

**Minutes of a Meeting of the Finance, Resources and Capital Projects Committee  
meeting held on Thursday 14 November 2019 in the Principal's Office @ 1300**

**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 13.00.

**APOLOGIES & DECLARATION OF INTERESTS & COMMITTEE MEMBERSHIP**

1. Apologies were received from John Bolt. The Clerk confirmed the meeting was quorate. There were no declared interests against any of the agenda items.
2. The Clerk informed the meeting that the Corporation at its December meeting will be asked to approve the governor appointment of Mr Alex Luke who, if appointed, would become a member of this Committee. This development was welcomed.

**MINUTES**

3. It was **RESOLVED** that the minutes of the meeting held 19 June 2019 (Paper 1) be confirmed as a correct record and signed by the Chair.
4. It was **RESOLVED** that the confidential minutes of the meeting held 19 June 2019 (Paper 2) be confirmed as a correct record and signed by the Chair.

**SUMMARY ACTION LIST & MATTERS ARISING**

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

MIN REF	DETAILS OF RESOLUTION/ACTION POINT	COMMENTARY / UPDATE FOR MEETING 14/11/19
106	To change the title 'Performance Ratio' in the data dashboard to a more meaningful title to aid clearer clarification and understanding on what the data is telling us.	Agenda item - review of Data Dashboard
111	In terms of further clarity and better use of the data dashboard, it was <b>AGREED</b> more work is required on solvency KPIs in terms of adding more detail and commentary covering cash days in hand, cash reserves and the one bank covenant dealing with operational leverage.	Agenda item - review of Data Dashboard
113	It was <b>AGREED</b> there is a need for reporting in the data dashboard on net cash flow from operating activities.	

121	For a summary to be made available to the July Corporation meeting on the reasons for the change in the year-end operating forecast, along with an assessment of the risks.	Actioned
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6. There were no other matters arising from the minutes.

## COMMITTEE TERMS OF REFERENCE

7. Following Corporation approval of the Scheme of Delegation, the terms of reference for the Committee were received for information purposes (Paper 4). The Committee noted the change in the Committee's title and the additional responsibilities required around resources and human resources.

## DATA DASHBOARD - FINANCIAL KPIs

8. It has been agreed for the Data Dashboard to be an early agenda item at all meetings of the Finance Committee and for the meeting to review in detail those KPIs that fall under the committee's remit, these being financial health and operating surplus. Subsequent agenda items and reports that follow would then be linked to the Data Dashboard.

9. The review focused on the outturn for 2018/19. It was reported the Data Dashboard will soon be updated with current 2019/20 financial information as the first significant ILR return for adult education is soon to be submitted.

10. From the Data Dashboard, the following key points were reported in the commentary as at 07 November 2019:

- Operating surplus is £155k (0.8% of income). This is below the recommended target of 3-5% but is nonetheless positive, especially given the College's high depreciation charge. EBITDA is consequently strong.
- Financial Health assessment is 'Good'
- Borrowing as a percentage of income is high, but this is falling and is not a concern whilst the College is able to maintain strong operating cash generation
- Full-year staff costs as a percentage of income are 66.8%, which is higher than the ESFA target maximum of 65% and the budget of 66.1%. However, adjusting for the unbudgeted impact of in-house Catering Services staffing costs would give a lower figure of 66%.
- The College is compliant with both Barclays Bank loan covenants.

11. It was noted that the data and commentary in the Data Dashboard on operating surplus and EBITDA was subject to change pending clarification from the College's auditors regarding the reported increase in holiday pay accruals of £177k and the Chair confirmed this would be subject to further discussion in a later agenda item.

12. The College has debt servicing of £713k per year and is generating enough cash in-year to meet this covenant but also has to generate cash over and above £713k per year to fund its operations. Although there are no current concerns on the ability of the College to generate the required levels of cash this is an area of potential risk if income continues to decline.

13. At the last meeting an action point was agreed on making available solvency KPIs in the Data Dashboard and the Committee welcomed the added chart in the Dashboard on cash days. However the Committee **REQUESTED** further work to be undertaken to strengthen reporting on solvency and, if possible, to export the calculations used in the management accounts on

solvency into the Data Dashboard, and to avoid any unnecessary duplication between the dashboard and the management accounts commentary.

## **OUTTURN 2018/19 & FINANCIAL STATEMENTS**

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

- Final Management Accounts July 2019 (Paper 5)
- Draft Report and Financial Statements for the Year Ended 31 July 2019 (Paper 6)
- Financial Statement Auditor's 'Audit Findings Report' that is to be reviewed by the Audit Committee on 19 November 2019 (Paper 7)
- Letter of Representation (Paper 8)

### **Final Management Accounts July 2019:**

15. The final Management Accounts July 2019 presented to the Committee reported a year-end performance of an operating surplus of £155k, compared with the budgeted surplus of £200k and the £504k surplus in 2017-18.

16. However, due to an increase in the holiday pay accrual of £177k, a deficit of £26k is the likely year-end outcome, depending on the final decision taken by the auditors on how to treat the accrual adjustment. In the final management accounts, the accrual is reported as an exceptional item but the view of the Committee is that as this is a staff cost, it should be treated as such and therefore an operating deficit of £26k is expected to be the likely year-end outcome. This deficit figure is reported in the audit findings report from the external auditors that was issued in the papers for the Audit Committee that meets next week but is not reported in the audit findings report that was made available to this Committee.

17. There took place a discussion on the impact on the accounts of the holiday pay accruals of £177k and of the need to avoid such a development in future years. The Committee **REQUESTED** the Executive to undertake a review of the College's internal processes on the recording of holiday pay to ensure accurate reporting throughout the year. The Executive to revisit the holiday pay data in order to validate its accuracy.

18. There is also an issue on suddenly having to report an operating deficit to the Corporation as presented to the Committee at this meeting when all indications given to the Corporation up to this October was for a year-end operating surplus. A clear explanation to be made available to the Corporation including the lessons learnt in order to avoid a repeat situation in future financial periods.

19. The draft management accounts up to July 2019 presented at the Corporation meeting held on 16 October reported an operating surplus of £185k. The commentary to support the Management Accounts provided a table confirming the details of the variances. There were no issues of concern arising from the variances as reported.

20. The following key points were noted:

- Current ratio is 2.4
- Borrowings as a percentage of income are 41.2%
- Staff costs as a percentage of income are 66.8%
- The College's calculated provisional ESFA Financial Health Grade is *Good*, as it was in 2017-18
- Fixed assets in the Balance Sheet reflect the in-year additions of circa £0.8m and the year-end cash position is a balance of £4.3m

- Cashflow is forecast to average around £3.9m between August 2019 and July 2020 with the projected low of £2.6m falling in April 2020
- Compliance with the two Barclays Bank loan covenants in place – for debt service cover and operational leverage.

21. It was **RESOLVED** to note the 'Management Accounts July 2019' that were presented, but to make available to Committee members the final confirmed Management Accounts July 2019 once the accounting treatment on holiday pay accruals has been confirmed by the auditors.

### **Draft Report and Financial Statements for the Year Ended 31 July 2019**

22. The final draft of the Financial Statements and Report for year-ended 31 July 2019 were received for review. However it was noted the draft circulated to members did not contain the financial figures for the Statements of Comprehensive Income and Expenditure, Balance Sheet and Statement of Cash Flow.

23. Tabled at the meeting were the missing financial figures. The Committee sought the reasons as to why this information was not made available in advance of the meeting and it was explained that this was a timing issue with audit clearance meeting with the auditors taking place after the papers were issued. This led to a discussion on how best to avoid such a reoccurrence in the future and it was **AGREED** for the schedule of meetings in the autumn term to be reviewed to ensure more time is given to complete the audit before papers are issued. It is not good governance to have one set of draft financial statements issued to the Finance Committee with a different set issued to the Audit Committee a week later, as has happened in this instance. Both committees, to discharge their responsibilities, must be reviewing the same set of financial statements.

24. Following review of the papers presented under this agenda item, it was **RESOLVED** that subject to a satisfactory review undertaken by the Audit Committee, to recommend the Corporation at its meeting on 11th December 2019 be asked to approve the Financial Statements and Annual Report 2018/19 and the Letter of Representation.

### **Financial Statement Auditor's 'Audit Findings Report'**

25. It was reported the audit went well.

26. The audit report states that the auditors expect to give the judgement that the financial statements give a true and fair view of the financial outturn.

27. The final management accounts for the year ending 31 July 2019 presented to the Committee reported an operating surplus of £155k. However, the draft financial statements presented to the Committee included in staff costs a charge for the year of £177k in respect of an increase in the value of holiday pay accrual as at 31 July 2019 compared with 2018. If confirmed, the operating result for the year would therefore be a deficit of £26k instead of a £151k surplus (the difference in the £155k operating surplus as per the management accounts and £151k reconciled to the financial statements being due to rounding adjustments).

28. The College's income continues to decrease and the auditors expect the funding arrangements in the sector to continue being a challenge going forward. The ratios provided at Appendix 3 of the report reflect the impact of this trend.

29. The auditors recommend that the College continues to carefully monitor its results and make prudent assumptions when planning the future financial arrangements of the College.

30. The Committee noted the staff pay against turnover figure in appendix 3 was reported at 69.3%, but in the draft that has been issued to the Audit Committee, the figure reported is 65.7%. The Committee asked the Executive to undertake a review and to provide an explanation as a movement of 3.6% for a key ratio within a week is hard to understand. In addition, the earlier report 'Management Accounts July 2019' recorded the figure of 66.8% for staff costs against turnover.

31. The Chair of the Corporation expressed concern that for this key ratio three different figures have been reported at this meeting. This is unsatisfactory and inevitably leads to the question on what information can governors rely on and how can they be assured that the financial information presented is correct?

32. The Chair of the Corporation expressed the view that he would not have confidence in signing the Financial Statements when different financial information is being presented. The Director of Finance was **TASKED** to clarify the final position on the staff costs against turnover performance ratio and to circulate revised figures and explanations to Committee members.

### **MANAGEMENT ACCOUNTS UP TO 30 SEPTEMBER 2019**

33. A coversheet reporting on the key points from the Management Accounts for two months up to 30 September 2019 was received (Paper 7). The Committee noted that a copy of the Management Accounts did not accompany the coversheet and **REQUESTED** that they always be made available to the Committee when the Committee meets to consider the Management Accounts.

34. For the two months an operating surplus of £305K was recorded against the budget of £188k. The key variances were reported as follows:

- A positive variance of £142k on staff costs
- A negative variance of £17k on ESFA 14-16 direct recruitment
- A negative variance of £15k on FE fee income.

35. The projected year-end is for a surplus of £100k, in line with the set budget. However, although forecast is to be in line with the budget, there were some key variances reported to the Committee.

36. Favourable variances include:

- £94k other income (long-term rental and managed services provision)
- £92k pay costs

37. Adverse variances include:

- £103k ESFA 14-16 direct recruitment
- £100k FE fee income
- £53k Admin and central services (staff recruitment costs)
- £36k Catering services (subsidy payable to Taylor Shaw)

38. It was confirmed £100k of non-pay contingency has been released to accommodate the above variances leaving £100k remaining. There remains a contingency of £100k as per the budget and a further £50k will be added to the contingency from the positive variance of £92k on pay costs.

39. Cash flow is forecast to average around £5.7m between October 2019 and September 2020 with the projected low of £4.3m falling in June/July 2020.

40. ESFA financial health grade as at 30 September is 'Good' and is projected to remain as 'Good' through to the year-end. The operating surplus as a percentage of income projected to be

0.5%. Full-year staff costs as a percentage of income are projected to be 65.3%. Compliance with Barclay Bank loan covenants is projected.

41. It was **RESOLVED** to note the summary coversheet provided by the Executive on the Management Accounts.

## **CAPITAL EXPENDITURE REPORT**

42. The 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 £461k
- Estates £359k
- Contingency £80k

43. The report confirmed the key projects being delivered in 2019/20 and the full detail of each project was summarised in the report.

44. It was **AGREED** that in future reports to report on investment on curriculum innovation and development to show investment in new opportunities to enhance the curriculum offer.

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

## **PAY AWARD 2019/20**

46. A confidential report on the pay award for 2019/20 was received (Paper 11). The 2018-19 revenue budget approved by the Corporation at its last meeting on 19 July included within pay costs provision for a pay award of 1%, effective from 01 August 2019, with the recommendation that this be reviewed subsequently for affordability by the Finance Committee. The approximate cost to the College of a 1% pay award was £125k.

47. Following review of the report and the financial information contained within the report, and as a 1% pay increase has already been agreed and set aside in the budget. The Committee **RESOLVED:**

- (i) To award a 1% pay award for all staff with effect from 01 August 2019;
- (ii) For the Executive to decide on the timing of the announcement of the award to all staff but ideally before the Christmas break and ideally to include the adjustment within the payroll for December; and
- (iii) To set aside a further £50k to give the option of a payment of a discretionary award in year, subject to affordability and/or achievement of a college-wide target, such as a 'Good' Ofsted inspection judgement.

## **HUMAN RESOURCE ANNUAL REPORT**

48. The '*Annual Human Resource Report 2018/19*' was received (Paper 12). It was noted that the terms of reference for this Committee has the duty to consider and review annually a Human Resources Report. The following key points were noted from the report:

### **Staff Profile**

- In 2018/19 the overall number of staff increased to 342 from 334. The trend of employing more females than males continues: female 69% to male 31%. This mirrors FE nationally across all roles.
- The age profile does not currently present any resourcing issues but 20% of the current workforce has become eligible for retirement consideration. This may present resourcing problems for the future workforce.
- The BME ethnicity profile of staff increased from 50% in 2017/18 to 52% in 2018/19 for the third consecutive year, and the student BME profile also increased for the third year from 59% in 2017/18 to 60.2% in 2018/19. The overall College split was 47% white and 52% BME (1% did not provide this information).
- The number of employees who declared a disability in 2018/19 continued to increase from the previous years.

### **Recruitment Strategies**

- In 2018/19 a total of 112 posts were advertised, ten of which were advertised at least twice, across support, teaching and management roles.
- The College again struggled to fill two Curriculum and Quality Team Manager roles in Arts & Media and Health, Care, Access & Science. Along with three teaching vacancies within the Construction and Engineering areas. The College also struggled to fill four Employability Advisor roles and three Work Placement Officer roles.
- The number of applications received by the College was 509 which is a decrease on the number received in the two previous years which were 584 and 611 respectively.
- Market Forces payment incentives were attached to two hard to fill posts to attract a wider audience. This was unsuccessful and the posts were covered by temporary staff.

### **Staff Utilisation**

- Staff utilisation for the year 2018/19 was 93%. This was an increase on 91% from the previous year. The Committee asked how this compared against other colleges and if there were any benchmark data that could be brought to the Committee. It was confirmed there was no published national benchmark data but staff utilisation was a key measurement used by the FE Commissioner when reviewing the financial performance of colleges.

### **Casework (including absence)**

- There was a decrease in casework addressed by the HR Department from 82 to 52 in 2018/19. The number and types of case are summarised below:
  - Grievance cases decreased from 51 to 26 with the main concerns identified as the interpersonal relationships with colleagues and/or the manager
  - Disciplinary cases decreased from 17 to 13
  - Capability cases decreased from 14 to 13
  - Probation cases – there were 71 probationers which is the same figure as in the previous year. 21 probationers left prior to completion of the probation period, the majority of which left after performance issues were highlighted. 3 probationers were dismissed
  - Sickness absence continued to increase for the third consecutive year to 3.61%. 20 individuals were on long term sick leave, primarily as a result of staff undergoing and recovering from operations
  - Work Related Stress remained static with a total of 58.5 days lost compared to 58 in 2017/18.

49. During discussions it was **AGREED** that it would be useful to set targets against some of the key HR statistics reported in the annual report, with year-on-year comparisons and, where

available, against national benchmark data. As it was previously agreed to have one meeting during the year for the Committee to focus primarily on HR matters, it was **AGREED** to make available for review HR targets/KPIs for inclusion in the Annual Report at the spring meeting. The spring meeting would also be used to consider and review HR policies as appropriate.

50. The Committee welcomed the section in the report entitled 'Professional Development Self Assessment Report 2018/19'. Two goals from the College's Development Plan relate specifically the workforce and their professional development. The report outlined in detail professional development opportunities that were made available to staff as part of their performance management. The key part of the self assessment was the measurement of 'Impact' of the professional development. For example, professional development opportunities made available for English and maths improved the embedding of English in vocational lessons (as evidenced by Learning walks) and improved outcomes for Entry English 16-18. For maths, the proportion of high grades for 16-18 in GCSE Maths increased by a further 4%.

51. It was **RESOLVED** to note the HR Report.

### **APPROVAL OF PLANNED SUBCONTRACTED PROVISION**

52. The agenda for this meeting stated that the use of 'Chairs Action' for approving subcontracting arrangements for 2019/20 was to be reported for formal minuting, but it was confirmed 'Chairs Action' was not sought.

53. Tabled at the meeting was a paper proposing for approval the planned subcontracting arrangements for 2019/20 and approving the College's 'Subcontracting Policy 2019/20'. Although the tabling of papers is not an accepted practice the Committee agreed to receive the paper.

54. In accordance with ESFA Funding Rules, the College is required to retain written evidence that the Members of the Corporation:

- Have agreed the College's Policy for subcontracting, which must be reviewed annually;
- Are satisfied that all subcontracting meets the College's strategic aims and enhances the quality of the learner offer, and
- Have determined that all subcontractors are of high quality and low risk.

55. Following discussion, Members agreed that the interpretation of 'Members of the Corporation' can constitute a committee of the Corporation, and as the terms of reference for this committee enable the Committee to approve, on behalf of the Corporation, the Subcontracting Policy and subcontracting arrangements. The written evidence required by the ESFA will be through minutes of the Committee.

56. Proposed subcontracting arrangements for 2019/20 continue to be with Gurdwara (13 years with the College) and Strive (5 years with the College). No other subcontractors are proposed. The report outlined their respective financial performance and achievement rates. The Committee agreed with the assessment of the Executive that both subcontractors are of a high quality and present a low risk to the College in terms of achievement rates and performance against contract. It was therefore **RESOLVED** to approve the proposed subcontracting arrangements for 2019-20.

57. The ESFA has recently announced rule changes for subcontracting that all providers must adhere to and it was confirmed the proposed Subcontracting Policy 2019/20 incorporates the rule changes made by the ESFA.



58. Following review, it was **RESOLVED**, subject to the completion of two sections of the policy, to approve the '*Subcontracting Policy 2019/20*', and, as required, to authorise the Chair and Accounting Officer (Principal) to sign the policy on behalf of the Corporation.

## **RISK MANAGEMENT/RISK REGISTER**

59. The College report '*Risk Register*' was received highlighting the areas of focus relevant to the Committee (Paper 14). 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.

60. 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.

61. No new risks were identified for inclusion in the Risk Register. It was noted the scoring of 9 risks have been changed since the last review and the changes were outlined in the Risk Register. Risk 44 has been revised to reflect the return to an outsourced catering provider in Taylor Shaw.

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

## **ANY OTHER BUSINESS**

63. There was no other business

## **DATE OF NEXT MEETING**

64. The next scheduled meeting is Wednesday 11 March 2020 @ 1800.

The meeting closed at 15.00.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
(Chair)

## **SUMMARY ACTION LIST**

<b>MIN</b>	<b>ACTION</b>	<b>REVIEW DATE</b>
13	Further work to be undertaken to strengthen reporting on solvency and, if possible, to export the calculations used in the management accounts on solvency into the Data Dashboard.	11/3/2020
17	Holiday Pay Accruals:  Executive to undertake a review of the College's internal processes on the recording of holiday pay to ensure accurate reporting throughout the year.  The Executive to revisit the holiday pay data in	11/3/2020

	order to validate its accuracy.	
18	Reporting to the Corporation on the expected year-end deficit:  A clear explanation to be made available to the Corporation including the lessons learnt in order to avoid a repeat situation.	11/3/2020
21	To make available to Committee members the final confirmed Management Accounts July 2019 once the accounting treatment on holiday pay accruals has been confirmed by the auditors.	11/3/2020
23	The schedule of meetings in the autumn term to be reviewed to ensure more time is given to complete the audit of the financial statements before papers are issued	11/3/2020
32	To clarify the final position on the staff costs against turnover performance ratio and to circulate revised figures and explanations to Committee members.	11/3/2020
33	A copy of the Management Accounts to be made available to the Committee when the Committee meets to consider the Management Accounts.	11/3/2020
44	In future capital expenditure reports to report on investment on curriculum innovation and development to show investment in new opportunities to enhance the curriculum offer.	11/3/2020
49	To set targets for review at the spring meeting against some of the key HR statistics reported in the annual HR report, with year-on-year comparisons and, where available, against national benchmark data.  The spring meeting to also be used to consider and review HR policies as appropriate.	11/3/2020