

**CHELMSFORD COLLEGE
PERSONNEL FINANCE & GENERAL PURPOSES COMMITTEE
27 June 2017**

Minutes of a Meeting of the Committee held at Moulsham Street, Chelmsford on Tuesday 27 June 2017 at 3.35 pm.

PRESENT: Michael Lager (Chair)
Andy Sparks (Principal)
Amanda Montague

IN ATTENDANCE: Debs Hurst (Assistant Principal, Finance & Risk)
Mark Emerson (Director of Information Services)
Mike Tadman (Assistant Principal, People & Services)
Peter Moore (Director of Finance)
Annella Hall (Estates & Facilities Manager: minute 581)
Rob Millea (Clerk to the Corporation)
Joanne Harrington (Assistant Clerk)

575. APOLOGIES FOR ABSENCE

Apologies for absence were received from Elaine Oddie and Caroline Williams (Deputy Principal).

576. DECLARATIONS OF INTERESTS AND CONFIDENTIAL ITEMS

The Assistant Principal, Finance & Risk and the Clerk to the Corporation declared their interests as Director of Finance and Clerk to the Corporation at South Essex College respectively. They also declared their interests as General Manager of Essex Shared Services Limited and Company secretary of that company.

The Clerk also declared that his wife's cousin is the Clerk to Writtle University College.

There were no confidential items notified.

577. MINUTES OF THE MEETING HELD ON 22 NOVEMBER 2016

The Minutes of the Meeting held on Tuesday 22 November 2016 were **APPROVED** and **SIGNED** by the Chair.

It was noted that, due to lack of business, the Meeting of the Committee originally scheduled for Tuesday 14 March 2017 was cancelled and this was agreed by the Board at its Meeting on 31 March 2017.

578. MATTERS ARISING

The Principal updated the Committee on Matters Arising from the previous Minutes and Actions taken.

Joint Working with Adult Community Learning, Essex

There has been limited progress in trying to engage with the County Council. The Committee felt that more collaborative working was the way forward and maybe a business case could be put to the Council given our expertise in this area showing how they could save money. It would be good use of our facilities but the Principal made the point that ACL do not have to pay for their premises.

ACL provision by the Council was graded 4 – Inadequate by Ofsted – and their primary driver is improving Quality.

The Principal will continue to attempt to create a positive dialogue with Essex ACL.

Planning for the Apprenticeship Levy

The Clerk advised that there will be a Presentation by Sarah Hamilton, Director of Business Services at the Board Meeting on 7 July 2017 with reference to points made during the Internal Audit Report and to cover our efforts in engaging employers to send their apprentices to the College for training.

Chelmsford Training Services

On cessation of trading of the Company, the risk of a tax liability did not materialise and no tax was payable.

Dovedale Gift Aid to the College

The Assistant Principal, Finance & Risk advised that the Gift Aid Payment based on the Dovedale surplus for 2015/6 had been made in January by Dovedale to the College.

Management Accounts differences

The Clerk reported that differences on the previous Management Accounts, which had been raised by the Chair of the Committee, had been resolved.

The Chair of the Committee noted that there was a difference of £65K between the profit & loss account reserve on the Balance Sheet and the

surplus for the year to date in the income & expenditure account. The Deputy Director of Finance was asked to investigate and provide the explanation to the Committee, at the same time amending the Management Accounts.

All other items are dealt with elsewhere on this Agenda.

579. HUMAN RESOURCES REPORT

The Assistant Principal, People and Services presented an update Report on current HR issues.

He explained that significant activity continues to be applied in support of post-inspection actions, financial recovery and general operational staffing.

Key issues include:

- All newly appointed CAMs have successfully completed their probationary periods
- Staff turnover is 16.05% annualised comparing favourably with AoC figure for the sector of 18.2% and is forecast to remain within target levels by year end likely to be just over 15% for the year, but still regarded as too high
- Staff absence has risen recently to 5.5 days per annum against target of 3.5, closer to national figures but still under them
- Recruitment activity has continued but there remain difficulties in recruiting high quality teaching staff in some area, particularly engineering and construction, meaning agency staff are required
- Regular and positive engagement with trade union representatives where issues raised have included pay rises/increments and workload/expectations of staff
- Revised Performance Management process fully operational with progress reviews updated regularly and reports passed to Senior Management Team, with nearly 90% of all targets expected to be achieved by the end of this year

The SMT continue to review whether a pay rise in respect of 2016/17 should be recommended to the Board and this will be considered, bearing in mind the College's financial position, for the Board Meeting on 7 July 2017.

Mike Tadman provided the following information in response to questions from the Committee:

- New management structure has stabilised and is proving to be positive. It is not quite where we want it yet, but is making progress towards our goal. It also appears to be supporting Quality Improvement
- Staff resourcing is in the process of being finalised for 2017/18 academic year
- Agency costs are very hard to get down but the quality of such staff appear to be better this year and they are appraised in same way as anyone else
- There is some saving of fixed salary costs due to agency spend
- Many agency staff do not wish to become permanent members of staff

A Governor asked if the College analyses sickness by Campus. Mike Tadman explained that sickness does not appear to be a campus-related issue. Data is kept by department but it can be skewed by a small number of individuals with longer term health issues. Furthermore, there is no perceived relationship with morale in a major way but there is some gap still between the two campuses.

As a signal to staff/students, a Governor suggested that more Meetings of the Board/Committees at Princes Road might be positive for morale.

The Principal indicated that long term investment in Princes Road is planned over next few years which will contribute to raising its profile and status vis a vis Moulsham Street.

Mike Tadman said that pay is a factor in some leavers, which is difficult for the College to address in tight financial times. The fact that the College is a Living Wage employer has a disproportionate effect on wages of those just above the Living Wage – about 60/70 such people are in such a situation.

The Committee **RECEIVED** the Report.

580. FINANCE REPORT

The Assistant Principal, Finance and Risk presented the Finance Report incorporating the Management Accounts of the College for the ten months ended 31 May 2017 and other matters.

580.1 Management Accounts to 31 May 2017 and forecast outturn for 2016/17

Management Accounts

The Assistant Principal, Finance & Risk provided the Committee with Accounts to the end of 31 May 2017.

For the ten month period, the College is showing a surplus of £142K against a budgeted surplus of £163K, an unfavourable variance of £21K.

Total income amounted to £13.052million and total expenditure amounted to £12.910million.

The Accounts were accompanied by a Detailed Commentary explaining the variances from budget.

Key issues:

- HE income is projected to be £36K short for the year and the accounts to date reflect this shortfall
- ESFA income (sub-contractor and Adult Education) is the main risk to achievement of the budgeted surplus for the year – presently, it is £179K adverse against forecast but this is expected to reduce to a deficit of £55K by the year end
- SFA income is phased equally each month based on the budget for the year
- Unfavourable variance on staff costs of £30K due to increased pension contributions from April 2017
- Unfavourable variance totalling £39K on examination costs, which should be reversed by year end mainly due to timing and budget phasing
- Favourable variance in general overheads is timing difference - £31K

At 31 May 2017, group net assets stood at £13.292million, including cash of £1.681million and fixed assets of £32.261million.

The College's Financial Health for 2016/17 to date under the SFA methodology is deemed Satisfactory.

The Management Accounts will, in future, show variances as colour coded.

A governor asked whether our sub-contractor (Aspire) will achieve the level of activity forecasted. Management is fairly confident of this line in the Accounts being met. The forecast is £55K under budget. It is being closely monitored by the Director of Information Services.

The current ratio stands at 0.65, better than target of 0.53, and in line with expectations. Pay expenditure as a percentage of income is 61.7% against target of 60.2%.

The College bank covenants continue to be met.

Forecast Outturn for 2016/17

All budget areas have been reviewed and a revised forecast prepared for the year ended 31 July 2017.

The anticipated surplus for the year is £230K against an original budgeted surplus of £221K.

The anticipated cash balance at year end is £900K which constitutes the 'pot' for capital expenditure.

This result will maintain the Financial Health of the College as Satisfactory.

It was reported that 16-18 Apprenticeships are expected to meet the revised forecast but this is lower than original budget by £100K.

The Committee **RECEIVED** the Management Accounts and Report.

580.2 Draft Budget 2017/18 and Financial Forecast 2018/19

The Assistant Principal, Finance & Risk presented the draft Budget for 2017/18 for consideration by the Committee and to seek the Committee's recommendation of the Budget, in principle, to the Board for approval at its Meeting on 7 July 2017.

The Budget shows a planned surplus of £200K but, in order to achieve this, savings of £322K are still required. It is work in progress.

The lagged funding model reduces our allocation for next year by £769K as the Board has previously been informed. Our business case for amelioration next year of this reduction was rejected by ESFA, with reasons being given. There is no right of appeal. It is imperative that the College needs to boost recruitment for 2017/18 so that we get an increase in our 16-18 allocation for 2018/19.

There was a considerable discussion about the Apprenticeship Levy and possible income from that source in 2017/18. It is acknowledged that there is a bigger burden on the College to maximise this income source but it is risky. The projected income for the year is £487K from both non-

levy and levy payers – it was noted that the former is still allocation based.

Overall, the income budget is £500K lower than last year allowing for projected improvements in income offsetting the reduction in the 16-18 allocation.

The College still needs to find £322K of savings to make a target surplus of £200K. Stage 1 is to save £122K so as to break even and then Stage 2 is to get towards the budgeted surplus. The College will work with Writtle on additional commercial income from their short course unit next year which is already set up because we will focus on Ofsted in the Autumn Term.

The Committee asked whether there are any courses which need to be removed or otherwise can be made more efficient. Management pointed out that we are already very lean and there is not a lot all more savings in this area than can be found.

Salary costs are higher for next year compared to the current year as they include increased NI contributions, increased LGPS costs, a budgeted 1% salary increase and increments. Staff levels are assumed to be stable and vacancies are not budgeted. Departments are still working on further cost savings and reviewing income targets.

With regard to 2018/19 forecast, the Assistant Principal, Finance & Risk informed the Committee that this is still a work in progress as the templates and financial planning handbook were not received from the ESFA until 15 June. Along with a cash flow through to December 2018 (which will help support the going concern assumption), the forecast will be presented to the Board Meeting on 7 July 2017.

The Financial Forecast must be submitted to the ESFA by 31 July 2017.

The Committee **NOTED** the Draft Budget for 2017/18 and that it will be completed for submission to the Board for Approval at the Meeting on 10 July 2017. It will broadly be in line with this draft.

580.3 Draft Fees Policy 2017/18

The Committee considered the Draft Fees Policy for 2017/18, presented by the Director of Information Services. The Committee **NOTED** that there are no major changes from previous years other than the new eligibility matrix taken from the funding rules and minor editing.

It will be amended to make clear it does not apply to Dovedale Nursery.

The Committee **RECOMMENDED** the Draft Fees Policy for approval by the Board at their Meeting on 7 July 2017.

580.4 Extension of Revolving Credit Facility

The Assistant Principal, Finance & Risk met with representatives of Lloyds Bank today following a brief telephone conversation on 20 June to ascertain the bank's views and attitude towards the renewal of the RCF of £3.5million, which expires at the end of this calendar year.

Governors wished to know the way forward for the College's debt financing and banking arrangements, recognising how crucial a firm foundation is for assuring that the College is a going concern.

The Bank wish to see progress on achieving a sale of Beacon House which would help pay down some of the current debt.

Before committing the Bank to future arrangements for financing the College, they want to see the final accounts for 2016/17 and the Budget/Financial Forecast. The College's position which was communicated to Lloyds is that we want an extension of the current arrangements for 2 years.

With such a commitment for Lloyds, the Board could have assurance that the bank financing will support the going concern assertion and sign off in connection with the accounts of the College for the year ended 31 July 2017.

The Board must have such assurances for the Board Meeting on 7 December 2017 Board.

Lloyds were non-committal. They did not say that such an extension was not feasible but it is clearly a risk to the College. The Assistant Principal, finance & risk proposed (and the Committee agreed) that there should be a conversation with Barclays, the other main player in the market, to see what they might be prepared to offer. Also, it is believed that Santander may be interested in providing facilities to the College and we will speak to them.

If we need to move from Lloyds, then the intention would be to transfer all of our banking arrangements to them, including day to day banking, not just the longer term financing.

The Committee were informed that the short term overdraft facility negotiated within the RCF was not used in early 2017 and cash flow predictions for 2018 suggest it will not be required early next year but the College would wish to keep this option as part of the overall renewed RCF.

The Committee reiterated that the bank finance position is a threat to the going concern of the College and, therefore, is a key risk for the Board to understand. In due course, the Board needs to be confident there are no issues and they can confirm that the College is a going concern when they approve and sign off the Accounts of the College for the year ended 31 July 2017 in December 2017.

The Committee **NOTED** the position. The Board will be updated in September.

580.5 Learner Numbers and Financial Implications 2017/18

The Board were informed at their March Meeting that the College's allocation for 16-18 learners for 2017/18 on the lagged funding model is for 2101 learners compared to 2222 learners this year, a reduction of 121 learners. The financial effect is that the 2017/18 allocation for these learners is reduced by £769K.

This loss of allocation has been factored into the Budget calculations for 2017/18 (see minute **580.2**).

Admissions for 2017/18 remain encouraging with over 200 more applications this year compared to the same time last year. Any higher recruitment for 2017/18 will feed through to a higher allocation for 2018/19 under the lagged funding model.

The information on Learner Numbers and Financial Implications 2017/18 were **RECEIVED**.

581. ESTATES MATTERS

581.1 Capital Expenditure Programme 2017/18

The Principal presented a Report on the proposed Capital Expenditure Programme for 2017/18, supplemented by a PowerPoint presentation given by him and Annella Hall, Estates and Facilities Co-ordinator.

The Plan includes the following major items:

- Phase 2 window replacement at Princes Road £300K
- IT (non-lease) £50K

- Equipment bids £40K
- Sports Hall (joint with City Council) £29K
- Dovedale House £37K
- General and Health, Safety and Welfare related £220K
- Refurbishment of downstairs corridor at Princes Road £250K

This totals £926K, the calculated available funds for capital expenditure for 2017/18 after repayment of loan debt and lease instalments. This is £50K less than last year.

The Principal reported that a feasibility study is underway regarding relocation of Hair & Beauty from Beacon House to Princes Road, thus reducing the expensive running costs of Beacon House and improve space utilisation (Princes Road Phase I). The sale of Beacon House could then proceed.

This proposal seems viable and outline drawings have been prepared. It is intended that Board approval will be sought as soon as the plans are finalised. The Board will be updated on progress next week. The plan would be to replace current rooms at Princes Road with four new classrooms for Hair & Beauty.

In addition, the study is looking at the refurbishment of the Princes Road reception area, to be known as Princes Road Phase II. This would not be possible this year but would be prioritised in the medium term.

Annella Hall informed the Committee on how the capital spend had been developed and its objectives; the particular focus for next year and in the medium-term is the upgrading of Princes Road to bring the quality of the Campus there to a comparable level with Moulsham Street.

The plans are intended to address the major risks on the Risk Register associated with the Estate including failure to meet a £200K surplus on our finances, failure to invest in Princes Road and general Health & Safety issues.

Governors sought reassurance regarding the safety of our buildings following the disaster at Grenfell Tower in London. Management explained that the cladding on our buildings has been confirmed as compliant with the contractors and we sought further assurance from the fire authorities, which we have received. Our buildings are not high-rise and the exits are plentiful and there is more than one staircase in each Campus building to facilitate prompt egress in the event of emergency. Furthermore, fire drills have demonstrated quick evacuation at around 3 minutes at all locations.

On the basis of these assurances, the Committee was satisfied that the risk was properly managed.

A Governor asked whether either of the two jobs at Princes Road (window replacement and refurbishment of downstairs corridor) be spread over two years to smooth out the cashflow but Management confirmed that they need to be done at the same time as it does not make sense to bring contractors in twice to do work in overlapping areas. It is also necessary to be carried out when students are not on the premises. The Plan is to carry out these two major projects during the summer.

The Committee was very pleased with the plans for the phases of development at Princes Road believing it will lighten the facility and brighten the experience for staff, students and, importantly, outside public customers. The Committee noted that an attractive Hair & Beauty Suite is necessary to attract the public as customers, along with promoting the Restaurant.

The Committee noted the restricted funds available for capital works but felt these plans for next year were affordable and necessary.

The Committee **RECOMMENDED** the proposed Capital Budget for 2017/18 to the Board for Approval at its Meeting on 7 July 2017.

581.2 Maintenance Programme 2017/18

The Principal also reported on this programme.

The planned programme will mirror the 2016/17 programme which includes all regular maintenance contracts supervised and managed by the Estates department.

582. COLLEGE POLICIES

The Clerk **TABLED** draft College Policies for Anti-Money Laundering, Anti-Bribery and Code of Ethics.

The Clerk indicated that, when approved, the content of the policies be communicated to staff at managerial level and appropriate training given. The Assistant Principal, Finance & Risk indicated that this will be done during staff development next January.

The Committee **RECOMMENDED** the three Policies for approval by the Board at their Meeting on 7 July 2017, subject to some minor typographical errors being amended.

583. UPDATE ON AREA REVIEWS

The Principal **REPORTED** that the Final Area Review Report for Essex has not yet been issued, but is not expected to differ from the draft recommendations made at the last formal Meeting of the Area Review Group on which the College is already acting in respect of Writtle (see below).

The Principal further **REPORTED** that a high level Memorandum of Understanding has been drafted in conjunction with Writtle University College. It is ready for agreement by the Board and will be presented to the Board on 7 July 2017 for approval. If approved, detail implementation of the intentions regarding future collaborative working with Writtle can be progressed.

The Principal advised that transitional funding of £50,000 has been approved by the Area Review Transaction Unit to support further cooperation with Writtle. This sum will be held on the College Balance Sheet until spent.

The Principal noted that the current Vice-Chancellor is about to retire but the Principal has not yet met his replacement.

584. COMMITTEE MATTERS

The Clerk **PRESENTED** a Paper, prepared in conjunction with the Chair of the Corporation and the Chair of the Committee, on a proposal to disband the Committee for consideration and to make a proposal to the Board on 7 July 2017.

An extensive discussion followed and a number of points were made by the Committee:

- Need to ensure continuing structure for scrutiny of finance matters between Board Meetings
- Two governors should be appointed as designated Finance link Governors
- Finance Reports to the Board should indicate discussions held between Management and the designated Governors to demonstrate ongoing scrutiny
- Michael Lager indicated that he does not intend to seek a further term as a governor of the College when his term expires on 31 March 2018
- There is a case that a new governor to replace Michael ought to have financial expertise/qualification
- Further training on strategic financial matters and governor responsibilities would be desirable and the Clerk mentioned some

material that is being developed under the auspices of the Education & Training Foundation in this regard

The Clerk was thanked for his comprehensive paper and was asked to amend it in the light of the discussion and to include specific proposals for the Board to consider at its Meeting on 7 July 2017. The Clerk will email the revised Paper to Committee Members as soon as possible for comment.

It was recognised that the Board may seek to amend/adjust any proposals in the final paper.

The Clerk **PRESENTED** draft Schedule of Business for the Board for 2017/18, which demonstrates how the functions of this Committee following its proposed disbanding will be incorporated into the relevant Board Agendas.

585. ANY OTHER BUSINESS

There were no items of Any Other Business.

There being no further business, the Meeting terminated at 5.50 pm.

Signed.....Dated.....