MINUTES OF THE FINANCE AND GENERAL PURPOSES COMMITTEE OF THE CORPORATION HELD ON FRIDAY 13th September 2019 AT 08.30 IN THE SKILLS PARK BOARD ROOM (SP216)

PRESENT *	IN ATTENDANCE
Mr Peter Stamps (Chair) Professor Sam Luke Mrs Frances Rutter Ms Margaret Martin Mr Vince Romagnuolo	Ms M Vetrone, Deputy Principal, Finance & Resources Mrs J Carr, Clerk to the Corporation

* *Attendance* = 100%

01.19	**APOLOGIES FOR ABSENCE**
There were no apologies for absence. The Chairman thanked the members for meeting 30 minutes earlier than scheduled.	
02.19	**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.	
03.19	**MINUTES**
The minutes of the meeting held on 19th July 2019 were approved as a correct record subject to amending apologies tendered by Margaret Martin. The Clerk advised that the minutes of the meeting of 5th July would be tabled at the next meeting. The minutes of the 19th July supersede this meeting.	
04.19	**MATTERS ARISING**
The matters arising from the meeting of 19th July are included in the agenda for 13th September: 1. Regular updates regarding the achievement of the proposed £660K staff savings 2. Regular update regarding the monitoring of the risks inherent in the achievement of the 2019/20 budget. This will also be tabled at Audit Committee meetings.	
05.19	**FINANCE MATTERS**
05.1 Management Accounts, July 2019	The Deputy Principal introduced the July 2019 Management Accounts advising the meeting that the highlights were in the Cover sheet. Page one provides the high level Income and Expenditure forecasting the "near final outturn" year-end position. An operating surplus of £86K is forecast compared to the original likely case break-even budget.

	Income is £124K behind target whilst total expenditure is within budget by £210K. Pay expenditure is just under budget whilst non-pay expenditure has expected savings of £172K. Pages 2-3 of the cover sheet shows the principal variances between the May and July Management accounts. The Governors were reminded that ASTM and the 19+ non-levy bid were the two major risks to the achievement of the 2018-19 income target. The non-levy bid was not successful. However, ASTM has exceeded its income target by £750K. (HE £656K and FE £94K). Students with High Needs recharges to Local Authorities has generated £390K more than budget. Other than the unsuccessful non-levy bid, HE income was significantly below budget by £328K predominantly as a result of under-recruitment of in-house (Nescot campus based) students against plan. Pay expenditure savings of £525K have been generated: £323K – frozen posts in business support areas £472K – teaching costs associated with under-enrolment against curriculum plans and courses not running Which results in 8.1% vacant posts across the College. In response to Governor questions the Deputy Principal advised that the frozen posts include the Director of Estates, Director of Sales and Marketing, other posts in the Estates team, and the Head of Hair and Beauty. The consequences of these frozen posts are that responsibilities have been shared with existing staff and some have received a small salary increase to reflect this. The interim Head of Sales, Stefanie Burlinson, who is contracted 2.5 days per week is funded from the cost savings generated from the vacant post of Director of Sales and Marketing. However, ASTM has generated an additional £390K staffing costs to drive additional income of £750K. Additional unbudgeted costs of £522K relating to the Local Government Pension Scheme (LGPS) are included in the forecast although the Deputy Principal has just received the actuarial valuation for 2018-19 which is £287K less than expected in costs impacting the I&E account. Members were asked to remember that this does not affect the College's cash position. However, following the 2018-19 valuation the LGPS deficit in the balance sheet has ballooned from £4M to £10M. The increase in the LGPS deficit will appear as an actuarial loss in the I&E account 'below the line'. As in previous years, the Deputy Principal will be challenging some of the LGPS assumptions, in particular pay rate increases and the discount rate.

	Page 3 details non-pay savings, many derived from the cessation of 19+ apprenticeships both in-house and with sub-contractors, and from the implementation of the financial delivery plan. Page 4 details additional non-pay costs which includes the additional ASTM costs incurred as a result of the additional income generation. There is an increase in the bad debt provision of £212K which relates specifically to Icom who currently owe the College some £600K. Icom have been advised that the College will not enrol or graduate any more of their students until this outstanding sum is paid. The Deputy Principal assured the meeting that the sum would be paid eventually as Icom are a reliable partner if slow payers. The meeting was also informed that should a “No-deal” Brexit occur the Italian osteopathy students will become international students, paying much higher fees on courses where the UK accreditation would no longer be recognised across Europe, which would cause demand for the courses provided by Icom with Nescot to be virtually eliminated. However, enrolment for the Nescot Osteopathy course has been higher than expected for 2019-20 with 13-14 students. The Deputy Principal confirmed that the sub-contractor adverse variance of £96K against budgeted contribution in the segmental analysis table relates to the loss of budgeted income from the unsuccessful 19+ non-levy apprenticeship bid. The adverse variance of £65K against budgeted contribution for commercial activities relates predominantly to activities which were transferred to Nescot Enterprises during 2018-19. In response to a governor question, the Principal advised that the Rasika Restaurant had been closed last month due to significant reputational risks caused by the conduct of Rasika staff. ELT took the decision to close the Rasika Restaurant and look for alternative options. The Chairman of Governors and the Chairman of F&GP were advised of this decision at the time. The Principal and Deputy Principal are currently exploring 3 possible options for the restaurant space: 1. Find another catering operator with a more clearly defined educational focus 2. Find an external national operator such as Subway or Pizza Express 3. Nescot students run the restaurant facility. The meeting observed that the losses generated by Rasika had been significantly reduced (by 50%) during its six months’ of operation but

	given the significant issues identified during the summer, the decision to close the Rasika Restaurant was appropriate. In response to a Governor question, the Deputy Principal advised the meeting that Innovation and the Osteopathy Clinic continue to make an operating loss of £24K and £10K respectively. However, the trajectory of growth of revenue in Innovation is improving. Innovation is now in its fourth year of operation and is expected to achieve its income target this year. Additional marketing support is being provided to support Innovation. £20K is generated by conference and room hire (facility hire) across the College. For example, the two-day annual Railway exhibition is a significant facility hire. SMT are looking to open up the College more at weekends to generate external hire revenues, but this requires additional resources and a culture change to support this additional activity out of hours. The Saturday Academy will continue in 2019-20 and whilst it makes a small surplus, the primary purpose is marketing the College full-time courses. Page 5 <u>ASTM financial performance 2018-19: </u>The meeting noted that whilst ASTM generated £750K more income than budgeted, this resulted in an additional £20K (3%) surplus for the College on top of £843k budgeted surplus. The overall return for the year representing 24.2%. The Deputy Principal assured the meeting that there is a robust governance and risk framework in place to monitor the high risk, high rewards ASTM/Nescot partnership. Page 5 <u>Capital Programme 2018-19 </u>The Deputy Principal advised the meeting that the almost all of the programme has been delivered with a forecast underspend of £324K against a budget of £1.054M. However, the capital equipment budget is overspent by £126K principally due to the capitalisation of consultancy costs for system recovery during and after the cyber-attack of October 2018. Page 6 <u>Investment Fund</u> The valuation as at 30th June 2019 reported an increase in value of £21,872 in six months on £1m cash investment. This represents a return of 2.1% over this time compared to the annual interest rate available at Metro Bank of 0.7% on deposit accounts. Whilst this fund is not without risk, and the valuation may both increase and decrease during the year, caution with regards to its recording in the management accounts is required. The Deputy Principal advised the meeting that the ESFA will not issue their financial grading for 2018-19 until the final accounts have been audited and the Finance Record submitted to ESFA for publication. The

05.2 F&GP KPIs, July 2019	Deputy Principal expects the College official financial grading to remain as outstanding for 2018-19. The Deputy Principal in response to a Governor question confirmed that the College pay cost KPI of 62.8% of income was within College targets and less than the national FE sector benchmark of 67.5%. The cash days in hand (75) is less than the target of 92 because of the £1M cash placed in the medium term investment fund. Despite this the College figures remain higher than the national average of 62. The adjusted current ratio of 2.62 is less than the target of 3.16 because of the £1M cash placed in the medium term investment fund. The College ratio is significantly better than the national FE benchmark of 1.48 with a ratio of less than 1.5 being a recognised indicator of potential/possible insolvency issues arising. EBITDA which excludes non-cash items at 10.6% is defined as 'outstanding' performance by the ESFA. The College continues to maintain a strong balance sheet with no bank borrowing. The College self-assesses its financial health as 'outstanding' for 2018/19 based upon the July Management accounts and KPIs and in accordance with ESFA financial modelling tools. A governor asked what plans were in place for curriculum areas which were achieving less than 64% contribution. The Deputy Principal meets regularly with Directors of Faculties and HoDs to review these. Whilst some programmes are more materials and infrastructure intensive than others (e.g. Motor Vehicle), the key driving factors are the cost of staff and teaching delivery methods. The College is looking to increase its blended delivery including online learning, and the use of progress tutors. The Deputy Principal stated, and it was agreed, that it is essential that Nescot reduces its reliance on the ASTM surpluses to balance the College budget. Whilst staff turnover rates have reduced during 2018/19, support staff sickness is higher than target due to a number of staff on long-term sickness. In response to a Governor question the Deputy Principal assured the meeting that these were not stress-related illnesses. The Chairman of Governors asked what the rate would be if these two members of staff were taken out of the calculation. The Committee noted the July F&GP KPI's

05.3 Investment Fund update.	As reported in the July Management accounts, the medium risk investment fund has generated 2.1% in the first 6 months, which is slightly behind the original target of 3.6% advised by the fund managers, Smith & Williamson. This is mostly due to the fund managers not yet investing all of the £1M. Currently £680K is invested in the market and £320K held as cash by the fund managers. The remaining cash will be 'dripped' into the market when the most advantageous investment opportunities arise. The Chairman of F&GP asked what rate of interest the Fund Managers paid on the cash element. The Deputy Principal agreed to find out and report back. The Deputy Principal advised that she is happy with the performance of the investment to date and that if the 30th September valuation reflects similar growth she will recommend investing a further £1M at the December 2019 meeting (dependent upon capital requirements and any merger proposal). The Chairman asked, given the current volatility of the money markets, that the College give consideration to risk appetite should more funds be invested in the fund.
05.4 Student recruitment and impact upon 2019/20 budget monitoring	As at 4th September 1,840 16-18 year-old students had enrolled against an allocation target of 1,537 and a curriculum plan target of 1,995. Provided that these students remain at College past the census date (less 10% attrition) then the College will receive c£600k more funding in 2020-21 than in 2019-20. As of 19th September, the College enrolled 1,829 students (accounting for some students who have left their course to date). The College anticipates a 7-8% attrition rate (National average is 10%). The Deputy Principal reminded the meeting that funding for additional 16-18 year-old students is lagged and so will not be received until 2020/21. 341 HE students have enrolled against a target of 361 (this excludes ASTM students). This number is not expected to increase and is less than September 2018 HE enrolment. There is a delay in the enrolment of apprentices due to recent significant staff shortages in the Sales team and in the Apprenticeship team, and the complex paperwork required. The Head of Apprenticeships has left the College and there is a transition group in place to support both enrolment and the management of apprentices moving across to the Heads of Curriculum Departments. This arrangement is anticipated to increase the achievement rates of apprentices. The Deputy Principal assured the meeting that the target of 258 apprentices should be achievable during the year. However, it was to be

	noted that only part-year funding will be received for later enrolments whilst the budget includes whole-year funding. The number of apprenticeship enrolments has now increased to 39 as at 12th September, and that many were still in the pipeline waiting for apprenticeship contracts before enrolment could take place. The number of progressing students has decreased this year at 78%. The College continues to stress that it is more cost effective to attend Nescot than move away and attend a university. However, this requires a change of mind-set amongst many parents who believe that a degree obtained at an FE College is less valuable than a traditional university degree. The meeting noted that students remaining at Nescot loose the experience of university living. The number of “walk-in” recruitments/enrolment has increased from 112 in September 2018 to 255; 28% of whom live in the Sutton area. Recruitment by curriculum area shows 9 areas currently 10% over the census target; 4 curriculum areas over census target by less than 10% and 10 curriculum areas currently below census enrolment target. The hairdressing numbers will be examined in detail to try to establish the effect of the Toni and Guy brand impact upon student numbers. The meeting noted the slump in brickwork and building services recruitment. The Principal met with the CEO of Berkley Homes on Monday to discuss how best to ensure that their supply chains have suitably qualified staff. Berkley Homes staff will be visiting Nescot later this term. Enrolment by district reflects a significant gain regarding the Borough of Kingston (69%) which reverses the trend of 2018. There is little change regarding students from Epsom and Ewell which reflects the wide range of options for students in this area. A 28% increase of students from Reigate and Banstead may reflect the IT challenges facing East Surrey College after its cyber-attack in the summer. Similarly, the 100% increase (26) students from Elmbridge may in part reflect the challenges faced by Brooklands College. 2019/20 represents the lowest point for the 16/18 demographic with an increase forecast for 2020/21. The increase in student numbers this year reflects the new streamlines application process, the change in format for Open events and more effective “Keeping-warm” communication generated by the Marketing Department. Nescot 2019 enrolment figures are significantly better than Guildford, Brooklands and East Surrey.

	The FE Choices Learner Survey data for 2018/19 reflect Nescot's good reputation which the College is looking to increase during 2019/20.

College	18/19	17/18
NESCOT	81.4	85.1
East Surrey College	80.9	82.4
Croydon College	75.9	-
Guildford College	73.7	83.3
South Thames Group	70.2	80.7
Brooklands College	66.8	70.7
Chichester College Group	*83.6*	*84.2*
GFE Average	81.0	81.0

05.5 Delivery of 2019-20 budget and Risk Register

The Deputy Principal advised the meeting that this item will be a standing item for both the F&GP Committee and the Audit Committee (Risk Register) during 2019/20 and subsequently reported to Corporation meetings.

Seven risks to the successful delivery of the 2019/20 budget have been identified with an indication of net risk category:

1. Failure to deliver the ASTM joint venture budget, because of under-recruitment of students and/or higher than anticipated costs of delivery. **NET RISK CATEGORY: HIGH**

2. Failure to generate the targeted pay cost efficiency savings, because of an insufficiently robust implementation plan, lack of ownership and unclear accountability for delivery. **NET RISK CATEGORY: SIGNIFICANT**

3. Failure to achieve a successful ESFA growth bid for advanced learner loans facility, because of weak bid documentation and supporting evidence. **NET RISK CATEGORY: ACCEPTABLE**

4. Failure to achieve apprenticeship levy and full cost funding targets, because of insufficient sales force in the Sales Team and at Director of Faculty level, and lack of ownership across College of the Sales Strategy. **NET RISK CATEGORY: HIGH**

5. Failure to engage successfully with local authorities to increase High Needs student numbers and funding, because of lack of engagement and ownership of the High Needs Strategy. **NET RISK CATEGORY: ACCEPTABLE**

	6. Failure to operate within the budgeted costs, because of lack of financial discipline. **NET RISK CATEGORY: ACCEPTABLE** 7. Clawback of non-levy apprenticeship funding as a result of poor administration and quality of data. **NET RISK CATEGORY: SIGNIFICANT** The Deputy Principal advised the meeting that the College has not been selected for an EFSA funding Audit for 2018-19 and so the risk categorisation for Risk 7 may be reduced later this term. The table of risks on Page 3 of the cover paper will be updated and presented at each meeting. As will the pie chart "Net Risk Profile" (Page 4). The pie chart suggests that as at 3rd September 2019 there is a 57% risk that the 2019/20 budget will not be successfully delivered as agreed by the Corporation on 19th July 2019. The details supporting this summary may be viewed in the Risk Register Budget 2019/20 document. The timeline with roles and responsibilities reflects the cautious/conservative approach. There is a 14-point Action Plan for the achievement of £660K pay cost/ staff savings which will be updated with post enrolment data. This will be presented at the next meeting. In response to a Governor question regarding the tracking of Brexit and the impact on Icom students, the Deputy Principal advised that this is included in the College Strategic Risk Register which is presented at every Audit Committee meeting. This is not deemed to be a risk for 2019/20 (but a future risk) as there will be a 2-year period to resolve any EU student issues should the UK leave the EU without a deal. The Chairman of Governors left the meeting at 10.10
06.19	**Property Strategy**
06.1 Capital Projects 2018/19 update	The Deputy Principal advised the meeting that the figures detailed in the cover sheet represent near final outturn figures. A saving of £302K on programme works and an overspend of £48K on unplanned works (predominantly relating to recovery of IT systems from the cyber-attack) generate a net saving of £253K, which will remain within cash reserves.
06.2 Capital Programme for 2019/20	The Deputy Principal advised the meeting that a considerable element of the 2019/20 programmed capital works had been undertaken during the summer 2019. The budget is currently forecast to be overspent by £3.15K at year end but the Deputy Principal is confident that this will be recovered during the financial year. The proposed "Learning Shop" in Epsom Town Centre has been deferred until next year. The Deputy Principal advised the meeting that a fine balance between maintaining the value of the estate and preserving cash balances is essential.
07.19	**Accounting and Funding Matters**

07.1 Pensions Discretion Policy	The Deputy Principal advised the meeting that the Surrey LGPS had updated their advice and templates regarding pensions discretion policies and Nescot were required to reflect these changes in their policies. In response to a question, the Deputy Principal confirmed that she was not aware of any deviation from policy in the last four years but should the need arise the matter will be reviewed by HR, discussed at ELT, agreed at F&GP and submitted to Corporation for approval. The meeting approved the Pensions Discretion Policy 2019.

07.2 Tax Governance and Group Structure Review report	The Deputy Principal confirmed that the College is still looking to recruit support staff via Nescot Enterprises Ltd to enable the College to make use of the NEST stakeholder pension scheme as opposed to Surrey LGPS. To date only 4-5 staff have been employed via Nescot Enterprises Ltd. Some Colleges are also trying to recruit teachers via a commercial company but the Association of Colleges (AoC) has advised against this to date.
	
	The Internal Audit advice from RSM is included in Pages 2-3 of the cover sheet.
	
	The guidance defines College activities as Primary and Non-Primary purpose trading activities.
	
	Non primary purpose trading activities:
	
	• Hiring of facilities, including:
	    o Sports hall and grounds
	    o Conferencing and room hire
	    o Adrian Mann Theatre (AMT)
	• Nestots Nursery
	
	The Non-primary trading activities provide both services to staff and students and generate activity with the general public and so these activities have potential corporation tax implications.
	
	In response to a Governor question, the Deputy Principal confirmed that Rasika was VAT registered.
	
	The Nescot Corporation is an exempt charity and is able to use a wholly-owned non-charitable subsidiary (Nescot Enterprises Ltd) to undertake a significant non-trading activity. Should the subsidiary be liable to corporation tax on any full cost profits, this may be minimised by donating the profit to the parent charity using corporate gift aid. However, the current activity levels of Nescot Enterprises are not currently sufficient to generate a tax liability.

	The report confirms that the College's current investment in its other dormant subsidiary companies is minimal and will not give rise to Corporation Tax issues. The report recommends that 1. Nestots: The College should determine whether Nestots would generate a surplus or loss on a full-cost basis. The Deputy Principal asserted that the nursery would currently make a loss if full-costs were applied. Also if the Nursery were moved to Nescot Enterprises Ltd a separate OFSTED number would be required. ELT are considering an option to expand the nursery which currently has a waiting list. Should this be progressed within the 2020/21 capital programme, the status of the nursery will be reviewed. 2. The non-primary trading activities be reviewed on a full-cost basis to identify potential losses or surpluses. If a loss is forecast, the activity should not be transferred to Nescot Enterprises Ltd. 3. There is some duplication in the RSM recommendation with 3 effectively replicating 1. 4. Nestots is large enough to register as self-assessment for tax purposes but only if operating on a full-cost basis in profit. Separate legal advice suggest that the College should do this and the Deputy Principal is currently preparing the necessary documentation. 5. 4 Year period analysis regarding VAT. Currently, no disclosure is required. The Deputy Principal confirmed that an analysis of these areas on a full cost basis over the last four years demonstrates that none of the non-primary purpose trading activities are generating a profit and therefore there would be no tax efficiency gains by moving any of them to Enterprises Ltd at the present time. The Deputy Principal is seeking legal advice regarding the staff currently employed via Nescot Enterprises Ltd to avoid any legal challenge by staff regarding different terms and conditions of employment. In response to a question the Deputy Principal confirmed that when these staff applied for their current posts the terms and conditions were clearly stated. Other Colleges are using subsidiary companies to employ support staff and the Vice Principal of Selby College has been most helpful. In response to a Governor question, the Principal confirmed that the College HR team are being supportive of the staff employed by Nescot Enterprises Ltd. The Principal also advised the meeting that these staff

	enjoy higher salaries than College employed staff which counterbalances their annual leave allowance and pension scheme. They accepted these terms and conditions when accepting the new post. The Chairman of F&GP requested an update at the next F&GP meeting. The Deputy Principal advised the meeting that she is taking advice from external auditors regarding the best methodology for the repayment of the £50K loan made by the College in 2018/19 to Nescot Enterprises Ltd in order to provide cash flow for the company.
08.19	**Growth Committee report from Monday 9th September**

The Growth Committee met on Monday evening.

1. An update re possible merger and Brooklands.
2. The main subject of the meeting was the presentation of the Sales Strategy based upon five pillars of activity by the Head of Sales, Stefanie Burlison. Stefanie is employed by the College for 2.5 days per week and is looking to recruit new and suitably skilled staff. There is currently a member of the Sales Team on long-term sickness leave which is delaying progress. Stefanie is targeting the "big win" opportunities as a priority in the first instance.
3. Student enrolment September 2019
4. Rasika update.

The Principal advised that the composition of the Commercial Team may need to be reviewed going forward.

09.19	**Nescot Enterprises Board**

The Board met on 19th July immediately after the Corporation meeting and the next meeting is scheduled for Thursday 28th November at 6pm.

The Chairman of F&GP asked whether there should be a separate finance system for Enterprises Ltd which should make management reporting much easier? The Deputy Principal agreed that this is a long-term aim. The current commercial team are very good with the procurement and contract management roles.

10.19	**ANY OTHER BUSINESS**

AOB was discussed under confidential cover.

11.19	**DATES OF FUTURE MEETINGS**

Friday 6th December 2019 at 09.00am

Friday 13th March 2020 at 09.00am

June 19th June 2020 at 09.00am

Decisions

1. The meeting approved the Pensions Discretion Policy 2019.

Actions

1. The Deputy Principal agreed to find out the rate of interest the Fund Managers pay on the cash element and report back.
2. The 14-point Action Plan for the achievement of £660K pay cost/ staff savings will be updated with post enrolment data and presented at the next meeting.

Signed …………………………………

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

Date ……………………

Author	Josephine Carr
File Ref	https://nescotcollege-my.sharepoint.com/personal/jocarr_nescot_ac_uk/Documents/F & GP Committee/6th December 2019