**WEST NOTTINGHAMSHIRE COLLEGE**
FINANCE & ESTATES COMMITTEE

***Minutes of the Finance and Estates Committee meeting held on Thursday 27th February 2020 at 5.30pm.***

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| **GOVERNORS PRESENT:** | Paul Frammingham, Chair<br>Andrew Cropley, Principal/CEO<br>Charles Heaton<br>Tony Westwater |
| **ALSO IN ATTENDANCE:** | Maxine Bagshaw, Clerk to the Corporation<br>Gavin Peake, Director: IT, Estates & Learning Resources<br>Jon Fearon, Finance Director<br>Mike Firth, ESFA observer |

| | | ACTION by whom | DATE by when |
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| **1** | **DECLARATIONS OF INTEREST**<br><br>The Chair reminded everyone present to declare any interests that they may have on agenda items planned for discussion. Standing declarations were noted. | | |
| **2** | **WELCOME INTRODUCTIONS AND APOLOGIES FOR ABSENCE**<br><br>There were no apologies for absence, with all members of the Committee present. | | |
| **3** | **MINUTES OF THE MEETING HELD ON 30TH JANUARY 2020**<br><br>The minutes were reviewed and it was agreed that they were an accurate record of discussions.<br><br>AGREED: to approve the minutes of the meeting held on 30th January 2020.<br><br>There were no matters arising. | | |

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**4** **ACTION PROGRESS REPORT**

The Committee were happy to note the update provided, and a number of lines were particularly discussed:

- Line 4 – the Finance Director confirmed that the college is awaiting some final legal advice from the ESFA before the cashflow forecast can be updated. He advised that he was able to make some assumptions on a worst case basis, i.e. repayment in April 2020, and thereafter the position would improve. It was explained that the £1.5 million repayment has been agreed, however the legal point to clarify is in relation to the further £1.8 million. There is a broader matter for the ESFA and Lloyds to agree, as it will not just impact upon WNC. He confirmed that the cashflow forecast has been updated in the 3-year reforecasts and that it is this profile that will be used in the management accounts going forward. All agreed that it was timely to review the cashflow forecast as the college is in a much better position than originally envisaged.
- The Committee received details of the executive direct report structure. It was confirmed that a fairly prudent approach has been taken in terms of the financial authority limits and that the values for this have not changed for approximately nine years.

AGREED: to note the content of the update provided.

**5** **MONTHLY MANAGEMENT ACCOUNTS – JANUARY 2020**

The Finance Director presented the management accounts and a number of matters were particularly noted/discussed:

- This is the first time that the college is below budget in terms of sessional staff payments. It was explained that vacancies are being filled, which is a positive position.
- The college has taken a de-risking approach to AEB funding. There has been a decline in the level of activity anticipated, therefore, the decision has been made to take out a substantial amount of the 20% profit originally anticipated on subcontracting activity. The Finance Director explained that, at the midpoint of the year, the college is behind profile in terms of subcontracted activity and therefore needs to take a realistic approach. As a consequence, there has been a reduction in some income assumptions.

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- The college is proactively managing some subcontractor performance and this has to be carefully considered.

The Committee reviewed the summary of capital expenditure, which has been added. They questioned the 40 computers purchased at a cost of £67,162, i.e. circa £1,700 each. It was explained that these are high spec PCs that are purchased instead of iMacs, particularly for the media and design curriculum. The Director: IT, Estates and Learning Resources indicated that the college has the capability to upgrade these and gave assurance that, when new computers are purchased, the old ones are recycled and moved around to other areas in the college.

The Finance Director circulated details of the February 2020 pay report and confirmed that the college is on budget this month and, as previously noted, sessional pay is back on target. He confirmed that pay costs are not a concern to the college and the executive team is looking to introduce some overspend, particularly in relation to maths and English.

The Committee questioned whether the coronavirus is likely to have an impact. The Finance Director confirmed that the college has planned activity and is staffed to provide this. If funding were withdrawn because students were unable to attend, this would be a significant impact in the FE sector and in other areas. It was confirmed that the college is looking at technology solutions so that learners would still be able to access learning, even if unable to attend college premises.

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| A challenge from one member of the Committee was to include student numbers in the management accounts. The Finance Director confirmed that this would be re-introduced for the February 2020 management accounts, but explained that the focus this month had been on finalising the new 3-year model. | Finance Director | Feb. 2020 |

When considering the pay expenditure summary the Committee were assured that this was very well controlled.

AGREED: to note the content of the monthly management accounts and pay report provided.

**6 <u>UPDATED 3-YEAR FINANCIAL PLAN</u>**

The Finance Director introduced this item and explained that the original forecast was based on a model of:

a) The college
b) BKSB

c) The consolidated position.

He indicated that, because of the unknowns regarding the sale date, the decision has been taken to include BKSB performance within the reforecast rather than exclude it.

The Committee considered the assumptions and acknowledged that these were reviewed in detail at the last meeting. The Finance Director confirmed that nothing had changed. Key matters noted were:

- The college turnover in 20/21 will be around £30.85 million overall, in line with the level initially budgeted in 19/20. Including BKSB, 20/21 turnover is £3.65 million, which generates group activity of £34.5 million. This should generate a minimum of £2.37 million EBITDA from the college (£2.2 million draft target), which is 7% of turnover. With the inclusion of BKSB, the EBITDA is £4.08 million. He explained that the percentage of turnover figure is a critical measure for the ESFA and that the sector average/target is a minimum of 8%, therefore the college has a little way to go yet.
- The college has enough cash to begin to pay down its debt.

In terms of an overall summary, it was confirmed that the plan shows:

- A better position than envisaged in the original recovery plan
- The college is cash generative
- BKSB stays within the group because there is currently no certainty regarding the sale date
- The college continues to be a sustainable organisation.

A question from the Committee was whether or not there is a target in place for the college to achieve freedom from debt or whether there is a decision to be taken in terms of how much debt is acceptable. The Finance Director confirmed that the college can pay down debt on its own at a rate of £800k per annum. With BKSB retained, this would be at a +£1 million rate. On this basis, it would take the college 10 years to pay off its debt. A challenge from the Committee was that this would not factor in the risk of changes within the sector, therefore needs to be carefully considered.

The Committee considered the financial information in detail. Key matters brought to governors' attention were:

- Total income £35,013 million
- Balance sheet shows a number of options. If BKSB is not sold, there will be no repayment of EFS, but the college will continue to repay Lloyds at a rate of £800k per annum. This option shows that cash is building, but not significantly in this year. March and April each year are the pinch points and the forecasts show, even in these months, that the college will

maintain a really strong cash position.

- If BKSB is sold in October 2020, the loans will reduce; however, there is potentially still a need to renegotiate the covenants. The sale will mean an annual loss of cash to the college of circa £2.8 million
- If BKSB is sold in April 2021, this will give additional cash to the college for six months; however, at this point, there is no real certainty that the growth strategy can be implemented and evidenced within six months.
- Every six months means an additional £800k cash to the college.
- Throughout all of the forecasts the college maintains a healthy cash position.

The Committee acknowledged that they had been given delegated authority by the Board to agree the final 3-year financial reforecast to be submitted to the ESFA. They were satisfied that the plan presented represents a prudent approach and, on this basis, they were happy to approve for submission.

AGREED: to approve the updated 3-year Financial Plan as presented.

**7** **CURRICULUM PLAN 20/21**

The Finance Director confirmed that the curriculum is undertaking a four stage review. Stage one is complete and the college is now moving into phase two. The focus is:

- Making the position very clear in terms of curriculum intent.
- Redesign with more practical opportunities to learn and less of the 'taught experience'. The aim is, wherever possible, to ensure more work experience. The Committee were advised that the college is close to finalising the A-Level curriculum and that in all other areas staff are working to an April deadline, following which the college will move in to timetabling.

AGREED: to note the content of the update provided.

**8** **INDICATIVE ALLOCATIONS 20/21**

The Finance Director circulated a report and key matters brought to governors' attention were:

- Level 3 maths is 'new money' to the college: this is an additional resource to support maths and English improvements.
- High value programmes is also a new income line. This is provided to significant qualifications including Engineering,

Construction, A-Levels etc., they are given a weighting as they are a government priority. It was explained that the government is particularly good at targeting funding and then the sector responds.

- These are the numbers used within the 3-year reforecast position. This is based on a tool kit which calculates numbers at the R04 return and the R06 check.
- Within the forecast, the net increase to the college is £900k as there are some other small funding lines lost elsewhere.

The Finance Director indicated that, at R06, the college has not received notification of any data errors; therefore, it is expected that the full increase in allocation will be confirmed, plus an increase to offset increasing pension costs. He advised that it is anticipated that confirmation of allocations will be received shortly and may even be before the end of the week.

One member of the Committee questioned the difference in numbers provided between agenda item 9 and 7. It was explained that the indicative allocations are driven by the ILR data, whereas the reforecast includes other elements that are not driven by the ILR, for example high needs funding, bursaries, etc.

AGREED: to note the content of the update provided.

9 **COLLEGE FEE POLICIES 20/21**

The Finance Director introduced the proposed fee policy for 20/21 and, in terms of changes, advised that the college will not be regulated by OfS next year and therefore cannot offer student loans. There are eight continuing learners who will be impacted by this, therefore it is important that the college ensures its HE offer is affordable. It is not expected that the impact will be significant, but the college will need to be flexible regarding monthly payments and direct debits. He confirmed that the college will not be offering credit but, in certain circumstances, will provide for the ability to pay by monthly direct debit. A challenge from the Committee was that any credit policy would need to apply to all provision and not just isolated areas.

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| The Committee considered the fee policy and it was agreed that reference to LLDD learners would be amended to SEND learners. | Finance Director | Feb. 2020 |

The Committee questioned how WNC fees compare to others: it was explained that:

- In relation to adults, the college charges the maximum.
- In relation to apprentices, the college also charges the

maximum, but this does vary based upon prior knowledge, learning, etc.

- In relation to AEB, the college does not always seek the highest price (for example, if the college is looking to stimulate demand). Assurance was given that commercial contributions for all curriculum areas are considered.

The Committee questioned whether there were any Brexit implications, specifically for section 12 of the policy. The Finance Director advised that the Government's direction is that in 20/21 all EU students are to be treated as 'home'. Beyond this, they would need to prove the right to remain: once done, they can continue to access education. It was confirmed that in 21/22 the government will undertake a rewrite of the access eligibility criteria.

AGREED:

a) To note the content of the update provided
b) Recommend that the Board approve the college tuition fee policy for 20/21 as presented.

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| In relation to the course fee credit policy, it was agreed that this needs to refer to all provision, both FE and HE. | Finance Director | Feb. 2020 |

**10** **<u>RISK REPORT</u>**

The Finance Director presented the extracted finance and estates risks and key matters noted were:

- Line 7 – the college needs to obtain written confirmation from Lloyds regarding the breach variation/waiver, if required.
- Line 8 – this is an increased risk, however, the college receives a positive cash position for every month of delay.
- Line 32 – whilst the college has taken some action to recruit, it is taking longer than expected, although the college has made some really good appointments this month.
- Line 12 – is a risk to be removed given that the college will no longer be regulated by the OfS.

The Committee questioned why line 4 continues to be a high risk. It was confirmed that this will be reviewed but remains a risk as the college gets paid throughout the year. The Committee were advised that applications to NTU are now possible through the UCAS system. It is known that some applications have been made, however, the college does not have visibility in relation to this. There is a theoretical risk in terms of the LEP number requirements. The Committee were advised that LEP financial targets are not driven by HE numbers but instead are driven by learners who are engaged in skills. The college believes that it

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can evidence growth in this area. The college has good local apprenticeship growth, both 16-18 and 19+, and there is also growth in terms of 16-18 direct delivery.

AGREED: to note the content of the update provided.

**11** **SUBSIDIARY COMPANY UPDATE**

The Finance Director provided a verbal update and confirmed that both of the Safety Plus companies were subject to striking off applications, and this was concluded on 31st December 2019. VWS and Vision Apprentices continue in the liquidation process and both are still within the window for responses. For one company it is believed that the college is the only creditor. In relation to the other, the pension fund has declared a £400k liability. The college has some large liabilities but there is very little money available to pay creditors.

He confirmed that all was progressing in line with college expectations.

AGREED: to note the content of the update provided.

**12** **ESTATES – EXCEPTIONS REPORT**

The Director: IT, Estates and Learning Resources introduced this item and confirmed that it is a progress report following on from the full conditions update provided six months ago. He confirmed that all category 1 recommendations have been actioned. As an overview he confirmed that the college is making good progress.

AGREED: to note the content of the update provided.

**13** **PROCUREMENT REPORT – TERM 1 ACTIVITY**

The Finance Director provided a verbal update and confirmed that the only significant procurement activity undertaken this academic year was in relation to the gas and electricity supply. He confirmed that there were no other major planned procurement exercises anticipated. The next one will be the bus contract, however, this still has a further 12 months to run.

The Principal indicated that the college is contemplating submitting a bid to the LEP regarding development of the automation and robotics programme, with a project plan being developed for circa £500k. It was confirmed that it is likely to be on the basis of a single source strategy/supplier. All agreed that the Board would need to be comfortable with this and the committee were alerted to the fact that

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a decision would be needed quickly if the bid is successful. The Principal advised that match funding from the college would be 25%.

AGREED: to note the content of the update provided.

**14** **PENSION – IMPACT OF TRIANNUAL REVALUATION**

The Finance Director introduced this item and key matters noted were:

- Nottinghamshire County Council carries out a 3-yearly review of the LGPS pension scheme to identify the level of funding to be provided by each employer. There has been an improvement in the level of funding due to strong capital growth, however, future costs are rising due to the current forecast of a poor return on investment.
- The latest triannual valuation of the fund has been carried out as at 31st March 2019, and the initial draft results are
  a) Total liabilities £5,820 million
  b) Assets £5,415 million
  c) Deficit £405 million
  d) Funding level 93%
- This represents an improvement in the funding level from 87% at the 2016 valuation.
- The main purpose of the valuation is to set employer contributions for the following three years, and the college's indicative rates are:
  a) Current (19/20) 13.6% circa £96k
  b) 20/21 17.2% circa £117k
  c) 21/22 17.2% circa £121k
  d) 22/23 17.2% circa £126k

He confirmed that the view of the pension fund is that BKSB is a college responsibility, therefore, there is just one fund. He indicated that he was in dialogue with MAZARS in terms of the treatment of the pension deficit, i.e. that the numbers belong to the college and therefore should come out of the BKSB accounts. He confirmed that, if agreed, this would simplify the sale and would allow an extra £1 million per year Gift Aid to the college, as this amount would not need to be retained by BKSB to offset the pension liability in the accounts.

It was confirmed that VBSS staff do not have access to LGPS and this therefore mitigates the position for the college.

The impact to the college of the triannual valuation is increased contributions to £185k per annum, with approximately £60k additional costs in 19/20. He confirmed that this is reflected in the new 3 year forecast and midyear forecast.

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AGREED: to note the content of the update provided.

**15** **AOB**

As a matter of additional business the Finance Director confirmed that the college has been approached by a local training provider with a request to take over their business. This is on the basis of a transfer rather than a buyout.

He indicated that the offer needs careful consideration and that the attraction would be that the training provider was graded Ofsted good in 2017 and it would provide a UPIN, and through this we could use VBSS as a provider. He confirmed that there would be a value to the transfer in terms of anticipated learner revenue over the next 18 months.

In terms of why the college would consider this offer, he explained that the college's apprenticeship data is poor and will be turbulent for the next two years. If the college can transfer its apprentices into an alternative UPIN then it would help to give a fresh start to the data. The proposal would also allow the college to integrate with six or seven key levy clients.

The risks to the college are the transferred employee costs but not the pension, as staff are not in LGPS. It is felt that this would open up other opportunities and would represent good integration with current clients, particularly in relation to distribution.

He confirmed that the proposal was subject to detailed due diligence and that the college would need to carefully assess both financial and quality aspects. He reiterated that this is not a business sale and that it is more a matter of the owner wishing to close the company.

The Committee, whilst feeling that there was further merit in exploring the possibility, did challenge that a lot more information would be required, particularly in terms of the identification of the route and potential risks, particularly in terms of creditors.

The Committee challenged in terms of the strategic alignment of the proposal and indicated that the Board would need to be sure it is not taking away from its strategy, i.e. local versus national. The Principal indicated that there may be a transition period where the college would be doing more national work than was originally envisaged, but that this would diminish over time. A challenge from the Committee was that staff would need to be confident that they could manage the quality and retain the desired contracts locally.

The ESFA observer indicated that all training providers are now required to lodge an 'exit plan' with the ESFA. It was agreed that this would be a useful document for the college to review. In terms of the proposal, the Committee were advised that it has potentially a 3-6 month window.

The Committee were supportive of continuing analysis but reiterated that a lot more information would need to be provided to the Board if a firm proposal is to be made.

**16** **DATE AND TIME OF NEXT MEETING**

The Clerk confirmed that the next scheduled meeting was Thursday 26th March 2020 at 5.30pm.

Meeting closed at 7.25pm.

Signed : ____ ____________Chair Date: 08.12.2020