

## 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)

<b>Meeting Title</b>	Finance, Planning and Resources Committee		
<b>Date</b>	11 June 2019		
<b>Members</b>	Mr G. Allen Dr J. Brumwell Mr D. Cheema Mr J. Hick Mr P. Mayhew-Smith - Group Principal / CEO		
<b>In Attendance</b>	Ms. R. Devan - Director of Finance Mr D. Fraser - Director of HR Mr R Greenaway - Deputy CEO, Finance and Resources Ms S. Horrell - Vice-Principal, Business and Student Services Mr J. Pemberton-Billing - Principal Carshalton and Merton Colleges Mr A.Slade - Principal, South Thames College Mr M.Tweedale - Principal, Kingston College Mrs H Meredith - Head of Governance		
<b>Key Meeting Outcomes</b>			
<b>1.</b>	<b>APOLOGIES AND DECLARATION OF INTEREST</b>		
1.1	Apologies were received from Mr Gilbert and 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.		
<b>2.</b>	<b>MINUTES OF MEETING OF 30 APRIL 2019 AND MATTERS ARISING</b>		
2.1	<u>Accuracy.</u> The minutes were accepted as an accurate record and signed by the chairman		
2.2	<u>Matters arising.</u> Updates on the following items from the Action Log were taken under Agenda Item 6.		
	FPR committee to receive updates on action being taken to address the Gender Pay Gap across the Group.	DHR	Ongoing
	Report on action being taken to ensure that selection criteria for IR will not result in over selection of staff with protected characteristics to be presented to June 2019 FPR meeting.	DHR	June 2019
<b>3.</b>	<b>MANAGEMENT ACCOUNTS TO END APRIL 2019</b>		
3.1	The April management accounts were presented by the Director of Finance.		
3.2	The group generated an EBITDA of £6.6m against a profiled budget of £4.3m for the year to date. The forecast indicates only a minor change in forecast EBITDA, however, contingency was adjusted to maintain this due to a number of significant variances to income and expenditure forecasts – the most significant were discussed including:		
3.3	<b>Adult Education Budget funding</b> The programme funding element of AEB improved but the additional funding generated has largely been absorbed by a reduction in funding from additional learning support (ALS) for AEB funded learners. The budget for 2018/19 AEB was based on achieving 94% of the allocation for the year, but the current delivery forecast indicates 97.10% of the allocation will be achieved. However it was felt too risky to assume that the College will exceed 97% for the purpose of the management accounts. Should the forecast AEB be achieved, the College's AEB income will be £481k higher than the current forecast. However, as the margin for error is only £13k the risk of failing to meet the allocation was taken into account. Heads of School		

have been advised of the significance of meeting at least 97% of the delivery target and the significant opportunity which this provides for the Group to meet its budgeted EBITDA. If the actual delivery falls below 97% of the allocation, the shortfall will be clawed back by the ESFA after year-end.

3.4

**Staff Costs**

A £240k increase in staff costs was due mainly to agency costs. Governors asked why there had been £2m more of agency costs than budget. The Finance Director explained that the largest need due to the huge growth in High Needs delivery- the staff cost increase associated with increased ALS delivery is £1.023k. In other areas Agency staff are used to cover for recruitment drag and staff absences.

3.5

**Exam fees**

The increase in forecast related mainly to South Thames College (£75k) and the Business Centre (£50k). Some of the increase in the Business Centre is the consequence of delivering additional work books. As exam fees for Merton and South Thames Colleges were not assigned to the Schools in the past, the Schools have no record of their historic spend, and cost estimates could not be tested for accuracy. Governors asked about increased Business Centre expenditure- both staff costs (£103k) and exam fees (£149k) and how the Group plans to improve the accuracy of forecasting by the Business Centre. The Deputy CEO explained the action which has been taken to implement planning processes used by the rest of the College.

3.6

**Financial Health indicators**

The benchmarking data of neighbouring Greater London Colleges had been updated with 2017-18 data. The Group's data in error appears under the name Kingston College.

3.7

The College currently remains under early intervention by ESFA. Indicators are currently that health will be Good. The financial health score will improved significantly following the introduction of disposal proceeds from the sale of Drapers. Should the College achieve 97% of the AEB target, the combined effect of the sale proceeds and improved EBITDA will raise the financial health grade to 'outstanding'.

3.8

The various scenarios in relation to the disposals and AEB delivery are set out below (these do not take account of any other changes)

	Current ratio	Borrowings %	EBITDA %	Total score	Financial health
Scenario A (as above)	>= 2.0	< 30	>6%	230	Good
Scenario B (No disposal, EBITDA as above)	>= 1.2	< 30	>6%	190	Good
Scenario C (No disposal, AEB achieved in full)	>= 1.2	< 30	>7%	200	Good
Scenario D (disposals & AEB achieved in full)	>= 2.0	< 30	>7%	240	Outstanding

3.9

It was **resolved**: to note the management accounts.

4.

4.1.1

**2019-20 BUDGET AND TWO YEAR PLAN**

The 2019-20 Budget and Two Year Plan was presented by the Director of Finance and there followed a robust examination of this by members. Items discussed included:

- **The Budget setting process-** assurance was sought as to the accuracy of the budgets. The Committee were advised of the rigorous process used to construct and establish the 2019-20 budgets from course level income and expenditure built up into school and Group level budgets moderated by reference to historic forecasting accuracy of each School;
- **Finance Policy (including Reserves Policy)** upon which the 2019-20 budgets have been developed as previously developed with this committee;
- **Inflation-** increase in LGPS contribution including an allowance of 1% on the whole year (to compensate for a 3% increase from April 2020). The College will receive a grant to compensate for increase in TPS costs – but the grant allocation was still awaited. Members asked about the level of confidence in this level of LGPS increase noting that currently the LPFA have not yet reviewed the rates post-merger.
- **Forecast 16-18 year old numbers** against plan and after anticipated decline in student numbers.

- **AEB and impact of devolution.** Delivery to students from GLA is £10.5m and non-devolved is £2.2m. Next year devolution to GLA is 10.5m and ESFA 2.45m.
- **Apprenticeships Budget** growth £350k quite risky- including delivering ALS to apprentices.
- **Change in way in which distributed funds or charged contributions from colleges-** Next year where the schools are delivering ALS they will get 2/3 of the ALS funding and applying that assumption the STC contribution increases to 47%. Governors questioned this – another large contributor to the forecast increase in STC contribution rates come from large cost savings being made at STC.  
*The Director of Human Resources joined the meeting at 7.25pm*
- **Key performance indicators**  
Staff costs forecast to increase next year from 62.06% to 63.61 % of income – contributory factors include:
  1. Significant reduction in franchising – with costs of delivery of AEB brought in house as a result;
  2. 1% pay award in budget- cost c£ 200k;
  3. Significantly increased expenditure re increase in ALS – provision with c75% staffing to income ratio.

4.1.2

### **Financial Health Indicators**

The health score is border-line Outstanding if the Group repays £3.4m of the bank loan next year (from Drapers disposal). When spending starts on capital works at KC the financial health grade will return to Good

4.1.3

### **Cashflow**

The Finance Director reported on the accounting treatment of disposals (Wandsworth and Drapers Court) including the disposal costs. Governors asked how cashflow ties into the budget and the Finance Director explained that the capital programme includes disposals and the second phase (not yet been approved). The cashflow has been impacted by bringing forward some cash from previous year and the Chair asked for more capital breakdown on capital costs in relation to disposals.

4.1.4

The Group Principal and Principal of Carshalton and Merton Colleges separately report on the human element of the budget with the Institutional Review taking out another £2m of costs with a result that the Group is starting to lose the confidence of staff who are really angry about the depth of the cuts.

4.2

## **TWO YEAR FINANCIAL PLAN 2019-21**

4.2.1

The Director of Finance advised the Committee that the disposal of 20% of the Wandsworth campus for £4.5m to the DfE represents a net book loss of about £7m. Current advice from the College's auditors on the valuation consequences are that this will result in an impairment in the asset value of the part of the Wandsworth campus retained by the Group i.e. its market value would be treated as less than the value listed on the balance sheet. As a result the net asset value after accounting for the impairment will reduce by £24m to £31m.

4.2.2

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

- the Financial Policy set out in the report;
- the 2019-20 revenue and capital budgets for South Thames Colleges Group;
- to confirm the Reserves Policy for 2019/20 should continue to maintain a year end cash balance of no less than £7.5M with an end of month cash balance of no less than £5M;
- the two year financial forecast for South Thames Colleges Group and for its submission to the ESFA.

5

## **PARTNERSHIP PROVISION REPORT**

5.1

The Committee reviewed a report on the partnership provision (subcontracting) delivery presented by the Vice-Principal, Business and Student Services.

5.2	<p>The report proposed increasing the sub-contracting figure again to allow providing some additional subcontracted provision to those sub-contractors who have overperformed. The report set out in detail reports on delivery by each sub-contractor identifying those performing well and those under-performing.</p>
5.3	<p>The deadline for submission of proposed contracts for 2019-20 is 1 July 2019 and this will be brought to the Corporation on 2 July for approval after submission of the draft bid to the GLA by 1<sup>st</sup> July 2019. The College has received legal advice that it does not need to carry out a procurement exercise so long as no new partners are being introduced.</p>
5.4	<p>It was <b><u>resolved</u></b> to</p> <ul style="list-style-type: none"> <li>• Note the total funding at P9 showing in the ILR ;</li> <li>• Note the progress made by each partner &amp; that the College is forecast to meet its subcontracted budget income;</li> <li>• Note the projected end of year allocations ;</li> <li>• Agree to an additional £309k of AEB subcontracting.</li> </ul>
6.	<p><b>DIRECTOR OF HUMAN RESOURCES REPORT</b></p>
6.1	<p>The Director of Human Resources presented a paper providing detailed metrics for HR issues across the College and took questions on this.</p>
6.2	<p>The Group currently employs 1,464 staff. The staff turnover rate is currently 10.1% based on 148 leavers since 1 August 2018. This results in a projected annual turnover rate of 12.2%, which would be equivalent to 178 leavers. The lowest turnover rate in the Group is at STC which is 5.2%- this is below the average FE college turnover rate. The absence rate is currently 4.0% to 31 May 2019. STC has highest level of performance but also has the highest level of work lost due to stress. Governors asked for more detail on the seniority of leaving staff and for themes from exit interviews.</p>
6.3	<p><u>Gender Pay Gap</u> The IR document identified proposals in response to the Gender Pay Gap data. The proposal identifies potential options for applying the resource allocated to fund the 1% pay increase, with each option providing different levels of progress in respect of closing the Gender Pay Gap. Governors commended the comprehensive nature of this paper which is well thought out noting that the proposals are for a reduction of c18 FTE posts with 36 staff at risk of redundancy.</p>
6.4	<p><u>Staff Disciplinary and Staff Grievance Procedures-</u> The procedures were reviewed by the committee and three amendments suggested. The Disciplinary and Grievance Procedures for SPHs will be reviewed by the Remuneration Committee next term.</p>
6.5	<p><u>Institutional Review 2019.</u> The Committee noted that it had been a very painful process to identify areas for cuts and that consultation with the Trade Unions was still to take place. .</p>
6.6	<p>It was <b><u>resolved</u></b> to recommend to the Corporation for approval:</p> <ol style="list-style-type: none"> <li>1) the principles and strategy underpinning the Institutional Review 2019 and</li> <li>2) The Staff Disciplinary and Staff Grievance Procedures- subject to amendments proposed at the meeting;</li> <li>3) to note the report.</li> </ol>
7.	<p><b>REVIEW OF BOARD ASSURANCE RISK AREAS</b></p>
7.1	<p>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.</p>

Severity of Risk	Minor <20	Medium 21-34	High >35		
Level of Assurance	High	Medium	Low	None	
Assurance Risk Areas	Risk Assessment			Overall Assessment of Assurance Level	Risk Area Responsibility: Governing Body Committee
	Cross Reference to Risk Register	Gross	Net		
Declining Financial Position	5,6	54	20		FPR
Failure of lack of availability of key infrastructure services	7,11,15	56	31		FPR
Staff performance detrimentally impacts on learners	8,9,10	37	21		FPR
Non compliance with statutory duties i.e. H&S and Safeguarding	12a Health and Safety 12b Safeguarding	20	12		H&S&S
	13 Equality	10	5		FPR
	Total	30	17		
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.	20	14	10		FPR

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

8.3 Members discussed whether the committee receives sufficient reports to make a judgment on the risk that 'staff performance detrimentally impacts on learners'. This committee review HR data on staff turnover, sickness and stress but monitoring of the Group Wellbeing Strategy is carried out by the Health, Safety and Safeguarding Committee. It was suggested that the Audit Committee should consider re-allocating this risk to the HSS Committee.

8.4 In relation to the risk relating to non compliance with statutory duties the committee asked for a report on Equality , Diversity and Inclusion for the September meeting of this committee .

8.5 After discussion it was **resolved** that apart from the risk that staff performance detrimentally impacts on learners 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.

## 8. MEETING DATES

8.1 The following meeting dates were agreed for this committee:

Tuesday 17 September 2019	7.00-9.00pm*	Kingston* College / Conference Call
Tuesday 19* November 2019	6:30 -8:00pm	Merton College/
Thursday 23 January 2020	6.30-8.30pm	Merton College / Conference Call
Tuesday 17 March 2020	6:30-8:00pm	Merton College
Tuesday 28 April 2020	6.30-8.30pm	Merton College/ Conference Call
Thursday 11th June 2020	6.30-8.30pm	Merton College

\*indicates meeting date / venue / start time changed subsequently

The Committee noted:

- 1.A Letter from FE Commissioner 7 May 2019 to FE Colleges;
2. A Policy Consultation on LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk May 2019: it was agreed that the College will respond to this consultation. #

The Open Business Closed at 8:45pm and was followed by a confidential session.

Chair.....Date:.....

## Action points

		Responsible	Deadline	Signed off
1.	The Chair asked for more capital breakdown on capital costs in relation to disposals.	DoF	Sep 2019	
2.	Governors asked for more detail on the seniority of leaving staff and for themes from exit interviews.	DHR	Nov 2019	
3.	The Disciplinary and Grievance Procedures for SPHs will be reviewed by the Remuneration Committee next term.	HoG/ DHR	Nov 2019	
4.	The committee asked for a report on Equality , Diversity and Inclusion for the September meeting of this committee .	JM	Sep 2019	