

Minutes Finance, Planning and Resources Committee

(All resolutions passed were the unanimous decision of the Finance, Planning and Resources Committee members present unless otherwise stated)

Meeting Title	Finance, Planning and Resources Committee		
Date	19 June 2018		
Members	Mr G. Allen Dr J. Brumwell Mr D. Cheema Mr E. Gilbert Mr J. Hick Mr P. Mayhew-Smith	-	Group Principal / CEO
In Attendance	Ms. R. Devan Mr D. Fraser Mr R Greenaway Mr A.Slade Mr M.Tweedale Mrs H Meredith	-	Director of Finance Director of HR Deputy CEO, Finance and Resources Principal, South Thames College Principal, Kingston College Head of Governance
Key Meeting Outcomes			
1.	APOLOGIES AND DECLARATION OF INTEREST		
1.1	Apologies were received from Mr Hossain and from the Director of Facilities.		
1.2	Members confirmed that they did not have any other new pecuniary or other interest in any item on the agenda other than interests which have previously been declared.		
2.	MINUTES OF MEETING OF 17 APRIL 2018 AND MATTERS ARISING		A.1
2.1	<u>Accuracy.</u> The minutes were accepted as an accurate record and signed by the chairman		
2.2	<u>Matters arising.</u>		
2.2.1	VAT on subcontracting management - The Finance Director had taken advice from the Financial Statements Auditors who do not expect HMRC to attempt to claim backpayments of VAT on subcontracting management from colleges.		
2.2.2	The Director of HR reported on the wellbeing audit work proposed next term to identify any issues of work related stress among staff.		
3.	MANAGEMENT ACCOUNTS TO END APRIL 2018		B.1
3.1	Members received with the agenda the April management accounts which were presented by the Director of Finance.		
3.2	The Chair highlighted the declining trend in the cash forecast even after this year's Institutional Review and the savings proposed in the budget resulting in a the forecast cash position for March 2019 of £5.5m. The Director of Finance confirmed that the Funding profile means that the College cash position is always lowest in March because of the way the ESFA profiles the payment of grant across the FE sector. The cash flow forecast for 2018-19 includes claw back of AEB underperformance in 2017-18.		
3.3	The Chair asked for an update on the College's position in relation to its covenants with the Bank and the Deputy CEO and Director of Finance reported on discussion with the Bank earlier in the week. The bank covenant in relation to the college cash balance applies at the year end. The College was forecast to be within the key covenant ratio of loan to EBITDA of less than 4 at the time of the March management accounts but the April accounts show a minor deterioration (0.02). Exceptionally in the first year post merger the bank are prepared		

to exclude restructuring costs from the ratio. The Chair asked for assurance that management are taking measures to ensure that the college does not breach this covenant, for example using cash to reduce the borrowing if necessary by the end of this month.

3.4

The Director of Finance reported on a number of material changes made to forecasts in the course of May finance meetings that impact on the outturn for the year. The management accounts provide a detailed commentary on each of the headline changes and members asked questions about these, noting that it was unusual for a forecast to change so significantly so late in the year. The most significant change was in the apprenticeship forecast by the Business Centre.

Apprenticeship Income

Funding forecasts indicate that the Apprenticeship delivery by the Business Centre will be £450k below forecast.

Adult Education budget (AEB)

The forecast for ALS delivered to funded adults reduced this month by £160k. The Group will seek to restate the grant allocation for the year so that the forecast delivery of 90% of the original allocation amounts to 97% of the proposed revised allocation.

HE franchising

It has now been identified that the University's reconciliations contain an error and the forecast has been updated to recognise the error.

Adult Learning Loan Bursary funding

The forecast has been updated to recognise the full allocation of ALL bursary funding due to the Group this year. The final reconciliation for last year indicates that the full allocation was 'earned' last year after adjusting for Area Cost allowance and bursary. In addition, a further £86k for last year based on the South Thames College return and £32k based on the Kingston College return were paid this year, and have been recognised as income this year with no additional costs (as the costs were incurred in 2017/18)

Contingency

The contingency forecast last month was intended to cover the risk of not achieving a number of income forecasts. As the Adult Education Budget income forecast had been revised to recognise the under- performance and restatement of the allocation, contingency was revised to £450k. As these risks, as well as a number of other risks have now materialised, the contingency allowance has been eliminated from forecast.

Staff costs

The main positive variance is £186k in relation to the reduction in staff costs.

3.5

Governors asked for early indications from the May management accounts but it was too early for this as review meetings had only just started. Members asked for assurance that there will not be significant further deterioration by the year-end. The Deputy CEO responded by describing the on-going processes of investigating each area to establish the level of assurance behind the forecasts. The areas of greatest risk remaining appear to be ALS and The Business Centre.

3.6

Governors asked for assurance that the forecasts for next year will be more accurate. The Group Principal confirmed the investigative work undertaken this year to discover and eliminate all overspends and unrealistic hopes from the forecasts and therefore create a more realistic basis to build the 2018-18 budgets. The Deputy CEO gave the Business Centre as an example of this process and reported that in previous meetings colleagues in the Business Centre had given quite forceful assurance in the accuracy of their forecasts despite a significant distance between the actual income. As the year progressed this gap was questioned robustly which revealed that the assurances were built on some system weaknesses. This example supported the need for more help and support in parts of the group to enable good levels of accountability and transparency so as to improve the accuracy of their forecasting processes. Similar changes led to the successful previous pre-merger financial turnaround at Kingston College.

<p>3.7</p> <p>3.8</p> <p>3.9</p>	<p>The debtor balance carried forward by South Thames College at the end of 2016/17 included a student debt balance of £1.9million and a bad debt provision of £254k. Part of the student debt brought forward was also included in deferred income at year end. After writing off deferred income and bad debts, there will still remain an element of overstatement of income in previous years that will be off-set against reserves brought forward by South Thames College as part of the process of aligning accounting policies and restating opening balances.</p> <p>Benchmarking – The Chair asked for the benchmarking data in future management accounts to include comparables for cash on the balance sheet.</p> <p>It was resolved: to note the management accounts.</p>
<p>4.</p> <p>4.1</p> <p>4.2</p> <p>4.3</p> <p>4.4</p> <p>4.5</p>	<p>2018-19 BUDGET AND TWO YEAR PLAN C.1</p> <p>The 2018-19 Budget and Two Year Plan was presented by the Deputy CEO and there followed a robust examination of this by members. Items discussed included:</p> <ul style="list-style-type: none"> • The Budget setting process- assurance was sought as to the accuracy of the budgets. The Committee were advised of the extensive process used to construct and establish the 2018-19 budgets. The Committee were also advised that income had been assumed to drop by over £2m compared to the current year but the key issue was whether the level of the assumed decline in income was sufficient. ; • Financial Policy (including Reserves Policy) upon which the 2018-19 budgets have been developed as previously developed with this committee; • Profitability targets –including forecasts for staff utilisation and class sizes at each of the colleges. Members reviewed the planned class sizes noting the plan to increase class sizes at Carshalton from 13-14 to 16. The realism in the plan by allowing for class sizes at Wandsworth of only 13 gave the Chair confidence in the budget. • Income and Expenditure Budgets- Members asked detailed questions about the forecasts and the work involved in calculating these in order to obtain assurance about the College’s confidence in these forecasts. The budget papers included a table on risk allowance and contingency which was reviewed in detail by the committee who also asked about additional risks arising from loss of students due to the Merton/ Carshalton rationalisation. <p>The Chair reminded governors about the letter from ESFA last November on good financial management. The letter advised that cash flow forecasting and monitoring needs to operate effectively on a rolling basis. The Chair asked from September for a 24 month rolling cashflow forecast in the management accounts</p> <p>TWO YEAR FORECAST</p> <p>The Director of Finance presented the Two Year Forecast.</p> <p>The Chair thanked the Director of Finance and Deputy CEO, Finance and Resources for their work in producing the Budgets and Two Year Forecast.</p> <p>It was resolved: to recommend for approval by the Corporation:</p> <ul style="list-style-type: none"> • the Financial Policy set out in the report • the 2018-19 revenue and capital budgets for South Thames Colleges Group ; • the two year financial forecast for South Thames Colleges Group and for its submission to the ESFA.
<p>5</p> <p>5.1</p> <p>5.2</p>	<p>ESTATES STRATEGY D.1</p> <p>The Corporation at their Strategy Awayday on 11 June had received a detailed presentation of the Group Estates Strategy from the Group’s external property consultant and the Deputy CEO, Finance and Resources.</p> <p>The Group Principal / CEO reminded members that the overriding intention is to address the</p>

requirements summarised in the strategy which by reinvestment of receipts derived from any disposals into the college estate, with a focus on responding to previous under-investment at Kingston.

5.3 The paper included a timeline for the decision making process for a number of proposals as below (NB. The decision in relation to the Richmond Road Campus, Kingston relates only to a parcel of land at the rear of the site.)

DECISIONS REQUIRED

Project/Action	Decision	When
1. Kingston - Drapers Court Disposal	To put on market (FPR and GB – July)	June 2018
2. Kingston - Richmond Road Campus	a) To develop a disposal strategy (FPR and GB – July) b) To put on market (GB Oct 18)	June 2018 October 2018
3. Kingston - LEAP Grant	Submit bid by October 18(FPR and GB – July)	June 2018

5.4 Members asked, in order to make fully informed decisions next term, to be provided with the following information:

- details of estates development plans of competitors (colleges and schools) ;
- details of additional longer term spending required, particularly at Kingston College.

5.5 It was **resolved**: to recommend for approval by the Corporation :

- the Estates Strategy and the approach being proposed to deliver the strategy subject to regular progress reports to the Committee and specific approval for each project;
- to put Drapers Court on the market for disposal ;
- to request that Group managers develop a disposals strategy, in conjunction with its property advisors, for the parcel of land behind the Richmond Road Campus at Kingston for consideration at the October 2018 meeting;
- to authorise the group to bid for £5m of LEAP Grant in relation to Kingston College and to submit the bid which would require £10m of matched funding from disposals as set out in the strategy.

5.6 The Chair thanked the Deputy CEO, Finance and Resources and the Group Principal / CEO for their work on preparation of the Estates Strategy.

6. PARTNERSHIP PROVISION REPORT

6.1 The Committee reviewed a report on the partnership provision (subcontracting) delivery by the College in 2017/18.

6.2 It was **resolved** to note the report.

7. DIRECTOR OF HUMAN RESOURCES REPORT

Appdx E

7.1 The Director of Human Resources presented a paper providing detailed metrics for HR issues across the College and took questions from Members on this.

7.2 Members noted that 1,512 staff are currently employed by the Group. The percentage distribution of the workforce across the sites operated by the Group is 11% at Carshalton College, 38% at Kingston College, 20% at Merton College and 31% at South Thames College.

7.3 The staff turnover rate is currently 12.3%, which is based on 186 leavers since 1 August 2017. This results in a projected annual turnover rate of 14.7%, which would be equivalent to 223 leavers. Unfortunately the Institutional Review will affect that turnover which will result in about 320 staff having left during the year representing about 21% of the workforce. A full copy of the IR paper had been reviewed by the Corporation on 11 July and was copied again to members of this committee for review.

7.4 The Group is looking to move those staff who are engaged on sessional flexible arrangement for a number of to a defined hours contract where there continues to be an

- 7.5 on-going requirement.
The absence rate is currently 4.4%, which is based on 7,806 days lost to sickness absence. This represents a 0.92 % reduction with KC having the lowest level of absence rate and the factors identified include the financial performance.
- 7.6 The Group has agreed that UCU can release a workload survey tool although the Group's preference remains-to carry out a detailed wellbeing audit which it plans to undertake towards the end of the current calendar year.
- 7.7 **Modern Slavery and Human Trafficking Statement**
The statement was reviewed by the committee.
- 7.8 It was **resolved** to recommend to the Corporation for approval:
 - 1) the principles and strategy underpinning the Institutional Review 2018 and
 - 2) the Modern Slavery and Human Trafficking Statement;
 - 3) to note the report.

8. REVIEW OF BOARD ASSURANCE RISK AREAS

8.1 Under the Board Assurance Framework and Risk Management Policy each committee provides to the Audit Committee an assessment and opinion on risk areas falling within their Terms of Reference. The committee reviewed the Risk Areas delegated to this Committee as detailed below.

Severity of Risk	Minor <20	Medium 21-34	Critical >35		
Level of Assurance	High	Medium	Low	None	
Assurance	Risk Assessment			Overall Assessment of Assurance Level	Risk Area Responsibility: Governing Body Committee
Risk Areas	Cross Reference to Risk Register	Gross	Net		
Declining Financial Position	5,6	34	36	Amber	FPR
Failure of lack of availability of key infrastructure services	7a,7b,11,15	30	31	Amber	FPR
Staff performance detrimentally impacts on learners	8,9,10	37	16	Amber	FPR
Non compliance with statutory duties i.e. H&S and Safeguarding	12a Health and Safety 12b Safeguarding	30	17	Green	H&S&S
	13 Equality		FPR		
Failure to embrace, co contribute to, or to deliver on the Government and London LEP vision for FE and translate it into the work of the College Group.	19,20	40	20	Amber	FPR

The Deputy CEO reported how the risks had been assessed by College managers and the factors which contributed to each overall risk score.

- 8.2 **Declining financial position**
Members discussed the Overall Assurance Level shown as amber and whether this should be a Low Assurance level. After discussion the committee agreed that the controls and mitigating actions (E.g. contingency in the budget the savings arising from an extensive IR) have happened and therefore felt the amber net risk is appropriate.
- 8.3
- 8.4 After discussion it was **resolved** that:
The Committee was satisfied that the risk level for each of the risks is correct, and that sufficient controls and/or actions are being taken to manage the risks.

9.	MEETING DATES			
9.1	The following meeting dates were agreed for this committee:			
	Tuesday 20 th November 2018	6.30-8.30pm	South Thames College (Wandsworth)	
	Additional Meeting 22 Jan 2019	6:30 -8:00pm	Kingston College/ Conference Call	
	Thursday 7 th March 2019	6.30-8.30pm	Merton College	
	Additional Meeting 30 April 2019	6:30-8:00pm	STC (Wandsworth)/ Conference Call	
	Tuesday 11th June 2019	6.30-8.30pm	Carshalton College	
	The meeting closed at 8:50pm			
	Chair.....Date:.....			
Action points		Responsible	Deadline	Signed off
1.	The Chair asked for the benchmarking data in future management accounts to include comparables for cash on the balance sheet.			
2.	The Chair asked from September for a 24 month rolling cashflow forecast in the management accounts			