MINUTES

Directorate: **Governance**

Minutes of: **Extraordinary Resources Committee**

Date: **9 March 2020** **Time: 4.00pm**

Venue: **CEO Office, Uxbridge Campus**

Present:	Darrell De Souza	Group Principal and CEO
By telephone:	Alasdair MacLeod	Governor (Chair)
	Steve Owen	Governor
	Sally Westwood	Governor
In attendance:	Pat Carvalho	Principal and Deputy CEO
	Lydia Gathogo	Head of Finance
	Shane Woodhatch	Group Director Finance & Resource Planning
	Tracy Reeve	Clerk to the Corporation

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1. Apologies for absence
There were no apologies.

2. Notification of any urgent items members may wish to raise under Any Other Business
There was no other business.

3. Notification of Interests Members may wish to declare relating to any item
No interests were notified.

4. Minutes of the Resources Committee meeting held on 27 November 2019
The minutes were carried forward for approval to the next meeting timetabled for 24 March 2020.

5. Approval of Integrated Financial Model for Colleges (IFMC)

- ***Mid-Year Forecast 2019/20 and Plan for 2020/21 and 2021/22***

The Group Director Finance & Resource Planning (GDFRP) (SW) presented the consolidated revised forecast 2019/20 and revised plan 2020/21-2021/22. The 16-18 learner numbers against allocation were noted by the meeting: overall HCUC figure of 5,996 (budget 5,942). This over recruitment would have a positive impact on income but this would not affect 2019/20 income due to lagged funding; it would benefit the ESFA allocation for 2020/21.
The historical cost surplus for 2019/20 was now forecast at £1,142,000 compared with the previous forecast surplus of £1,028,000; a favourable variance of £114,000. The meeting noted a detailed narrative giving clear explanation for any variance and reforecast on a line-by-line basis.
Significant variances were highlighted:

INCOME:
Now forecast at £50,532,000 against a budget of £50,460,000:

- *Education income:* £82,000 adverse against a budget of £48,267,000 due to the reclassification of Conditional Funding to Employer services, Higher AEB delivery (in particular ALS), English and Maths and lower Element 3 Funding rates charged to local authorities.
- *Employer services:* £242,000 adverse variance against the budget due to a reduction in SFA contracts and other projects, partly offset by a reduction in staffing costs.

EXPENDITURE:

- *Staff Costs* now forecast at £33,741,000 against a budget of £33,685,000 (adverse £56,000). Savings due to vacant posts were offset by a reclassification of posts from Employer Services. Governors were reminded that the 2019/20 budget assumed all posts were filled for the whole of the academic year.
- *Non-Pay costs* now forecast at £15,649,000 for the HCUC group against the budget of £15,747,000 (positive variance of £98,000). Savings in most areas had been partly offset by higher security, pension and finance costs. The meeting noted that the non-pay efficiency of £200,000 included in the budget had now been removed from the 2019/20 forecast.
- The £438,000 negative variance against the budgeted FRS17 Retirement Benefits Charge of £946,000; this had been revised to reflect the actuarial predictions in the 2018/19 year-end reports.

The meeting considered and discussed the detailed narrative and figures within these overall categories and sought clarification where appropriate.

BALANCE SHEET

- *Cash* was in a strong position with a £19.093m forecast against the budget of £17.415m; positive variance of £1,678,000. This was due to higher receipts of capital grants offset by higher capital expenditure and the repayment of the loan. Cash days in hand were forecast at 129.7 against a budget of 119.3. Fixed Assets was showing a negative variance of £1,916,000 against the budget of £107,602,000 due to the timing of capital expenditure on Armstrong Building, Newton Refurbishment and the IoT Building at Uxbridge. SW reminded the meeting that all three major projects were on-schedule and within budget in relation to the agreed schedules. The current ratio was forecast at 1.96 against a budget figure of 1.74. SW informed the meeting that Reserves as a percentage of income was forecast at 107% against the original budget of 105%. Borrowing as a percentage of reserves was now at 0% compared with the budget of 2%; this was due to the full payment of the one outstanding loan. The EBITDA figure was forecast to stay in line with the budget of 11%. The staffing ratio was now forecast at 68% compared with the budget of 64%. The meeting sought confirmation on what was causing this increase in the staffing costs and was informed that this was due to the budget including the Learner Support Fund (LSF) income. If the LSF income was excluded the 'staff: income' ratio budget would rise to 66%. GDFRP assured Governors that the College SLT were very mindful of the need to aim for the 65% staff: income ratio. It was confirmed that during budgeting work for 2020/21 the SLT would review staffing/income ratio to ensure that the College moved towards the 65% figure. Resources Committee members were assured that the SLT would review staffing requirements through portfolio meetings and adjust accordingly.
- *Financial Health.* It was noted that under the reforecast the College's financial health as assessed by the ESFA would remain at 'Outstanding' for 2019/20 with a score of 290 (against a maximum points score of 300) now forecast against the budgeted 270 score.

➢ ***<u>Plan Years 2020/21 and 2021/22</u>***

The GDFRP presented assumptions for the two plan years, based on the original 2019/20 budget and the revised forecast. It was confirmed that the plan years had been adjusted to allow for known factors such as the ESFA and GLA allocations, increases in pension contributions and NI, and capital expenditure. It was noted that the GLA allocation had already been confirmed but all other allocations were subject to final confirmation so might change.

The plan years showed historical cost surpluses of £1.204m and £1.224m respectively. The cash balances for the two plan years were forecast at £22.383m and £25.726m and Reserves would be at £60.579m and £63.579m.

Income assumptions were based on the following:

- 16-18 allocation – funding for 2020/21 based on confirmed number of students of 6052. This increase included the high value premium funding and the 4% increase to the base rate. The meeting noted that the ESFA High Needs Element 2 Funding for 2020/21 was based on confirmed 558 learners (an increase of 65 on the current year); the second plan year was assumed flat-lined.
- 19+ allocations – no increase assumed in both plan years.
- WBL (Apprenticeship) – an increase of 5% for both ages (levy only) assumed for each of the plan years.
- Institute of Technology – Income for the two plan years was assumed at 50% of the income shown on the Business Plan agreed with the DfE to maintain a prudent approach. However, staff costs were assumed at 100% as were the Estates Costs for the new build. This meant that the Staff Costs as a percentage of income was showing as higher than likely in the two plan years. The meeting noted and approved this prudent approach to the new IoT business. The Chair sought confirmation on whether any progress had been made on the Governors request for an HCUC Corporation member to sit on the IoT Board; it was noted that Steven Cochran (Vice-Chair of the Corporation) had been approved as an ex-officio IoT Board Member in February 2020. DDS informed the meeting that the SLT had been considering the best organisational structure to take forward the business development work in relation to the IoT. The possible concept of a new directorate 'Technical School' encompassing WBL and the IoT was being considered; this would be discussed in more detail at the Governors April 2020 Strategy Day.

The plans assumed a salary increase of 2.4% and 1% respectively and no further pension increases for LGPS or the Teachers' Pension Scheme during the period. The meeting was reminded that LGPS was now fixed at 23.4% for 3 years and TPS at 23.6% for the same period. The Chair sought confirmation on the cost of a 1% pay increase; this was noted as circa £300,000. The staff costs assumed that all posts were filled for the whole of each plan year. The meeting was assured that the annual zero-based staff budgeting exercise was already underway throughout the College to generate a realistic budget for 2020/21. Pay efficiencies of £1,516,000 and £822,000 had been included in the plan years. SW confirmed that there was a contingency provision of £700,000 in the plan years and a further contingency of £300,000 to allow for restructuring costs in the plan years. Expenses in the plan years had been reworked to reflect adjustments made in the forecast 2019/20. Non-pay inflation assumed at 3% in both years. A provision for efficiencies of £225,000 had been included in each of the plan years; this was in relation to the ongoing purchasing work with Tenet. Capital expenditure had been included in the plan years at £4.648m and £3.050m respectively but it was noted that the final capital strategy would not be agreed by Governors until the final budget for 2020/21 was approved in July 2020. Depreciation had been recalculated to reflect the timing of the current projects and assumed future projects.

The KPIs for the plan years were noted: Cash days in hand were shown as 139.3 and 156.5; Current Ratio was shown as 2.27 and 2.58; reserves as a percentage of income were shown as 103% and 106%; and the EBITDA figure would be 10% in both years. The meeting was reminded that the sector average figure for EBITDA was 5%. The meeting also noted that staff costs as a percentage of income would be 68% in each of the two plan years. Governors challenged this increase and noted the following reasons: the College would increase staff costs by 2.4% which amounted to £900k (from the 4% increase to base rate funding); new staff for the IoT assumed at £2m in each plan year; and, all posts were considered filled for the full year but there was actually a vacancy factor of £6.8m for a full year.

The College would retain a financial health category of 'Outstanding' in both plan years. SW highlighted that the key elements of risk in the forecast and plan centred around the assumed 5% growth in Apprenticeship income and the assumed income from the IoT. However, the meeting was assured that this could be partly mitigated by higher than planned Element 3 Funding which the

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GDFRP had just received notification of (circa £378,000 not yet included in this plan). The Group Principal (DDS) confirmed that the mid-year reforecast (as well as the IFMC model) had been discussed and approved by the joint SLT. Governors commended the clear paperwork and very through narrative they thanked SW, LG and the HCUC Finance Team for their work on this revised forecast and plan.

The Revised Forecast for 2019/20 and Plan for 2020/21 and 2021/22 was APPROVED; it would be taken to the Corporation for ratification (31 March 2020).

- ***Integrated Financial Model for Colleges (IFMC) Model***

The meeting noted the detailed IFMC template and the output data in terms of KPIs and forecast. This was in alignment with the data already discussed as generated by the Colleges' Mid-Year re-forecast. The meeting discussed the very useful cashflow information that the IFMC produced for assurance on the College's financial position moving forward.

SW highlighted that the KPIs generated by the IFMC were slightly different from those shown in the mid-year reforecast as the model strips out some income and calculated the KPIs slightly differently; these were slightly better than as previously discussed under the mid-year reforecast. SW also highlighted the anomaly of the Colleges Revolving Credit Facility of £1.5m which cost £6,000 per annum; there was nowhere in the IFMC to include this cost. One further anomaly was also noted: the IFMC staff costs to income ratio calculated staff against income by excluding the income of £1.6m for bursary funding income normally included in HCUC budget calculations. The Clerk confirmed that the Mid-Year reforecast and the IFMC model were also being considered separately by the Corporation Chair and Vice-Chair.

The Resources Committee APPROVED the IFMC submission as presented (under delegated authority from the Corporation).
The IFMC would be submitted to the ESFA to meet the deadline of Friday 13 March 2020.
The IFMC would be taken to the Corporation for ratification (31 March 2020).

- ***Annex A Checklist***

The meeting noted the Annex A Financial Planning Checklist and SW confirmed that all aspects on this checklist had been considered in the completion of the 2019/20 reforecast and the IFMC.
NOTED

- ***College Finance Directors Group (CFDG) letter to ESFA***

The meeting noted a letter dated 5 February 2020 from the CFDG to the Director of Provider Market Oversight at the ESFA. This letter outlined the concerns within the FE sector in relation to the timing, complication and technical difficulties with the completion of the IFMC template. SW affirmed the amount of work that it had taken him to complete the IFMC but asserted that it was a valuable financial modelling tool now that it was finalised; the visibility around the rolling 12-month cashflow forecast was particularly useful. It also removed the ability for Colleges to manipulate their financial data in order to obfuscate any financial concerns.
NOTED

6. To confirm and agree the dates and times for the meetings in 2019/20

The details of the remaining meetings in 2019/20 were noted as follows: Wednesday 24 March 2020 at 10.00am and Wednesday 19 June 2020 at 10.00am.

7. Any Other business

There was no other business. The meeting closed at 5.35pm

Signed ……………………………………… Date …………………………………

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