Carshalton College | Kingston College | Merton College | South Thames College

South Thames Colleges Group

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	14 March 2019
Members	Mr G. Allen Dr J. Brumwell Mr D. Cheema Mr J. Hick Mr P. Mayhew-Smith - Group Principal / CEO
In Attendance	Mr. Chris Dearnley - Education & Skills Funding Agency For item 2 only Ms Marcela Ashcroft Del Pino- Education & Skills Funding Agency For item 2 only Ms. R. Devan - Director of Finance Mr D. Fraser - Director of HR Mr R Greenaway - Deputy CEO Mr A. Slade - Principal, South Thames College Mrs H Meredith - Head of Governance
Key Meeting Outcomes	
1.	**APOLOGIES, DECLARATION OF INTEREST**
1.1	Apologies were received from Mr E. Gilbert and Mr Hossain. Apologies were also received from the Principals of Kingston College and Carshalton and Merton Colleges and from the Director of Facilities who normally attend meetings of the committee.
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.	**ESFA NOTICE OF EARLY INTERVENTION**
2.1	In November 2018 ESFA served a Notice of Early Intervention on the Group due to the decline in Financial Health. The Chair welcomed the ESFA representatives to the meeting at the Committee's invitation to discuss the Notice, new Insolvency Regime for FE Colleges and lessons learned from recent FE College interventions by the FE Commissioner.
2.2	There followed a discussion between the ESFA representatives and the committee about working towards achieving a financially strong and sustainable College Group. The ESFA representatives commended the Group for being very transparent with ESFA from the start of the merger discussions and for clear open and honest dialogue.
2.3	ESFA are moving from a reactive position to taking preventative intervention at a much earlier stage based on a much greater focus on cashflow and Financial Health indicators. From March 2019 funding no longer exists for college re-structures or emergencies and the College Insolvency Regime has been introduced.
2.4	Governors asked about lessons learned from mergers. The ESFA representatives felt it was too early to say but mentioned concerns in some cases about whether assumed cost savings from size can really be realised. Some ambitious expectations have not materialised and there is some distress around some of the early mergers.
2.5	In response to questions about whether the FE Commissioner aspires to FE in London being covered by a small number of mega-colleges Mr. Dearnley confirmed that is no plan for any particular number of colleges and this will be driven by the market and decisions made by

College Corporations. The FE Commissioner has some concerns about the ability of huge colleges to react to local need and demand.

2.6 The Chair asked about the risk of over familiarity between long standing governors and senior management highlighted by the Report of the FE Commissioner on the intervention at West Nottinghamshire College. Mr. Dearnley felt that the key requirements are a skills balance on Boards. Some weak colleges show a lack of refreshing of thinking.

2.7 The Chair asked what is needed to remove the Notice of Early Intervention. The ESFA representatives confirmed that the Notice will be removed when the Group returns to Good financial health and remains at Good financial health.

Mr. Dearnley and Ms Ashcroft Del Pino left the meeting at 7:05pm

3. MINUTES OF MEETING OF 22 JANUARY 2019 AND MATTERS ARISING

3.1 Accuracy. The minutes were accepted as an accurate record and signed by the chair.

3.2 Matters arising Members reviewed the action log noting that most of the items were being covered as Agenda Items at this meeting as follows:

Members asked that future HR reports also show data excluding individuals undergoing performance management processes which skew the data	DHR	June 2019	Actioned
Cost risk of the increases to the Teachers' Pension Scheme to be reviewed at the next meeting.	DHR	March 2019	See Item 7.5
Agency Costs to be reviewed at the next meeting.	DHR	March 2019	See Item 4
Equality Impact Assessment finding re the last IR to be subject to Internal Review	DHR	March 2019	Ongoing

4. DECEMBER 2018, JANUARY 2019 MANAGEMENT ACCOUNTS

4.1 **January 2019 Management accounts**

The Director of Finance presented the January 2019 management accounts and drew members' attention to the main variances as detailed in the commentary to the management accounts and took questions from Governors on these.

4.2 **Adult Education Budget**

The AEB budget for 2018/19 was based on achieving 94% of the allocation for the year. The current forecast indicates 95.96% will be achieved (if proposals to increase AEB delivery in year are achieved.)The forecast includes an allowance of £150k for the risk of not achieving some of the planned in-year growth. The delivery forecast without the risk adjustment is 97.1% of the funding target for the year. If the forecast is achieved in full, the College's AEB income will be £530k higher than the current forecast. However, as the margin for error is only £13k the risk of failing to meet the allocation has been taken into account. On the basis of last month's funding forecast the College has ***not*** rebased its allocation for the year. This remains a significant opportunity for the Group to meet its budgeted EBITDA. If the actual delivery falls below 97% of the allocation, the shortfall (£530k) will be clawed back by the ESFA in August 19. Previous reports assumed rebasing in February and a reduction in the in-year funding profile. The forecast cash balance at 31 July 19 has improved as consequence of this change in treatment.

4.3 **HE fee income**

The HE funding reports compiled by the MIS team indicates a significant reduction in enrolment numbers. An allowance of £100k made to recognise the risk of not achieving the planned numbers was eliminated in October. The total Forecast HE fee income is £264k less than that achieved in 2017/18.

4.4 **Contingency**

The contingency built into the budget was made up of a number of centrally held discounts to planned income levels and additional cost allowances as well as general contingency of £400k. Of the general contingency, £200k was included in recognition of the fall in the exam fee budget. The overall forecast of £400k was reduced to £181k last month as a number of the risks have already materialised. The general contingency has now been eliminated. Of

	the remaining allowances within contingency, the £150k allowed for Apprenticeships is intended to deal with the risk of apprenticeships not being achieved. The actual contingency remaining within the forecast at month end is therefore £225,000.
4.5	**ALS** *The Director of Human Resources joined the meeting at 7:15pm* The allowance was released in October because of significant growth in the number of agreed high needs learners for 2018/19. The growth in forecast income comprises £888k increase in the number of high needs leaners supported this year (compared to budget) and a further £250k from releasing the risk allowance. The total forecast local authority funding is £650k higher than that generated in 2017/18. The identified increases in staff costs required to meet the increased demand for ALS delivery is £906k.
4.6	**Cashflow Forecast** Members noted that the impact of the Wandsworth disposal (£2m capital receipts, fees and decant costs) has been included in the forecast this month in view of the project having progressed to an advanced stage. Governors asked about repayment of grant funding on disposals. The Deputy CEO confirmed that a final decision is awaited on the Wandsworth disposal but as this is to a primary school no repayment is expected on this disposal. The committee noted that the green line on the cashflow forecast is the line which the college should be tracking excluding exceptional income from disposals, as requested by the Chair.
4.7	The Committee noted that the cash balance and creditor balance have increased this month, because the Group did not rebase its AEB grant in February and that ESFA will therefore not clawback funds in 2018/19. The current forecast is marginally (.05%) above the tolerance level and falls below tolerance when adjusted for risk. Allowance has therefore been made for the shortfall to be clawed back in 2019/20.
4.8	Members reviewed the Key Performance Indicators. From the staff utilisation figures the committee asked why targets are not being achieved and why the STC target is so low. The Group Principal explained that teaching staff have different hours and remission allowances across the Group and reported that work is being carried out to review this by curriculum planning teams. The UCU (union) have asked for teaching hours to be reduced at Kingston as part of the harmonisation. The review will also look at average group sizes.
4.9	The Committee noted that the group generated an EBITDA of £3. +m against a profiled budget of £3.7m for the year to date. The forecast indicates a reduction of £76k in forecast EBITDA compared to last month. The Chair asked that EBITDA is shown in future on the table showing the bank leverage covenant position in the management accounts.
4.10	It was **resolved** to note the management accounts.
5.	**PARTNERSHIP PROVISION REPORT**
5.1	The Principal, STC presented a report on partnership provision – subcontracting- by the College of ESFA funded courses to another provider for delivery. The committee noted the detailed report noting in particular the following statements in this providing additional confidence to governors: 7. If for any reason a partner under delivers, which is highly unlikely at present, we will be able to move funding between existing partners, but within the agreed funding allocation. 12. As the large majority of partners are known to the college our confidence levels remain high.
5.2	It was **resolved** to note: a) the forecast performance of sub-contracted partners against the approved contract values; b) legal advice attached to the report which identified that the Public Procurement Regulations 2015 Regulations apply to the Group's recruitment of subcontractors; c) that the Committee should receive a report in future on how the Group intend to recruit sub-contractors for 2019-20 in accordance with the Public Contract Regulations 2015.

6. **INSOLVENCY REGIME FOR FE COLLEGES**

6.1 Governors noted that the new insolvency regime for FE Colleges came into force on 31 January 2019 and noted the new Government Guidance on this along with a briefing provided by Eversheds (Solicitors). Both documents had previously been circulated to all governors.

7. **BUDGET ASSSUMPTIONS 2018/2019**

7.1 The Deputy CEO presented a PowerPoint presentation on budget assumptions outlining the annual process of curriculum and budget planning to confirm the course offer and resourcing for the following year involving curriculum and service managers. A 12 month cashflow forecast paper was also tabled and reviewed by the Committee.

7.2 **Financial Policy (including Reserves Policy)**
The 2018-19 budgets were developed based upon the following financial policy.

1. The budgeted level of EBITDA coupled with estimated levels of other cash movements during the year must be consistent with the policy on cash reserves.

2. The base level of cash reserves is £5m but the annual level is driven by the assessed level of risk to income and expenditure budgets. The assessment results in one of the following supplementary percentage factors being added to the base cash level each year
   - 25% - The external environment is relatively stable and costs and/or income have been largely in line with budget.
   - 50% - There is some uncertainty in the external environment and/or there has been some poor financial performance in parts of the Group.
   - 75% - The external environment is volatile and poses threats to significant income streams and/or financial performance is poor across the Group

3. The College will not commit to capital expenditure were such a commitment would breach the Reserves Policy.
4. The College will not commit to capital expenditure which is reliant on property disposal receipts or capital grant before they have been received if this will mean that cash levels fall below the annual established base level
5. The College will not increase its level of borrowing above the current level of borrowings to income ratio (26%)

7.3 The presentation detailed performance to date this year against budget and the trends; for both the current year and estimated impacts for 2019/20. The Committee discussed the 3 year trends in student numbers across the Group as shown below and noted variances in funding streams for example across different apprenticeship funding strands and rates.

Group Position

	15/16	16/17	17/18	3 yr trend
16-19	5625	5495	5455	-170
Apprentices	1289	1283	1290	1
Adult AEB	11582	12411	12234	652
Advanced loans	761	987	665	-96
Community Learning	4400	5629	6509	2109
HE	2024	1898	1658	-366
Sub-total	**25681**	**27703**	**27811**	**2130**
Franchised Apprentices	32	40	30	-2
Franchised AEB	1662	1371	3356	1694
Grand Total	**27375**	**29114**	**31197**	**3822**

7.4 Members noted that although overall learner numbers have gone up by about 2000 over 3 years overall income has gone down. The committee discussed each of the funding streams in detail.

Teachers' Pension Scheme (TPS) 2019-20

7.5 The Deputy CEO reported that the cost to the Group for the increase to employer contributions to the TPS for 2019-20 will be £1m and it is unclear whether the Group will receive transitional grant funding to cover this. The assumption is that transitional cover will cover only 7 months of the increase until March 2020, expected to be reviewed in the Government Autumn spending review. LPFA contributions are also due to be increased. Members discussed that some independent schools are considering taking their staff out of TPS and that some colleges are considering moving teaching staff into subsidiary companies.

7.6 The committee discussed the following:

Costs to Income

- Will we stick to the 62% of staff costs to income this year and next (?)
- 80+% of our income comes from course delivery
- We planned that teaching staff costs would be 49% of this income and this is currently forecast to be 52%
- We planned that the EBITDA just for the Colleges would be 44% of income and its forecast to be 42%
- We can wear most of that this year because 16-18 income is not reduced until the following year and because of the contingency budget
- Staff costs are influenced by group sizes, remission and teaching hours
- Service costs must have a direct relationship to the contribution made by the Colleges
- A 1% pay rise plus increments costs around £400-500k

7.7 Members questioned whether, bearing in mind the increase of lower funded courses and increased TPS contributions, the ratio of staff costs to income needs to increase above 62%. However the Director of Finance reported that the FE Commissioner's guidance now is that this should reduce to 60%.

7.8 The Deputy CEO presented estimated overall income and expenditure forecasts for 19/20:

INCOME AND EXPENDITURE (£M)

	NOW	WORST	LIKELY	BEST
INCOME	66.3	61.6	64.5	65.6
STAFF	41.2	38.2	39.9	40.7
RESTRUCTURE	0.8	0.8	0.7	0.5
OTHER	19.9	20.2	19.5	19.2
TOTAL	61.9	59.2	60.1	60.4
EBITDA	4.4	2.4	4.4	5.2

7.9 This showed EBITDA heading to 4.4. The Deputy CEO proposed that the Group will need to make £2m savings. The Chair suggested that if staff costs are 62% of income then for every £2 of staff cost savings the Group should aim to find savings of £1 from the Estates Strategy.

7.10 The Chair thanked the Deputy CEO for the very helpful presentation.

7.11 It was **resolved** to note the report and to approve the use of these assumptions for the preparation of the 2019/20 budget for the Group.

8.	**INSTITUTIONAL REVIEW TIMETABLE**
8.1	The Director of Human Resources presented the proposed indicative timeline for the Institutional Review and proposed Voluntary Redundancy Scheme. The VR scheme will be released in 3 weeks' time and the report detailed the planned phasing of the scheme. The IR consultation is due to start on 20 May and finish on 18 June.
8.2	It was **resolved** to note the Report
9.	**ESTATES SUB-COMMITTEE- TERMS OF REFERENCE, MEMBERSHIP, DELEGATED AUTHORITY**
9.1	The Committee reviewed draft Terms of Reference for an Estates Sub-committee of this committee. The Terms of Reference proposed that the sub-committee should have authority to report directly to the Corporation to cover situations such as this term when it will meet between the FPR meeting and the next Corporation meeting, rather than needing only to report through the FP & R Committee as the sub-committee will hold its first meeting on Wednesday 20 March at Merton College at 6:30pm.
9.2	It was **resolved** to recommend the Terms of Reference to the Corporation for approval.
10.	**DIRECTOR OF HUMAN RESOURCES REPORT**
10.1	The Director of Human Resources presented a paper providing detailed metrics for HR issues across the College Group which currently employs 1,461 staff.
10.2	The staff turnover rate is currently 7.5%, based on 109 leavers since the 1 August 2018 to 31 January 2019. This results in a projected annual turnover rate of 15%, which would be equivalent to 218 leavers. In response to a question about which staff are leaving and why the Director of Human Resources confirmed that the highest levels of turnover are from those staff with the shortest levels of service. Generally staff are moving for promotion opportunities or moving into industry where they can earn more.
10.3	The absence rate is currently 4.7%, which is based on 4,070 days lost to sickness absence from 1 August 2018 to 31 January 2019. The Group is still experiencing high levels of absence due to stress which accounts for about 20 individuals on long term absence. 3.9% of staff account for 65% of absences. The Director of Human Resources suggested that a focus needs to address strategies for colleagues on long term absences to achieve their return to work. The draft Wellbeing Strategy will presented to the Corporation in April.
10.4	The Director of Human Resources reported that challenges by HMRC over the failure by STC to close their pay reference at time of merger may result in a compliance visit by HMRC. The action needed to correct the records is quite complex.
10.5	**Gender Pay Gap Report**
10.5.1	The Director of Human Resources present the Gender Pay Gap report based on a snapshot at 31 March 2018. This will report the following:

Mean Pay – the percentage difference is

	Female	Male	Gap
Mean Pay	£16.79	£19.12	12.2%

Median Pay – the percentage difference is

	Female	Male	Gap
Median Pay	£16.01	£19.18	16.5%

10.5.2	The Group Principal confirmed that both the mean and median pay gaps are higher than the Group would want these to be. In response to questions the Director of Human Resources confirmed that the Group staff ratios are: 38%: 62% male: female.

10.5.3	It was **resolved** to note the Report and that this information will be published on the College website and uploaded to the government website.
11.	**POLICIES FOR APPROVAL**
11.1.1	**FINANCIAL REGULATIONS** The Director of Finance presented a summary report on the review of the College's Financial Regulations proposing some changes to current procurement and approval levels. Members noted that following the merger this is the first set of Group Financial Regulations update.
11.1. 2	A governor asked the College to check that it carries out serious incident reporting to the Charity Commission.
11.1.3	It was **resolved**: to recommend that the Corporation approve the proposed changes.
11.2	**FEES POLICY**
11.2.1	Members received a report on the review of the College's Fees Policy which provides a framework for setting tuition fees.
11.2.2	It was **resolved**: to recommend that the Corporation approve the Fees Policy.
11.3	**SCHEME OF DELEGATION**
11.3.1	The Head of Governance presented the reviewed Scheme of Delegation for the Group.
11.3.2	The committee noted that the changes to existing practice set out in the document are the new procurement limits proposed under Item 11.1 above and a slight amendment to the wording of delegation to the Group Leadership Team to reflect current practice.
11.3.3	It was **resolved**: to recommend that the Corporation approve the Scheme of Delegation
11.4	**TREASURY MANAGEMENT POLICY**
11.4.1	The Director of Finance presented the reviewed Treasury Management Policy for the Group which had been updated to reflect the Group structure.
11.4.2	In response to questions from members the Director of Finance confirmed that the only investment is in money market deposits usually overnight.
11.4.3	It was **resolved**: to recommend that the Corporation approve the Policy.
12.	**REVIEW OF BOARD ASSURANCE RISK AREAS**
12.1	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 four Risk Areas delegated to this Committee. The Deputy CEO reported how the risks had been assessed by College managers and the factors which contributed to each overall risk score.

Risk Areas / Assurance	Risk Assessment: Cross Reference to Risk Register	Risk Assessment: Gross	Risk Assessment: Net	Overall Assessment of Assurance Level	Risk Area Responsibility: Governing Body Committee
Declining Financial Position	5,6	56	25		FPR
Failure of lack of availability of key infrastructure services	7a,7b,11,15	69	37		FPR
Staff performance detrimentally impacts on learners	8,9,10	57	16		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	48	20		FPR

12.2	After discussion it was **resolved** that: • Although staff absence for the Group are higher than for comparable colleges and recruitment of staff is becoming harder (as competitor colleges have given salary rises) the risk assessment in relation to staff performance was felt to be still correct but needs to be remain under review; • The Committee has assessed the risks and is satisfied that the risk level is correct and that sufficient controls and/or actions are being taken to manage the risks.
13.	**MEETING DATES**
13.1	The next meeting for monitoring of the management accounts was due to take place at South Thames College, and the June meeting was due to take place at Carshalton College but there had been a request to move this to Kingston College which would suit GLT better.
13.2	There followed a discussion about the venue for future meetings of the committee. After discussion it was **resolved** that all future meetings of this committee should take place at Merton College starting at 6:30pm including the meetings on 30 April and 11 June 2019.
13.3	The revised meeting dates / venues are therefore: • Tuesday 30 April at 6:30pm by Conference Call or in person at Merton College , • Tuesday 11 June 2019 @6:30pm at Merton College. The Open meeting closed at 9:00 pm. Signed: …………………………..........Date:………………………………

Action points		**Responsible**	**Deadline**	**Signed off**
From this meeting				
1	Equality Impact Assessment finding re the last IR to be subject to Internal Review	DHR	March 2019	Ongoing
2	The draft Wellbeing Strategy to go to Corporation in April 2019.	DHR	March 2019	
3	Check that the College carries out serious incident reporting to the Charity Commission	DCEO		
4	To note all future FPR meetings to take place at Merton College starting at 6:30pm. Next meetings: • Tuesday 30 April by Conference Call or Merton College 6:30pm • Tuesday 11 June 2019 @6:30pm at Merton College.	HoG / All committee members	Ongoing	