



MINUTES OF THE FINANCE AND GENERAL PURPOSES COMMITTEE OF THE CORPORATION HELD ON FRIDAY 19th JULY 2019 AT 08.00 IN Committee Room A of the SKILLS PARK (SP216)

PRESENT *	IN ATTENDANCE
Mr Peter Stamps (Chairman) Professor Sam Luke Mrs Frances Rutter	Ms M. Vetrone - Deputy Principal, Finance and Resources. Mrs J. Carr - Clerk to the Corporation

* Attendance = 50%

25.18	APOLOGIES FOR ABSENCE
	Chris Shortt and Vince Romagnuolo. The Clerk confirmed that the meeting was quorate.
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.
27.18	MINUTES
	The minutes of the meeting held on 5 th July 2019 were not available and will be tabled at the September meeting.
28.18	May Management Accounts and KPI's
	The meeting agreed to defer discussion of the management accounts and KPI's to the Corporation meeting commencing at 9 am.
30.18	College Staff Pay Review 2019-20
	The Deputy Principal presented her paper proposing a 1% pay award from 1 st September 2019. Despite budget pressures, this small award, costing some £149,287 is deemed affordable by SMT provided the proposed £660K staff savings are made during the year. College staff received their first pay award in 2016/17 for some 10 years and it is essential for staff morale and retention that this is maintained in 2019/20.
	<u>Employer contributions</u> towards the TPS and LGPS are 23.68% and 19.1% respectively. Whilst central government are funding the first 11 months of the TPS increase only, these are placing a huge burden on the FE sector. Costs have been built into the 2019/20 budget and one year forecast, and 11 months of grant only in 2019/20.
	<u>P3 details the College staff costs.</u> Implementation of the £660K staff savings should bring the College pay costs back in line with the FE Commissioner benchmarks. A first proposal outlining how to achieve the £660K staff savings has been considered by SMT but no firm

decisions will be possible until the 2019/20 enrolment figures are known (subsequently updated by the census data 6 weeks later). Once enrolment numbers are known, decisions regarding teaching group sizes and staffing requirements will be established. The Deputy Principal confirmed that £660K staff savings should be achieved by year end and many will be phased during the year. Until enrolment figures are known there is a risk associated with the achievement of the proposed £660K staff savings.

Action: The Deputy Principal agreed to provide governors with a regular update regarding the achievement of the proposed £660K staff savings.

ASTM have doubled their income and net contribution forecasts for 2019/20 which increases the College management time required to support the programmes and manage the risk. Table 4 on P4 identifies the ASTM wage costs of £1.65M for 2019/20. The Epsom Campus staff costs of £13M represent a reduction of £144K from 2018/19 generated principally by the deletion of frozen vacant support posts. Some new posts in relation to student enrichment and IT for Learning have been agreed for 2019/20.

The Deputy Principal advised the meeting that Nescot's financial position is better than that of the majority of FE Colleges, many of whom are unable to fund any pay award in 2019/20. The Chairman of Governors noted that the cost of course delivery at Nescot must be reduced, as the 64% contribution required is not sustainable. The Deputy Principal advised that the College was working to significantly increase blended and online learning and employ new staff via a limited company with different terms and conditions of employment.

Decision: The Committee recommended the 1% staff pay award to the Corporation meeting of 19th July. The Committee noted that the College could not justify a higher award in the current situation. Dependent upon enrolment numbers and other budget pressures, an unconsolidated bonus may be considered in 2020.

31.18

Budget 2019/20 and One year forecast 2020/21

The Deputy Principal reminded the members that the 2019/20 budget and 2020/21 forecast must be submitted to the ESFA no later than 31st July 2019.

As with 2018/19, the best case scenario budget for 2019/20 is break even. Despite a loss of £4M income (principally 16-18 lagged funding, non-levy apprenticeship funding and devolved AEB funding) the College is still growing. The principal growth area being ASTM, £3.4M. ASTM remain bullish regarding their income projections although the 2018/19 financial forecasts have been downgraded because of slower student enrolment than planned. There is a risk to the College regarding these projections and the academic achievement of the ASTM students. However, the Deputy Principal is confident that an effective governance and risk management framework is now supporting the ASTM/Nescot Partnership with monthly Board meetings providing scrutiny and challenge.

ASTM: The Partnership is requesting Pearson to lift the 120 cap on students at Hounslow and Aldgate East. The College is mindful of the need for succession planning for the ASTM CEO Dilip Amdekar. His Chief Operating Officer is his likely successor and knows the business well. Governors were assured that Nescot Managers and SMT regularly visit the ASTM centres to ensure compliance with NESCOT processes and procedures in a direct delivery arrangement.

ASTM have developed a lean and agile operating model generating £1.6M surplus for the College from an income of £3.5M. The risk and reward model of this partnership are highly evident and monitored closely. There has been an increase in non-pay expenditure principally due to increased ASTM activity and the use of additional space for delivery.

Additional fee income: The income budget includes £1.5M AEB funding from the GLA. Nescot has established good relationships with the neighbouring metropolitan authorities. An additional £600K full cost income is forecast (1.2-1.8M). There is some risk attached to the full-course income projection as this relates to new courses and enrolling sufficient students.

ESFA One year forecast 2020/21: The Deputy Principal assured the meeting that the 2020/21 forecast was based upon the same assumptions underlying the 2019/20 budget. A modest operating surplus of £196K is forecast for 2020/21.

ESFA KPIs: p28 Nescot continues to perform well against ESFA KPI's. The College Finance Strategy has not been updated since 2018 and the AoC advises that, given the turbulence of the FE sector, there is little merit in currently doing so. However, Governors were reminded that the College is ahead of its Finance Strategy predictions of a deficit position of £80K for 2019/20.

Risks inherent to achieving 2019/20 budget:

- ASTM delivering income forecasts, delivering programmes and student achievement thereof.
- Achieving £600K staff savings in year.
- Successful growth bid for the advanced learner loan facility.
- Apprenticeship: non-levy apprenticeships are in decline. There are clear targets for sales of levy apprenticeships. The Principal is preparing an Apprenticeships Position Paper detailing the responsibility for apprentices moving from the Director of Apprenticeships to specific Curriculum Head of Faculties.
- Additional full cost income of £600K being dependent upon new courses.
- Enrolment of additional High Needs Students and the accompanying funding from local authorities.
- The College delivering its course provision within the non-pay expenditure budget.

Action: The Deputy Principal to provide regular updates for Governors regarding the monitoring of these risks.

ESFA Planning Checklist 2019/20: The Deputy Principal assured Governors that ESFA guidance had been applied in the development of the 2019/20 budget and the 2020/21 forecast. The College balance sheet remains strong and the College's banker is positive and supportive as a direct result of this. Despite constraints on the budget, non-current asset values of £65M have been maintained. The Chairman of Governors asked whether the depreciation policy might be reviewed to ensure that it is optimal. The Deputy Principal advised that the depreciation policy was reviewed two years ago in conjunction with the external auditors and it had already been stretched as far as possible to minimise the impact of depreciation charges on the income and expenditure account. All routine/planned maintenance is linked to the Asset Management Plan.

£1M medium risk fund investment: Despite transferring £1M cash from the bank to a medium risk investment fund earlier this year (from current assets to non-current assets) the College cash reserves at bank have remained reasonably steady, demonstrating strong cash generation during the year. The Deputy Principal advised that the current cash levels will be retained as these will be required should the ASTM forecast surplus and/or £660K staff savings not be achieved in the coming year, or any other significant risks materialise.

The investment fund generates CPI + 3%. The Deputy Principal will ask the Autumn Term Finance and General Purposes Committee whether further College cash should be invested in this fund after an analysis of the current performance of the fund. Currently there are no other comparable investment options available.

Budget Commentary P4-5 outlines the FE sector operating environment and the principal challenges. P6-8 considers the FE sector funding and the financial challenges facing the 251 FE Colleges in 2019/20 and beyond.

P12 compares every line of income and expenditure within the budget and explains any variances.

P16-17 depicts the changes in College funding and student numbers.

College Balance Sheet: P27. There has been a slight decline in the value of the College estate due to a slowing down of capital expenditure to preserve cash. However, fixed assets amount to c£64M (£61M Land, £3M Equipment).

Balance sheet Provisions: P27 The LGPS deficit has been reduced by c£10M over the last two years following successful challenges of the actuarial valuations and underlying assumptions by Nescot. Employers' contributions are fixed for 3 years until the next triennial valuation.

Key ratios: P28 have been rag rated for ease of comparison. The staff ratio is dependent upon the achievement of £660K staff savings in year 2019/20.

The College needs to improve the management of its debtors and creditors, in particular not paying creditors too early thus making use of 30 days or more payment terms ascribed to invoices. The Deputy Principal assured the meeting that the College's use of e-tendering and procurement practices adhere to best practice.

Enterprises Ltd Income and Expenditure: The Deputy Principal assured the meeting that Nescot Enterprises Ltd accounts are included with the College Group accounts. However, in isolation, the Enterprise income and expenditure, especially if Rasika is lifted out of the company, then Nescot Enterprises currently has a very low turnover.

2020/21 one year forecast: P31 The Deputy Principal assured the meeting that she had been very cautious with income forecasting for 2020/21 and that core funding lines included no growth from 2019/20. The forecast is based upon the same assumptions applied to the 2019/20 budget.

The 2019/20 Capital Budget P33-34 was approved at the Finance and General Purposes Committee meeting of Friday 6th July.

Budget Option Appraisals: P35- The Deputy Principal assured the meeting that SMT have discussed the best case, likely case and worst case budget options in minute detail.

Best Case:	Break even
Likely Case:	£995K operating deficit
Worst Case:	£2.061M operating deficit

The College currently has sufficient cash reserves to absorb the operating deficits of the likely and worst cases should these occur. The Deputy Principal reminded the meeting that the cost savings and income targets were essential to achieve the 2019/20 budget and to align the College with FE Commissioner benchmarks and with Finance Strategy parameters. The Deputy Principal refuted the suggestion that she was being over cautious with regard to the likely case scenario of £995K operating deficit and with maintaining the current level of cash reserves. Rather SMT wanted to provide a balanced perspective of the challenges within the 2019/20 budget and maintain sufficient cash reserves to continue to be a going concern within a turbulent operating environment in the sector should significant risks materialise.

<p>The Chairman of Governors noted that the proposed budget contained both risk and reward. He asserted that should the College achieve the £660K staff savings and achieve the anticipated enrolment numbers then a small surplus might be possible as now predicted for year end 2018/19. However, the Chairman of Governors questioned whether the current SMT had the management band width to achieve the 2019/20 budget together with developing the College and managing potential new projects. The Principal advised the meeting that the College needs to improve its drive to generate income; currently Curriculum Teams are often overseers of assets and have a narrow perspective, not wishing to consider usage at weekends and evenings or during the holidays. The motor vehicle workshops were cited as an example.</p> <p>The Chair of the Committee agreed regarding the risk and reward elements of the budget. He asked for confirmation that a deficit budget would trigger an intervention from the ESFA. The Deputy Principal confirmed that this was correct under the new ESFA intervention policy and that a deficit budget would highlight a deterioration in the College's financial health.</p> <p>Decision: The Committee agreed to recommend the 2019/20 budget and 2020/21 forecast to the Corporation meeting of 19th July provided that regular updates together with specific updates after enrolment and the Census date.</p>	
36.18	ANY OTHER BUSINESS
<p>There was no further business and the meeting closed at 9.00.</p>	
24.18	DATES OF FUTURE MEETINGS
<p>Friday 13th September at 09.00.</p>	

Decisions:

1. The Committee recommended the proposed 1% staff pay award to the Corporation meeting of 19th July.
2. The Committee agreed to recommend the 2019/20 budget and 2020/21 forecast to the Corporation meeting of 19th July provided that regular updates together with specific updates after enrolment and the Census date.

Actions:

1. The Deputy Principal agreed to provide governors with a regular update regarding the achievement of the proposed £660K staff savings.
2. The Deputy Principal agreed to provide regular updates for Governors regarding the monitoring of the risks inherent in the achievement of the 2019/20 budget.

Signed

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

Date

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