# Minutes of the Finance and General Purposes Committee held on Friday 17 July 2020 in Meeting Room B, Skills Park, NESCOT and via Zoom

| Present: | In Attendance: |
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| Mr Peter Stamps (Chair)<br>Professor Sam Luke<br>Ms Margaret Martin<br>Mr Vince Romagnuolo<br>Mr. John Willis (left the meeting at 10.15)<br>Mrs Frances Rutter (Principal and Group CEO)<br>(from 9.00 to 9.30 and 10.30 to 11.00am)<br>Attendance 100% | Ms Maria Vetrone – Deputy Principal (Finance and Resources)<br><br>Mr. Nick Vaughan-Barratt<br><br>Mrs Sandra Dessent – Clerk to the Corporation |

| Meeting Reference | Agenda Item |
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| **38.19** | **1. Apologies for absence** |

No apologies were received.

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| **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: unremunerated Director of NESCOT Enterprises Ltd, North East Surrey College of Technology Trust, NESCOT Holdings Ltd and Epsom Downs Business Centre Ltd.
Mr Stamps: unremunerated Director of NESCOT Enterprises Ltd.
Mrs Rutter: unremunerated 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.
Mr. John Willis: declared his interests as Council member of Chartered College of Teaching, trustee of I can and governor at Meath School Ottershaw and St. Johns School, Leatherhead

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| **40.19** | **3/4. Minutes and Matters Arising** |

The minutes of the meeting held on 1st May 2020 were approved as a correct record and duly signed.

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| **41.19** | **5. Finance Monitoring** |

5.1 Management Accounts May 2020
The Committee received a paper setting out the forecast outturn for 2019/20 as at 31 May 2020, variances against budget and performance against key performance indicators (KPIs).

Given that the forecasting scenario had been switched to a worst-case scenario from best case in March and April 2020, no comparators had been given to previous reporting. Forecasting was now being switched to likely case given proximity to year end. The likely outturns were therefore as follows:

- A likely operating deficit of £410k against budgeted operating surplus of NIL
- Total income of £27,290k representing an adverse variance against budget of £1,758k

It was noted that the specific impact of Covid-19 on forecasted total income at year end was a loss of £587k, and still at risk were full cost income from Gas and Osteopathy £375k; catering income £147k; income generation from the hair salon, sports facilities, Adrian Mann theatre, room hire and Osteopathy clinic (amongst others) £135k; and income from Nestots of £87k.

It was further noted that the income forecast had improved by £2,188k compared to the last report due to a number of income streams having been removed from being 'at risk' from the impact of Covid-19.

- Total expenditure of £27,691k was forecast at year end representing an overall favourable variance of £1,357k

- Total pay expenditure was forecast at £15,947k representing an overall adverse variance of £140K

It was highlighted that the forecasted adverse variance for total income had impacted the forecasted ESFA pay expenditure ratio of 62.05%, which was 3.9% greater than budget but below the pre Covid-19) sector benchmark of 62.4%.

Regarding the specific impact of Covid-19 on forecasted total non-pay expenditure at year end a cost saving of £811k was anticipated, including £430k of cost savings from teaching and teaching support and £334k from the physical closure of the main college site and associated energy and maintenance cost savings.  The Deputy Principal confirmed that the College campus cost savings created by Covid-19 would be reviewed and used to inform the budget preparation process going forward.

A segmental analysis identified the income and expenditure variances against budget for curriculum; subcontractors/partnerships, commercial/enterprises ltd; and support and it was agreed that the financial performance for each individual area should be discussed with the SMT. The Deputy Principal confirmed that the SMT reviewed and discussed the segmental analysis on a regular basis.

It was anticipated that the overspend on capital budgets would reduce as a result of some projects being stopped or paused because of Covid-19.

The Committee thanked the Deputy Principal for a clear and comprehensive set of management accounts and year-end forecasts.

5.2 KPI's May 2020

The Committee received the Key Performance Indicators Scorecards (Finance and General Purposes Committee) for May 2020 which were taken as read.

5.3 Investment Fund Update

The report set out the updated position regarding the College's investment fund with Smith & Williamson, the College's external cash manager up to 30th June.

The report concluded that the financial performance of the investment fund for the three months up to 30th June had been much stronger than in the previous quarter and had generated £97,195 (10.9%) return on investment.  However, in the last six month period the fund had incurred unrealised losses of £61k (5.8%) from a fund valuation of £1.05m on 31st December 2019.

The Deputy Principal advised that there was an opportunity to invest a further £1m into the investment fund (to take advantage of the low point in the financial market), and following discussion on the potential for increasing return on the additional investment against the possible risks, the Committee agreed to recommend to the next Corporation meeting on 24th July that a further £1m be invested in the fund.

5.4 Settlement Payments to College Staff 2019/20

The Committee noted that the settlement payments for 2019/20 were well within provisions.

| 42.19 | 6. Finance Strategy & Budget |
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6.1 Curriculum Planning 2020/21

The Deputy Principal presented a summary of the curriculum planning process for 2020/21 which included funding allocations, curriculum efficiencies for contribution, average class sizes and income per staffed hour, and curriculum changes in terms of student numbers and courses.

It was noted that curriculum plans had implications for all areas of the budget and to help assess the plans it was requested that the slide referring to curriculum efficiencies - contribution be overlaid with actuals.

6.2 Budget 2020/21

This report set out the forecast outturn for 2019/20, the Budget 2020/21 and the forecast for 2021/22 to enable the Governors to review and approve the financial plan for the College Group.

The main headline numbers were as follows:

| Statement of Comprehensive Income | Forecast Outturn 2019-20* As at 31/05 £k | Budget 2020-21 £k | Forecast 2022-22 £k |
|---|---|---|---|
| **Total income** | 27,290 | 30,121 | 33,153 |
| **Total pay expenditure** | (15,947) | (17,798) | (18,966) |
| **Total non-pay expenditure** | (11,744) | (12,305) | (13,234) |
| **Total expenditure** | (27,691) | (30,103) | (32,200) |
| **Operating surplus/ (deficit)** | **(401)** | **18** | **953** |

The ESFA key performance indicators were presented as follows:

| Key Performance Indicators | 2020* | 2021 | 2022 |
|---|---|---|---|
| **Financial health** | **Outstanding** | **Outstanding** | **Outstanding** |
| **Borrowings as % of income** | **0.30%** | **0.20%** | **0.11%** |
| **EBITDA as % of income** | **9.24%** | **9.09%** | **11.63%** |
| **Adjusted current ratio** | **3.14** | **3.25** | **3.89** |

*Note: EBITDA (Earnings before interest, taxes, depreciation, and amortization) – used as an indicator of overall profitability of a business*

The financial summaries are for the NESCOT College Group, encompassing the main College and NESCOT Enterprises Ltd. The College's financial health score remains **Outstanding** throughout the period of the financial plan. A very small operating surplus is planned to be delivered in 2020-21, returning to more significant surpluses in 2021-22 if the Curriculum Growth Strategy is delivered. There are net current assets throughout the financial plan and no borrowings are required. Cash days remain within the College's defined parameters and well ahead of sector benchmarks. The College's balance sheet demonstrates strength through liquidity and solvency, supported by a high level of net assets in the business.

The risks associated with the Budget 2020-21 are significant, given that it is a near-balanced budget with no contingencies, relying heavily on the performance of the College's partners against defined business plans. The College has robust strategic and operational risk registers in place with mitigating action plans that are regularly monitored by management to manage these risks, and which are particularly focused on sustainability and maintaining curriculum quality. The College's most significant strategic risks as recorded in the last update of the strategic risk register (June 2020) relate to:

1. Achievement of funding body and student recruitment targets.
2. Development and implementation of effective and robust business plans for international business, especially EU business in light of BREXIT.
3. Building sufficient management capacity to be able to deal with the continued significant change and turbulence in the sector.
4. Effective management of apprenticeship provision within a viable delivery model.

**Total budgeted income** in 2020-21 is set to increase from total budgeted income in 2019-20 by £1,073k (3.7%) and from total forecast Outturn 2019-20 by £2,831k (10.4%). Forecast Outturn 2019-20 includes the downgrading of a number of income streams that were still at risk at 31 May 2020 from the COVID-19 crisis. From forecast Outturn 2019-20, the growth in total income is mainly from increased 16-19 ESFA lagged funding of £1,681k due to higher student numbers in 2019-20. Other factors include: (1) increased full cost income of £822k, mainly from the College's Rapid Business Development initiative to launch 'Rebuild your future with NESCOT', and from more school links programmes; (2) increased HE tuition fees of £420k from additional take up of HE programmes delivered by the College's partners; and (3) increased ESFA high needs funding of £293k from increased numbers of high needs students in 2019-20. There is a reduction in some funding and fee income from other areas, including non-devolved adult education and 19+ non levy apprenticeships.

**Total budgeted pay expenditure** in 2020-21 is set to increase from total budgeted pay expenditure in 2019-20 by £1,991k (12.6%) and exceeds forecast Outturn 2019-20 by £1,851k (11.6%). The pay budget for 2020-21 includes: (1) additional teaching capacity of £1,347k to support planned growth in student numbers, funding for which is lagged into 2021-22; (2) the full year of teachers' pension employer contributions at a much higher rate of 23.68% costing an additional £387k; and (3) a consolidated cost of living increase of 1% costing £164k.

**Total budgeted non-pay expenditure** in 2020-21 is set to reduce from total budgeted non-pay expenditure in 2019-20 by £936k (7.1%) but is £561k (4.8%) greater than forecast Outturn 2019-20. From the budget in 2019-20, costs have reduced down significantly mainly because of the decline in business from the ASTML direct delivery partnership. From forecast Outturn 2019-20, the increase in total non-pay expenditure is mainly from increased subcontracting of HE provision with an new subcontractor, Applied Business Academy (ABA), which is being developed with a view to conversion to a direct delivery partnership to mitigate the current decline in business through ASMTL.

The key risks to the successful delivery of the Budget 2020-21 are:

1. Deteriorating operating environment due to the **resurgence of coronavirus**, resulting in local lockdown and inability to operate 'Business Mostly as Usual' for a prolonged period of time.

2. Failure to deliver the **ASTM joint venture** budget, because of continued under-recruitment of students and/or higher than anticipated costs of delivery.

3. Failure to deliver **ABA subcontracted activity**, because of under-recruitment of students.

4. Failure to achieve **apprenticeships** income targets, because of an insufficient level of apprenticeship vacancies with employers due to deteriorating market conditions.

5. Failure to achieve **full cost** income targets, because of insufficient sales drive at Director of Faculty level; and lack of ownership in Curriculum of the Sales Strategy.

6. Failure to engage successfully with local authorities and schools to achieve **High Needs** student number targets and funding, because of lack of engagement and ownership of the High Needs Strategy.

7. Failure to receive the full year allocation from the ESFA to cover the **increased costs of the TPS**.

8. Failure to operate within the budgeted cost base, because of lack of **financial discipline and loss of control over staffing**.

The Deputy Principal went through the budget commentary with the Committee which gave a high level of clarity and detail on all elements of the budget and having discussed and considered the Budget 2020/21 and the One year forecast for 2021-22 the Committee agreed to endorse the proposals including a 1% staff pay award and recommend them for approval at the next Corporation meeting on Friday 24th July.

| 43.19 | 7. Property Strategy |
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7.1 Capital Programme 2019/20 Update
This report set out the status of the College's capital expenditure programme for the year ending 31 July 2020, as at 29 June 2020 and provided a RAG rating for each individual project.

It was noted that the forecast for all planned and unplanned capital works on completion was £920.9k, representing an underspend of £123.5k against the original budget.

7.2 Capital Programme 2020/21
The Committee received the final draft of the 2020/21 capital expenditure programme which included new projects aimed to enhance the development of the College estate in accordance with the updated Estates Strategy 2023.

The value of the proposed programme was £1,671k which had been included in the College's capital budget for 2020/21.

It was noted that the proposals were aligned with the Estates Strategy 2023 and responded positively to feedback from students and staff regarding College facilities and infrastructure.

The Committee were advised that the cash flows had been modelled and were affordable from within the College's own cash reserves with no requirement for borrowing.

Subsequently the Committee agreed to endorse the proposals for the capital programme 2020/21 and recommend it for approval at the Corporation meeting on 24th July 2020.

7.3 Capital Bids 2020/21
The Committee received a report listing all the capital bids and allocations considered by the Senior Management Team (SMT) in the main consisting of bids for the procurement of capital equipment i.e. IT/computer equipment, classroom equipment and furniture.

It was noted that the proposed programme was made up of bids that demonstrated an alignment with achieving the College's strategic objectives.

The bids agreed by the SMT totalled £778.581 (£734,547 2019/20) of which £325k had been ringfenced for further upgrading of the College's IT infrastructure and network.

Accordingly, the Committee endorsed the Capital Bids 2020/21 and agreed to recommend the proposals at the Corporation meeting on 24th July.

| 44.19 | 8. Accounting and Funding Matters |
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8.1 ESFA College Accounts Directions 2019/20
The Committee received a copy of the College accounts directions 2019 to 2020 issued by the ESFA detailing the financial reporting requirements. The Deputy Principal confirmed that there were no major changes from the previous directions and the document was taken as read.

8.2 ESFA Funding Rules 2020/21 and Summary changes
The Deputy Principal advised that the ESFA had published separate funding rules for each programme area as follows:

- 16-19 young people's funding
- ESFA Adult Education Budget (AEB)
- Advanced Learner Loans
- Apprenticeships (still awaited for 2020/21)

It was noted that the GLA had published its own funding rules for Adult Education Budget (AEB)

The Deputy Principal confirmed that there were no significant changes from the previous year in any of the programme funding rules, and the College had processes and systems in place to ensure compliance with the ESFA and GLA Funding Rules for 2020/21.

It was noted that the implementation of the Apprenticeship reforms continued to be a challenge, and the additional requirement to comply against the GLA AEB funding rules added to the complexity of the College's compliance framework and workload for monitoring, reporting and control.

## 45.19 9. Subcontracting

9.1 Subcontracting Supply Chain – Fees and Charging Policy/Published Fees and Charges 2020/21
The Committee received a draft of the College's policy and published fees and charges for 2020/21 designed to maximise the amount of funding that reaches front line delivery of high-quality learning.

A summary of the ESFA's requirements was set out along with the College's rationale for sub-contracting engagement which aligned with the strategic aims and targets of the College.

The supply chain fees and charges 2020/21 were summarised as follows:

- The charges relate to the cost of the College's quality assurance and administration for subcontracting and will be calculated each year based on the outcome of the due diligence process.
- The charges cover the delivery of all College processes from course set-up; enrolment; CIS reporting; linked Quality OTL; internal audits; monthly CMOM meetings; and training and other related support to ensure the contract is delivered according to agreed KPIs.
- Charges are applied as follows:

| Total Weighted Score | Quality Assurance and Administration Fees Charged to recover costs |
|---|---|
| 100-175 | 15% |
| 176-522 | 20-25% |
| 523-875 | 25-30% |
| 876-1280 | 30-40% |

The report concluded that the policy document was unchanged from the previous year except for reference to a detailed tender process that was undertaken in 2019/20 to arrive at the comprehensive preferred supplier listing for subcontracting at the College which would be published on the College's website once approved.

Having considered the draft Subcontracting Supply Chain Fees and Charging Policy 2020/21 the Committee endorsed the documents and agreed to recommend the draft for approval at the Corporation meeting on 24th July 2020.

9.2 Subcontractors and Allocations 2020/21
Following a procurement exercise the Director for Strategic Partnership and Delivery presented a report setting out initial funding allocations to subcontractors for 2020/21 split into three categories; ESFA non devolved (Adult Education Budget (AEB), Community Learning and 19+ Traineeship); GLA devolved (Adult Education Budget); Apprenticeships (includes 16-18 and 19+ across England) and Advance loans (Level 3).

The Committee were informed that following audit recommendations the College had reviewed its practices, consulted with legal advisors and drafted specific guidance leading up to the invitation to tender process in February 2020 which produced over 120 high quality bids.

Following a strict due diligence process, the following subcontractors were selected for engagement:

| | Subcontractor | ESFA AEB | ESFA AEB (19+ Traineeship) | ESFA AEB Community Learning | ESFA Advance Loans | GLA AEB | 16-18 Apprentices | 19+ Apprenticeship | Higher Education OfS |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Applied Business Academy | | | | | | | | £875,800 |
| 2 | Surrey County Council (SOLD) | | | £40,000 | | | | | |
| 3 | Best Training London South Ltd | £100,000 (Procured) | | | | | | | |
| 4 | Free To Learn Ltd | £419,016 £72,146 (Procured) | | | | £150,00 | | | |
| 5 | Aspire Sporting Academy Ltd | £126,878 | | | | | | | |
| 6 | British Academy of Jewellery | | | | | £100,000 | | | |
| 7 | In2Skills Ltd | £126,878 | £95,260 | | | | | | |
| 8 | Simply Academy Ltd | | | | | | | £120,307 | |

Risk management was discussed, and the risks were considered to be low.

Accordingly, having reviewed the subcontractor proposals the Committee approved the allocation of funding to the subcontractors listed above for 2020/21.

## 46.19 10. Financial Statements Audit Strategy 2019/20

The Committee received the Financial statements audit strategy for the year ended 31 July prepared by Macintyre Hudson which summarised the auditor's approach to the audit of the College's financial statements for the year ending 31 July 2020.

It was anticipated that an overall financial statements materiality of £270k based on the 2020 projected outturn. Materiality levels were based on revenue balances. The external auditors will report misstatements found in excess of £13,500: 5% of materiality.

Having reviewed the Financial Statements Audit Strategy 2020, it was approved by the Committee.

## 47.19 11. Any other business

There being no other business the meeting closed at 11.00am

## 48.19 Date of next Meeting: Friday 25th September (tbc)

Decisions:

1. The Committee agreed to recommend the proposed 2020/21 budget and 1% staff pay award to the Corporation Board on 24th July 2020.
2. The Committee agreed to recommend an additional £1m being placed in the investment fund managed by Smith & Williamson to the Corporation Board on 24th July
3. The Committee agreed to recommend the Capital Programme 2020/21 to the Corporation Board on 24th July 2020.
4. The Committee agreed to recommend the Capital Bids 2020/21 to the Corporation Board on 24th July 2020.
5. The Committee agreed to recommend the draft Sub-contracting and Supply Chain Fees and Charging Policy 2020/21 to the Corporation Board on 24th July 2020.
6. The Committee approved the allocation of funding to the subcontractors listed in the report for 2020/21.
7. The Committee approved the Financial Statements Audit Strategy 2020.

Actions

8. Segmental analysis to be discussed with SMT
9. Curriculum plans for 2020/21 – planned contributions slide to be overlaid with actuals.

Signed ………………………………… Date ………………………

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