# WEST NOTTINGHAMSHIRE COLLEGE
# FINANCE & ESTATES COMMITTEE

***Minutes of the Finance & Estates Committee Meeting held in the Board Room, Derby Road site on Thursday 28 February 2013 at 4.10 pm***

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| **BOARD MEMBERS PRESENT:** | Terry Dean<br>Asha Khemka<br>Colin Sawers<br>Chris Winterton<br>David Overton (Estates matters only) |
| **ALSO IN ATTENDANCE:** | Maxine Bagshaw, Clerk to the Corporation<br>Andrew Martin, Deputy Principal/Director of Finance<br>Tom Stevens, Executive Director: Capital Projects & Estates |

| | | ACTION by whom | DATE by when |
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| **13.01** | **DECLARATIONS OF INTEREST** | | |
| | The Chair reminded those present to declare at the start of the meeting any interests that they may have on any items on the agenda. No interests were declared. | | |
| **13.02** | **WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE** | | |
| | Apologies for absence were received from Kate Allsop, Hari Punchihewa, Malcolm Hall and John Robinson. | | |
| **13.03** | **MINUTES OF THE MEETING HELD ON 6 DECEMBER 2012** | | |
| | AGREED: that the minutes of the meeting held on 6 December 2012 were a correct record and were signed by the Chair. | Chair | 28 Feb 2013 |
| **13.04** | **MATTERS ARISING FROM THE MINUTES** | | |
| | Members reviewed the minutes and the following was discussed/noted: | | |
| | • Hair & Beauty Department is positively redirecting existing customers and offering loyalty vouchers. Members were advised that, at the next meeting, a report would be presented detailing the marketing and promotion strategies in place and planned for Hair & Beauty, Spa etc. | Principal | 2 May 2013 |
| | • Sports Hall – Members were advised that the College has come to a commercial agreement with Baggaleys Construction, this was finalised in December 2012. Members` attention was drawn to the detailed report, appendix 2 which shows the outcome of the negotiations (page 16). The College has signed off the costs and the final accounts for this element of the new build property strategy. | | |

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Unfortunately, since concluding agreement, Baggaleys have gone into administration. The College is to write to the Administrators and confirm that they are holding retention monies which will offset the agreed costs to the College. Members were advised that the letter to the Administrators was slightly delayed as the College was waiting for final advice from Deloittes in relation to the possibility of beneficial VAT status in relation to the project.

- In relation to the complications experienced in relation to the Sports Hall project, members indicated that they would wish to see a post project evaluation report. This report to identify clearly, issues that arose and lessons learned for the future. It was agreed that development of this post project report would be undertaken in conjunction with Governors, and that a meeting would be arranged. All Governors acknowledged that it would be incredibly remiss of them as a Committee not to identify lessons learned.

  ED:CP&E

  22 June 2012
- VAT position in relation to the Sports Hall development – Members were advised that the VAT assumption made was that the College would not get a return, but it was felt that there was benefit in trying to influence the VAT status and at least pursue the possibility of a VAT refund. Unfortunately, any opportunity to recoup VAT has been lost, given that any VAT recouped would have had to come from Baggaleys (approximately £400k). Now that the company is in administration, this avenue cannot be pursued. The positive side of this is that the College is now able to open up the Sports Hall more widely for commercial use.
- Sports Hall warranties – Members were advised that the College has an opportunity to purchase warranties direct from the sub-contractors. The College is currently reviewing its position and taking advice from its Insurers on the best way to proceed.

In relation to the Action Progress Schedule, it was agreed that:

Item 1 - Could be removed.
Item 2 - Strategy – remains ongoing for periodic review.
Item 3 - Engineering Innovation Centre – is on the agenda.
Item 4 - Partner and ERU Reporting – is now presented directly to the Board at every meeting. There is no need for this Committee to duplicate efforts. It was agreed that updates to the Board would now also include updates in relation to the Vision Workforce Skills development.
Item 5 – Completed.

AGREED: to note the update provided.

**13.05** **PROPERTY STRATEGY UPDATE**

The Executive Director: Capital Projects & Estates introduced this item and drew the following to members` attention:

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- College capital investment fund (CCIF) – the autumn statements 2012 confirmed £550million of additional capital funding is available for FE colleges in 2013 and 2014. This fund is split into a number of sections:

1) Project Development Fund – a key component of the CCIF is the creation of a project development fund to assist colleges in the implementation of their property strategies and developing capital projects for allocation between December 2012 and March 2013. Eligible colleges will receive allocation of £110k. WNC has submitted an application for £110k to support the cost of professional fees relating to the development of capital projects.
2) College Capital Investment Fund (CCIF) Expression of Interest – this CCIF is available to colleges on a competitive basis. The minimum project will be £3million, the colleges are expected to fund two thirds of the project cost. Projects must be complete by September 2015. Colleges can submit an expression of interest and a detailed application for capital funding at the same time. WNC is proposing to submit an application for funding to support the Engineering Innovation Centre. Applications to be submitted by 1 March 2013, with final decision on 24 May 2013.

Members discussed the proposed bids in detail and acknowledged that it was an incredibly tight timescale to have the Expression of Interest lodged on 1 March 2013. It was confirmed that the application was ready to be submitted in line with previous guidance from the Board regarding the appropriateness of such an application. Members were advised that the decision in relation to these bids were made on a national and not a regional basis. Members` attention was drawn to page 20 of the papers, which show site purchase and phasing for the Engineering Innovation Centre. In a nutshell, if the College is successful in obtaining CCIF funding, then it should be possible to undertake site purchase, phase 1 and phase 2 at the same time. If the College is unsuccessful, then it will proceed on the basis of site purchase and phase 1 only. Members noted that there is a requirement to match fund any successful bid on a 2:1 basis. Members reviewed the details set out at page 21 which breaks down the elements of the bid submitted. Members noted that disposals have been factored into the calculation in relation to Acorn Way and Sovereign Way, it was agreed that if the College is successful in relation to its bid for capital funding, then there would be a need to come back and report to the Board to enable a review of financing/affordability, given the lack of certainty regarding achievement of the disposal monies detailed.

ED:CP&E/ Director Finance — June 2013

Members reviewed the detail of the bid proposed and were happy to:

AGREE: to approve submission of an application for SFA ERG3 grant funding to support the cost of consolidating and relocating all engineering curriculum to Unit C, Gateway 28.

It was noted that if the College is successful in relation to its bid for grant funding, then it will have to undertaken phase 1 and phase 2 together. If the grant funding application is unsuccessful then only phase 1 is affordable. Members were reminded that carrying out the phases separately would be disruptive and more complex in terms of timescales and additional costs, as a result of split contracts with Tradesmen/ Contractors. Phase 2, if done separately, and in isolation, would need to be done out of term time.

Governors, in considering future projects, asked the College to try and fix Consultants fees and Professional fees at a fixed percentage at the point of contract. It was felt that this would then focus their attention on bringing in the contract to budget. The Executive Director: Capital Projects & Estates confirmed that Turner Townsend are subject to a fixed fee on all contracts.

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| Members questioned whether there was the possibility to obtain grant support in relation to potential future plans for Chesterfield Road. It was agreed that this would be reviewed, and a view taken in due course. | ED:CP&E | July 2013 |

- New Build – practical completion achieved on 4 February 2013. Final elements of work, save for significant snagging list, were completed for 22 February. The facility was open to Students on 25 February 2013. Hair & Beauty have moved over to the new facilities, Catering are using the new build on a trial basis.
- Final accounts and preparation – estimated project cost presently around £8k over budget
- Visual Arts Enabling Works – conversion of mezzanine in the Trades Building into decant classroom space commenced on 25 February 2013 and will take approximately six weeks to complete. Estimated completion date is 8 April 2013.
- Generally the Sports Hall is fully operational and functional with no new defects reported.
- A final settlement agreement for £2,141,000 plus VAT, less retention monies was reached with Baggaleys on 17 December 2012. The contract sum approved by the Corporation Board was £2,644,761.14. The final account figure of £2,749,975.19 is £105,214.05 over budget, but this does not take into account the fact that the approved budget excludes the extra cost of £132k for KME Cladding. Members` attention was drawn to page 16 of the papers which gives a detailed final account of the contract variances.

AGREED: to note the update provided.

**13.06** **ENGINEERING INNOVATION CENTRE UPDATE**

The Executive Director: Capital Projects and Estates introduced this item and drew members` attention to the following:

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- On 16 January 2013, the Corporation Board approved the purchase of Unit C, Gateway 28 for £1.32million and relocation of Fabrication & Welding and Motor Vehicle Maintenance for £1.685million.
- Site purchase is slow, delayed by the landlord`s solicitors, draft legal documentation is now available for review. No complications have arisen in the searches.
- RIBA stage C plans are prepared for project, but the delays to obtain planning permission and purchase for the site and time to prepare an acceptable plan have put summer 2013 completion at risk.
- The SFA launched a capital investment strategy for FE in September 2012, a total of £550million for capital investment in the FE sector estate is allocated from June 2013/14 and 2014/15. To support this approach, the College received an invitation from the SFA to attend a capital surgery day on 14 January 2013. The potential for some capital funding to support an Engineering Centre received a favourable response. It was suggested that the College might wish to submit an expression of interest and as previously discussed, the bid for funding support will be submitted on 1 March 2013.
- To support the funding bid, a full RIBA stage C design plan to relocate Engineering has been prepared. This document was circulated for information.

Members acknowledged that the vast majority of discussions regarding this item had taken place earlier in the meeting. It was noted that a condition of being able to submit the application is that a full assessment has been undertaken. This is to be submitted along with completion of a substantial application form. The Executive Director: Capital Projects & Estates provided assurance that the bid could be submitted on time. Members` attention was again drawn to page 20 which sets out the cost difference of the whole scheme, site purchase, phase 1 and phase 2 and the compromise solution, which is site purchase and phase 1 only. It was acknowledged that at this point in time the cost of site purchase and phase 1 is slightly under the budget approved by the Board.

AGREED: to note the update provided.

**13.07 SIX STOREY TOWER CLADDING – TENDER REPORT**

It was agreed that given the commercial sensitivity regarding negotiations in this matter that the minutes of discussions would be confidential and recorded separately.

(David Overton left the meeting at 5.10 pm).

**13.08 FINANCE REPORT – DECEMBER 2012**

The Director of Finance introduced this item and drew the following to members` attention:

- The financial performance for the College and Group is substantially weaker than budget. The continued poor performance of College (a

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loss of £879k) is partially offset by a strong performance across the subsidiary companies. This resulted in an overall Group deficit, after all adjustments, of £135k compared to a budgeted £175k surplus. In the month of December the Group lost £221k compared to a budgeted loss of £224k. Members were asked to note that the data presented was at the end of December, which is prior to the midyear review. The current position is that the College is £292k behind budget.

- The main reason for the slower than expected start to the year is the 16-18 Apprenticeship programme, which has not delivered the volumes of activity planned.
- Total Group turnover for the period is £18.965million, which is some £1,248k short of the phased budget, with under performance of £1,083k against budget for the 16-18 Apprenticeship programme. In addition, a weak performance in the 14-16 NEET programme has also contributed to the reported result, although members were advised that this has started to pick up and can be seen in the January 2013 Management Accounts.
- The operating loss for the Group year to date of £135k is some £291k behind budget, and includes a loss for the College of £879k and strong profit contribution from Skilldrive (£421k) and Safety Plus (£306k). Members were reminded that in relation to Safety Plus, the Board has made a decision to run the company down and bring all of its activities within College provision. To a certain degree, the positive results seen to date are propped up by College support in relation to costs and it is not believed that this is a true reflection of the company's performance. It was acknowledged that a much more transparent view of operations would be obtained once all activity has been passed over to College.
- The College performance includes an overspend on pay costs of around £141k, this overspend is due to senior staff on agency arrangements adding costs way in excess of those budgeted. The main areas of under spend are in teaching and administration. It was noted that senior staff agency costs may reach a £200k figure by the end of the academic year.
- College non pay expenditure is under budget, as would be anticipated considering the shortfall in turnover and the reliance on partner activity. An under spend of £1,038k includes £1,407k of under spend relating specifically to franchise partners with further under spends reported in administration and other operating expenses.
- There is a mixed picture in relation to department performance, Creative Arts £122k, Business, Professional & Continued Education £32k, and Engineering & Transport Skills £28k are the only Schools of Learning showing a significant overall favourable variance with significant adverse variances in Construction, Building Services £62k, Hair Beauty & Complementary Therapies £35k and Healthcare & Education, including Foundation Studies and Community Education £206k. Members discussed Healthcare & Education and it was acknowledged that the original budget set was unrealistic and that the same applied to Hair & Beauty.

- The balance sheet shows borrowing associated with the new build programme with a total value of £6.9million as at the end of December 2012. This has incurred interest costs of £96k in the first four months of the year.
- Short term solvency has declined in December as there was capital expenditure in the month of £1,336k, no further loan draw downs and a Group loss of £221k. Cash balances for the Group as at 31 December 2012 were £5.539million and includes some £3million on medium to long term deposit in order to minimise the interest costs through the borrowing facility.
- The College's financial health was 'satisfactory' at the end of 2012. This simply reflects the debt on the balance sheet.

Members discussed the forecast against actual position and acknowledged that the shortfall in relation to the 16-18 target is a national problem. The Director of Finance confirmed that the national picture is that enrolment is 8.6% down on forecast.

It was noted that from January 2013 all of the costs and income previously attributed to Safety Plus will be embedded within the College.

The Director of Finance expressed the view that January's data and performance was looking much more positive and some income streams seem to be recovering their position. He indicated that it was unlikely that the College would be able to recover entirely, but he was confident in hitting the majority of the targets. It was again acknowledged that, longer term, the Board and the Senior Management Team need to ensure that the College`s core business is viable and there is decreasing reliance on the subsidiary companies as a cushion.

Members were advised that the Apprenticeship programme is currently undergoing a transformation, with a move to engaging with quality partners only. The impact of this will be a smaller management fee to the College, but this should be offset with improved quality and results.

Members took the opportunity to briefly obtain an update in relation to the Vision Workforce Skills company. It was noted that:

- The company will have its own delivery resources.
- The College and the company will try and integrate some of the back office functions at the start of operations, eg, finance, learner records etc, to obtain efficiencies and ensure consistency.
- In the period February to July 2013, the company will be in its transformation period, and costs at this time will be supported by the dowry.
- In 2013/14 the company will have its own trading targets.
- It is envisaged that for the period February to July, the company will operate at an estimated figure of £11.1million, with a healthy surplus expected.

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- Re-energising the business at this time is the biggest challenge. If the company is able to hit its targets, then there is a very positive picture for the company and the College.

In general discussion, it was acknowledged that there was a lot more scope for the College to develop its commercial income/activity and that, to date, this has not been progressed as successfully as desired or required.

AGREED: to note the content of the Finance Report to December 2012.

**13.09** **COLLEGE MID YEAR FINANCIAL FORECAST 2012/13**

The Director of Finance introduced this item and drew the following to members` attention:

- The College Schedule of Business reflects the best practice for the formal review of its finances at the midpoint of the financial year. This review is carried out in January of each year and consists of a series of individual meetings with all College budget holders and subsidiary company managers to assess financial performance, issues or opportunities that have emerged during the year and the impact for the remainder of the year.
- The forecast includes revised financial targets for all budget holders, which, if subject to Board approval, the forecasts will be used to monitor financial performance at budget holder level.
- The College Group approaches the current midyear forecast following two years of strong performance with operating surpluses well in advance of budget. This included, in 2010/11, rapid expansion in the 16-18 Apprenticeship programme, followed by a year of decline, but the unexpected windfall provided by changes to the Skills Funding Agency tolerance limits within the Adult Skills budgets.
- For 2012/13 the College has seen the impact of a new regime for higher education. This, coupled with the ongoing challenges across all Apprenticeship programmes, have made the year more challenging.
- The 16-18 Apprenticeship programme, which will deliver around £1.4million less than budgeted, provides a negative impact to the bottom line in the region of around £350k.
- However, offsetting this position, the College has gained additional Adult Skills budget as a result of the failure of Real Time Training, with the transfer of learners. A similar net contribution to the bottom line is anticipated as long as the College can achieve the targets.
- A number of Senior and Middle Management posts became vacant and the need to cover these posts through consultancy and agency cover has led to disproportionately high costs. This, together with unplanned staff restructuring of £100k, causes the overall staffing costs for the College to breach the budget.
- For the Apprenticeship programme, the budgeted partner costs equated to 71.7% of income. The midyear forecast suggests that this

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cost would be closer to 78.6%. Although partner delivery will be lower than budget, this margin pressure will impact by around £715k on the bottom line and in the current climate is difficult to avoid and will likely continue into the future.

- A similar picture is emerging across the workplace learning (TTG) programme with partner costs of 76.5% expected, compared to a budget of 70.7%, taking a further £250k from the margin contribution.
- During the financial year the College and Safety Plus Training and Consultancy have made moves to integrate activity and merge the company's activity into the College. For the period from January 2013 onwards all income and costs will remain with the College. Safety Plus Training and Consultancy will not trade as an independent company from 2013/14 year onwards. This transfer has had some inevitable cost drag on the College business in the first half of the year.
- The College has begun to see the impact of interest rate costs as the borrowing planned for the capital modernisation programme has begun. However, this has not been at the pace initially expected as the completion of each phase has been behind profile and, ultimately, a little later to reach financial completion. The expected interest cost for 2012/13 is £331k, compared to the £422k anticipated.
- Across the whole of the current financial year, subsidiary company performance has been consistency strong with bksb, Safety Plus Training and Consultancy and Vision Apprentices having a better than budgeted year.
- The transfer of the business of Pearson in Practice is not included in this midyear review of financial performance, but clearly the creation of Vision Workforce Skills Ltd and the transfer of activities will yield a material difference to the overall College performance.
- Total income up to 31 July 2013 is likely to be in the region of £11million, with a potential surplus, depending upon the timing and delivery of the initial implementation actions. In addition to the impact on VWS itself, there will be a favourable impact on Vision Apprentices following the transfer of around 50 ATA employees. All agreed that this provided a number of new opportunities for development to be embraced by the Vision Apprentices Team.
- Now that the major rebuild under phase 2 of the Accommodation Programme is coming to an end, the capital expenditure profile now looks more predictable, with a defined timeline (71 weeks) and a tender cost for the remaining reclad of College buildings. This will be of most relevance to the budget of 2013/14 but will be important in forming the draw down schedules for the secondary borrowing facility and future interest costs.
- bksb is showing an operating surplus of £887k compared to the £856k budget.
- Safety Plus shows income at £865k and operating profits of £306k to the end of December. This is now likely to be fixed, given the transfer of operations to the College.

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- Vision Apprentices – total income of £293k is expected, which is less than the budget of £333k due to the end of the Trackwork programme. However, as a result of a greater proportion of activity being recharged to SME's, the operating profit contribution of £47k is slightly better than the £34k budgeted.
- The delivery of the College accommodation programme is now well in progress and the first half of the supporting borrowing facility has been drawn on to the balance sheet. For the remainder of the year a further £2.7million of the secondary facility is expected to be drawn down taking total long term borrowing up to £11.2million by the end of July 2013.

Members` attention was drawn to page 37, which gives full details of the budget and revised forecast for the income and expenditure account for 2012/13. Members reviewed the data in detail and agreed that the variations were understandable and in line with previous advice to the Board.

AGREED to:

a) Note the content of the report.

b) Recommend that the Corporation Board approve the midyear forecast for the 2012/13 financial year.

**13.10** **AOB**

There were no items of additional business.

**13.11** **DATE OF NEXT MEETING**

The Clerk to the Corporation confirmed that the next scheduled meeting was Thursday 2 May 2013 at 4.00 pm.

Meeting closed at 5.50 pm.

Signed : ______________________________Chair Date: