Committee once all bids have been finalised and gone through quality assurance.	Agenda item
53	Development Plan Goal 3: *Excellent Environment and Resources'*. • For KPIs, to set a minimum target and a range target • To include a KPI on bank covenants	The following update was made available. Targets for financial KPIs need to be revised in view of the outturn budget forecast. Minimum targets and stretch targets yet to be set. Management accounts and KPI dashboard to report on bank covenants with tolerance levels to pre-warn of any potential issues.

	• Following the full survey on room utilisation that will be conducted at the start of the 2018-19 academic year, to then set targets for room utilisation.	Room utilisation survey being conducted next week and targets will fall out of the survey. For the finance committee to review, it was **AGREED** to extend the range of financial KPIs in the Data Dashboard. It was **AGREED** to carry forward these actions points.

4. There were no other matters arising from the minutes.

OUTTURN 2017/18 & FINANCIAL STATEMENTS

5. The following reports were received under this agenda item:

- Final Management Accounts July 2018 (Paper 3)
- Draft Report and Financial Statements for the Year Ended 31 July 2018 (Paper 4)
- To receive Financial Statement Auditor's 'Audit Findings Report' to be reviewed by the Audit Committee 28 November 2018 (Paper 5)
- Letter of Representation (Paper 6)

6. The draft management accounts were presented at the 17th October 2018 Corporation meeting. It was confirmed these are now the final management accounts for July 2018 and include all audit and late adjustments which amount to net £46K adverse movement.

7. The following table provided an analysis of the key variances between the actual outturn and the previous full-year forecast:

Table 1a : Analysis of Movement between Draft and Final Accounts					
Description	**I&E Line Ref**	**Variance Fav/(Adv)**			**Comments**
		£000	£000	£000	
Surplus as reported in draft accounts Line A				**550**	
Income					
ESFA - Adult Apprenticeships	4	(9)			Correction per return
HEFCE Recurrent Grant	8	20			Release of provision not required
FE Tuition, Exams, Overseas & Other Fees	12	7			Late journals
Other	18	20			Corrections
Releases of Government Capital Grants	19	(32)			Corrections
			6		
Pay Expenditure					
Total Pay Expenditure	1-3		(15)		Late Journals
Non Pay Costs					
Administration & Central Services	10	(8)			Late invoices
Information Services	11	8			Correction of accrual
Central Consultancy & Professional Services	12	4			Correction of accrual
Marketing & Communications	13	6			Correction of accrual
Premises	14	(55)			Late invoices
Interest Payable on Barclays Loan Facility	19	(1)			Rounding correction
Depreciation	20	9			Corrections
Total Non-Pay Expenditure:			(37)		
Total net change in reported forecast				**(46)**	

Revised Surplus		504

8. The Committee asked, as discussed at the June meeting, if any costs to be incurred for 2018-19 could be legitimately be included against the surplus for 2017-18. It was confirmed capital costs of circa £300k were brought forward to the 2017-2018 accounts with the agreement of the auditors. The year-end surplus before these adjustments was therefore more in the region of £800k.

9. It was noted that the year-end surplus has to be viewed against the backdrop of reduced student recruitment. In-year corrective action was taken to enable a strong surplus to be generated and the Committee welcomed the decisive action taken.

10. It was **RESOLVED** to note the Final Management Accounts July 2018.

11. The final draft of the Financial Statements and Report for year-ended 31 July 2018 were received (Paper 4). It was confirmed this is the final draft of the Financial Statements and Report. The accounts on page 25 show a deficit for the year of £521k (2017 – £544k). Of the current year's reported deficit, £1,025k is due to actuarial pension adjustments. Excluding this figure, the result is a £504k operating surplus which is the figure per the Management Accounts Line A in Paper 3 above.

12. The Financial Statements & Report include:

1) Report of the members of the Corporation – pages 1-9;
2) A Statement of Corporate Governance and Internal Control – pages 10-15;
3) Governing Body's statement on the College's regularity, propriety and compliance with Funding body terms and conditions of funding – page 16
4) A Statement of the Responsibilities of the Members of the Corporation – page 17

all of which must be approved by the Corporation.

13. On pages 18-19 was the External Auditor's Report that confirmed an unqualified opinion and will be signed on confirmation by the ESFA of the final ILR and reconciliation statement (due late November) and after the Corporation meeting on 13th December.

14. Pages 20-21 contained the Reporting Accountant's Assurance Report on Regularity which was also an unqualified opinion.

15. The External Auditor's findings Report (Paper 5) will be reviewed by the Audit Committee on 28 November 2018. It was noted and welcomed that there were no recommendations arising from the audit.

16. The Committee reviewed the Letter of Representation (Paper 6) that effectively gives the Auditors comfort that all relevant disclosures have been made to them. This is a routine request by all auditors.

17. Following review of the papers presented under this agenda item, it was **RESOLVED** to recommend that the Corporation at its meeting on 13th December 2018 be asked to approve the Financial Statements and Annual Report 2016/17 and the Letter of Representation.

MANAGEMENT ACCOUNTS UP TO 31 SEPTEMBER 2018

18. The Management Accounts up to 31 September 2018 were received (Paper 7). The following key points were noted from the review of the Management Accounts:

- **Year-to-date (YTD) Performance for 2 months to September 2018**
  Operating surplus of £279k compared with budget of £309k. Key

  YTD variances against the budget are:

  Favourable
  - £92k exam fees

  Adverse
  - £142k re ESFA Adult Education Budget (AEB) funding
  - £35k Schools Link fee income
  - £27k total pay costs

- **Full-year Income & Expenditure**
  Forecast operating *deficit* of £228k compared with budgeted *surplus* of £200k. Key

  full-year forecast variances against the budget are:

  Favourable
  - £269k Catering Services non-pay costs
  - £191k HNS funding from LAs

  Adverse
  - £433k total pay costs (including £212k re Catering Services)
  - £210k Schools Link fee income
  - £113k HE fee income
  - £72k Catering Services income
  - £60k 'Home' tuition fees and other fee income

- **Cash Flow**
  Cash flow is forecast to average around £4.5m between October 2018 and September 2019 with the projected low of £3.4m falling in March 2019.

- **Financial Health/Ratios**
  - ESFA financial health grade as at 30th September is 'Good' and is projected to remain as 'Good' through to the year- end
  - Operating deficit as a percentage of income projected to be -1.1%
  - Full-year staff costs as a percentage of income projected to be 69.2%
  - Projected compliance with Barclay Bank loan covenants

19. Assurances were sought on the income forecast lines, and in particular, where there were large variances against the budget. The Committee asked if the Executive were confident on the revised income forecasts for HE and Advanced Learning Loans. In response it was reported that the forecasts are realistic and similar to what was achieved in 2017-18. There is no assumption of growth in the income forecasts.

20. Similarly, assurances were sought on the forecast income from School Links and Local Authorities which is now forecast at £675k, £210k below budget. It was reported that the revised income forecast is based on agreed schedule of invoices with Schools and Local Authorities and therefore the forecast is accurate.

21. On expenditure, total year-to-date pay costs are £27k (1.4%) over budget due to a combination of reasons:

- Following early termination of the outsourcing contract with Aramark, catering services have been brought back in-house. The cost of this provision was budgeted as a non-pay cost, so the YTD staffing cost of £32k was unbudgeted as such.
- Interim management costs associated with essential cover for vacancies, sickness and handover in areas including Health, Care and Science, Marketing, Finance, HR and Inclusion have exceeded the YTD established staffing budgets for these posts by approximately £40k.
- Incremental costs of around £20k YTD for additional support for High Needs Students in excess of budgeted growth (offset by additional income)

22. It was reported the above cost increases have largely been offset to date by the following actions:

- Delayed recruitment to vacant budgeted establishment posts until start of term
- Pay award budgeted at 1% from August but not yet confirmed or paid
- Timing of annual pay increments
- No requirement for restructuring costs in August or September

23. Given the projected operating deficit for this year, it was clear to the Committee the Executive will need to take urgent remedial action to improve the position by reducing costs and, where possible, increasing net income. To this end it was confirmed all expenditure lines will be subject to thorough review in order to make savings. However, as staffing costs are now forecast at over 69% of income, the Executive has prioritised this area of expenditure. The following areas, activities and posts have already been identified for detailed review and targeted overall cost reduction of at least £150k.

- Logistics AEB courses
- Business Development and Apprenticeships – vacant establishment posts/alteration to posts
- Small group sizes, particularly in HE – merging of groups and reduction of teaching hours
- Vacant posts across the board
- Improved established staff utilisation and reduced agency staffing across all areas

24. It will be challenging to make the changes necessary to balance the budget but the College has a good track record over the last couple of years of being able to adapt quickly to reduce costs to mitigate shortfalls in income.

25. Over the last four years, catering services have been outsourced to Aramark on a 'nil-cost' contract basis. In practice, the College had budgeted and realised a £15k deficit each year in respect of catering operations, representing a subsidy towards the cost of Aramark support for the Catering educational provision at the Skills + Logistics Centre. The same amount was initially budgeted in 2018-19 until a late change was made when it became apparent that Aramark were not prepared to continue with the contract under the existing terms. At this point, an additional £50k non-pay cost was budgeted on the assumption that the College would be required to subsidise the service provided by Aramark and so bear a share of their projected operating loss. Subsequently, the contract was terminated early by Aramark after failure to agree a rationalised service with

appropriate cost reduction. Catering staff were TUPE'd back to the College and in-house catering operations resumed from late August, with a reduced offer being provided at both sites. Consequently, it has been necessary to revise the full-year forecast and treatment of income and expenditure. This has resulted in an adverse variance against budget of £15k.

26. The Committee sought assurances on what plans were in place for catering. In response it was reported the College cannot replicate the current catering offer as it is not what the students want. There is a need for more 'grab and go' offers. A review of the catering offer is being undertaken and the outcomes of the review will inform the scope and brief to issue in tender documents. Tendering will commence in January with the aim to seek a new catering service to commence after Easter.

27. Staff costs as a percentage of income are projected to be 69.2% for the year (64.1% in 2017-18) compared with the ESFA target of less than 65%. Catering staff has added 1% to the staff ratio and the staff ratio is also affected by reduced income. This remains a key risk and will continue to be monitored.

28. Modelling based on these accounts shows that the College is compliant with the two covenants in place – for debt service cover and operational leverage – and is not projected to breach them in year. However, in terms of the risks, it was reported that a year-end deficit of £330k would put the College in breach of the covenants. It was **AGREED** to add to the bank covenant table in the Management Accounts an additional formulae to show what deficit would be needed to be in breach of the bank covenant.

29. It will be challenging to make the changes necessary to balance the budget but the College has a good track record over the last couple of years of being able to adapt quickly to reduce costs to mitigate shortfalls in income. However, the options to reduce costs are more limited. They key is to continue to look for efficiencies, to make in-year savings, review quality issues, and to remodel the curriculum offer as discussed at the last Corporation meeting. It was confirmed a curriculum contribution analysis is being worked on and this will be a key tool to review the curriculum offer. It was **AGREED** to make this available to the Committee when finalised.

30. It was **RESOLVED** to note the Management Accounts.

CAPITAL EXPENDITURE REPORT

31. This report presented an executive summary of the college capital expenditure for 2018-19 and was received for information. A capital expenditure budget of £900k was agreed by the committee for 2018-19 and the planned expenditure was confirmed as follows:

- IT £560k
- Estates £265k
- Contingency £75k

32. The report confirmed the key projects being delivered in 2018/19 and the full detail of each project was summarised in the report.

33. It was commented on that future capital expenditure will be heavily around IT and IT equipment, and, as a consequence, there is a need for a more focused approach in generating savings through purchase agreements with suppliers.

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

PAY AWARD 2018/19

35. The 2018-19 revenue budget approved by the Corporation at its last meeting on 19th July included within pay costs provision for a pay award of 1%, effective from 1st August 2018, with the recommendation that this be reviewed subsequently for affordability. The approximate cost to the College of a 1% pay award is £130k.

36. At the last meeting of the Corporation on 17th October 2018, a paper was presented providing the high-level information concerning current enrolment numbers against targets and associated income shortfalls, and probable increases in staffing costs. Taking into account these likely movements from budget, four options for a pay award were provided with the following recommendation.

> *"At this time, the College Executive team recommends to the Corporation that Option 4 is taken, i.e. to delay the pay award and allow time to assess the impact of Colleges Week and the wider 'Fair Funding for Colleges' campaign initiated by the AoC."*

37. It was decided that the pay award decision would be deferred to the finance committee meeting on 23rd November to allow more detailed work to be undertaken to produce a full-year forecast of income and expenditure as part of the September 2018 management accounts to be presented to the Finance Committee.

The Finance Committee was asked to review the latest I&E forecast and options for a pay award and to make a recommendation to the Corporation.

38. The Committee agreed two options were available:

- Option 1: To proceed with the budgeted 1% pay award effective from 1st August 2018
- Option 2: To maintain pay to employees at 2017-18 levels, i.e. a nil pay award

39. The potential impact to the revenue budget and financial health of implementing each of options 1 to 2 identified was summarised as follows.

		Re-forecast Options	
	Budget	**Option 1**	**Option 2**
	£'000	£'000	£'000
Income	**21,325**	**21,059**	**21,059**
of which Adjustment for forecast movement	0	-266	-266
Pay Expenditure	**13,244**	**13,677**	**13,547**
of which Cost of pay award	130	130	0
of which Adjustment for forecast movement	0	433	433
Non-pay Expenditure	**7,882**	**7,519**	**7,519**
of which General contingency	92	0	0
of which Adjustment for forecast movement	0	-271	-271
Operating Surplus	**200**	**-136**	**-6**
Financial Health Grade Ratios:			
Adjusted current ratio	2.7	2.5	2.5
EBITDA as a % of income - education specific	8.31%	6.73%	7.38%
Borrowing as a % of income	40.8%	41.4%	41.4%
Financial Health Grade Score:			

Adjusted current ratio	100	100	100
EBITDA as a % of income - education specific	80	60	70
Borrowing as a % of income	40	40	40
	220	200	210
Financial Health Grade	Good	Good	Good
Memo:			
Operating Surplus (as a percentage of adjusted income)	1.0%	-0.7%	0.0%
Adjusted Income (after release of deferred capital grant)	20,119	19,853	19,853

40. Not included in the paper was confirmation that a deficit budget of £330k would put the College in breach of its bank covenants. It was agreed this has to be taken into consideration by Governors when considering any pay award.

41. Based on the review of the financial forecasts, and the risks of being in breach of its bank covenants should the additional pay costs and any other unforeseen factors take the College close or over a deficit of £330k, the Committee agreed a pay award is not affordable.

The Board and Committee do want to offer a pay award to reward staff for all their hard work, but based on current financial forecasts, it would not be the right decision to make an award. The increase in staff costs arising from a 1% pay award could probably be managed in the current year, but the increase in the staffing cost base would impact on subsequent years when the budget forecasts are set to be even more challenging.

42. An alternative approach to remunerate staff could be to offer a bonus should the year-end position be better than forecast and to consider a 'benefits package / reward package' as an alternative to a traditional pay award. It was **AGREED** for the Executive to explore this further and to communicate this to staff when they are informed of the decision of no pay award for the current year.

RISK MANAGEMENT/RISK REGISTER

43. The College report '*Risk Register'* was received highlighting the areas of focus relevant to the Committee (Paper 9). The Audit Committee has requested that each Committee be asked to review if there are sufficient and robust sources of 'Independent Assurances' against each risk that falls under the terms of reference of the Committee, and if identified 'Governor Oversight' arrangements are adequate and fit for purpose. The Clerk advised that the Committee could also add to the Risk Register if any new risks were identified through discussions during the meeting.

44. It was confirmed no risks have been deleted since the last Committee meeting.

45. Four risks have been added, these being:

- Risk 45 - Catering Services
- Risk 48 - Commercial Income
- Risk 49 - Staff utilisation
- Risk 50 - Logistics

46. The controls/mitigation for risks #13 and #14 have been modified.

47. The scoring of two risks has changed since the last Committee meeting:

- The gross and net scores of risk #18 have increased due to increased likelihood as at this early stage of the year there is greater uncertainty around the ability to fulfill the Adult Education Budget allocation.

- The gross score of risk #19 has reduced to 18 as the financial impact of any shortfall in HE fee income through under-recruitment is unlikely to exceed £130k

48. Following review, the Committee was satisfied with the robustness of the range of 'Independent Assurances' identified against each risk that falls under the terms of reference of the Committee.

49. It was **RESOLVED** to note the Risk Register.

ANY OTHER BUSINESS

50. There was no other business

DATE OF NEXT MEETING

51. The next scheduled meeting is Wednesday 13 March 2019 @ 1800.

The meeting closed at 16.00

Signed: ______________________________ Date: _____________
(Chair)

SUMMARY ACTION LIST

MIN	ACTION	REVIEW DATE
3	Development Plan Goal 3: *Excellent Environment and Resources'*. • For KPIs, to set a minimum target and a range target *Update at last meeting 23/11/18:* Targets for financial KPIs need to be revised in view of the outturn budget forecast. Minimum and stretch targets yet to be set. • To include a KPI on bank covenants Management accounts to report on bank covenants with tolerance levels to pre-warn of any potential issues. *Update at last meeting 23/11/18:* • Following the full survey on room utilisation that will be conducted at the start of the	13/3/19

	2018-19 academic year, to then set targets for room utilisation. *Update at last meeting 23/11/18:* Room utilisation survey being conducted next week and targets will fall out of the survey. For the finance committee to review, it was **AGREED** to extend the range of financial KPIs in the Data Dashboard.	
28	It was **AGREED** to add to the bank covenant table in the Management Accounts an additional formulae to show what deficit would be needed to be in breach of the bank covenant.	13/3/18
29	It was confirmed a curriculum contribution analysis is being worked on and this will be a key tool to review the curriculum offer. It was **AGREED** to make this available to the Committee when finalised.	13/3/18
42	An alternative approach to remunerate staff could be to offer a bonus should the year-end position be better than forecast and to consider a ‘benefits package / reward package’ as an alternative to a traditional pay award. It was **AGREED** for the Executive to explore this further and to communicate this to staff when they are informed of the decision of no pay award for the current year	13/3/18