MINUTES

Directorate: **Governance**

Minutes of: **Extraordinary Resources Committee**

Date: **29 January 2021** **Time: 3.00pm**

Venue: **Online meeting via Zoom**

Present:	Simon Boulcott	Governor
	Darrell De Souza	Group Principal and CEO
	Alasdair MacLeod	Governor (Committee Chair)
	Steve Owen	Governor
In attendance:	Vik Patel	Head of Finance
	Tracy Reeve	Clerk to the Corporation
	Shane Woodhatch	Group Director Finance & Resource Planning

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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 25 November 2020
The minutes were carried forward for approval to the next meeting timetabled for 16 March 2021.

5. Approval of Finance Record

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

The Group Director Finance & Resource Planning (GDFRP) (SW) presented the consolidated revised forecast 2019/20 and revised plan 2021/22. SW informed the meeting that he had not prepared a plan year 2022/23 as the proposed merger with RuTC would make this redundant. The 16-18 learner numbers against allocation were noted by the meeting: overall HCUC figure of 5,693 (budget 6,052). This under recruitment would have a negative impact on income but this would not affect 2020/21 income due to lagged funding; it would be seen in the ESFA allocation for 2021/22.

The historical cost surplus for 2020/21 was now forecast at £1,104,000 compared with the previous forecast surplus of £382,000; a favourable variance of £721,000. 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 £53,288,000 against a budget of £53,665,000 (adverse £377,000):

- *Education income:* £625,000 positive against a budget of £48,267,000 due to the additional funding received for small group and skills recovery work awarded post-budget. There were also higher vulnerable bursary claims. Partly offset by lower recruitment of High Needs, HE and Mainstream learners. The Chair sought clarity on the drop in HEFCE funding which was now £672,000 compared to in excess of £1m during the prior year. SW confirmed that more

HE programmes were now classified within the IoT income (within Services and Other Activities). VP confirmed that the bottom line figure for HE was higher than the prior year at £1.2m but this was lower than the budgeted figure.

- *Services and other activities:* £238,000 adverse variance due to the variation in the catering contract as a result of the pandemic lockdown and college closure.
- *Employer services:* £809,000 adverse variance against the budget due to the impact of Covid-19 on commercial, apprenticeship and IoT provision. Partly offset by a reduction in staffing costs.

EXPENDITURE:

- *Staff Costs* now forecast at £35,024,000 against a budget of £36,344,000 (positive variance of £1,320,000). Savings due to vacant posts were offset by additional posts required to deliver the additional funding awarded post-budget. Also, a reclassification of IoT staff to Employer Services. Governors were reminded that the 2020/21 budget assumed all posts were filled for the whole of the academic year.
- *Non-Pay costs* now forecast at £17,160,000 for the HCUC group against the budget of £16,939,000 (adverse variance of £221,000). Savings in most areas had been partly offset by higher security, pension and finance costs. There had been savings in most areas which had been offset by higher Covid-19 related expenditure within Estates e.g. PPE and cleaning equipment (adverse £214,000), merger costs (£400,000), higher security, and pension finance costs (adverse £49,000).
- The £84,000 negative variance against the budgeted FRS17 Retirement Benefits Charge. This had been revised to reflect the actuarial predictions in the 2019/20 year-end reports plus a 10% increase doe to Brexit and the impact of Covid-19 on market performance.

The meeting considered and discussed the detailed narrative and figures within these overall categories and sought clarification where appropriate. It was noted that the exact merger costs were not yet defined but the forecast contained £400,000 for due diligence and pension costs in the current year. The meeting also noted that RuTC were allowing for merger costs in year. The meeting sought, and was given, confirmation that there was an agreement between the two colleges to split any merger and consultancy costs 50/50 if the merger did not proceed.

BALANCE SHEET

- *Cash* was in a strong position with a £25.424m forecast against the budget of £24.629m; positive variance of £795,000. Cash days in hand were forecast at 161.66 against a budget of 157.25. Fixed Assets was showing a positive variance of £2,846,000 due to the timing of capital expenditure on the Armstrong Building and the IoT Building at Uxbridge. SW reminded the meeting that the College had also received additional funding under the FECA scheme post-budget to improve any building 'dilapidations' and take any buildings from category D to C. Governors were reminded that any work undertaken with this money had to be completed by 31 March 2021. The current ratio was forecast at 2.65 against a budget figure of 2.43. SW informed the meeting that Reserves as a percentage of income was forecast at 140% against the original budget of 138%. Borrowing as a percentage of income was forecast at 0% which was in line with the budget. At a forecast of 11% the EBITDA figure was forecast to exceed the budget of 9%. The staffing ratio was now forecast at 63% compared with the budget of 65%; 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 2021/22 the SLT would review staffing/income ratio to ensure that the College stayed close to 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 2020/21 with a score of 300 (against a maximum point score of 300) in line with the budgeted 300 score.

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- ***Plan Year 2021/22***

The GDFRP presented assumptions for the plan year, based on the original 2020/21 budget and the revised forecast. It was confirmed that the plan year had been adjusted to allow for known factors such as the ESFA and GLA allocations, increases in pension contributions and NI, and capital expenditure. The Deputy CEO informed the meeting that the GLA had now confirmed an increase in the base rate 2021/22 so this could provide some mitigation. The plan year showed a historical cost surplus of £500,000. The cash balance for the plan year was forecast at £27.984m and Reserves would be at 156% of income.

Income assumptions were based on the following:

- 16-18 allocation – funding for 2021/22 based on the same number of students as during the current year (5,693). SW highlighted that this income prediction might change based on the final allocation and the 'toolkit' calculation which would include the uplift in funding and increase in weighting factors. 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);
- 19+ allocations – no increase assumed.
- ESFA ALS Funding – Funding would be lower as it would be based on a lower student number.
- WBL (Apprenticeship) – an increase of 5% for both ages (levy only) assumed for each of the plan years.
- Institute of Technology – Income for the plan year was based on the income shown on the Business Plan agreed with the DfE to maintain a prudent approach.

The plan assumed no salary increase due to the current income projections 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 23.68% for the same period. The staff costs assumed that all posts were filled for the whole of the 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 2021/22. Pay efficiencies of £2,882,000 had been included in the plan year. SW confirmed that there was a contingency provision of £250,000 in the plan year, a further contingency of £150,000 to allow for restructuring costs in the plan year, and a provision of £200,000 had also been included for holiday pay accrual. The plan also included a provision for the apprenticeship levy of 0.5%. Expenses in the plan year had been reworked to reflect adjustments made in the forecast 2020/21 and Non-pay inflation was assumed at 4%. A provision for efficiencies of £270,000 had been included; this was in relation to the ongoing purchasing work with Tenet. Capital expenditure had been included in the plan year at £3.5m but it was noted that the final capital strategy would not be agreed by Governors until the final budget for 2021/22 was approved in July 2022. Depreciation had been recalculated to reflect the timing of the current projects and assumed future projects. SW confirmed that no new loans were assumed in the plan year.

The KPIs for the plan year were noted: Cash days in hand were shown as 191.7; Current Ratio was shown as 2.89; reserves as a percentage of income were shown as 156%; and the EBITDA figure would be 10%. The meeting was reminded that the sector average figure for EBITDA was 5-6%. The meeting also noted that staff costs as a percentage of income would be 67% in the plan year. Governors challenged this increase and noted the following explanation: Staff costs had been fully reworked to annualise all authorised posts included in the forecast for 2020/21 and assumed all posts were filled for the whole year but there was actually a vacancy factor of £5.2m for the full year. As previously noted, a pay efficiency of £2.882m had been included. SW confirmed that this would need to be fully worked through in advance of the issue of the budget for 2021/22 and the scale would be dependent on the final funding allocation for the College for 2021/22. SW assured the meeting that most of this efficiency could be offset by freezing vacant posts for the first six months of the academic year including release of the contingencies listed above. Governors were assured that further work would be required including reviewing financial performance at school level and where intervention was required, possible restructuring would take place at school level to mitigate any shortfall.

The College would retain a financial health category of 'Outstanding' in the plan year with a maximum score of 300 points. 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. The CEO/ Group Principal (DDS) confirmed that the mid-year reforecast had been discussed and approved by the joint SLT. Governors commended the clear paperwork and very through narrative they thanked SW, VP and the HCUC Finance Team for their work on this revised forecast and plan. There were no further questions or concerns from the Governors.

The Revised Forecast for 2020/21 and Plan for 2021/22 was APPROVED; it would be taken to the Corporation for ratification (30 March 2021).

- ***Schedule of Performance by College***

The meeting noted a new schedule which summarised the detailed performance by College for the last three years, the current 2020/21 Forecast and the 2021/22 Plan. This was in alignment with the data already discussed as generated by the Colleges' Mid-Year re-forecast. The meeting discussed this schedule which detailed performance under the following categories:

Income

1. Funding Council Grants
2. Contracts and Academic Fees
3. Other operating income
4. Interest Receivable and Other
5. Total income

Expenditure

6. Staff Costs
7. Other operating expenses
8. Depreciation
9. Interest payable
10. Total Expenditure

Operating surplus/ Deficit

The schedule also included all the financial KPIs over the 5 year period.

SW highlighted the forecast reduction in 16-18 agency income for 2021/22 based on lagged funding as already discussed in the meeting. This would amount to a move from £9.969m to £8.635m at Harrow and a reduction from the current year figure of £24.023m to £23.368m at Uxbridge. The related drop in ALS and Element 3 High Needs funding was also discussed by the meeting. Total income across HCUC was forecast to fall to £54.170m in 2021/22 from the current 2020/21 forecast of £58.734m. The meeting discussed the £2.8m pay efficiencies included in the 2021/22 plan (£1.4m at each college). There was also a vacancy factor of £1.7m at Harrow (47.48 FTEs) and £3.4m at Uxbridge (89.69 FTEs). The meeting asserted their belief that this seemed a high vacancy burden for the colleges to carry without impacting on quality. The meeting discussed the ongoing aim for both colleges to achieve a surplus and SLT confirmed that this should be possible for 2020/21. DDS highlighted this as part of the strategy for the merger – RuTC would be required to be a profitable college in its own right within the HCUC group. The meeting applauded this intent but suggested that in the current pandemic many organisations were finding it not possible to deliver a surplus and SLT should be mindful of this in relation to the 2020/21 financial performance. SW highlighted the strong control framework in place which would manage the cost base but continue to make sure that curriculum staffing was sufficient to allow continued quality delivery. SLT were also hopeful that a strong enrolment in 2021 would reverse the downward enrolment trend post-Covid. DDS also highlighted the additional pots of money that were being made available to colleges to deliver the post-Covid skills recovery programme. Governors were assured that HCUC was making sure it was nimble and agile in order to maximise access to this money and to deliver new programmes; staff were ready to move quickly on the employer engagement agenda that would soon be put in place. The meeting commended this long-term thinking and also reminded SLT that HCUC was in a relative position of strength with £25m cash.

The meeting RECEIVED the College Performance Schedule.

6. December 2020 Management Accounts

The management accounts were taken as read as the current position had already been discussed during the prior agenda item. The historical cost surplus for the period ending 31st December 2020 was £1,807,000 compared to a forecast surplus of £876,000, giving a favourable variance of £931,000.

NOTED and RECEIVED.

7. To confirm and agree the dates and times for the meetings in 2020/21

The details of the remaining meetings in 2020/21 were noted as follows:

- Wednesday 16 March 2021 at 10.00am
- Wednesday 23 June 2021 at 10.00am.

8. Any Other business

- **Budget 2021/22**

SW confirmed that he would start the budgeting process at the end of February 2021. This would have to be a budget which was mindful of the need for efficiencies. It was also noted that there would be two budgets prepared – one for HCUC as a stand-alone option and a joint one with the HCUC and RuTC merger going ahead.

NOTED

There was no other business. The meeting closed at 4.15pm

Signed ……………………………………..

Date …………………………………..

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