MINUTES OF THE FINANCE AND GENERAL PURPOSES COMMITTEE OF THE CORPORATION HELD ON FRIDAY 07 DECEMBER 2018 AT 09.00 IN THE SKILLS PARK BOARD ROOM (SP216)

PRESENT *	IN ATTENDANCE
Mr Peter Stamps (Chair) Professor Sam Luke Ms Frances Rutter Mr Chris Shortt Ms Margaret Martin	Ms M Vetrone - Deputy Principal, Finance & Resources Mr D Round - Clerk to the Corporation

* *Attendance = 83%*

10.18	APOLOGIES FOR ABSENCE
Gloria Ozolua tendered her apologies for the meeting.	
11.18	**DECLARATIONS OF INTEREST**
Declarations of interest were made by Professor Luke, Mr Stamps and Ms Rutter in relation to their unremunerated directorships of NBS Ltd, a wholly-owned subsidiary of NESCOT Corporation. Declarations of interest in NESCOT Enterprise Ltd, a wholly-owned subsidiary of NESCOT Corporation, were given by Frances Rutter and Professor Luke.	
12.18	**MINUTES**
The minutes of the meeting held on 14 September 2018 were approved as a correct record.	
13.18	**MATTERS ARISING**
The matters arising report (Appendix B) from the previous minutes and other matters carried forward were received and noted. Other matters of report were: - **05.1 Management Accounts July 18 –** the Deputy Principal confirmed that the management accounts included a detailed note on non-cash item such as LGPS as requested by the Committee. **05.3 Student Recruitment 2018/19 -** governors had requested that the College develops a strategy to address the worrying recruitment situation. The Principal reported that a detailed paper was being taken to the Corporation meeting on 13 December. She also reported on plans being developed to establish a presence in Epsom town centre to provide advice and guidance, deliver short courses for adults and promote the College and its courses and apprenticeships locally. This was supported by the Committee.	

33.17 Proposal for External Cash Management Facility – an update was given about the plan to establish an external cash management facility that would provide an improved return. There had been delays caused by the supplier but it was now being progressed. £1m would be lodged for 3 years at a current rate of CPI +3%. In response to questions, it was confirmed that the College could access the facility if it wished to gain access to the funds before the 3 year period but that a penalty would be applied.	
14.18	**FINANCE MATTERS**
14.1 Draft Group Financial Statements & Annual Report 2017 – 2018	The draft financial statements for 2017/18 were presented to the Committee following auditing by the College's external auditors. The final position was a surplus of £26k in the College but a deficit on NESCOT Group operations of £800k. It was noted that the Group deficit reflected the circumstances and timing of the disposal of the College's interest in NESCOT Consortium Limited, which was the legal vehicle for its operation of the College in Jeddah, Saudi Arabia. NBS received a cash dividend payment of £328k from NCL in 2016-17, which allowed a surplus to be shown in the 2016-17 Group accounts. The College's share of the remaining assets of NCL was £428k with a sale price of £1. With the sale being completed in 2017-18, the loss on investments on disposal of £428k materialised in 2017-18 and are recognised in the Group accounts. In addition, NBS paid Capital Gains Tax of £70k. The cash payment of £328k received by the College in the current year was paid by NBS as a donation from reserves earned in 2016-17 and was therefore income to the College but not income to the Group this year, and was therefore removed on consolidation in 2017-18. The total of these transactions was £826k and represented in the consolidated statements as the movement between the College surplus of £26k and the Group loss of £800k. The deficit was therefore an accounting item and did not represent the cash position. In response to questions from the Committee it was confirmed that the College's ESFA financial health status remained unchanged at 'Outstanding'. The outturn surplus of £26k was ahead of the planned budget, which was for a surplus of £14k. It remained below the target set in the College's financial strategy of 3%; this was the return level recommended by the FE Commissioner to provide sufficient reserves for re-investment in the College. All other strategic priorities in the approved finance strategy were achieved.

	The principal risks to the College were highlighted, which would be reviewed by the Audit Committee as part of its role in providing assurance on the annual report and financial statements to the Corporation: - 1. Secure maintenance and management of key information systems and data 2. Achievement of funding body and apprenticeship recruitment targets 3. Management and control of partnership arrangements and subcontractors 4. Management and control of staff costs 5. Business planning of international partnerships 6. Management of the College's commercial activities 7. Management of reform of Apprenticeship provision The report also referenced the cyberattack on the College earlier in the term. The Committee discussed the external review that had been commissioned by the College's internal auditors. This would consider what had happened, its impact and the learning points. The College stated that there had been a lack of investment in the IT infrastructure over the past 10 years. The Committee was advised that the College had been informed that such was the size of the College's data store, it would take two weeks to restore from its backup in the Cloud. The College was urged to consider whether an off-site mirror system could be established. It was requested that the section in the annual report on the College's reputation be reworded **(ACTION: MV).** The Committee also noted that: - • The auditor's opinion was that the College was a 'going concern'. • The College had a strong balance sheet • The College's tangible fixed assets maintained their value • The cash position was also strong • Because of the successful challenge to the LGPS's actuarial assumptions, the 2016/17 accounts were re-stated.

	Other matters of discussion concerned reducing expenditure on management consultancy costs in the senior team and related-party transactions, which were explained by the Principal. **RESOLVED:** that subject the amendments requested by the Committee, the draft Group financial statements and annual report for the year ended 31 July 2018 be approved and commended to the Corporation.
14.2 Draft Management Letter & Letter of Representations	The management letter of the auditors, confirming an 'unqualified' opinion on the annual report and financial statements for 2017/18 was noted. The letter of representations is to be signed by the Chair and Principal at the Corporation meeting on 13th December.
14.3 Post-16 Audit Code of Practice Regularity Questionnaire	The regularity questionnaire was reviewed by the Committee. The self-assessment questionnaire provides support to the Corporation in drafting its statement on regularity, propriety and compliance. It will also be considered by the Audit Committee in considering its opinion on the report and financial statements. The drafted questionnaire referenced the cyberattack on the College's IT systems and the recent public interest whistleblowing disclosure which had been referred to the College's internal auditors for investigation. It was confirmed that the external auditors had reviewed the questionnaire and had provided a statement of assurance. **RESOLVED**: that the Finance and General Purposes Committee approves the regularity self-assessment questionnaire and commends it to the Corporation for signature at the Board meeting on 13th December.
14.3 ESFA Assessment of Financial Status & ESFA Financial Dashboard	The Committee noted the letter from the ESFA which formally confirmed that the College's financial health status was 'outstanding' following receipt of the College's financial forecasts. Financial benchmarking information provided by the ESFA highlighted that: - • Although the College's financial health grade is 'outstanding' for 2017-18 and 2018-19, some of the College's financial indicators continue to deteriorate. These include operating surplus and cash reserves.

	• For 2016-17, only around 25% of colleges were assessed as financially 'outstanding' based on financial results, expected to reduce to less than 20% in 2017-18 and in 2018-19. • The College's financial planning is robust, with accurate forecasting demonstrated from the submission of financial plans and financial returns. • The College has experienced a decline in 16-18 learner numbers since 2014-15. The decline was reversed in 2017-18 with small increases in student numbers although these are expected to decline again in 2018-19 to 1,631 (October 2018 management information). • The College is still heavily reliant on ESFA funding, although other sources of income are increasing (ie from full cost provision, learner loans, and commercial activities). • The College performs strongly for solvency, with short term assets easily able to meet short term liabilities; and a healthy level of cash days in hand. • The College's profitability and cash generation is in decline, although still 'outstanding' against sector benchmarks. • Staff costs as a proportion of total income have increased significantly since 2016-17 and are now above the sector benchmark. Financial plans show staff costs continuing to be high and above sector norms.
14.4 Management Accounts as at 31 October 2018	The management accounts as at the end of October were presented. The Committee noted that the budget had been based on a 'best case' basis. The management accounts reported that: - • An **operating deficit of £41k** is forecast against a budgeted operating surplus of £NIL, representing a break-even/ balanced budget. • Forecast **total income at year end of £28,337k** is ahead of budgeted total income with an overall favourable variance of £375k • The partnership with ASTM had a significant positive variance against budget. • additional high needs recharging from local authorities had benefited the College by £404k ahead of budget;

	• additional 16-18 non levy apprenticeship funding of £326k was forecast. • There were significant negative variances in respect of 19+ apprenticeship levy and non-levy income of £1.03m; also tuition fee income from HE and full cost was down by £332k. • Forecast total pay expenditure at year end of £14,528k is ahead of budget by £457k. In discussion of the presented accounts, the Committee was advised that the opportunities for in-year growth bids were limited this year. Earlier bids to the ESFA had received allocations significantly below the value of the submitted bids. This was because more providers were in the market and allocations were being distributed more widely. The opportunity to maximise income from levy-holding employers should be pursued aggressively before the deadline for the return of company levy monies to the Treasury in April 2019. The accounts also showed that the College was holding staff vacancies at 8% including many teaching staff vacancies. Was this sustainable when deployment data indicated the deployment was 101.7%? The Deputy Principal (Finance and Resources) commented that budgetary pressures on the College indicated that the current curriculum delivery model, particularly in apprenticeships, was unsustainable. Core financial KPI were positive. Cash balances are forecast to be slightly ahead of budget at year end with 97 days cash in hand (budget – 92 days) and well ahead of the College's minimum target of 60 days and the national benchmark of 62 days. The Balance Sheet remains strong at 31 October 2018 with net current assets of £7,556k and an adjusted current ratio of 1:4.04; 94 cash days in hand; and total funds/reserves of £57,876k. Balance sheet forecasts for year end are on or ahead of budget. The Committee noted that the risks of deteriorating financial health and financial deficits due to emerging issues beyond the control of the College in a complex and changing sector operating environment were high. The College was managing the risk, although there were significant pressures on the College's finances. The Committee asked whether there were opportunities

	to grow existing partnerships i.e. ASTM. It was noted that HE growth with this partner was capped by the awarding body. **RESOLVED:** the management accounts as at 31 October 2018 be noted.
15.18	**KEY PERFORMANCE INDICATORS**
15.1 KPI Targets **15.2 F&GP KPIs, October 2018**	The draft financial targets for the Committee's KPI scorecard were reviewed and **APPROVED.** The October F&GP KPIs were noted.
16.18	**PROPERTY MATTERS**
16.1 Capital Projects Update 2017/18 **16.2 Capital Projects Update 2018/19**	It was reported that a number of favourable and adverse variances in the planned capital expenditure programme had resulted in a net favourable variance of £210.9k. Significant cost savings have been made against budget in the delivery of the car park and landscaping project, and the 'Undercroft', to the total value of £120.8k. This was offset by unplanned expenditure on IT infrastructure: the budgeted sum of £250k had been overspent (actual expenditure was £399k). Overall, capital project expenditure in 2017/18 was over budget by £196.8k. The capital project report for 2017/18 was noted. The capital programme for the current year had been significant scaled back because of the need to preserve cash. Reports on specific capital projects were given. In response to questions from the Committee it was reported that £30k-£50k was ring-fenced for accessibility works across the campus. A net saving of £32.5k was forecast for the 2018/19 capital programme. The costs of recovering the IT systems following the cyberattack will be capitalised as systems will have been enhanced during the process. The capital project report for 2018/19 was noted.
17.18	**HUMAN RESOURCES REPORTS**
17.1 Settlement Payments to College Staff 2017/18	The Post-17 Audit Code of Practice states that 'the corporation shall demonstrate that payments in respect of termination are regular, value for money and avoid spending funds on settlements where disciplinary action would have been more appropriate.' Where settlement payments are made the

	Corporation is required to confirm that it has 'taken appropriate professional advice; approved the terms of any final agreement and brought all settlements to the attention of the reporting accountant'/ **RESOLVED:** that the Committee has reviewed and approved the settlement payments for 2017/18
18.18	**COLLEGE TUITION FEES POLICY 2019/20**
The Committee received and considered a report describing the College's policy for tuition fees for the academic year 2019/20. **RESOLVED:** that the tuition fees policy for 2019/20 be approved.	
19.1	**SUBCONTRACTING SUPPLY CHAIN: FEES AND CHARGING POLICY AND PUBLISHED FEES AND CHARGES 2018/19**
In compliance with the ESFA requirement that any subcontracting arrangements entered into by the College meets its strategic aims and enhances the quality of its offer to learners and is not a response to short-term funding objectives, the Committee reviewed a report on the College's subcontracting fees and charging policy for 2018/19. The policy and fees and charges in respect of subcontracting must be published on the College website. It was noted that the policy was risk-based and proposed charges were evaluated individually for subcontracting partners. **RESOLVED:** the Committee approved the draft College Subcontracting Supply Chain Fees and Charging Policy 2018-19.	
20.1	**IRISH COLLEGE OF OSTEOPATHIC MEDICINE**
Details of a proposed partnership with the Irish College of Osteopathic Medicine were reviewed. It was noted that the arrangement was not a subcontract as NESCOT undertook direct delivery and provided the eLearning resources and system platform for the students. Students would study on a block-release basis over the year including attendance on a Saturday. Due diligence had been completed with the partner. The benefits for NESCOT were outlined, confirming a 60% contribution on a fully-costed basis. The Committee noted the report and welcomed the partnership.	
21.1	**GROWTH COMMITTEE**

Minutes and a report of recent meetings of the Growth Committee were received. The progress in developing full business plans for commercial projects was noted. The Committee would not approve the plans but would act as a critical friends and source

of business ideas. Details of the expansion of higher education provision were also discussed as were other matters.

22.2	**COMMITTEE SELF-EVALUATION REPORT**

The Committee's report on the evaluation of its effectiveness of the past 12 months was considered. Following discussion the following areas were identified as priorities for the Committee in 2018/19: -

- The oversight of business planning for College enterprises, financial reporting and the monitoring and scrutiny of performance.
- The growth of more diverse income streams (through the Growth Committee)
- To provide a focus on core student recruitment, particularly for young students
- The review of emerging financial risks

23.18	**ANY OTHER BUSINESS**

There was no further business and the meeting closed at 10.55

24.18	**DATES OF FUTURE MEETINGS**

Friday 08 March 2019 9.00am and Thursday 20 June 2019 6.00pm.

Signed ………………………………… Date ……………………

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

Author	David Round
File Ref	C:\Users\david\OneDrive - North East Surrey College of Technology\NESCOT Folders\Nescot Corporation\Finance and General Purposes Committee\FGP 071218\Minutes of the Meeting\FGP 071218 Minutes approved by Chair.docx