Minutes of a Meeting of the Finance & Capital Projects Advisory Group held on Wednesday 13 March 2019 @ 18.00

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

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

MINUTES

53. It was **RESOLVED** that the minutes of the meeting held 23 November 2018 (Paper 1) be confirmed as a correct record and signed by the Chair.

SUMMARY ACTION LIST & MATTERS ARISING

54. The Summary Action List was received for review (Paper 2). The following points were noted:

(i) KPIs: It was confirmed the presentation of KPIs is being subject to further changes. The focus of financial KPIs will be on performance against funding contracts and performance against budget.
(ii) Management accounts report on bank covenants with tolerance levels to pre-warn of any potential issues to be updated for next meeting.
(iii) Room utilisation. The final review report has been received and is being analysed. The information is being used to utilise room resource for curriculum provision.
(iv) Work on the curriculum contribution is continuing.
(v) Pay award to be discussed under a separate agenda item.

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

56. The Clerk confirmed that he would be doing a presentation at the next Board meeting on the Insolvency Regime that came into force for FE on 31 January 2019. A key recommendation is for the need to have agreed insolvency indicators and for these to be reported on separately in the Management Accounts.

MANAGEMENT ACCOUNTS UP TO 31 JANUARY 2019

57. The Management Accounts up to 31 January 2019 were received (Paper 3).

58. The following was noted on financial performance against budget to date:

- Operating surplus of £14k compared with budget of £86k. Key YTD variances against the budget reported were:

Favourable

- £216k re staffing expenditure – volume-related savings (fewer students); no pay award; unfilled vacancies and in-year deletion of posts not required
- £95k re LA funding of HNS – 7 students more than budget and higher average cost per student

Adverse

- £175k re ESFA AEB funding – timing differences (planned short course provision yet to come)
- £109k re Apprenticeships – new starts at around only 40% of target
- £92k re exam fees – timing differences

59. The following was noted on forecast year-end financial performance against budget:

- Forecast operating surplus of £415k (2.1%) compared with budget of £200k. Surplus includes £100k general non-pay contingency and £50k pay contingency. Key full-year forecast variances against the budget were reported as follows:

Favourable

- £480k re staffing expenditure – volume-related savings (fewer students); no pay award; unfilled vacancies and in-year deletion of posts not required
- £194k re AEB funding – 3% funded over-delivery re 17-18 (paid Dec-18) and 18-19 forecast
- £191k re LA funding of HNS – 7 students more than budget and higher average cost per student
- £102k re Estates – reduced maintenance costs, particularly at S+LC

Adverse

- £200k re Apprenticeships – new starts at around only 40% of target
- £195k re Full-cost fees – nil Courses for Business activity; Logistics and other areas below budget
- £142k re Schools Link fees – 14-16 Alternative Provision under-recruited
- £113k re HE tuition fees (down 19% v budget)

Cash Flow

- Cash flow is forecast to average around £4.8m between February 2019 and January 2020 with the projected low of £4.1m falling in July 2019.

Financial Health/Ratios

- ESFA financial health grade is projected to be 'Good' as at the year end (31st July 2019).
- Full-year staff costs as a percentage of income projected to be 64.8%
- Projected compliance with both Barclay Bank loan covenants

60. Assurances were given that unfilled staff vacancies were not having any direct impact on quality. No 'quality' posts were being left vacant.

61. Growth targets on Apprenticeships have now been assessed as being unrealistic for 2019 and there is a need for a more conservative approach about setting growth targets for apprenticeships. The Principal confirmed this was approach was being followed for setting the budget for next year.

62. The Chair made the observation that the financial forecasts are reporting a more positive year-end position then what was reported at the last meeting, when a decision was made not to recommend any pay award for 2018/19 based on affordability. It was agreed to discuss this further as a separate agenda item in the meeting.

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

INDICATIVE FUNDING ALLOCATIONS AND PLANNING PARAMETERS FOR 2019-20

(i) 2019-20 Draft Revenue Budget

64. A draft initial revenue budget with projected breakeven operating result was made available for review and comment. This draft assumes that net cost-savings of around £600k are achievable to deliver the breakeven budget. It was confirmed management will work to realise these savings ahead of the final budget approval in July.

65. The confirmed ESFA 16-19 student number allocation for 2019-20 is 1,803 – a reduction of 112 students compared with the 2018-19 allocation of 1,915. The associated decrease in 16-19 programme funding is valued at £658k.

66. Devolution of Adult Education Budget Funding means the College will receive two AEB allocations:

a) An indicative allocation of £3,063k for delivery to London residents under the budget delegated to the GLA
b) An illustrative allocation of £310k from the ESFA for AEB provision delivered to residents living outside of London

67. The total allocation of £3,373 is an increase of 138k compared with the allocation over the past four years. There may be a further growth opportunity in 2019-20 depending on in-year performance.

68. Apprenticeship provision still high priority but income has declined considerably following the College's loss of an ESFA funding contract for new Apprenticeships starts with non-levy providers. Therefore, no year-on-year income growth has been assumed.

69. The OfS recurrent grant funding is estimated to reduce by £14k (10%) in 2019-20 due to declining student numbers experienced this year.

70. Applications for next year are low so budgeted HE fee income is £140k down on last year's forecast with diminishing enrolments expected to continue.

71. No recovery of poor performance against 2018-19 income targets for full-cost courses and short-term lettings is expected next year. Consequently, next year's draft income budgets for these lines are half that budgeted in 2018-19. These and other income lines have been assumed at 2018-19 forecast levels.

72. Draft pay costs are prepared based on the following assumptions:

- A 1% pay award valued at £126k is included
- The cost of incremental drift has been is included at an estimated 45k
- £95k has been included for the increased cost of employer contributions to the Teachers' Pension Scheme following the rate increase to 23.6% (from 16.48%). It is assumed this will be payable by the College with effect from 1st April 2020

- Reduced student numbers and course provision has been reflected by an appropriate reduction in staffing costs
- Catering Services will be outsourced so no staffing costs have been included for this

73. Except where there are known changes at this stage, non-pay costs have been assumed at 2018-19 levels, adjusted for inflation and targeted efficiency savings to match reduced income.

74. It was noted the challenge for next year is on student numbers against the backdrop of a year-on-year downward trend in student numbers against an upward trend on costs. In discussion it was felt that draft budget for 2019/20 appears to be about right, but the Committee felt there has to be a longer-term view taken on budget planning. Consideration needs to be given of moving to a position to be able to make bold decisions - such as an increased pay award, or take from the cash reserves for capital expenditures.

(ii) 2019-20 Proposed Initial Capital Budget

75. Whilst the revenue budget will not be set or approved before July, it is helpful at this time to agree an initial capital budget for 2019-20 so as to allow sufficient time for tendering processes and lead times for summer works and replacement programmes.

76. Based on revenue generated in-year from operating activities and assuming an initial draft operating surplus outturn of £200k, a capital budget allocation of £900k would result in a cash-neutral position.

77. Considering this and preliminary planning for next year's CapEx, and the need for compliance with the Barclays loan covenants, an initial £900k capital budget is therefore proposed. An outline working for the affordability of capital expenditure was included in the report.

78. Again, in terms of a longer view, are there any major capital costs on the horizon that we are aware of, or are we just doing things that are affordable?

79. It was **RESOLVED** to approve the Capital Budget 2019-20.

DRAFT TUITION FEE POLICY 2019/20

80. It was confirmed only slight non-material changes were made to the policy (Paper 5).

81. It was **RESOLVED** for the Board to approve the '*Tuition Policy 2019/20'.*

RISK MANAGEMENT/RISK REGISTER

82. The College report '*Risk Register'* was received highlighting the areas of focus relevant to the Committee (Paper 6). 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.

83. The following changes were noted:

- The wording of risk #8 has been modified to include recognition of the need for more cost-effective delivery of Apprenticeships
- Risk #46 has been deleted as this has crystallised. Risk #8 will be retained to cover risks associated with Apprenticeship provision.
- The net score of risk #17 has increased as this risk has now crystallised. This year's under-recruitment against our 16-18 student number allocation will result in a funding reduction of £658k next year.
- The gross and net scores of risk #18 have reduced based on the forecast submitted in our mid-year funding claim to ESFA demonstrating that we are on track to over-deliver against our Adult Education Budget allocation (as last year).
- The gross and net scores of risk #48 have increased as income from short-term lettings and full-cost course fees has declined against budget and last year and this position is unlikely to be reversed by the end of the year.

84. A discussion took place on any possible risk implications arising from Brexit. It was confirmed the risk is on the Risk Register but is not listed as a high strategic risk with a risk score of 15 or higher. It was **AGREED** for the Executive to review and reassess this risk and to report outcomes of the review to the Committee.

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

PAY AWARD 2018/19

86. It was advised that a letter from the UCU had been received that was addressed to all governors in connection with the decision not to increase pay in December 2018.

87. 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.

88. 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. 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. 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 was not affordable. This recommendation was made available to the Board at its December meeting.

89. The Board reaffirmed the desire to offer a pay award to reward staff for all their hard work, but based on the financial forecasts made available, it was agreed that 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.

90. An alternative approach to remunerate staff was discussed by the Committee should the year-end position be positive which could include a review of the WTC 'benefits package', rather than a traditional pay award. The Executive Team to explore this during the course of the academic year.

91. Reviewing the financial information in the latest Management Accounts, the view of the Committee that a consolidated percentage pay award is not affordable for 2019/20 onwards, as

the draft budget for 2019/20 shows the need to make savings of circa £600k to return a balanced budget.

92. It was agreed that a longer term view is required when considering pay awards and this would involve linking into a ‘benefits package/reward package’.

93. It was agreed for the current year, subject to Board approval, to make available for all staff a discretionary, non-consolidated, pay award and for this award not to be linked to any performance targets. However, from 2019/20 onwards, discretionary pay awards to be linked to performance targets, and for the targets to be made known to staff before the start of the academic year. The discretionary award could also be supplemented by a consolidated pay award, but only if affordable.

94. Following the discussion it was **RESOLVED**:

- To seek Board approval at the April Board meeting to award a discretionary, non-consolidated pay award in-year;
- For the Executive to recommend to the Board the overall monies to be made available for the discretionary award:
- For the Board to task the Executive to work out the details and mechanism for distributing the discretionary award to staff; and
- For the Board to be asked to delegate to the Finance Committee approval for the details of the discretionary award, once agreed by the Executive.

95. It was **AGREED** for the Chair to write a letter of reply to the letter received from the UCU.

ANY OTHER BUSINESS

96. The Chair of the Corporation asked to have a further discussion on how best to use and utilise the data dashboard system on the reporting of performance against agreed KPIs. There has been a lot of work undertaken on this, but as of yet, there is little evidence of the tool being used by governors to monitor performance, especially at Committee level.

97. It was **AGREED** the data dashboard should be an early agenda item at all meetings and for the meeting in question to review in detail those KPIs that fall under the committee’s remit. Subsequent agenda items and reports that follow would all be linked to the data dashboard.

98. There was no other business

DATE OF NEXT MEETING

99. The next scheduled meeting is Wednesday 19 June 2019 @ 1800.

The meeting closed at 20.00

Signed: ______________________________ Date: _____________
(Chair)

SUMMARY ACTION LIST

MIN	ACTION	REVIEW DATE
54(ii)	Management accounts report on bank covenants with tolerance levels to pre-warn of any potential issues to be updated for next meeting.	19/6/19
56	The Clerk confirmed that he would be doing a presentation at the next Board meeting on the Insolvency Regime that came into force for FE on 31 January 2019. A key recommendation is for the need to have agreed insolvency indicators and for these to be reported on separately in the Management Accounts	19/6/19
84	A discussion took place on any possible risk implications arising from Brexit. It was confirmed the risk is on the Risk Register but is not listed as a high strategic risk with a risk score of 15 or higher. It was **AGREED** for the Executive to review and reassess this risk and to report outcomes of the review to the Committee.	19/6/19
94	**Pay award 2018/19:** • To seek Board approval at the April Board meeting to award a discretionary, non-consolidated pay award in-year; • For the Executive to recommend to the Board the overall monies to be made available for the discretionary award: • For the Board to task the Executive to work out the details and mechanism for distributing the discretionary award to staff; and • For the Board to be asked to delegate to the Finance Committee approval for the details of the discretionary award, once agreed by the Executive.	19/6/19
95	It was **AGREED** for the Chair to write a letter of reply to the letter received from the UCU.	19/6/19
97	It was **AGREED** the data dashboard should be an early agenda item at all meetings and for the meeting in question to review in detail those KPIs that fall under the committee's remit. Subsequent agenda items and reports that follow would all be linked to the data dashboard.	19/6/19