Minutes of the Finance and General Purposes Committee held on Friday 1st May 2020 at 17.00 via Zoom.

Present:	In Attendance:
Mr Peter Stamps (Chair) Professor Sam Luke from 17.30 onwards Ms Margaret Martin Mr Vince Romagnuolo Mrs Frances Rutter (Principal and Group CEO) Attendance 100%	Ms Maria Vetrone – Deputy Principal (Finance and Resources) Mrs Josephine Carr – Clerk to the Corporation

Meeting Reference	Agenda Item
38.19	1. Apologies for absence

No apologies were received, Professor Luke emailed to advise that he would be joining the meeting later.

39.19	2. Declarations of Interest

The Chair reminded Members to declare any interest they may have in any of the items on the agenda.

Professor Luke: unrenumerated Director of NESCOT Enterprises Ltd, North East Surrey College of Technology Trust, NESCOT Holdings Ltd and Epsom Downs Business Centre Ltd.
Mr Stamps: unrenumerated Director of NESCOT Enterprises Ltd.
Mrs Rutter: unrenumerated Director of NESCOT Enterprises Ltd, North East Surrey College of Technology Trust, NESCOT Holdings Ltd and Epsom Downs Business Centre Ltd.
Ms Margaret Martin declared her interest as a member of Ewell Rotary Club and a trustee of Age Concern.

40.19	3. Minutes and Matters Arising

1. The Deputy Principal will try to establish why room utilisation has reduced from 50-42%.

The Deputy Principal advised that utilisation will reduce further because of the campus closure. Usage of College rooms varies considerably during the year and without considerable extra work, there are no evident explanations for these variations. The Deputy Principal advised the meeting that she is looking to refine the monitoring process in 2020/21.

The Chair noted that ordinarily in-year KPIs are compared with those of the previous year; because 2019/20 will be deemed an exceptional year the 2020/21 KPIs will be compared to 2018/19 KPIs.

2. The Committee sickness KPIs will be recorded separately for short-term and long-term sickness going forward. Due to a recent upgrade of the HR system, the sickness data was not available for inclusion in the March KPIs. The data will be available for the April KPIs and the requested split will be available in future KPIs.

The minutes of the meeting held on 13th March 2020 were approved as a correct record. The Chair agreed to add his electronic signature to an electronic copy and later sign a paper copy when next in College.

In response to a member question regarding the implementation of a new finance system and the missed opportunity costs associated with the delay, the Deputy Principal advised that because the Project Manager had left the College the project had effectively stalled and would be re-commenced after the 2020/21 budget setting process had been completed. The missed opportunity costs relate to lost staff time, in particular with regard to the preparation of Management Accounts and the budget-setting process.

The Deputy Principal confirmed that two new Management accountants had joined the Finance Team; one replacing the vacant Assistant Head of Finance post and the second post funded by the conversion of the Assistant Head of Finance's post to that of Management Accountant and additional budgetary funding. One Management Accountant will be responsible for Partnerships and Sub-Contracting and the other with College Business and Support.

The Deputy Principal advised that the new finance staff were not able to manage the implementation of a new finance system project. The College had a number of similar procurement projects and required a specific project management lead; an established post of Project Manager will be included in the 2020/21 budget if affordable.

In response to a member question the Principal advised that there was nothing to update regarding her meeting with Chris Grayling. The College had offered its facilities for use during the pandemic:

- Nescot car park as a park and ride for hospital staff.
- Gym as a temporary mortuary.
- Nestots accepting children of key workers.
- Osteopathy Clinic as a COVID-19 testing centre.

However, the Principal has not received any response regarding the above offer of Nescot's facilities.

The Principal confirmed that the Epsom and Ewell Planning Officers' meeting had been cancelled.

41.19	4. Finance Matters

4.1 March 2020 Management Accounts and impact of COVID-19

The Deputy Principal shared her coversheet with the meeting lifting the highlights from the detailed accounts as at 31 March and forecast to year-end. The Deputy Principal confirmed that the overall position aligns with her previous reports to the April Corporation meetings.

The table on p1 of the coversheet presents the best-case budget and forecasting on a worst-case basis. On a worst-case basis an operating deficit of £2.36M is forecast which represents an increase of £1.5M since the February management accounts where a best case-operating deficit of £709K was forecast.

The constituent elements of the forecast budget were summarised:

- Income £3.9M shortfall at year end.
- Pay Expenditure £10K positive variance; but with variances within this adverse figure.
- Non-pay Expenditure £1.574M positive variance.

In response to a member question the Deputy Principal advised that the worst-case assumption is based upon the College not re-opening before 31st July. The best-case scenario is based upon the assumption that the College will re-open in June. However, the College is not expecting many learners to return to College in June because their programmes will have finished.

The Principal advised that ELT are planning for a number of scenarios regarding re-opening the College. Risk assessments are planned for the week commencing 11th May and ELT estimate that a week of preparation work will be required to ensure that the campus is ready and safe to re-open. All FE students will have finished their programmes by the end of May and the HE students by the third week of June.

The Ofqual consultation regarding how vocational qualifications should be assessed and graded closes on Friday 8th May and the outcome is unlikely to be published until mid-May. At this juncture it would seem unreasonable to expect students to undertake new work for assessment purposes.

ELT expect that some High Need students will return to College this term.

The Deputy Principal reiterated that the financial forecasting to year end 31st July 2020 is being undertaken on a worst-case scenario demonstrating a prudent financial management approach.

The income and expenditure variances may be split into pre COVID-19 and Covid-19 variances.

The Deputy Principal reminded the meeting of the pre COVID-19 favourable income variances:

- £468K High Needs recharging to local authorities.

- £238K School Links and 14-16 Progression Pathways.
- £210K over delivery of AEB with ESFA and GLA.
- £443K Non-levy apprenticeships.
- £168K Additional ESFA funding from claims for Area costs for Advanced Learning
- Loans delivered in 2018-19 in excess of allocation.

- Pre COVID-19 adverse income variances were:
- £1.824M ASTM tuition fees.
- £490K HE tuition fees.
- £289K Levy apprenticeships.
- £81K FE tuition fees.
- £54K Full cost provision fees.
- £38K franchised HE provision.
- £25K Osteopathic Clinic fees.
- £24K Rasika restaurant income.

The specific impact of COVID-19 on College income for the remainder of the year is currently estimated as £2.648M. As at 31st March 2020:

- £870K Apprenticeship income
- £215K ESFA Capacity and Delivery grant
- £350K High Needs recharging as a result of the campus closure
- £550K Full cost income from Gas, Foundations and Osteopathy
- £210K HE fees from Osteopathy
- £184K Catering income
- £123K Commercial activities including Innovations, the Sports facilities, Adrian Mann Theatre and room hire
- £146K Nestots nursery.

Since producing the March Accounts, the ESFA have confirmed that there will be no clawback of the Capacity and Delivery grant of £215K (although supporting documentation needs to be in place for all delivered and planned work placements) and it is highly likely that the Local Authorities will honour their commitments to High Needs Student recharges. The April Management accounts will include this £565K income. In response to the Committee Chair's question the Deputy Principal confirmed that the March accounts already includes the expenditure corresponding to this income. Therefore, the inclusion of this income in the April Management accounts will benefit the forecast operating deficit.

Total pay expenditure is forecast as a favourable variance (underspend) of £10K. This figure principally comprises of:

1. £146K underspent of the wages budget.
2. £136K adverse variance as a result of additional LGPS costs.

The calculation of the underspend of £146K is shown in the table at the bottom of p3 of the coversheet. The Deputy Principal confirmed that the £146K includes the £660K staff savings agreed in July 2019 and shows that £382K have been realised to date. However, the Deputy Principal is not expecting the £382K figure to improve because of the additional activity generated by increased student numbers, in particular the additional 220 16-18-year old students with ESFA lagged funding.

As a result of reduced student fees of £1.824M, ASTM have generated pay cost savings of £296K. The £22K staff costs relating School links and the 14-16 provision relate to the additional staffing costs to deliver the additional £238K provision. All other costs relating to this additional delivery are included in the non-pay costs.

Additional pay cost savings of £150K as a result of furloughing College staff working within commercial services have been included in the March Management Accounts. However, depending upon when the College re-opens this saving may reduce to £130K.

Additional Surrey LGPS costs of £136K. Further to the discussion at the March Corporation meeting, p4 of the coversheet summarises the impact of the annual and triennial valuations received in September 2019 and January 2020 respectively (i.e. after the 2019/20 budget was approved). The College has negotiated a re-classification of its employer risk rating from high to medium which decreases the proposed employer contribution rates down from 26% to 21% with effect from 1st August 2020.

As part of the re-classification of its employer risk categorisation, the College has offered security over College land and buildings worth £6.9M. The College is waiting for Surrey CC to commence this process.

In response to the Committee Chair's question, the Deputy Principal confirmed that she anticipates to receive a further annual LGPS valuation in July/August 2020.

The meeting was asked to note that despite the favourable variance for total pay expenditure, the total income adverse variance impacts upon the ESFA pay expenditure ratio of 66.42% which is 8.25% higher than the College target and above the (pre-COVID-19) sector benchmark of 62.4%. The Deputy Principal advised the meeting that the impact of COVID-19 on this ratio is a problem across the FE sector.

Non-pay expenditure favourable variance of £1.57M compared to £809K forecast at 31st January 2020. The most significant pre-Covid-19 favourable variance was £824K generated by ASTM as a result of courses not being delivered or start dates delayed.

The specific impact of COVID-19 on forecast non-pay expenditure is estimated at £765K. The principal savings being generated by:

- £300K from the cessation of exams.
- £135K from the physical closure of the Nescot campus and the associated energy and maintenance costs.

Segment analysis to the year end on p5 of the coversheet

- Curriculum £1.6M adverse variance against budget representing a 36.3% return
- Subcontracting £484K adverse variance against budget representing an overall return of 27.2%; the adverse variance is principally due to ASTM.
- Commercial activities £160K adverse variance against budget. All Commercial activities have closed down and are forecast to generate a £197K loss at year end.
- Support £114K adverse variance against budget, the majority being attributed to LGPS costs.

ASTM summary P6 summarises actual performance to 31st March and forecasts to 31st July 2020. The forecast operating surplus of £1.163M is £703K behind budget and represents a return of 26.2%. This represents a slight improvement compared to 31st January. The Deputy Principal reminded the meeting that the operating surplus is pure profit for the College and the ASTM Partnership remains a profitable activity for the College.

Capital Expenditure: As at 31st March the capital expenditure programme for capital projects and equipment is forecast an overspend of £117K of which £81K relates to additional IT hardware. However, a number of capital projects have been suspended as a result of COVID-19 and the Deputy Principal anticipates an underspend of approximately £100K at year end for all capital expenditure (Projects and Equipment).

In response to a member question, the Deputy Principal confirmed that any capital savings will be generated from capital projects and not capital equipment. The Deputy Principal confirmed that the capital equipment budget of £734K is forecast to be overspent by £81K at year end and that these funds had been either been spent or committed. The proposed capital expenditure savings will relate to capital projects which have been stalled or delayed due to the COVID-19 together with the release of contingency funds within the capital projects budget.

Cash balances at 31st March were £5.2M and forecast to be £4.8M at 31st July 2020. The Deputy Principal reminded the meeting that the cash balances exclude the £1M invested in the medium-risk investment fund. The valuation of the fund at 31st December 2029 was £1.051M representing a 5.1% return on investment. However, given the volatility of the markets as a result of COVID-19, the valuation of the fund as at 31st March which was received after the March Management Accounts had been prepared, was £830K. Whereas on 24th April, the valuation indicated on the investment portal was £921K.

The Balance Sheet as at 31st March is effectively a pre covid-19 position and remains a strong balance sheet. However, the balance sheet forecasts to year end are behind College targets.

The current ratio has dropped to 2.45 against a target of 3.43. The Deputy Principal reminded the meeting that a current ratio of 2.45 is healthy but behind target for the Nescot Group. The FE Sector average is currently 1 and dropping, which indicates insolvency for the sector as a whole.

The meeting noted that the College's strategy for protecting cash and the availability of cash is enabling the College to manage the COVID situation.

The Deputy Principal confirmed that as at 31st March 2020 the College's ESFA financial health grade remained outstanding. However, this will reduce to good as at 31st July should the worst-case forecast be achieved. This is because EBITDA falls to 2.03% compared to the College target of 9.52%. The sector average is 4.7% and anything above 8% is considered outstanding by the ESFA.

In response to a member question, the Deputy Principal advised the meeting that the College financial health grade will be outstanding if the best-case budget scenario is achieved at year end and good if the most-likely case is achieved, albeit at the upper range of good.

The Deputy Principal advised that the most-likely case of £1.43M operating deficit is achievable. The management accounts forecasting will switch from worst-case to likely case in subsequent months to year-end.

In summary (P9-10), COVID-19 adds £1.733M to the forecast operating deficit within the Management Accounts. As discussed earlier in the meeting, there will be some improvement regarding £565K income identified at risk in the March accounts (Capacity and Delivery Grant and High Needs recharges).

The Nescot Enterprise Ltd accounts are included in the College Group accounts. However, as a result of the pandemic there has been minimal activity for the last six weeks.

In response to a member question, the Deputy Principal advised the meeting that very few of the Government COVID-19 financial assistance schemes apply to NESCOT particularly given that the ESFA will be honouring the 16-18 funding and there will be no claw back regarding ESFA or GLA AEB allocations. As discussed earlier, the College has furloughed staff working within Commercial services with anticipated savings of £130K-£150K. The College is investigating whether it may apply to the Bursary Fund for its supply of laptops to students without access to computers at home for online learning.

The Deputy Principal summarised the KPIs from March Management accounts (P1) most of which had been alluded to earlier in the meeting:

1. Pay expenditure as a percentage of Income is RAG rated red at 66.42% compared to a budget target of 58.17% and sector average is 62.4%.
2. Cash days in hand are 72 compared with budget target of 97. The sector average is 65. The KPI is rated as amber because the KPI remains ahead of the College's Financial Strategy.
3. Adjusted current ratio of 2.45 compared to a target of 3.43 is still healthy particularly when compared to the sector average of 1.

4. EBITDA of 2.03% will impact upon the College's financial health grading. Hence it is red RAG rated.
5. The ESFA Automated financial health grade of good is based upon the worst-case forecast. The Deputy Principal re-iterated that the likely-case forecast will also grade the College financial health as good but at the very top of the grade.

42.19 5. Key Performance Indicators

The Committee KPIs as at March 2020 were screen-shared with the meeting.

The Deputy Principal reminded the meeting that the reasons for the KPIs RAG rated with red crosses had already been discussed as part of the March Management Accounts review.

2.4 Apprenticeship income as a % of income: the Deputy Principal advised that she anticipates little or no improvement by year end as companies will need to recover from the pandemic before recruiting more apprentices.

As discussed earlier, the HR KPIs will be available for the April Management Accounts.

43.19 6. Any other business

In response to a question from the Committee Chair, the Deputy Principal confirmed that the 2020/21 budget process will be completed in time for the July Committee meeting.

Budget 2020/21 Assumptions:

- The College is not making any assumptions regarding possible reduced student numbers as a result of ongoing social distancing requirements until after the Government announcement on Thursday 7th May.
- The Curriculum Planning process finished two weeks ago and is now frozen. The Finance team are translating this into a financial budget; the income streams are set and they are building the corresponding expenditure and balance sheet.

<u>2020/21 Applications:</u> The enrolment team are preparing for a range of different enrolment scenarios (including traditional, on-line and a mixture of both). The Principal reported that some colleges have announced that they will be enrolling in May for both new students and progressing students. ELT are considering bringing enrolment forward and ensuring that the process is predominantly online. However, there is concern that enrolling 16-18 students in May for September courses may result in a high drop-out rate before the October census date. The Principal concluded that the College does not wish to "miss the boat" and is currently considering some 5-6 enrolment scenarios and their associated risks.

The Principal confirmed that the College continues to work with Tribal software regarding online enrolment.

In response to the Chair, the Principal confirmed that as at Friday 24th April and compared to April 2019, FE applications for 16-18-year-olds were up 19% and FE applications for 19+ students were down 19%. The Marketing Team are looking at the profiling of these and will focus their efforts on undersubscribed FE programmes. The meeting noted that the 16-18-year-old student cohort was much larger than the FE 19+ cohort.

A member asked if the paragraph on P11 of the coversheet, "For longer term sustainability, the College continues to review its curriculum offer…." was alluding to the Review of the College's operating model and cost base. Whilst the Terms of Reference for the Review have not yet been agreed by the Corporation, ELT have been looking at the College's provision and identified programmes of insufficient quality and those which are no longer cost effective. ELT has removed some programmes from the 2020/21 Curriculum Plan as a result of this initial review. ELT is also considering a new SMT structure which includes the commercial elements of the curriculum, including the Sales Team. ELT are looking to start the consultation process in September and commence the new SMT structure in January 2021.

COVID-19 has not invalidated this Review, it has highlighted the need for the College to be the correct size with the correct provision for the new normal whatever that may be. The College needs to determine the new operating model as the current curriculum is not profitable enough and this will take up to three years to fully implement because of the Curriculum planning cycle.

The meeting agreed that the review is still valid but that the goal posts have moved somewhat. ELT are expecting increased demand for social care, access to nursing, teacher training and public services programmes and a decrease in travel and tourism programmes. The “new normal” will provide the baseline of the Review once the “new normal” is established.

The Chair thanked the Deputy Principal (Finance and Resources) and the Finance Team for their work in producing the March Management Accounts.

There was no further business and the meeting closed at 18.15.

44.19	**7. Dates of future meetings**
Friday 17th July at 9.00am	

Decisions:

1. The meeting agreed that the review of the operating model and cost base of the College is still valid but that the goal posts have moved somewhat.

Signed ………………………………… Date ………………………

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