

**Minutes of a Meeting of the Finance & Capital Projects Advisory Group held on
Wednesday 19 June 2019**

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 17.00.

APOLOGIES & DECLARATION OF INTERESTS

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

MINUTES

101. It was **RESOLVED** that the minutes of the meeting held 13 March 2019 (Paper 1) be confirmed as a correct record and signed by the Chair.

SUMMARY ACTION LIST & MATTERS ARISING

102. The Summary Action List was received for review (Paper 2). The following updates were made available against each action points from the last meeting:

MIN REF	DETAILS OF RESOLUTION/ACTION POINT	COMMENTARY / UPDATE FOR MEETING 19 JUNE 2019
54(ii)	Management accounts report on bank covenants with tolerance levels to pre-warn of any potential issues to be updated for next meeting.	Agenda item
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	Presentation made available at the April Corporation meeting Agenda item
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	Agenda item

	was AGREED for the Executive to review and reassess this risk and to report outcomes of the review to the Committee.	
94	<p>Pay award 2018/19:</p> <ul style="list-style-type: none"> • 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. 	<p>The Corporation at its meeting on 3 April 2019 resolved the following:</p> <ul style="list-style-type: none"> (i) For an overall budget of £150,000 to be made available for payment of an initial discretionary award; (ii) The initial discretionary award to be paid as a fixed lump sum of £600 per head to each full-time member of staff; (iii) Fractional and/or part-time staff will receive payment pro rata; (iv) The discretionary award to be non-consolidated and non-pensionable; (v) Payment to be established staff only and agency staff and temporary workers not to be entitled to the discretionary award; (vi) The lump sum to be paid to staff in-year, as soon as is practicable; (vii) Any performance related pay suggestions for future years, to be brought to the Corporation first for discussion.
95	It was AGREED for the Chair to write a letter of reply to the letter received from the UCU.	Letter issued.
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.	Agenda item

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

DATA DASHBOARD

104. 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.

105. The following points were noted from the review of the financial KPIs in the data dashboard:

Financial Health KPIs:

- Financial health assessment using the funding agency benchmarks remains a solid 'Good'.
- Cash reserves are healthy.
- Borrowing commitments are being met but as income has fallen the forecast % of debt against turnover at 31 July 2019 has not reduced significantly from that at July 2018. The forecast of 41.6% results in a net score of 40/100 using the funding agency's formula. This is an area of potential risk that requires close scrutiny and monitoring from the Committee.
- Staff costs are at 66.6% against the budget target figure of 66.1% due to catering having had to be brought back into in-house staffing arrangements. If this had not occurred the staff cost figures would have been 65.8%.
- Bank covenants are being met.

106. During the review it was **AGREED** to change the title 'Performance Ratio' to a more meaningful title to aid clearer clarification and understanding on what the data is telling us.

Operating Surplus KPIs:

107. The operating surplus section of the data dashboard enabled the Committee to drill down into actual financial performance against funding contracts. The following performance against contract for 16-19 provision and the Adult Education Budget was noted:

16-19 Student Numbers:

108. As at the last ILR return of 6 June, the College had enrolled 1,816 students against the allocation of 1,915. This figure is not expected to change, giving a full-year shortfall against the student number allocation of 99 students (5.2%).

109. This year's under-recruitment has resulted in a reduced allocation of 1,803 students for 2019-20. This will have a corresponding reduction in funding of £658k.

Adult Education Budget:

110. 2018-19 AEB funding is currently projected to exceed the funding contract of £3,235k by £194k. The forecast of £3,429k includes £97k funded over-delivery against last year's allocation, which was received in December 2018, and forecast over-delivery of £97k for the current year.

111. In terms of further clarity and better use of the data dashboard, it was **AGREED** 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.

112. To report on the other bank covenant in the data dashboard requires further thought on how best this can be done. The College has to show sufficient cash generation to pay off the debt of £700k each year, but the bank covenant allows cash to be brought forward from previous years. So, in theory, if cash generation was below £700k and reserves were used to meet the

£700k, then the bank covenant would be fully met. Such a scenario would mask the fact that insufficient cash was being generated, and if this continued, the reserves would be at risk.

113. It was **AGREED** there is a need for reporting in the data dashboard on net cash flow from operating activities.

114. In summary, the Committee agreed that the College is in a good financial position but there is a risk of vulnerability in the next few years with further reductions in income and the need to generate additional income/reduce expenditures. The College will need to have a strategy to deal with this scenario.

115. The Chair asked the question is the data dashboard pulling out the key issues that we need to address? The consensus view was that it was, and would even be more effective, once the points raised at this meeting had been implemented.

MANAGEMENT ACCOUNTS UP TO 30 APRIL 2019

116. The Management Accounts up to 30 April 2019 were received (Paper 3).

117. At the last meeting it was reported through the January Management Accounts of a year-end forecast of an operating surplus of £415k, against the set budget of an operating surplus of £200k. However, the April Management Accounts were now forecasting a year-end operating surplus of £100k.

118. The Chair stated that such a change in forecast of £315k in a matter of just a few months needs to be fully explained, recorded in the minutes, and brought to the attention of the Corporation at the July meeting.

119. The Executive Summary in the Management Accounts provided the following reasons for the variance of a forecast year-end surplus of £100k against the budget of £200k:

Favourable

- £293k re staffing expenditure – volume-related savings (fewer students); 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
- £169k re LA funding of HNS – 7 students more than budget and higher average cost per student

Adverse

- £220k re Full-cost fees – ‘Courses for Business’ provision ceased (£nil); Logistics and other curriculum areas well below budget
- £200k re Apprenticeships – new starts at around only 40% of target
- £179k re partner provider payments – increased subcontracting of AEB
- £144k re Schools Link fees – 14-16 Alternative Provision under-recruitment and recharge of additional support costs at lower levels than last year
- £128k re HE tuition fees – enrolments down 20% v budget

120. The Committee noted and welcomed the effective in-year actions taken by the Executive to reduce staffing expenditure.

121. The Chair **REQUESTED** 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. The summary to also include the key messages arising from the Committee’s review of the data dashboard.

122. The Clerk informed the Committee that this approach was in line with a recommendation that will be made arising from the recent Governance Review. Committees at the end of each meeting will be asked to identify the points/issues/risks that need to be brought to the attention of the Corporation. These to be made available in a single A4 summary report for the Corporation. Minutes from the meeting would also be made available but the key document would be the summary document.

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

COLLEGE BUDGET

124. The Committee received, for review and recommendation to the Corporation, the following:

- College Budget 2019-20
- Commentary to Two-year Financial Plan for 2020 and 2021; and
- Two-year Financial Plan (ESFA template)
- Two-year Financial Plan (for internal use)

125. The Committee was informed that in line with advice received during the recent FE Commissioner's diagnostic assessment visit, a realistic, prudent approach has been taken on forecast income. The budget assumes no growth in college provision, albeit a small increase of £22k on HE income fees which is a realistic assessment on current HE numbers. There is also a growth forecast of £109k in catering income but this is matched by increased non-pay costs, so no net growth.

126. The economic climate in which the budget and plan have been prepared continues to be difficult with funding rates for students of all ages unchanged which is a cut in real terms. There is no indication yet that this will improve across the forecast period. Conversely, inflation rates are at 2% and there are increasing pressures on pay costs.

127. The 16-19 programme funding will be cut by over £650k in 2019-20 due to this year's under-recruitment. Income from Apprenticeships, HE fees, full-cost course fees and Schools Link has also declined in-year and is budgeted at these lower levels in 2019-20. AEB earnings are also likely to be down on the current year.

128. It was reported income reductions have been mitigated through curriculum planning and review of the staffing cost base and non-pay costs across the College to make significant savings for next year's budget.

129. A pay award of 1% at additional cost of approximately £100k has been incorporated in the 2019-20 budget and plan for 2020-21 – this is subject to Corporation approval. Increased TPS contributions of over £250k p.a. (matched by confirmed grant funding next year) and incremental drift valued at £45k have also been included throughout the forecast.

130. A revenue budget and plan are presented with a projected surplus of £100k in 2019-20 and £50k in 2020-21.

131. The risks underpinning the budget were confirmed as follows:

- Failure to recruit planned student numbers leading to a revenue budget deficit
- Inability of the college to draw down the full Adult Education Budget allocation and do this cost effectively.

- Inability of in-house teams to deliver planned commercial income and apprenticeship income targets
- Threat of increased competition from HE institutions and potential impact on HE fee income to be collected from students and from HE Franchise partners
- Low take-up and impact of Advanced Learner Loans on fee income from adults
- Failure of subcontractors to deliver planned funding targets.
- Underestimated staffing costs or inability to control staffing expenditure, particularly in areas where changes in operation are envisaged

132. The calculated Financial Health Grade as per the ESFA template is 'Good' in 2018-19 and throughout the forecast period to 31 July 2021.

133. The Committee endorsed the prudent approach taken by the Executive in putting forward a budget based on no growth forecasts, but as seen by the small forecast operating surplus of £50k for 2020-21, this approach is not without its risks.

134. To achieve an operating surplus of 3%-5% on turnover requires the College to generate an additional net income of £0.5m, which is neither realistic or achievable. Government funding changes for the FE sector are required if such a target is to be met (the figure of 3%-5% is a figure advised by the FE Commissioner). The Committee agreed that it was not realistic to adopt the FE Commissioners recommendation as a target. Instead, the target would continue to be the targets set by the funding agency, as it is these targets against which the college's financial health assessment is determined.

135. Following review, it was **RESOLVED**:

- (i) To recommend to the Corporation to approve an operating revenue budget for 2019-20 with gross income of £20,617k and gross expenditure of £20,517k, giving a 'Line A' operating surplus of £100k;
- (ii) To recommend to the Corporation to approve the capital expenditure programme for 2019-20 of £900k in total;
- (iii) To recommend to the Corporation to approve the Two Year Plan; and
- (iv) To give delegated authority to the Chair and Vice Chair to both approve any technical revisions if required by 31st July in view of any material late changes arising, including late funding notification changes from the funding bodies.

RISK MANAGEMENT/RISK REGISTER

136. 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.

137. It was confirmed no risks have been added since the last Committee meeting but the scoring of two risks have changed since the last Committee meeting, these being:

- Risk 43 relating to Brexit has been modified and the gross and net scores have been increased.
- The net score of risk 47 relating to commercial income has increased as income from short-term lettings and full- cost course fees is significantly down against budget and last year and this position will not be rectified by the end of the year.

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

ANY OTHER BUSINESS

139. The Principal requested the Committee to consider a confidential agenda item relating to staff pay. It was agreed to record the minutes separately as confidential minutes.

140. There was no other business

DATE OF NEXT MEETING

141. To be confirmed.

The meeting closed at 18.30

Signed: _____ Date: _____
(Chair)

SUMMARY ACTION LIST

MIN	ACTION	REVIEW DATE
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.	Autumn Term
111	In terms of further clarity and better use of the data dashboard, it was AGREED 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.	Autumn Term
113	It was AGREED 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. The summary to also include the key messages arising from the Committee's review of the data dashboard.	Autumn Term