



MINUTES OF THE FINANCE AND GENERAL PURPOSES COMMITTEE OF THE CORPORATION HELD ON FRIDAY 14 SEPTEMBER 2018 AT 09.00 IN THE SKILLS PARK BOARD ROOM (SP216)

PRESENT *	IN ATTENDANCE
Mr Peter Stamps (Chair) Professor Sam Luke Ms Frances Rutter Mr Chris Shortt Ms Margaret Martin Ms Gloria Ozolua	Ms M Vetrone - Deputy Principal, Finance & Resources Mr D Round - Clerk to the Corporation

* Attendance = 100%

01.18	APOLOGIES FOR ABSENCE
There were no apologies for absence.	
02.18	DECLARATIONS OF INTEREST
Declarations of interest were made by Professor Luke, Mr Stamps and Ms Rutter in relation to their unremunerated directorships of NBS Ltd, a wholly-owned subsidiary of NESOCOT Corporation.	
03.18	MINUTES
The minutes of the meeting held on 02 July 2018 were approved as a correct record.	
04.18	MATTERS ARISING
The matters arising report (Appendix B) from the previous minutes and other matters carried forward were received and noted. Other matters of report were: -	
<p>33.17 Proposal for External Cash Management Facility – following approval by F&GP the external cash management facility was being progressed. There were a number of documentary requirements to establish the facility which were being progressed. The facility would be used initially to lodge £1m for investment which would achieve a higher level of return within a higher risk portfolio. Subject to the success of the pilot a larger investment could be considered.</p> <p>20.1 Draft KPI Targets for 2017/18 – it was reported that the revised KPI targets would be presented to the Corporation meeting for approval.</p>	
05.18	FINANCE MONITORING
05.1 Management Accounts July 18	The Deputy Principal (Finance and Resources) explained that the management accounts could not be presented at today's meeting because of adverse end of year actuarial valuations for the LGPS

scheme for 2017-18, which had only recently been received from Surrey County Council and which again this year needed to be challenged by the College with the fund actuaries. The net effect of the end of year valuations was to add an additional charge of approximately £440k on the I&E account for 2017-18. The Deputy Principal explained that these annual valuations are notified to the College after each year end and represented the actual position of the College's LGPS fund at 31 July each year. Any actual shortfall at year end of College member contributions to the fund and investment income, against benefits paid and the service costs of the scheme, are charged to the College's I&E for the year. The actual financial performance of the fund in financial markets during the year was an important factor in the actuarial valuation. The Deputy Principal explained that the financial markets had continued to perform poorly with low interest rates, which continued to impact adversely on LGPS fund values. In accordance with current sector practice, the end of year charge was not provisioned in the College's 2017-18 budget, predominantly because it was very difficult to estimate but also because in previous years, prior to the introduction of FRS102 accounting standards, the charge had tended to be cost-neutral or even positive to the I&E account. The Deputy Principal explained that the end of year charge of approximately £440k was in addition to the net interest charges that had been provisioned in 2017-18 of £222k.

The Deputy Principal confirmed that the College was currently challenging the LGPS valuation for 2017-18 and the actuarial assumptions that underpinned it. These currently included higher annual pay award assumptions than historically have been the case in further education. Other assumptions being challenged included the discount rate; the rate of pension increase; and mortality. From discussions with the relevant officers at Surrey County Council and the College's LGPS fund actuaries, it was hopeful that a more accurate and favourable valuation could be achieved to manage the net impact on the College's I&E account for 2017-18. The Deputy Principal explained that actuarial assumptions from 2016-17 were also being revisited with the actuaries, which could require restatement of the 2016-17 financial statements to minimise the adverse impact on the 2017-18 I&E account. The Deputy Principal also confirmed that she was keeping the College's external auditors fully briefed and that no changes could be made to actuarial valuations and the

College's I&E account without their documented review and agreement.

In response to questions from governors, the Deputy Principal explained that pension accounting was complex but that there were three key aspects of the LGPS to understand in terms of finance:

- Triennial valuations of the LGPS - these include actuarial assumptions that can be challenged every three years, and result in the setting of employer contributions rates and annual deficit reduction payments for a three year period. The last triennial valuation was in 2016. The College challenged the triennial actuarial assumptions at the time and agreed annual deficit reduction payments of £281k following negotiations with Surrey County Council to reduce the College's risk assessment category. A reduced employer contribution rate of 19.1% was also agreed. These are actual cash items shown in pay costs. These will be reviewed again in the 2019 LGPS triennial valuation.
- Annual valuations of the LGPS - these include actuarial assumptions that can be challenged annually after each year end to derive any net end of year impact on the College's I&E account at 31 July. Any end of year impact is related to the overall performance of the fund over the past year. The current impact for 2017-18 is a non-cash charge to the I&E account of approximately £440k, which was being challenged with the objective of reducing down.
- Annual net interest charges - these are the actual interest charges of running the scheme over the coming year, which are budgeted annually but is a non-cash item. These are £222k for 2017-18.

The Deputy Principal stressed that the end of year charges and the annual net interest charges were non-cash items totalling around £660k which are required to be shown in the I&E account under the new accounting standard FRS102. These are accounting transactions that before the introduction of FRS102 would have been predominantly managed in the College's

balance sheet within the LGPS fund. Many colleges were now showing these non-cash items below the operating surplus/deficit line because of the significant adverse effect at the operating line, dropping these colleges into a deficit position as a result. Showing these charges below the operating line demonstrates a more meaningful assessment of actual College financial performance. The Deputy Principal said that she would include a more detailed note in the 2018-19 management accounts on these non-cash items over which the College had no control **(ACTION: MV)**.

The Deputy Principal stated that the LGPS scheme was no longer affordable, costing over £1.6m per annum to fund. She also warned that the Teacher Pension Scheme was becoming similarly un-affordable with a significant increase in employer contributions expected from the forthcoming triennial valuation of the scheme in 2019. Attention was drawn to the recent press reports about these expected increases which would impact heavily upon a sector already suffering long-term funding cuts. The Clerk undertook to circulate details of the recent report in the Times Educational Supplement to members of the Committee **(ACTION: DR)**.

The Committee commented that the College was being forced to consider alternative pension scheme options for new starters as the current ever-increasing liabilities were becoming un-affordable under the present funding regime.

The Deputy Principal confirmed that the July 2018 management accounts would be finalised once the revised actuarial valuations were received from the actuaries and agreed with the external auditors. It was expected that these would be available for the October Board meeting. These would represent the end-year position for 2017/18, subject to audit.

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It was hoped to be able to present finalised management accounts as at 31 July 2018 at the October Board meeting. These would represent the end-year position for 2017/18, subject to audit.

<p>05.2 Key Performance Indicators, July 2018</p>	<p>As it hadn't been possible to finalise the management accounts for July 2018 it was noted that the KPIs were delayed. They would be published with the management accounts.</p>
<p>05.3 Student Recruitment 2018/19</p>	<p>A provisional report on student recruitment for the year to date was presented supported by a detailed 5 year trend analysis at the request of the Chair of the Committee. The Committee was advised that at as the date of the meeting the College was some 307 students below the 16-18 student enrolment target. The College was still enrolling but it was disappointing that the College had slipped below its stretch and challenge target but also below the ESFA target. In 2013/14 the College had enrolled 1,846 16-18 students falling to 1,651 in 2015/16; last year the count was 1,682. The current total was 1,583. Provisionally this would imply a loss of £1.5m in the following academic year. In seeking to understand the decline the Committee was advised that applications had dropped by 4% in an increasingly competitive market, and that the conversion rate of applications to enrolments had also fallen by 16%. Follow-calls had been made to students who had applied but not enrolled. The initial feedback was that many students had stayed on at school and had achieved better GCSE results than expected. The College had also lost out to local colleges who had improved their specialist facilities in the arts and creative areas; some HE institutions were recruiting aggressively in the level 3 market place with a distinctive 'pre-university' branding. In addition internal progression from level 2 to level 3 programmes was down because students are not being as successful on level 2 programmes since the introduction of the formal assessments on BTEC vocational programmes.</p> <p>The best performing areas were Plastering and Early Years; there had been significant reductions in enrolments for Art and Design, Computing, Catering, Performing Arts, Media and Games Design and Business. There was continuing growth in High Needs students which had doubled since 2014/15. Higher Education had performed well and was just below target and was continuing to enrol. 19+ ESFA enrolments were continuing to show growth. In-house apprenticeships appeared to have fallen but because of the bureaucracy associated with registration of new apprentices (employer contracts etc.) the situation remained fluid.</p> <p>Governors requested that the College develops a strategy to address the worrying recruitment situation (ACTION: FR). The</p>

	<p>Principal noted that the demographic decline in 16-18 students would continue for two more years after which the trend would be upwards. She added that the College needed to undertake urgent work to identify new markets and to have a clear strategy to respond to employer needs.</p> <p>In response to questions from governors the College reported that 90% of apprenticeship delivery was subcontracted. Governors also requested information about the actions taken by the College to address concerns about the quality of some in-house apprenticeships that had been reported to the Corporation at recent meetings. It was explained the restructure of the area was progression well and a new quality specialist dedicated to apprenticeships had been appointed.</p> <p>The Chair of the Committee commented on the financial implications of the reduction in enrolment: how did the College propose to reduce the cost base? Other governors noted the need for “radical action”. College management commented that if decisions were taken to remove programmes from the offer it would be very difficult to re-establish them: it was important that decisions were informed and not ‘knee-jerk’ reactions. The fractionalisation of staff and the move towards different modes of delivery including blended and online learning was all part of the approach. It was the case that there were significant pressures on the cost based from pensions.</p> <p>The Chair requested that information be brought to the Committee about teaching and support staff numbers (FTEs) benchmarked against College averages including an analysis by College size.</p>
06.18	PROPERTY MATTERS
06.1 Capital Programme 2017/18	<p>The Committee noted the outturn position on the capital programme for the previous year: there had been an overspend of £193k on a budget of £4,460k. The overspend had resulted from the unplanned expenditure of £404k on improving the College’s IT infrastructure. Before IT costs, a saving of £193k was made on the programme for 207/18.</p>
06.2 Capital Programme 2018/19	<p>The Committee noted the capital programme for 2018/19 which comprised planned expenditure of £1,054.7k. This level of expenditure was significantly lower than for previous years</p>

	<p>because of the need to preserve cash but nonetheless sufficient to maintain the value of the asset. Savings of £45k had been achieved on the expenditure to date.</p> <p>The Principal updated members of the Committee about recent discussions with the planning authority regarding the Pavilion and adjacent land.</p>
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07.18	GROWTH COMMITTEE
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The Chair of the Growth Committee reported on the meeting that took place on Monday 10th September. He noted that last year the work of the Committee had been focused very much on merger and acquisition discussions. Detailed reports on the performance of the College’s commercial projects were presented and the Committee was obtaining a clearer picture on the overall position. The Committee had provided challenge about the viability of a number of projects and also the realism of some growth projections. Projects were being prioritised and detailed business plans would be presented to the Committee.

The Principal updated the Committee about Le Raj restaurant and other potential opportunities.

08.18	ANY OTHER BUSINESS
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There was no further business and the meeting ended at 10.45.

09.18	DATES OF FUTURE MEETINGS
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Friday 07 December 2018 9.00am; Friday 08 March 2019 9.00am ; Thursday 20 June 2019 6.00pm.

Signed Date

Mr Peter Stamps, Chair of the Finance & General Purposes Committee

Author	David Round
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