



MINUTES OF THE FINANCE AND GENERAL PURPOSES COMMITTEE OF THE CORPORATION HELD ON FRIDAY 08 MARCH 2019 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 M Vetrone - Deputy Principal, Finance & Resources Mr D Round - Clerk to the Corporation

* Attendance = 100%

25.18	APOLOGIES FOR ABSENCE
None.	
26.18	DECLARATIONS OF INTEREST
Declarations of interest in NESCOT Enterprise Ltd, a wholly-owned subsidiary of NESCOT Corporation, were given by Frances Rutter, Professor Luke and Peter Stamps. In relation to NBS Ltd, an application to Companies House for the company to be struck off has been submitted.	
27.18	MINUTES
The minutes of the meeting held on 07 December 2019 were approved as a correct record.	
28.18	MATTERS ARISING
<p>The matters arising report from the previous minutes and other matters carried forward were received and noted. Other matters of report were: -</p> <p>It was noted that Gloria Ozolua has decided not to extend her term of office on the governing body. There is therefore a vacancy on the Committee. Subject to approval of the Board at its meeting on 22 March, it is proposed that Mr Vince Romagnuolo be appointed to the Board and to F&GP Committee.</p> <p>13.18 Matters Arising – Student Recruitment</p> <p>The Principal updated the Committee regarding the latest data on student recruitment for 2019/20. Applications had increased by 24% compared to the same time last year. The focus was now on converting those applications into enrolments and a whole-College ‘Keep Warm’ strategy had been put in place to retain applicants’ engagement with the College through to the summer.</p> <p>It was also noted that the Saturday Academy for 13-16 year olds had been successfully launched with 48 student enrolments on programmes in Beauty, Media and Make-up, Animal Care, eSports and Creative Computing. This was an important strategic development to promote the College, enhance its reputation with local students and create a continuing pipeline of students. Thanks were extended to Cliff Shaw for this work on this initiative.</p>	

22.2 Committee Self-Evaluation report

The Committee had identified the need to focus on emerging financial risks for the College in its self-evaluation report. A report was being presented to today's meeting.

29.18**FINANCE MATTERS****29.1 Management Accounts, January 2019**

The latest management accounts were considered by the Committee.

Members of the Committee were reminded that there were two significant risks in the budget: (i) forecast income generated through the joint venture with ASTM; and (ii) growth in apprenticeship income funded by a growth bid. It was now clear that the growth bid risk had materialised and a significantly smaller allocation had been received. This had been offset by the success of the ASTM partnership which was exceeding budget targets. In addition, the College and its subcontracting partners had been able to manage the loss of the expected growth funding by referring students to other providers including private training providers. Private training providers are now accessing more ESFA funding direct and there is considerably more competition for apprenticeships and adult education.

The Deputy Principal pointed to the serious loss of income in the next financial year (2019/20) which was estimated at £3.5m. The shortfall arose from the under-recruitment against 16-18 students in the current year; the loss of income from the devolved AEB allocations/ reduced availability of growth funding; and reduced funding for non-levy apprenticeships. The Deputy Principal pointed to the highly volatile nature of the FE sector currently and considerable pressures on budgets arising from the failure of allocations to match inflation costs over many years, increasing pension liabilities, the devolution of AEB in the combined authorities and move towards greater competition from private training providers.

The key features of the January management accounts were as follows:

- An **operating surplus of £4k** (£35k December 2018 deficit; £67k November 2018 deficit; £41k deficit October 2018) forecast against a budgeted operating surplus of £NIL. The forecast had improved by £39k since the last report in December 2018.
- Forecast **total income at year end of £27,797k** (£28,149k December 2018; £28,167k November 2018; £28,337k October 2018) was now falling short of budgeted total income with an overall adverse variance of £165k (+£186k December 2018; +£204k November 2018; +£374k October 2018). The forecast has

deteriorated by £351k since the last report because of a decline in forecast income of non-levy apprenticeships; full cost courses; and commercial income.

There were several variances against budget within the income lines forecast at year end. The most significant favourable variances include the following:

- HE tuition fees generated by ASTM of £1m
- high needs recharging from local authorities of £404k
- FE tuition fees generated by ASTM of £80k
- 16-18 apprenticeship funding of £79k

The additional income was tempered by forecast reductions against budget in a number of areas including

- 19+ apprenticeship levy and non-levy income of £1.09m
- full cost fees of £201k
- commercial income of £175k
- HE tuition fees of £170k
- FE tuition fees of £104k

Forecast total expenditure (including pay and non-pay expenditure) at year end of £27,793k (£28,184k December 2018; £28,234k November 2018; £28,378k October 2018) was within budgeted total expenditure, with an overall favourable variance of £169k (£222k December 2018 adverse; £272k November 2018 adverse; £416k October 2018 adverse).

The segmental analysis of financial performance showed that

- The Curriculum areas, subcontractors and curriculum partners do not generate sufficient return to cover the College's overheads and indirect costs. The College's Curriculum areas are forecast to shortfall in contribution against budget by £1.19m. Forecast total income for Curriculum is behind budget by £1.69m due to under-enrolment against curriculum plans across all income streams except for 16-18 levy apprenticeships. To meet the agreed budgeted margins, the Curriculum areas need to return an additional £1m by year end, which is unlikely to be achieved.
- The discrete commercial operations are forecast to deliver a loss of £130k at year end and are behind budget by £102k. The loss is predominantly caused by the transfer of *Rasika* restaurant business to NESCOL Enterprises Ltd, but also includes forecast

shortfalls against budget from the Innovation salon; the osteopathy clinic; the sports hall and grounds; and the high/low ropes.

- The professional and support areas are forecast to be ahead of budget at year end by £1.1m, predominantly because of additional recharges from local authorities for learning support for high needs students; and forecast wage savings from vacant posts.

The automated financial health grade was confirmed as 'outstanding' at 31 January 2019 and forecast to continue to be 'outstanding' for the final year end outturn.

A financial delivery plan had been implemented to address the pressures impacting on the budget with particular emphasis on cost reductions and in-year growth. Pay costs were being managed with significant reductions achieved already. The Deputy Principal (Finance and Resources) was of the view that it would be possible to exceed the forecast budget position but that it would be significantly below the margin recommended by the FE Commissioner (3%).

In discussion the following points were noted: -

- The Committee requested and received assurances that it would receive a pro-forma set of management accounts for NESCOL Enterprises Ltd next month within the College management accounts.
- Professional advice was being received to ensure that the appropriate accounting and governance arrangements were put in place between the College and NESCOL Enterprises Ltd.
- The Growth Committee would increasingly be focusing on College growth; the performance of commercial enterprises would be reported and monitored at F&GP and NESCOL Enterprises.
- The 'High Ropes' project lacked leadership and direction as the only trained member of staff was about to leave the College.
- NESCOLS was performing well and was generating a return.
- There was a strong downwards pressure on pay costs – principally by holding vacancies in a significant number of administrative and support areas.
- The Balance Sheet remained very strong with good levels of liquidity despite the adoption of more proactive treasure management policies that would provide higher levels of return.
- The Quarterly Resource Review meetings (QRR) focused managers' attention on their responsibilities to achieve targets

<p>29.2 F&GP KPIs, January 2019</p>	<p>and on tracking progress. Governors commented that managers had to be held to account for the performance in their areas.</p> <p>RESOLVED: that the management accounts for the month ending January 2019 be noted.</p> <p>The KPI dashboard for the Committee were received. The red-flagged indicators were</p> <ol style="list-style-type: none"> 1. 16-18 student recruitment (1,678 against a target of 1,718) 2. Apprenticeship income of 72% of all year target 3. 42% of planned new courses delivered to date. <p>Governors sought to understand what was going wrong with the development of new courses. Was it an issue of marketing or failure to understand the nature and extent of the market? The Principal commented that the Director of Sales and Marketing sat in on all Curriculum Planning meetings now to ensure alignment of marketing with curriculum planning. The College had also setup a new business breakfast network which took place on a monthly basis to develop the relationship with employers. Directors were required to attend the meetings as were SMT.</p> <p>Governors also asked whether it was possible to increase class sizes, to improve efficiency i.e. using lecture theatre-style delivery. This was being done in a local secondary school with the best teachers in some subject areas with positive impacts upon quality and efficiency. The College management noted that the College was at national FE benchmark for average class size and that it was difficult to increase class sizes without impacting upon quality in many subject areas in FE where there were practical elements.</p> <p>It was also noted that support staff sickness levels were much higher than those of teachers and managers.</p> <p>RESOLVED: that the KPIs for the Finance and General Purposes Committee as at end January be noted.</p>
<p>30.18</p>	<p>EMERGING FINANCIAL RISKS</p>
<p>The Committee’s self-evaluation noted the need to undertake a ‘review of emerging financial risks’. The Committee received a paper examining the internal and external financial landscape and the particular issues and risks impacting upon the College’s current and emerging financial status. The risk register was also reviewed to highlight the financial risks facing the College. The report identified those current and emerging risks highlighted in the ESFA’s Finance record for all Colleges. These were summarised:</p>	

- **Falling income from 16-to-18-year-olds.** Education of 16-to-18-year-olds account for 41% of FE college income and 77% of sixth form college income. This income is falling because there are fewer 16 to 18 year olds in the population and falling numbers staying in education. DfE funding for 16 to 18 education in colleges has fallen by 2.1% in 2018-19 because the autumn 2017 census reported a 2.4% fall in student numbers.
- **Apprenticeship challenges:** Apprenticeships accounted for 10% of total FE college income in 2017-18. Ministers expected the introduction of the levy to result in higher income but the numbers starting apprentices in 2017-18 and in the current year have fallen. Total government apprenticeship spending in 2017-18 was £400 million less than levy collection attributable to England. Colleges expect apprenticeship income to fall in 2018-19 compared to 2017-18.
- **Unavoidable pay costs.** Staff costs account for 65% of FE college and 71% of sixth form college income in 2017-18. This is above the FE commissioner benchmark of 63% and which reflects the pressure to keep pay competitive and higher social costs.
- **Refusal of the government to cover inflation.** The Consumer Price Index has risen by 7% in the last five years and is expected to rise by 4% between now and 2020 but the funding rates paid to colleges have been fixed in terms of cash since 2013. In its recent school budget settlement, DfE promised an average 3.1% rise in per pupil spending in both 2019-20 and 2020-21 with school-level increases ranging from 0.5% to 6% depending on the national and local funding formulae. There is nothing similar to protect colleges or post-16 education. This report estimates that costs for colleges will rise by an average of 3% a year over the next two years.
- **Withdrawal of finance.** Colleges are able to borrow but for the last three years the sector has been paying back more to the banks than they are taking out. The banks have become very cautious as a result of the new college insolvency laws and DfE plan to remove exceptional financial support where colleges run out of cash.

It was noted that the continuing national decline in the 16-18 demographic and increasing competition for these students from schools, colleges, universities and private training providers, meant that student enrolments were spread increasingly thinly across the sector. With flat cash funding and reducing student numbers, the financial challenges for FE colleges were now very significant.

Governors noted that the College's risk register reviewed financial risks and the mitigating actions being taken to manage those risks and to prevent them materialising such that they would affect financial viability. Risks identified in the College's Finance Strategy include:

- Failure to achieve student number targets:
 - Failure to innovate, develop and deliver the curriculum.

- Failure to establish effective sales and marketing capability.
- Failure to maintain/raise teaching and learning standards and student outcomes.
- Failure to implement an effective apprenticeship delivery model.
- Failure to diversify College income streams.
- Failure to control the cost base.
- Failure to achieve value for money in procurement.
- Failure to invest effectively in the estate and infrastructure.

The Audit Committee had a role to scrutinise the risk register, challenge management and to receive assurance from internal, management and external sources including internal and external audit reports. The Audit Committee routinely received risk assurance framework reports which identified where assurance could and could not be provided in relation to key strategic risks. It was also noted that operational financial risks were identified in the College’s Operational Risk Register, which are proactively managed by the Risk Management and Action Group (RMAG) and which fed into the strategic risk register.

F&GP Committee noted that the impact of the College’s financial risk management framework was evident in the College’s ESFA financial health status. The College has maintained its ‘outstanding’ financial health status for the year to date and projected for final outturn. The College’s ability to develop the estate without the need for borrowing, and robust management of working capital including cash, were the main reasons for the College’s continuing outstanding financial health status.

RESOLVED: that the report on emerging financial risk be noted.

31.18	PROPERTY MATTERS
<p>31.1 Capital Projects 2017/18</p>	<p>The final statement of the capital projects plan for the previous year was received noting that the value of the capital investment in that year 2017/18 was £4,266.9k. The final outcome was a net overspend on the budget of £202.5k; however, this included unplanned expenditure of £399k on IT infrastructure investment in order to address urgent issues. Savings elsewhere in the capital plan offset this additional expenditure.</p> <p>RESOLVED: that the final statement of expenditure for the capital programme 2017/18 be noted.</p>
<p>31.2 Capital Projects Update 2018/19</p>	<p>The Committee was reminded that the capital programme for the current year 2018/19 had been significantly scaled back because of the need to preserve cash. The value of the capital plan was £1,054.7k. The plan included a range of work across the campus including the refurbishment of the North Wing ground floor to develop a central area for high needs and foundation learning. Significant cost savings had been achieved in the plan. However, there had been unplanned expenditure of £57.3k</p>

	RESOLVED: that the HR update report be noted.
33.18	PROFESSIONAL ADVICE REPORTS
33.1 VAT Advice Report	<p>Recognising the potential issues for VAT compliance in the operation of commercial enterprises at the College, a specialist report had been commissioned from the College's internal auditors. The report sought to provide the College and the Corporation with independent assurances that the College is compliant with VAT requirements for the <i>Innovation</i> salon in particular, and has put in place the necessary processes, procedures and controls to be able to comply with VAT legislation.</p> <p>The opinion set out in the presented report was that there was a small potential claim of over-declared output tax for <i>Innovation</i> to the value of nearly £3,000. It was also confirmed that the operations of the <i>Rasika</i> restaurant should be standard rated for VAT purposes. This was because in order for income to fall within the VAT exemption for services closely related to education, the services must be supplied by the eligible body (i.e. the College) and not its subsidiary. The <i>Rasika</i> restaurant was being traded through the College's subsidiary company, NESCOL Enterprises Ltd.</p> <p>RESOLVED: that the VAT advice report be noted.</p>
33.2 Energy management report	<p>The College had received a report from energy specialist consultants that analysed the College's management of energy costs and whether savings could be achieved. The report benchmarked the College's energy performance against good practice guidelines for colleges. This showed potential annual savings of £172k per annum in energy expenditure.</p> <p>The College had decided to seek a second professional opinion to confirm the potential savings. The College's Energy Management Group is developing an energy management programme based on the advice received, with a view to costing the recommended improvements for forthcoming asset management and capital programmes.</p> <p>RESOLVED: that the energy management report be noted.</p>
34.18	HIGHER EDUCATION TUITION FEES POLICY 2020/21
<p>F&GP Committee received a verbal report noting that the requirement to submit an Access and Participation Plan to the Office for Fair Access (OFFA), which is now part of the Office for Students, regulator for the higher education sector, committed the College to setting its fees policy for higher education tuition fees before April 2019 in readiness for students commencing programmes in</p>	

in September 2020.

The Corporation would receive a summary paper at its meeting on 22 March for approval.

In considering HE fees policy for 2020-21 the following policy, market and political factors had been considered: -

1. The Augar Review of Post-18 Education is due to report to Government in April or May this year. It is widely thought that Augar will recommend a reduction in tuition fees for some higher education courses; it is also thought likely that there will be a drive to develop new technical and professional qualifications at foundation year/post-A level stages which will significantly involve the college sector.
2. In an environment of possibly lower higher education tuition fees, to propose a significant increase in NESCOT's HE fees is not considered to be tactically sensible.
3. Market testing comparisons of NESCOT's tuition fees to those charged by other local FE colleges offering higher education and also local universities has been undertaken.
4. The market analysis shows that NESCOT is more expensive in some areas (e.g. Counselling, HND Performing Arts) but cheaper in others (e.g. HN Computing, FD Animal Management). The College is always significantly cheaper than universities.
5. The proposal for 2020-21 fees is based on the following principles: -
 - a. Where NESCOT is more expensive than our local college competitors, NO fees increase is proposed
 - b. Where NESCOT's tuition fees are lower than local college competitors, a fee increase based on RPI (at 2.9%) is proposed for those courses that recruit largely younger students funded by the Student Loans Company.
 - c. Fees for courses that recruit mainly adult students are frozen at 2019/20 levels.

RESOLVED: that the Committee supports the general principles proposed for HE tuition fees policy and commends it for approval by the Board at its meeting on 22 March 2019.

35.18	SUB-COMMITTEE AND SUBSIDIARY COMPANY REPORTS
<p>35.1 Growth Committee minutes</p>	<p>The minutes of the meeting of the Growth Committee held on 11 February 2019 were received. An update on mergers and acquisitions matters was noted. The Committee also discussed the role of Growth Committee going forward. The Committee's view was that the Growth Committee should focus on College income and opportunities for core curriculum growth. The role of the external consultancy support to the Committee would be a matter for review in terms of areas of focus.</p>
<p>35.2 NESCOT Enterprises Ltd minutes</p>	<p>The minutes of the Board meeting of NESCOT Enterprises Ltd (NEL) held on 08 February 2019 were received. The purposes of NEL were outlined in terms of facilitating the delivery of appropriate commercial models of operation for the College. Ensuring that the appropriate taxation and accounting structure for NEL was a priority.</p>

36.18	ANY OTHER BUSINESS
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The Committee wished to place on record its gratitude to Chris Shortt for his considerable contribution to the College over his nearly 10 years of service on the Corporation. His legacy in terms of the enormous improvements in the quality of learning environment available to students and staff was apparent to the whole of the College community.

The Committee also placed on record its thanks to David Round for his dedicated support to the College and the Committee as Clerk. The Committee wished him well in his new role.

There was no further business and the meeting closed at 11.00.

24.18	DATES OF FUTURE MEETINGS
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The Committee noted the change of meeting date from 20 June 2019 6.00pm to **Friday 05 July at 09.00.**

The Chair flagged the length of time before the next meeting and asked that if necessary an additional meeting be called if required.

Signed

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

Date

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