MINUTES OF THE NORTH EAST SURREY COLLEGE OF TECHNOLOGY FURTHER EDUCATION CORPORATION
held on Tuesday 25th February 2020
at 18.00 in the Skills Park Boardroom.

PRESENT*	IN ATTENDANCE
Professor Sam Luke (Chair) Ms Lynn Reddick (Vice Chair) Mr Peter Stamps Mrs Frances Rutter (Principal and Group CEO) Mr Graeme Hodge (Support Staff Governor) Mr Jamie Roberts (Teaching Staff Governor) Mr Simon Enoch Mrs Maureen Kilminster Ms Margaret Martin Mr Vince Romagnuolo	Cliff Shaw - Deputy Principal, Curriculum Maria Vetrone - Deputy Principal, Finance and Resources Dario Stephens - Vice Principal, Planning and Information Systems Josephine Carr - Clerk to the Corporation

* Attendance at the meeting = 86%

47.19	**WELCOME and APOLOGIES FOR ABSENCE**

The Chair welcomed everyone to this additional Corporation meeting.
Apologies for absence were received from Lee Widdows and Chris Muller.

48.19	**DECLARATION OF INTERESTS**

The Chair reminded Members to declare any interest they may have in any of the items on the agenda. Professor Luke, Peter Stamps and Frances Rutter declared their interest as unremunerated directors of NESCOT Enterprises Ltd, which is a wholly owned College subsidiary company. Lynn Reddick declared her interest as the Director of Learning at a specialist provider in Surrey. Margaret Martin declared her interest as a member of Ewell Rotary Club, a trustee of Age Concern and a member of Surrey Chamber of Commerce. Maureen Kilminster noted her former position as the Principal of a College in Surrey.

49.19	**MINUTES and matters arising**

The minutes of the meetings held on 7th February 2020 were approved as a correct record, subject to the date and typographic error on P15, and signed by the Chair.

50.1**9**	**ESFA Finance Model**

The Deputy Principal (Finance and Resources) presented the ESFA papers. In addition to the meeting papers there is a supporting excel file which is too large to include with the papers. The Deputy Principal (Finance and Resources) will make the excel file available on the Governor VLE.

The Corporation is now required to approve and submit a four-year financial return to the ESFA which replaces the former Year-End accounts and financial statement return in December and the 31st July budget submission.

The new four-year return has been built utilising the information available to date and a set of assumptions. To date the College has not been advised of a number of allocations and likely student numbers are currently best estimates given not all students have yet to confirm their intentions for 2020-21.

In response to a member question, the Deputy Principal (Resources and Finances) advised the meeting that the principal driver behind the new return is the very detailed month by month cashflow analysis which enables/facilitates the identification of financial difficulties in-year line by line. Thus, the ESFA believes that this will give it earlier sight of potential College financial difficulties. The meeting noted that not all Colleges prepare their management accounts to include the level of detail and rigour of the Nescot management accounts together with the detailed supporting commentary.

The Deputy Principal (Finance and Resources) advised the meeting that the ESFA timeline for the four-year return next year, 2020/21, will be 31st January 2021 and that this will further impact upon the Governor meeting schedule for 2020/21.

P2 of the coversheet summarises the overview of the four years, final outturn 2018-19; forecast outturn of 2019-20 and forecasts for 2020-21 and 2021-22.

This model is very different to previous ESFA models and does not easily align to the College's management accounts and financial system chart of accounts structure. Therefore, there are some reconciliation differences in the detailed lines, but the overall (bottom line) figures of income and expenditure (at comprehensive income line) and balance sheet (at net assets and reserves lines) reconcile. For instance, the financial statements 2018-19 reported an operating surplus of £269K but the ESFA model reports an operating surplus of £246K. Similarly, the December 2019 management accounts forecast an operating deficit of £913K but the ESFA model reports a forecast deficit of £958K.

The Deputy Principal (Finance and Resources) reiterated that the return represents a forecast based upon the current best information available to the College in February 2020. It is ***not*** a budget. The College's detailed budget process would commence in March and will be discussed at the July Finance and General Purposes Committee and Corporation meetings as in previous years/cycles.

The ESFA model forecasts:
2020/21 Operating deficit of £(192)K.
2021/22 Operating surplus of £766K.

The four ESFA KPIs which are driven by this model show that NESCOT continues to have an outstanding financial health grade throughout the period of this four-year plan.

The meeting acknowledged that the key drivers effectively represent an insolvency test. The College passes this test because it does not have any borrowing, it continues to generate cash and holds cash in the bank and in a medium risk investment fund.

P2: The NESCOT Financial strategy was revised in April 2018 where the income forecasts were downgraded. The College was right to do so as evidenced by the under-recruitment of students in 2018-19 and the corresponding reduction of £4M funding in 2019/20. The other supporting College strategies were realigned with the Financial strategy.

The box at the bottom of P2 summarises the College's expectation of returning to an operating surplus by 31st July 2022. However, these forecasts are predicated by achieving the corresponding student numbers as set out in Faculty Strategies and in the Curriculum Growth Strategy.

P3: The College is looking to continue to grow its core business but is focussing on growing non-government funding streams, in particular, levy funded apprenticeships, High Needs, Full-cost programmes and distance learning.

The College is subject to significant cost pressures, salaries, employer pension contributions and depreciation charges and has little control over these cost pressures. The proposal regarding NESCOT Enterprises Ltd is the only possible option currently available to the College to mitigate the LGPS contributions which are not sustainable in the long-term.

Whilst the College continues to invest in its facilities and estate to maintain its asset value and enhance the student experience, the corresponding depreciation charges also increase. The College has set aside £3M in capital expenditure for 2020/21-2021/22.

Going forward it is essential that the College generates growth in revenue whilst constraining the cost base and increasing blended learning (i.e. increase eLearning and reduce traditional didactic teaching).

P4: Preparation of the Return represents the whole FE sector message to the ESFA: this is not a budget, rather a series of forecasts. In response to a member question regarding the ELT's confidence in the forecasts, the Deputy Principal (Finance and Resources) advised that the financial commentary confirms the assumptions underpinning the forecasts and that these have been agreed by ELT.

The conclusion states that whilst the College Group generated an operating surplus of £269K in 2018-19 it did not deliver the 3% operating surplus target KPI.

The Deputy Principal (Finance and Resources) confirmed that the forecast operating deficit of £913K in 2019/20 is the best-case scenario. The forecast deficit of £192K in 2020/21 includes additional teaching costs being carried in 2019/20 to deliver curriculum for an additional 220 students, with funding received in 2021-22. She reiterated that the forecasts were dependent upon the delivery of forecast student numbers.

The five risks associated with the forecast for 2020/21 (P5) have been taken from the College Risk Register.

The Deputy Principal (Finance and Resources) reminded the meeting that the College continues to generate cash and despite investing £3M in the estate, continues to increase its cash reserves and holds £1M +interest in the medium risk investment fund.

A discussion ensued including the following points:

- The College management accounts are continuing to be the monitoring methodology for the governors.
- The bottom line of the Management accounts and the ESFA return agree. However, the ESFA model "cuts the cake"/analyses the constituent figures in a very different way.
- The Governing Body needs to sign off the ESFA return and so should consider the first submission in detail.
- In subsequent years, the model should not expend as much time to complete.
- The Finance and General Purposes Committee and the Corporation will consider the proposed 2020/21 budget at their July meetings as is the usual cycle.

ESFA Return:

<u>Financial Summary</u>: The forecast reflects the planned growth in income:

2019/20 - £26.881M
2020/21 - £29.039M
2021/22 - £30.963M

Expenditure is forecast to increase but at a slower rate than the income projection. The depreciation charges are forecast to increase from £2.680M in 2019/20 to £2.928M in 2021/22.

Balance Sheet:

Non-current assets: The College is maintaining its asset values which should the College need to borrow from the bank would represent a strong proposition.

Cash held at the bank is projected to grow from £6.5M to £7.4M which does not include the £1M held in the medium risk investment fund.

The LGPS provision continues to increase from £7M to £8.5M, hence the need for the NESCOT Enterprises Ltd proposal.

P3-5 demonstrate how the College's financial planning is aligned with corporate objectives. The reconciliation variances regarding income and the reasons for these are listed on P6.

The 2018-19 final outturn detail is lifted from the 2018-19 financial statements.

P10 details the College's Income and Expenditure forecasts 2019/20 – 2021/22. The Deputy Principal (Finance and Resources) confirmed that the principal reason for the projected increase in income forecast in 2020/21 relates to the lagged funding associated with the additional 220 16-18-year-old students enrolled in September 2019.

The ESFA Teachers' Pension Scheme Grant is shown as £(129)k in 2020/21 to reflect the reduction in transition grant towards the TPS employer contributions.

Total Pay Costs are forecast to increase by £879K which includes both the increase in staff numbers and increased pay costs (pay awards and pension contributions).

The forecast increase in non-pay expenditure of £37£K is associated with the increased student volume.

The Support Staff Governor asked for confirmation that the Teaching Staff expenditure line included all frontline curriculum staff whilst Teaching and Other Staff included LSA's.

P11 Forecast Outturn 2019-20 uses data from the College December Management Accounts.

P13 Forecast 2020/21 and the accompanying annexes detail the assumptions underlying the forecasts.

Annex A: Key funding and finance strategies assumptions translate the student numbers into funding streams. The Deputy Principal (Finance and Resources) advised the meeting that the ASTM forecasts were deliberately cautious.

The forecast for ESFA funded 16-18-year-old students in 2020/21 of 1,858 on P21 aligns with the student numbers on P38. This forecast is based upon current applications received and will be reviewed and updated during the remainder of this academic year and after the September 2020 enrolment.

Of the College funding allocations, only the GLA adult funding for 2020/21 has been confirmed. The GLA have agreed to maintain the 2019/20 level of funding with the College.

P15 Pay costs have been increased to include the additional teaching costs to align with increased student activity but also include efficiencies anticipated by the increased eLearning. The forecasts include a pay award of 3% in 2021-22.

The assumptions used to forecast pay expenditure are listed on P16. The assumptions include the NESCOT Enterprises Ltd recruitment of new professional and business support staff, subject to the approval of the Corporation. In response to a member question, the Deputy Principal (Finance and Resources) confirmed that if these efficiencies are not achieved then the operating deficit is likely to increase by some £300K.

The Staff Governor enquired whether the current contribution rate of 64% is likely to increase with the forecast upward trajectory of pay costs. The Deputy Principal (Finance and Resources) advised that the contribution rate is unlikely to change at this juncture.

A discussion regarding eLearning considered the following points:

- Some areas of curriculum more suited to eLearning than others.
- eLearning needs careful timetabling in a similar vein to Maths and English.
- Faculties have identified some aspects to be developed for eLearning (bespoke) and some off-the-shelf packages.
- It is anticipated that the eLearning element of teaching will increase year on year. However, there will be an optimum level and the need to ensure a good balance of teaching methodologies.
- The additional costs of software, equipment and the development of eLearning have been included in the forecasts.
- The new eLearning officer is skilled in delivering engaging programmes.

P17 2021/22 Forecast. In response to member questions the Deputy Principal (Finance and Resources) advised that it is likely that the College will achieve these forecasts provided that the accompanying student numbers are achieved. The Deputy Principal further reminded the meeting that as per the table on P17, Government funding is in decline and so the College must focus on growing non-government funded income.

P19-20 Capital expenditure 2020/21: £1M is planned for the procurement of capital equipment for curriculum areas and for the ongoing IT infrastructure upgrade.

The Chair asked for confirmation that the four-year return constitutes a reasonable and robust submission which is owned by the whole of ELT. ELT gave their affirmation.

The Corporation agreed that they were happy with the assumptions and explanation provided regarding the proposed submission and confirmed that they understood the submission represented forecasts for 2020/21 and 2021/22 as opposed to actual budgets. The College will follow the annual budget-setting cycle as in previous years.

The Corporation approved the submission of the four-year return to the ESFA.

48.19	**Review of College provision and cost base**

The Chair reminded the meeting that the decision to review the College provision and its cost base was made at the December Corporation meeting. The Principal will present an overview of the project to date. The Chair and Principal reminded the meeting that this Review is absolutely confidential at this stage.

49.19	**Nescot Enterprises Ltd (NEL)**
49.1 Business Plan 2020-24	The Deputy Principal (Finance and Resources) presented the NEL Business Plan which was approved at the NEL Board meeting of Friday 7th February 2020. There are three key agreements, which if approved by the Corporation will be signed by the Chair. The primary drivers for this proposal are: 1. The cost reduction of employer pension contributions to the Surrey LGPS (Local Government Pension Scheme) where the employer contribution is 19%. 2. Repayment of the unsecured loan from the College to NEL made last financial year. The loan agreement and NEL Business Plan must be approved by the HMRC. A discussion ensued with the following pertinent points: • The College has made cautious assumptions about turnover. These may prove much quicker and higher. • It is services not people being provided. • There will be a 140% recharge • There is a two-way Resources Agreement which will be reviewed as the model progresses. • It is proposed that all new vacant support posts from 1st April 2020 will be recruited via NEL. The College has taken legal advice and actions are in place to mitigate the risk of an equality of pay claim. • There will be a service level agreement (SLA) regarding the performance management of NEL staff et al. • This proposal was the only viable option available to the College in terms of cost reduction of its employers' pension contributions.
49.2 Resolution	The Corporation agreed that the Chair should sign the three agreements and resolution. The NESCOT Principal and Group CEO abstained from the vote.
43.19	**CORPORATION MEETING EVALUATION**
Given that the meeting had exceeded its time limit and the length of discussion, no further discussion occurred.	
44.19	**DATE OF NEXT MEETING**
Corporation Meeting and Conference Friday 27th March 09.00 – 17.00	
45.19	**ANY OTHER BUSINESS**
There was no further business and the meeting closed at 21.05	

Decisions made:

1. The Corporation approved the ESFA Integrated Financial Model 2018/19 – 2021/22.
2. The Corporation agreed that the Chair should sign the three agreements between NESCOT Enterprises Ltd and Nescot: the Loan Agreement, the Services Agreement and the Shared Resources Agreement together with the Resolution.

Action agreed:

1. The Deputy Principal (Finance and Resources) to make the ESFA excel file available on the Governor VLE
2. The CEO is to prepare and present the Terms of Reference for the Review of the Curriculum and Cost Base at the next Corporation meeting on 27th March 2020.

Executive Summary:

1. The ESFA 4-year model was approved for submission on 28th February 2020. The model represents a forecast, not a budget and is dependent upon predicted estimated student growth.
2. The 2020/21 budget setting process is ongoing and will be presented to the July F & GP and Corporation meetings as in previous years.
3. Going forward it is essential that the College generates increased revenue whilst constraining the cost base and increasing blended learning.
4. The meeting discussed the work undertaken to date regarding the review of the cost base and curriculum provision agreed at the December Corporation meeting.
5. The Chair signed the agreements supporting the proposal to employ professional and business support staff via NESCOT Enterprises Ltd in order to reduce the College's employer pension contributions to the Surrey LGPS of 19%.

Signed Sam Luke Date …27th March 2020…

Professor Sam Luke, Chair of the Corporation

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