



**MINUTES OF THE FINANCE AND GENERAL PURPOSES COMMITTEE OF THE CORPORATION HELD ON TUESDAY 26 JUNE 2017 AT 17.00 IN THE SKILLS PARK BOARD COMMITTEE ROOM B (SP205)**

<b>PRESENT *</b>	<b>IN ATTENDANCE</b>
Mr Peter Stamps Professor Sam Luke <sup>1</sup> Mr Chris Shortt Ms Frances Rutter Dr Martin West <sup>2</sup> Ms Gloria Ozolua	Ms M Vetrone - Deputy Principal, Finance & Resources Mr Dario Stevens – Vice Principal, Information Systems and Planning <sup>3</sup> Mr D Round - Clerk to the Corporation

\* Attendance = 100%

<b>38.16</b>	<b>APOLOGIES FOR ABSENCE</b>
	Dr Martin West had advised the Committee that he would be joining the meeting at a later point. Mr Peter Stamps took the Chair.
<b>39.16</b>	<b>CURRICULUM PLANNING</b>
	<p>The item on curriculum planning (Appendix E) was taken at this point in the meeting. Mr Stevens advised the Committee about the curriculum planning process and how it fed into budget and financial planning. The following points were noted: -</p> <ul style="list-style-type: none"> <li>• There were no changes in funding rules except for the fundamental apprenticeship reforms.</li> <li>• Most of NESCOT's apprentices are employed by SMEs who are not levy payers. No budgetary assumptions had therefore been made about income from levy payers. Apprentices employed by non-levy payers were funded through an ESFA allocation although it was noted there was a £1000 contribution from the employer for 19+ apprentices.</li> <li>• 20% of funding was held back for successful completions. There was uncertainty about the costs of the end-point assessments as many had yet to be determined.</li> <li>• There were considerable challenges for curriculum and budgetary planning as a consequence of the new funding regime for apprentices. Many large employers were stating that the bureaucracy associated with the new system was a disincentive and would treat the levy as a write-off. In addition, previous work-based learning funding systems had created a culture in which employers paid little or no contribution towards the costs of apprenticeship training and collecting the contribution would be</li> </ul>

<sup>1</sup> By Conference Telephone.

<sup>2</sup> Dr West joined the meeting from agenda item 41.16

<sup>3</sup> For item 39.16 only

- challenging. There were now strict rules regarding the collection of the employer contribution.
- The apprenticeship training market was dominated by private training providers rather than colleges.
- How could the College successfully engage with larger employers? This had to be a priority. Removing the bureaucracy overhead for employers was a key issue in order to enter the market.
- Because of the change to the financial year for the new apprenticeship funding system, the College had received only partial funding for next year up to December 2017. In the light of all of these uncertainties the budgetary assumptions made had been cautious and prudent.
- It was clear that Government policy was shifting the balance of college funding towards apprenticeships. The College's financial planning reflected these shifts.
- Student number planning drove the budget within the context of prudent stretch targets.
- The average FE class size was about 16 which was in line with the sector. Data was available for all curriculum areas.
- The concept of a contribution rate was used in planning and this data was widely discussed and understood across the College. The outlier departments were discussed.

The Committee thanked Mr Stevens for a very useful presentation.

**40.16**

**DECLARATIONS OF INTEREST**

Declarations of interest were made by Mr Peter Stamps and Ms Frances Rutter in relation to their unremunerated directorships of NBS Ltd and NCL.

**41.16**

**MINUTES**

The minutes of the meeting held on 03 March 2017 were approved as a correct record.

**42.16**

**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: -

**27.16 Human Resources: Annual Performance Statement**

The College Workforce plan would be reported to the next meeting of the Committee at the same time as the updated Finance Strategy. The Principal updated members of the Committee about the progress of the DMA project.

**28.16 Management Accounts (January 2017)**

- The commercial strategy would be presented to the Autumn meeting of the Committee.

- The actions taken in response to the Committee's comments about the impact of the advanced summer Estates works were reflected in the cash flow forecasts in the latest management accounts and budget for 2017/18.

### 33.16 Project Business Case: Land-based Development

It was reported that the land-based development proposal had been submitted to the LEP and although it was not supported, the College had been encouraged to receive feedback with a view to re-submitting. The updated position was that matched funding was not available, although the project was under review should the situation change.

**43.16**

### **FINANCE MONITORING**

#### **43.1 Management Accounts April 2017**

The Committee received the April management accounts and it was noted that the May accounts would be presented to the Corporation meeting on 07 July. The Committee highlighted the following: -

- The forecast outturn was a surplus of £21k (budget £41k; a movement from £11k in March 2017)
- The key variances in income lines against the budget included: -
  - Additional in-year income growth of £847k for classroom teaching and apprenticeships
  - Additional take-up of Advanced Learning Loans/SFE of £1,092k (FE and HE tuition fees)
  - High needs student support from local authorities (£162k)
  - £150k contributions from ICOM, the College's Italian partners in Osteopathic Medicine.
- The key variances in expenditure against the budget included: -
  - A shortfall in FE and HE tuition fees because of student under-recruitment, which has been offset by sub-contracted delivery at unplanned cost.
  - Undershoot on full cost fees of £158k
  - Under-performance on commercial income of £127k
- A growth bid of £350k had been submitted to ESFA and has now been confirmed as approved. Neither income nor costs were included in the April accounts but will be in the May accounts leading to an improved overall position.
- There was a good margin on sub-contracting.
- The insurance line referred to the claim for the theft of farm equipment.

<p><b>43.2 Key Performance Indicators April 2017</b></p>	<ul style="list-style-type: none"> <li>• The balance sheet was strong and performance ratios were favourable although it was commented that pay expenditure was creeping up and needed to be an area of management focus.</li> <li>• It was also noted that there had been an impact on pay expenditure from the new rules regarding IR35 in the public sector.</li> </ul> <p>The Deputy Principal commented that she was confident that there would be a positive budget outcome for the year.</p> <p>The Committee noted the management accounts for April 2017.</p> <p>F&amp;GP Committee noted the April KPIs and the areas of identified risk. It was noted that some of the KPI targets were extremely stretching compared to the rest of the sector and these might be revisited next year.</p>
<p><b>44.16</b></p>	<p><b>FINANCE STRATEGY AND BUDGET</b></p>
<p><b>44.1 Draft College Budget 2017-18 and one year forecast 2018-19</b></p>	<p>The Committee considered the draft budget for 2017/18 and forecast for 2018/19. The Committee was required to review the budget and consider whether to commend it to the Corporation for approval.</p> <p>The Deputy Principal introduced the covering paper and budget noting that budget was driven by the academic strategy as reflected in the curriculum plan that had been outlined by the Vice Principal earlier in the meeting. She drew attention to the following: -</p> <ul style="list-style-type: none"> <li>• The presented budget related only to the College's UK operations other than a one-off dividend receipt from NCL (Saudi Arabia).</li> <li>• The 2017/18 budget was based on the achievement of an operating surplus of £14k, compared to £41k for the current year.</li> <li>• This represented 0.1% of total budgeted income and was below the FE Commissioner's target of 3%.</li> <li>• The operating environment was very challenging and the changes to the funding arrangements for apprenticeships and the part-year allocations issued by ESFA made budgetary planning precarious. Cautious and prudent income assumptions had been made.</li> <li>• Further challenges to the College included: -</li> </ul>

- Rising staff costs, including pressure to increase salaries and escalating on-costs
  - Flat cash funding on AEB and 16-18 provision
  - Competition for students
  - Funding reform and uncertainty
  - College credit crunch (i.e .unwillingness of banks to lend to the sector)
  - Poorly controlled staff pension system and increasing costs
- The budget was virtually break-even and there was limited contingency capacity. The Committee was advised that there were significant risks in the budget although the College had a detailed and robust approach to the management of risks.
  - There was a one-off dividend receipt less costs of £400k arising from the College's joint venture project in Saudi Arabia. This is included within total budgeted income. There are no more provisions held in the balance sheet that can be released into the income and expenditure account, or other additional income that can be relied on in future years to assist in balancing the budget.
  - There was planned growth of 11.3% in income compared to the set 2016/17 budget and 4% against the predicted outturn for the current year. This growth arose from additional HE tuition fee income from the College's partnership with ASTM.
  - Provision had been made, subject to the approval of the Committee and Corporation, for a 1% consolidated cost of living increase which would cost £131,064.
  - Growth of 4.4% (£580k) in pay expenditure is provisioned which reflects decisions to invest in teaching and teaching support areas in line with the academic strategy.
  - Non-pay expenditure is set to increase by 21.8% (£1,935k) compared to the 2016/17 budget and £152k (1.4%) higher than the forecast outturn for 2016/17. These figures include increases in the cost of new partnership arrangements, consistent with the strategy of moving sub-contracted provision in-house, increased examination fee costs and higher depreciation charges because of the growth of the asset base of the College.

<p><b>44.2 Pay Review, 2017/18</b></p>	<ul style="list-style-type: none"> <li>• The curriculum plan, which underpins the budget, has a cautious approach to student number growth, ensures agreed levels of contribution from courses and reflects the very high priority afforded by the Corporation to improving performance in English and Mathematics subjects.</li> <li>• The Committee’s attention was drawn to the Financial plan checklist which Governors area required to review.</li> </ul> <p>The Committee noted the plan to manage cash more effectively through more careful management of debtors - trade debtor days are planned to fall significantly over the lifetime of the budget. Other comments made by the Committee concerned: -</p> <ul style="list-style-type: none"> <li>• Whilst there was growth in the budget the impact on the bottom line was marginal which was an area to note</li> <li>• The budget was prudent but provided challenges and therefore opportunities</li> <li>• There needed to be a focus on engaging with the large levy-paying employers to drive the apprenticeship strategy forward.</li> <li>• It was clear that the College’s commercial activities, whilst not likely to be a ‘game changer’ in terms of the budget, the decline in government income needed to be replaced and commercial growth had to be part of the budget strategy. The Committee would be receiving more detailed information on strategy and reporting arrangements at the next meeting.</li> </ul> <p><b>RESOLVED:</b> that the draft budget for 2017/18 and the one year forecast 2018/19 be commended to the Corporation for approval.</p> <p>The Committee approved the recommendation to award a consolidated cost of living increase of 1% in 2017/18 for consideration at the Corporation meeting on 07 July.</p>
<p><b>45.16</b></p>	<p><b>PROPERTY STRATEGY</b></p>
<p><b>45.1 Capital Programme for 2017/18</b></p>	<p>The plan for capital expenditure for 2017/18 was reviewed. The Committee noted: -</p> <ul style="list-style-type: none"> <li>• The review of project priorities and the recommendations regarding those projects that were affordable. These were             <ul style="list-style-type: none"> <li>– The major refurbishment of the Refectory</li> <li>– Landscaping and the car park, which were a planning requirement</li> </ul> </li> </ul>

<p><b>45.2 Capital Programme 2016/17 update report</b></p> <p><b>45.3 Major Capital Scheme: Income &amp; Expenditure Analysis</b></p>	<ul style="list-style-type: none"> <li>– The Undercroft repurposing and refurbishment</li> <li>– Pedestrian and disabled access across the campus</li> <li>– Other small refurbishment projects</li> <li>• Those projects that had been deferred next year if affordable, which included: <ul style="list-style-type: none"> <li>– West Wing refurbishment project including the HE Common Room</li> <li>– North Wing Ground floor refurbishment project</li> <li>– Starbucks/student social space refurbishment</li> <li>– Animal Studies/land-based project</li> <li>– Science laboratories refurbishment (central wing)</li> <li>– Old Reception refurbishment project</li> </ul> </li> <li>• The total cost of the works was £4,256,879.</li> <li>• The impact on cash flow, which was acceptable.</li> </ul> <p>The Committee commented that a number of the deferred projects including the land-based and science laboratories were the subject of capital bids to the LEP. Whilst these projects had not been unequivocally rejected, the problem was identifying matched funding from the College's resources or elsewhere. This would be one of the areas of remit for the new Growth Committee, which would report to this Committee.</p> <p><b>RESOLVED:</b> that the capital programme for 2017/18 be commended to the Corporation to approval.</p> <p>The Deputy Principal updated members about the capital programme 2016/17 ending 31 July. The project end-year position was forecast as £3,045,553 compared to £3,073,333 budget, a saving of £27,747. The Committee noted the report.</p> <p>The Committee noted the College 'Major Capital Scheme', as approved by the Corporation in December 2012, was due to be closed on 31 July 2017. Full details of the project were presented which were at a total cost of £42.47m which was funded through capital grant applications and land sale receipts. Total expenditure is £43.59m which represents a total overspend of £1.257 (3%). The overspend was within the parameters agreed by the Corporation and was considered to be excellent outcome in the context of rising construction costs over the development period. The funding gap has been covered by College reserves</p>
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	<b>RESOLVED:</b> that the College's accounting policy for depreciating computer equipment be changed from three to five years.
<b>48.16</b>	<b>EXTERNAL AUDIT STRATEGY 2017/18</b>
The strategy supporting the audit of the 2016/17 financial statements by the external auditors MHA was reviewed. The strategy had been reviewed and commended for approval by the Audit Committee at its meeting held on 26 July. It was noted that the audit would include work of NCL undertaken by a partner firm of MHA in Saudi Arabia. The Committee endorsed the external audit strategy for the annual report and financial statements for approval by the Corporation.	
<b>49.16</b>	<b>TERMS OF REFERENCE AND CYCLE OF BUSINESS</b>
The updated terms of reference and cycle of business for Finance and General Purposes Committee were approved. The changes to the terms of reference reflected a small number of amendments to nomenclature.	
<b>50.16</b>	<b>ANY OTHER BUSINESS</b>
There was no further business and the meeting ended at 19.24.	
<b>51.16</b>	<b>DATE AND TIME OF THE NEXT MEETING OF THE COMMITTEE</b>
Date of Next Meeting: Friday 15 September 2017 at 09.00.  Other future meetings are scheduled as follows: -  Friday 01 December 2017 Friday 02 March 2018 Friday 08 June 2018	

Signed .....

**Dr Martin West, Chair of the Finance & General Purposes Committee**

Date	David Round
Author	
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