Minutes of a Meeting of the Finance & Capital Projects Advisory Group held on Wednesday 22 February 2017 in the Directors' Room

Present	Mr T White (Chair) Ms T Aust Mr M Michaelides Mr S Wilcox
Also present	Mr M Cooper Mr J Allen

The meeting commenced at 18.10.

APOLOGIES & DECLARATION OF INTERESTS

31. Apologies were received from Mr M Patel. The Clerk confirmed the meeting was quorate. There were no declared interests against any of the agenda items.

MINUTES

32. It was **RESOLVED** that the minutes of the meeting held 23 November 2016 (Paper 1) be confirmed as a correct record and signed by the Chair.

MATTERS ARISING

33. The only action point from the last meeting was to add to the risk register the risk around the lease for the Skills Centre having yet to be finalised. It was confirmed that this risk has been added to the risk register, and an update was given on the good progress that has been made in getting the lease finalised and signed.

MANAGEMENT ACCOUNTS UP TO 31 DECEMBER 2016

34. The '*Management Accounts up to 31 December 2016'* were received (Paper 2).

35. The reported YTD operating result for the 5 months to December 2016 is a surplus of £43k compared to a budgeted surplus of £132k, a negative variance of £89k.

36. The main variances against the agreed budget were explained as follows:

Table 1: Analysis of Key Variances between YTD Actual and Phased Budget					
Description		**I&E Line Ref**	**Variance Fav/(Adv)**		**Comments**
			£000	£000	
Income					
1	EFA 14-16 Direct Recruitment	2	(24)		ESOL commissioning by LBH lower than expected
2	SFA - Adult Education Budget (AEB)	3	(295)		Largely timing differences - planned activity to come in TU Ed, PET, E&M and subcontracted provision. £20k under-delivery YTD of DLS (now part of AEB)
3	SFA - Adult Apprenticeships	4	(49)		Apprenticeship starts (WTC and subcontracted) lagging behind profile
4	High Needs Student Funding: from LAs	7	191		c.76 additional HNS commissioned by LAs. Part-matched by incremental pay costs for support
5	HE Tuition Fees	9	(63)		c. 30 fewer enrolments than budgeted

6	Advanced Learner Loans - drawdown	11	25		Extension of Loans 'funded' courses - exceeds budget
7	FE Tuition, Exams, Overseas Fees	12	26		Reversal of declining trend in recent years
8	Full-cost Fees	13	47		Timing differences
9	College Nursery	16	43		More recruitment then budgeted. Extra space due to former Children's Centre now managed by college
10	Other Variances		14		
				(85)	
Expenditure					
11	Pay Costs	1-4		(66)	Interim management cover of vacant posts. Incremental costs of delivering ALS to extra HNS
Non Pay Costs:					
12	Partner Provider Payments	7	100		Matches reduced income delivered through this source
13	Staff Training & Development Costs	10	24		Timing difference
14	Admin & Central Services	11	(42)		Enrolment costs and HR recruitment expenditure
15	Exam Fees	17	(82)		Timing difference; possible under-budgeting
16	Other Variances	21	59		
	Total Non-Pay Expenditure:			61	
	Net Variance			**(89)**	
	Budgeted Phased Surplus			132	
Operating Surplus before Pension Finance Costs				**43**	

37. The Committee sought assurances on how the College is managing and planning for the negative variance of £295k being reported on the Skills Funding Agency Adult Education budget.

38. In response it was stated it is less the actual number of students which is important than the funding they generate based on the funding rate for individual qualifications studied. Forecasting the likely funding that will be generated against the College's 2016/17 allocation of £3,508k is quite difficult, not least because 20% of all AEB funding is contingent on achievement. However, based on YTD cash earnings; largely planned starts in Pre-Employment Training, TU Education, English & maths and subcontracted Logistics provision, plus Learning Support funding still to come, it is forecast that the funding target will be achieved.

39. The Adult Education Budget Funding & Performance Management Rules apply a 3% tolerance (£105k for the College) for under-delivery. That is, where delivery of the overall AEB is at least 97% of the funding allocation there will be no year-end adjustment to funding and providers will not be required to pay back any unspent funds. Where delivery is less than 97% providers must pay back unspent funds up to the full value of the AEB funding allocation. Claw back, if applicable, is deducted in January 2018. Conversely, no automatic payment will be made for delivery over the AEB block grant. The Committee was informed that the Executive is forecasting to deliver the AEB allocation in full.

40. The Committee asked what was the financial value risk if the planned sub-contracting arrangements fail to deliver against targets. It was confirmed the risk associated with under delivery from sub-contracting was circa £150k.

41. Total YTD pay costs excluding severance are £97k (2%) above budget due to a combination of reasons but are primarily due to:

- Cover of some vacant establishment posts through interim management costing more than budgeted. The full-year pay forecast has been increased to reflect these cover costs.

- An increase in teaching support pay costs for extra agency staff has been necessary to provide the additional support to an increased number of High Needs Students. (The increase in HNS funding through commissioning by local authorities has resulted in a corresponding increase in staffing costs.) The full-year pay forecast has therefore been increased to match the anticipated incremental income.

42. It was confirmed the adverse variances are being offset in part by:

- Vacant budgeted teaching and teaching support posts not yet filled
- Vacant posts budgeted for a full-year but filled after 1st August
- Timing of annual pay increments

43. The Committee sought assurances on the actions being taken to monitor pay variances. It was confirmed detailed work is being undertaken by Finance staff to analyse pay variances. Staffing expenditure reports are produced monthly, circulated to College management and reported to the Human Resources Executive Group (HREG). Monthly meetings are held with Directors to review and monitor expenditure to date and to inform forecasts. Based on this work, the full-year pay forecast reported previously is unchanged at £12,800k, a negative variance of £250k against the set pay budget of £12,550k. It was further confirmed to the Committee that this was the worse-case scenario.

44. The main variances between the full-year budget and forecast were summarised in detail in the commentary in the Management Accounts.

45. The full-year changes in total amount to a positive variance of £125k. The full-year forecast contains a contingency for non-pay expenditure of £40k (0.5% of total expenditure). Therefore, all other things being equal, the overall YTD operating surplus of £43k would move to a year-end surplus of c. £240k if this contingency was not subsequently required

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

INDICATIVE FUNDING ALLOCATIONS AND PLANNING PARAMETERS 2017/18

47. The College report was received (Paper 3). The draft initial revenue budget projects an operating surplus of £395k. The following key points were noted:

- There is a projected increase in EFA student number allocation to 2,033 (from 1,947 in 16/17) with an associated increase in EFA 16-19 programme funding allocation estimated at £385k.

- Apprenticeship provision high priority but funding for non-apprenticeship core adult education assumed still protected in cash terms. Impact of Levy uncertain but 10% growth on 16/17 forecast Apprenticeship levels targeted/assumed.

- Projected pay costs reflect delivery costs of course provision growth assumptions. 1% pay award assumed. Estimated contracted-out teaching cost savings through renegotiated teaching contracts assumed at £280k.

- Proposed WTC capital budget of £1m recommended for approval by Corporation.

48. Strategic options considered by the Corporation at the Strategy Meeting on 1st February included cost reduction through review and renegotiation of existing employment contracts. Feedback from Governors included the recommendation that the project scope should consider all staff contracts, not just teaching staff. However, as work in this area is only just underway, potential cost savings incorporated in pay expenditure projections are, for now, limited only to assumed changes to lecturer contracts.

49. Whilst the revenue budget will not be set or approved before June, The Executive would like to seek approval for an initial capital budget for 2017/18 so as to allow sufficient time for

tendering processes and lead times for summer works and replacement programmes. This would also help to identify spends on capital projects or additional investment discussed at the annual February Corporation strategy meeting.

50. Based on revenue generated in-year from operating activities and assuming an initial draft operating surplus outturn of £395k, a capital budget allocation of just under £1.2m would result in a cash-neutral position. Considering this and preliminary planning for next year's CapEx, an initial £1m capital budget is therefore proposed.

51. The Committee requested that each year a schedule of forecast capital expenditure is prepared, which is split between asset renewals and maintenance costs, plus any planned specific project costs. The view of the Committee was that there needs to be a specific focus from the Committee on proposed capital projects and capital expenditure to ensure sufficient investment on the strategic options, as discussed at the recent Corporation strategy meeting. To this end it was **AGREED**:

(i) To seek Corporation approval at the March meeting to approve a capital budget of £1m, for 2017-18; and

(ii) For the Finance Committee to receive a detailed breakdown of the proposed capital and planned maintenance programme for review ahead of the next Corporation Strategy meeting in May, at which this should be included as an agenda item for discussion and approval.

TUITION FEE POLICY 2017/18

52. The 'T*uition Fee Policy 2017/18'* was received (Paper 4). The policy sets out the key guidelines in respect of fees charged to students based on funding eligibility factors such as:

- Status
- Age
- Prior attainment
- Type of learning programme(s) studied
- Level of learning programme(s) studied

53. It was **RESOLVED** to recommend the Corporation approve the '*Tuition Fee Policy 2017/18'*

RISK MANAGEMENT/RISK REGISTER

54. The College report '*Risk Register'* was received highlighting the areas of focus relevant to the Committee (Paper 5). 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.

55. It was confirmed the scoring of two risks has changed since the last committee meeting:

- Risk #21 has increased to 16 as there is considerable under- performance by System Training of the subcontract for Apprenticeships provision, despite regular contract review meetings and assurances that pipeline starts will soon be realised

- Risk #38 has increased to 20 as YTD income from TU Education courses is well behind budget and planned activity for the rest of the year will not recoup this shortfall. Moreover, the TU Education Co-ordinator is leaving the College shortly and it may be difficult to recruit to this post.

56. At the request of the Group, one new risk, #51, relating to the unsigned Skills + Logistics Centre lease agreement with LBH has been added to the register. This could have significant financial and reputational impact but these are unlikely to materialise.

57. 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.

58. In reviewing the risk register, it was noted that the last funding audit on funding returns was conducted in 2015. The Committee sought assurances on how what arrangements were in place to seek a more up to date independent assurance for this key risk. It was confirmed that a mock funding audit has been arranged and the outcomes of the audit will be reported to the Audit Committee. The risk register will be updated to confirm the date of the mock funding audit.

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

ANY OTHER BUSINESS

60. It was confirmed that KPMG have yet to respond with a date to meet with the Committee to discuss their financial due diligence report on the College. It was confirmed that this action point would be followed up by the Executive.

DATE OF NEXT MEETING

61. May meeting date on capital projects to be confirmed.

62. Wednesday 28 June 2017 at 1800.

The meeting closed at 19.30

Signed: ______________________________ Date: _____________
(Chair)

SUMMARY ACTION LIST

MIN	ACTION	REVIEW DATE
33	Update on the Skills Centre Lease	28/6/17
51	(i) Seek Corporation approval at the March meeting to approve a capital budget of £1m, for 2017-18; and (ii) For the Finance Committee to meet in May to discuss as a single agenda item the proposed capital and maintenance programme for 2017-18.	28/6/17
58	Risk register to be updated to include the date of the mock funding audit	28/6/17
60	It was confirmed that KPMG have yet to respond with a date to meet with the Committee to discuss their financial due diligence report on the College. It was confirmed that this action point would be followed up by the Executive.	28/6/17