

Minutes of the Finance and General Purposes Committee meeting held on Thursday 23rd January 2020

GOVERNORS Nigel Ruff (meeting Chair)
PRESENT: Janet Pryke
Jason Austin, CEO

ALSO IN ATTENDANCE: Maxine Bagshaw, Interim Clerk to the Corporation (joining by conference call)
Tony D’Ath, Executive Director of Corporate Service
Kate Noble, Executive Director of Finance

		ACTION by whom	DATE by when
1	<p><u>APPOINTMENT OF THE MEETING CHAIR</u></p> <p>The Committee acknowledged that this was the first meeting of this newly established committee and that the intention was to recruit additional Governors to strengthen and broaden the skills base. It was agreed that, for this meeting Nigel Ruff would be appointed as the chair and that this would be reviewed at subsequent meetings once additional members were secured.</p> <p>AGREED: to appoint Nigel Ruff as the meeting Chair.</p>		
2	<p><u>WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE</u></p> <p>Round table introductions were made. There were no apologies for absence with all current Committee members present.</p>		
3	<p><u>DECLARATION OF INTERESTS</u></p> <p>The Chair reminded everyone present to declare any interest that they may have on agenda items to be discussed. No specific declarations were made or recorded.</p>		
4	<p><u>COMMITTEE TERMS OF REFERENCE</u></p> <p>The Interim Clerk advised that Terms of Reference had fundamentally been approved by the Board at their meeting in December, however they had requested that each Committee review in more detail with recommendations to then to go back to the Board, if the view of the Committee is that changes should be made.</p>		

Signed : _____Chair

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The committee debated whether 'Finance and General Purposes' was the most appropriate name for the Committee, They felt that the reference to 'general purposes' was somewhat old fashioned and that instead, the Committee should simply be called the Finance Committee as the intention, between now and April 2020, will certainly be on the finances, with the committee needing to know regularly where the college is against forecast and plans. One member of the Committee suggested that any other distractions should be avoided in the short term. The Committee considered the Terms of Reference which set out the remit and, in terms of section 4, acknowledged that the duties as defined go beyond mere finances, with estates matters requiring monitoring and scrutiny too. The Interim Clerk confirmed that she would extract section 4 from the Terms of Reference and ensure that a work plan is created which covers all of the duties as agreed by the Board.

Interim Clerk

Feb 2020

The Committee, when considering the narrative included within the Terms of Reference felt that there were incorrect references to 'teaching' and 'learning standards'. It was acknowledged that there had been an error that had potentially arisen as a consequence of cutting and pasting. The interim Clerk confirmed that she would undertake a review with any references to teaching, learning, quality etc. to be deleted so that it is clear that the main functions of this Committee are to look at finances, estates and resources.

Interim Clerk

Feb 2020

The Committee discussed section 1.1 of the Terms of Reference in relation to membership and, on the basis of good practice recommendations, agreed to increase membership to 'up to 5 members'. They felt that this would strengthen Committee arrangements. The Committee discussed the makeup of the Board and it was confirmed that, there are two other Governors who have financial experience, however both have indicated their intention to step down as Governors this academic year. The Committee agreed that it was important to build a team, both for this Committee and the Board, and that external support may continue to be required to recruit. The CEO advised that, FE Associates continue to support the college in terms of recruiting and securing new Governors and that one of the aspects that they continue to search for is finance, with the net being spread to look for budget holders, business experience and experience in estates and IT. The meeting Chair indicated that, if at all possible, it would be very helpful if two further Committee members could be identified before the next meeting.

AGREED: in line with discussions at the meeting, to recommend that the Board approve amended Terms of Reference for the committee.

The interim Clerk confirmed that this proposal, together with the minutes of this meeting, would be scheduled for presentation to the Board on Wednesday 26th February 2020.

Interim Clerk

26.2.20

Signed : _____ Chair

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In terms of executive attendance at this Committee this was agreed as the Executive Director of Corporate Services and the Executive Director of Finance as a minimum, with other members of the Executive being invited should they have a report to present or a contribution to make to discussions.

5 **COMMITTEE SCHEDULE OF BUSINESS**

The interim Clerk confirmed that she would draw up a work plan for the Committee and would, as a first step, circulate with the meeting Chair and the Executive Director of Finance outside the meeting so that a composite view could be taken. This would then be presented to the next meeting of the Committee.

Interim Clerk Feb 2020

The interim Clerk confirmed that she was able to produce and provide examples utilised at other colleges, although these would be taken as a starting point only with a bespoke plan created for RNN.

One member of the Committee questioned whether financial information feeds in to the Audit Committee. It was explained that this is not normally the case as the Audit Committee has a different remit and function.

AGREED: to note the content of the update provided.

6 **RECOVERY PLAN**

The Executive Director of Finance presented this document and explained that the FE Commissioner had required the development of a Recovery Plan that covered the period 2019-2022. She confirmed that this plan was shared with the ESFA and the FE Commissioner and that they were pleased with the initial draft.

In terms of the document, the first part is the context and the 'words' and then the finance data sits behind this.

She confirmed that representatives from the College met with ESFA, Lloyds and PWC and, on the basis of the plan presented, the college secured the loan required. Feedback from the ESFA, in terms of the update expected, is not to focus on the 'words' but that instead the college should focus on the finance data as this is the priority. An ESFA/FE Commissioner condition is that the updated Recovery Plan is submitted to them on or before the 14th February 2020. Given this constraint she indicated that time is a challenge as staff cannot present to the Board immediately before the submission deadline, given the timings of scheduled Board meetings. She indicated that, in these circumstances, the ESFA have confirmed that they are happy that Board approval be by way of email rather than a meeting. It was agreed

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that at the January Board meeting the interim Clerk would seek to minute this as an agreed position with the ESFA observer attending.

To hit the deadline imposed, it was agreed that the updated Recovery Plan would be circulated to the Finance Committee members on or before the 3rd February 2020, this is for members to review and provide feedback. The Executive Director Finance will then email the recommended update (following receipt of Finance committee comments) out to the full Board on or before the 7th February 2020, this is for review and approval by email.

The Committee considered the income and expenditure summary provided at page 6 and a number of matters were specifically noted.

1. Income

- For 16-18 numbers the college has hit allocation previously and therefore funding is set for this year.
- There is an assumption that for the following year there will be a 100 learner drop which flows in to 20/21, however this is offset slightly by an increase in funding rates.
- The year after drops again because of the assumed drop out, this is the number of students on a percentage basis
- AEB – the college was awarded £6.4 million initially, however the allocation has increased by circa £500k and the college proposal is to subcontract to support this. This makes an allocation of £6.9 million.
- The allocation drops in future years after provision in the West of England and Greater London is taken out. Other areas are assumed to remain the same, however the college will not know this until later in the year. Devolution will affect college delivery from August 2021 and therefore the colleges strategy is to try and deliver within the local area.
- The college had an allocation last year of over £7 million, however a lot of provision was out of area. Out of area delivery is no longer a strategy for the college as devolution is a risk nationally.
- Apprenticeship delivery – this is split between levy and non-levy. The college is currently reviewing anticipated achievement funding to obtain a greater degree of certainty. From April 2020 SMEs/non-levy activity will go through DAS which will mean a change. Eventually colleges will not be provided with an allocation and instead it will be the first able to access funds and use them who get them. This is a risk and an opportunity and very much depends upon a college's reputation and employer relationships. These are influenced by marketing and outcomes.
- For the period April to October 2020 the college will receive a new apprenticeship allocation. This depends upon what is already on the books, the carry in and also what is known to be in the pipeline. The Committee were reminded that the

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colleges apprenticeship allocation dropped historically as the decision was taken to put a hold on apprenticeship delivery because of quality issues.

In general discussion the Committee questioned where the college currently is when compared to the prior year profile. It was explained that there is more 16-18 funding but less 19+. A challenge from the committee was that the college needs to look carefully at targeting and marketing so that it doesn't go over or under allocations.

The Executive Director of Finance indicated that, through the DAS system there may not be an age restriction, as this is the case for the levy pot. Income is assumed at £4 million however this does come with a slight risk. An observation made by the committee was that the apprenticeship systems in place make it very difficult to budget accurately.

The Committee asked for further information regarding the apprenticeship delivery cost base. The Executive Director Finance confirmed that, in the main, staff were employed therefore this is a fixed cost. Staff usually have a case load of 40 but it can be less. The college uses Rotherham Education Services (RES) to deliver and through this can use a percentage of a person. She explained that average staff costs for apprenticeship delivery is higher than for other parts of provision.

In relation to HE it was explained that grant funding has levelled out over 3 years. The updated forecast predicts a drop off of £400250k, which will take funding levels down to £3 million. A challenge from the Committee was that this seems a significant reduction. It was explained that there are a number of reasons for this, including;

- Population dips
- University unconditional offers
- Universities offering foundation degrees
- Unsuccessful marketing

The Executive Director Finance confirmed that numbers are picking up because of a real push and concerted effort, however the college will not make up the gap. It was explained that the college charges £6,900 per learner.

In terms of Advanced Learner Loans it was explained that the college receives an allocation. Prior to Christmas the college was restricted to £980k, however this has now increased to £1.16 million. Because of the timing in year it would be a risk to rely on any more than this.

Tuition fees represent adults paying fees.

LA in schools represents income derived from high needs and school links.

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The Committee questioned who sets the tuition fees for the school activity. It was explained that this is the local authority payments for learners who have high needs and the college receives circa £400k per term, however is in discussion currently with the local authority on this. The college is servicing more school student earners than originally envisaged and therefore is seeking additional funding. In terms of school links this is set. Tuition fees generally within the college reflect current rates and an analysis of the competitor position.

The Executive Director Finance confirmed that income in relation to adult provision could go up if the college is able to recruit more students. There are a number of areas where the college could expand its income, these are;

- HE
- Adult fee paying
- Apprenticeship provision.

The Committee discussed information provided in relation to the children's centre and it was explained that the contract in relation to this is being handed back on the 31st May 2020. This means that the college will lose a management fee of circa £200k per year.

In relation to the nursery, the plan is for this to close and therefore income will drop. Commercial income is also derived from the Dinnington Sports Centre, Wharnccliffe Catering and the Beauty Salon.

The line titled 'other' represents grants and pension top up to fund the gap. There is a line headed 'capital grants', this is the release of previous grants to the P&L. The Executive Director Finance explained the previous accounting procedure/practice and the impact. She explained that this has now changed but that it goes back historically and therefore will continue to have an impact. In terms of the estate generally it was confirmed that all cladding has been checked and the college does not have any properties which are 5 stories plus with cladding.

2) Staffing

Key matters noted were;

- Reorganisation in October 2019 led to a saving of £800k per annum through consultation.
- Next savings required are Aston where costs are £33775k. The College does still need to subcontract and is in discussion with Bedford college and is seeking a fair value for transfer of the activity. She explained that going forward the management fee will be 20% which will be a positive change. The college acknowledges that it needs to subcontract more effectively. The Committee were advised that the college makes circa 50% if provision is delivered in house whereas through subcontractors this is only 20%.

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The Committee questioned what the potential capital windfall was in relation to Aston. The Executive Director Finance confirmed that there should be circa £300k within the bank accounts plus two cars. The property is subject to a 10 year lease, with the 5 year break clause coming in to effect in 2 years' time. She confirmed that the college is in dialogue with Bedford regarding lease options. The cars are owned by the company and are therefore an asset to sell. She advised that disposal of Aston would not be a windfall financially as the financials are already included within the college accounts, however staffing costs will be a saving. In terms of the disposal a challenge from the Committee was to ensure fair value.

In terms of staff cost savings generally, it was explained that the first round of the Recovery Plan worked well and the college got to the position that it wanted to be in. The second round/next step is to consider Dinnington site. The Committee were advised that staff are currently working through the puzzle pieces regarding the Dinnington site i.e. will all of the facilities need to close or some be transferred etc. It was confirmed that the staff savings associated with the Dinnington site are critical to the success of the Recovery Plan.

In general discussion the Committee questioned and challenged whether now was the right time to close/dispose of Dinnington as the area has a growth agenda. The Executive Director Finance explained that there were a number of reasons for the closure/disposal, these include;

- A lot of condition work that is required just to keep the site going.
- The FE Commissioners wider narrative is that the groups estate is too big and there is therefore a need to rationalise.
- The Board went through a significant debate and discussion ~~12 months ago in 2019~~ and it was agreed in October 2019 to close and dispose of Dinnington whilst retaining the sites in Rotherham and North Notts. There was general discussion regarding the 'Dearne patch' and a challenge raised by the Committee was in terms of the house build growth planned in Dinnington and the knock on effects for education.

The CEO confirmed that the plan at this stage does not include selling the site but instead it is to close it down. He explained that there were not enough learners to support the cost base. He explained that it costs circa £600k per annum to run the building with more than £800k associated with site staffing. It was explained that if these costs are not taken out for 20/21 then the college will not be able to set a breakeven budget. It was confirmed that, potentially the college could realise it as a capital asset which would then enable better investment in the remaining three sites. A challenge from the Committee was to be careful around the narrative regarding the site with the suggestion made that comms could include reference to 'refurbishment' rather

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than 'closure'. The Committee questioned whether it was possible to sell a portion of the site rather than the whole. It was acknowledged that this is for the college to consider in terms of the options and that there would be a need to test the market.

The Executive Director of Corporate Services confirmed that agents would be engaged to test the market between now and the planned July 2020 closure. The Committee questioned how much was required to retain a service in Dinnington. They suggested that it may be possible to look at other options in terms of an adult education centre, for example utilisation of enterprise centres. It was confirmed that the college is exploring a number of options. The Committee were advised that the site has a £3.8 million loan and a charge associated against this. Discussions with the bank lead the college to believe that they would not want the whole of the loan back if the site were sold, this is a discussion to be had at a future point in time.

3) Non-pay

The Executive Director Finance confirmed that the costs associated with closing the Dinnington Campus have been provided for and thereafter assumptions have been based upon AOC guidance regarding annual percentage increases.

4) Cash flow

The Executive Director Finance confirmed that cash flow was considered in detail as part of the IBR process and that PWC could not identify any fundamental issues. The college has an overdraft facility in place from the 31st March to 31st May 2020.-

Following discussion, it was agreed that the Executive Director Finance would circulate a note regarding bank covenants and any associated risks in relation to these.

The Executive Director Finance explained that the key risk for the college is the cash out flow position. EBITDA is okay, however there was a significant clawback last January which has hit the cash position for the rolling 12 months. The college is anticipating July 2020 to be an issue and is therefore looking carefully at non-pay cash flow. She confirmed that there was a proposal going to Board next week to increase subcontracting activity to protect the cash flow position.

The Committee questioned whether there was any further risk of clawback. The Executive Director Finance indicated that the position would remain stable so long as the college can hit 97% of allocation. The college can go up to 103%, beyond the allocation, however above this activity will not be funded.

The committee were advised that the £1 million RCF facility was drawn

Executive
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down in ~~December-November~~ 2019 and that there is a charge against this on the UCR building. It was confirmed that the RCF facility also has covenants associated and these will be incorporated within the next 'covenants report'.

The Executive Director Finance explained the financial health calculations and the 3 year projections. The college is anticipated to get to 'good' next year if it delivers the changes proposed. She confirmed that the cash flow position does not include any capital sales. Capital expenditure is set at £300k in 20/21. There is the possibility to spend more if the college earns more but this represents a £450k reduction.

The Committee questioned whether maintenance backlog was a risk. It was explained that the three sites (excluding Dinnington) are predominantly in category B. The college has not had a structured post merger maintenance plan in place and therefore has been reactive and has been 'sweating the assets'. The college has had to be very prudent in this area. It was confirmed that there is £400k non-capital included within the budget, this therefore gives a total of £700k available.

In terms of historic spend it was explained that the college has simply not had sufficient cash and has therefore had to be reactive. There are some things that the college hasn't been able to do, an example given was the lift improvement requirements at Dinnington. All agreed that there was a need to build revenue year on year to allow investment. The Executive Director Corporate Services also explained the challenges associated with the shut down time required to undertake the works, even if the funds were available. The view expressed was that for a college of this size the spend should be circa £1 million per annum but that the college has just not had this available. A challenge from the Committee was that the maintenance budget is always the line of cost that gets cut in lean times and that this is only a short-term solution.

In terms of the colleges current financial difficulties it was explained that UCR is the single most significant influencing factor. The new facilities cost the college £7 million when it was believed that a £6 million ~~mortgage long term loan~~ would be available, but this did not materialise due to the valuation of the new property and the reduced appetite of the Bank. ~~There was/is no appetite~~ to finance the FE sector following the introduction of the insolvency regime. The Executive Director Finance confirmed that it has been hard to get bank help generally.

AGREED:

- a) To note the content of the update provided, and
- b) Receive the updated Recovery Plan on or before the 3rd February 2020, to review and then see put forward recommendations to the Board on or before the 7th February to approve (by email).

Signed : _____ Chair

Date:

7 **GOING CONCERN PAPER**

The Executive Director Finance introduced this item and confirmed that it reiterates what is set out in the Recovery Plan. This is a report prepared for the auditors.

AGREED: to note the content of the update provided.

8 **PERIOD 5 MANAGEMENT ACCOUNTS AND UPDATED CASH FLOW**

The content of the Management Accounts was noted and the Committee questioned whether the college got to where it planned/expected to be by the end of December 2019. The Executive Director Finance confirmed that the position was roughly on track, certainly in terms of costs savings, income and cash. Forecasting apprenticeship income is a real challenge given the different threads i.e. current, carry in, forecasting/predictions. She explained that the college was looking to utilise a system called Drake/Forecast going forward which, once introduced will, be money well spent.

In terms of future reporting the Committee requested the provision of a 1 page summary which sets out the 'state of play'. This will identify what targets were hit, what were missed and why.

In terms of the work being done to reforecast, it was confirmed that the 20/21 budget proposed and agreed will be the revised Recovery Plan figures. The Executive Director Finance confirmed that the period ~~67~~ management accounts will include all of the revised Recovery Plan numbers. A challenge from the Committee was that, for the next few years the Recovery Plan needs to be identical to the budgets set.

The Committee were advised that curriculum planning for 20/21 is now taking place and that in March 2020 the college will have confirmed allocations. Current position is a best estimate.

The Committee discussed the format of the Management Accounts and it was explained that they are based upon an AOC template document, it was however acknowledged that they could be improved. It was agreed that in future reports a one page summary would be provided as a cover sheet for every agenda item, this will highlight key issues for Governors.

A challenge from the Committee was that, if the college starts to fall behind the plan, then there needs to be clarity in terms of what can be done and the capital value of any proposed actions.

The Committee encouraged communication between meetings and it was agreed that, if necessary, conference calls can be established to discuss any emerging issues e.g. ILR audit outcomes, subcontractor

Executive Director Finance

Each meeting

All

Each meeting

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audit outcomes. The Committee indicated that they would wish to see a 'no surprises' approach.

AGREED: to note the content of the Management Accounts presented.

9 NEW ESFA FINANCIAL MODEL

The Executive Director Finance provided a verbal update and confirmed that the reforecast needs to be done once a year. Information from the revised Recovery Plan will be used to populate the spreadsheets which need to be submitted. It was agreed that the Committee would seek delegated authority from the Board at the meeting next week so that the content of the final submission can be considered and agreed on the 19th February.

The Executive Director Finance confirmed that the front sheet, P&L and balance sheet will all match and align with the updated Recovery Plan. In terms of the provision of management accounts it was noted that the ESFA and the bank require the college to submit them by day 15, therefore this may need to be considered in terms of the timing of future committee meetings.

AGREED:

- a) To note the content of the update provided, and
- b) Request that the Board provide delegated authority to this committee to approve the content of the ESFA financial model to be submitted at the next meeting.

10 AOB

As a matter of additional business, a challenge from the Committee was to invite curriculum staff to this meeting. They felt that it would be useful for the broader college management team to see the impact of the decisions taken and the curriculum devised. They felt that this may be a beneficial opportunity for staff and agreed to delegate decisions on this, on a meeting by meeting basis, to the CEO and Executive Director Finance.

11 DATE AND TIME OF NEXT MEETING

The interim Clerk confirmed that the next scheduled meeting was Wednesday 19th February 2020 at 6pm.

Meeting closed at 3.25pm.

Signed : _____ Chair

Date: