WEST NOTTINGHAMSHIRE COLLEGE
FINANCE & ESTATES COMMITTEE

Minutes of the Finance & Estates Committee meeting held in Board Room, Derby Road site on Thursday 9 May 2013 at 4.15pm

BOARD MEMBERS PRESENT:	Kate Allsop Terry Dean, Chair Malcolm Hall Asha Khemka Colin Sawers Chris Winterton Hari Punchihewa David Overton (Estates Matters Only)
ALSO IN ATTENDANCE:	Maxine Bagshaw, Clerk to the Corporation Andrew Martin, Deputy Principal/Director of Finance Tom Stevens, Executive Director: Capital Projects & Estates.

		ACTION by whom	DATE by when
13.12	<u>**DECLARATION OF INTERESTS**</u>		
	The Chair reminded those present to declare at the start of the meeting any interests that they may have on any items on the agenda. No interests were declared.		
13.13	<u>**WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE**</u>		
	Apologies for absence were received from John Robinson. Hari Punchihewa was welcomed to his first meeting as a Committee Member.		
13.14	<u>**MINUTES OF THE MEETING HELD ON 28 FEBRUARY 2013**</u>		
	AGREED: that the minutes of the meeting held on 28 February 2013 were a correct record and were signed by the Chair.	Chair	9 May 2013
13.15	<u>**ACTION PROGRESS REPORT**</u>		
	Members reviewed the action progress report and noted the following:		
	• Disposal strategy – the disposal strategy and assumptions are for ongoing review. The Executive Director: Capital Projects & Estates confirmed that a disposal update would form part and parcel of his accommodation presentation at the June Strategy meeting.	ED CPE	June 2013
	• Engineering Innovation Centre – an update is provided as part of item 5 on the agenda.		

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AGREED: to note the content of the summary table.

13.16 PROPERTY STRATEGY UPDATE

The Executive Director: Capital Projects & Estates introduced this item and drew members` attention to the following:

- New Build – the new build is now fully open and operational with the spa and fine dining restaurant open at weekends. He confirmed that the spa had been fully booked at the Bank Holiday weekend. It was noted that there had been a few 'teething problems' but that these are all being addressed. In relation to bookings for the spa and the restaurant, it was noted that the College is being cautious in relation to the number of appointments at the beginning of development as they want to ensure that the service is right and it is important not to oversell. He confirmed that the final accounts had not yet been completed but were in the process of doing so, it was hoped that a full report on the final accounts would be available at the next meeting. EDCP&E — 27 June 2013
- Visual Arts – enabling work to refurbish the Trades Building mezzanine to classrooms is complete.
- Cladding – contractors J Tomlinson were on site from 8 April as scheduled. The project completion is targeted for 18 July 2014. Thoresby Street and Chesterfield Road are to be used for teaching decant from Derby Road during the construction period. He confirmed that he has had a lot of consultation with staff regarding the decant procedure and there is now a plan in place. It is the intention to make more use of Thoresby Street than originally planned, particularly for exam space and decant for the next twelve months.
- SFA capital investment fund (CCIF) - a key element of the CCIF is a project development fund to assist colleges in the implementation of property strategies and capital projects. The College submitted an application for £110k to the SFA, this was received.
- The expression of interest submitted for a grant of £1.9million to support the development of the Engineering Centre was not successful. 145 colleges made 183 returns. The total amount requested is £750million, which exceeds the £550million. The Deputy Principal and Executive Director: Capital Projects & Estates attended a debriefing session regarding the unsuccessful expression of interest. From this meeting it was clear that the College`s application was found to be weak in relation to the education case presented. The feedback given was that the College's case was not clear in relation to outputs, benefits, employment opportunities etc. It was noted that the College does now have an opportunity to resubmit and there is the belief that a more comprehensive education case can be presented as the education case does exist to support a resubmission. The intention is to basically resubmit the same application in terms of financial requirements but with a much stronger education case, the detail of which needs to be rigorous,

impactful and show clear outputs. He explained that from the feedback session it has become clear that what was satisfactory in terms of the content of applications in the past is not now sufficient.

- Unit C Gateway 28 – contracts to purchase the site for an Engineering Centre have been signed and exchanged on Friday 19 April 2013 at an agreed price of £1.1million plus VAT (£1,320,000) and disbursements of £1,523.20 plus VAT (£1,827.84). Professional fees/surveys totalled £15,039.30 plus VAT (£18,047.16).

Members discussed the Engineering Centre in more detail and acknowledged that the project, if it were to be progressed as a whole rather than two phases, would be, on current projections at a total cost of £4.3million, ie £1.3million purchase and £3million development approved by the Board. The Principal indicated that having reviewed the potential implications of phasing and the duplication, disruption and costs, it is her view that irrespective of whether successful additional SFA funding is obtained, she believes that the College ought to develop the Centre in one phase with a whole programme cost of £4million. Members acknowledged that the SFA were aware that the College intends to proceed with the project irrespective of receipt of the capital funds and that this may impact upon the likely success. It was the view that the SFA may be of the opinion that investment is not required as the College will proceed in any event.

The Principal confirmed that if the Executive Director: Capital Projects & Estates can achieve a £4million project, then this would be £1million more than the Board's current authority, it being noted that the Board has previously approved Engineering Centre developments at a cost of £3million.

Members discussed the £1million shortfall and were advised that the College can utilise the surplus expected from the Vision Workforce Skills business. It was noted, however, that to do this there needs to be confidence that the College`s core provision can get back on track and if it cannot, surpluses will be needed to support this.

Members reviewed the detail set out in page 18 thoroughly, particularly in relation to the proposed fees for Architects, Cost Managers and Building Services. The general consensus was that, wherever possible, the College ought to seek fixed fees with professionals, as without these the College bears the whole risk and percentage fees do not incentivise professionals to find savings.

Members` attention was drawn to page 19 and the proposed professional fees in relation to gas and electricity, it was noted that the report only shows the best prices obtained. Governors indicated that, in future, they would like to see a summary of all bids obtained to see the full range of tenders received. Members were advised that the figure in relation to electricity provision was not a competitive bid at this stage as only one bid had been received. It was confirmed that when other bids are secured, it may therefore be that this figure was reduced. | EDCP&E | Ongoing

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It was agreed that the Executive Director: Capital Projects & Estates would refer back to the Architects to see whether they would agree a fixed fee for the remainder of the project.	EDCP&E	May 2013
The Committee questioned the role of Turner Townsend as cost managers and expressed a view that they had not really helped the College in the past. All acknowledged that what was critical was that the design should match the brief given and if any subsequent changes, because of design mismatch, then any additional costs should be borne by the cost management company. The Committee felt that the College, in any future project, had to work on the principle that the build would be to design and plan with no changes. The Principal indicated that there was a need to be less lenient with College staff regarding changes during the build. Governors felt that there needed to be an educational sign off at the point of design and then no further changes sought.		
Members agreed that any provisional sums included in tenders are to be avoided and guarded against. It was felt that there was a need to be very robust in the treatment of professionals, but to support this there needs to be tight contracts in place. All felt that this links in closely with the need to be very clear, rigid and certain with internal staff about requirements and expectations. It was agreed that the Executive Director: Capital Projects & Estates would look again at the role of Turner Townsend and assess whether they are the right people. He was requested to look at the contracts in place and assess how tight they are and determine whether any changes are needed to avoid any future surprises.	EDCP&E	May 2013
Members debated the possibility of obtaining two architects designs, it was felt that by two companies preparing costs and designs, it may be that options emerge with real cost differences. It was agreed that the Executive Director: Capital Projects & Estates would review this as a possibility.	EDCP&E	May 2013
In terms of a definitive cost for undertaking the whole Engineering Centre development in one go, members were advised that a precise figure could not yet be provided. The Executive Director: Capital Projects & Estates confirmed that there had been a delay in getting the required information back from the curriculum areas. It was acknowledged that there needs to be a full assessment of the educational case and space requirements and that there is still work to be done. The Principal expressed some dissatisfaction with this and again felt that the management team are being too lenient with staff, all agreed that there needs to be a shared vision and ambition that every member of staff shares.		
It was noted that the challenge for the Executive Director: Capital Projects & Estates is to now develop a £4million project (including the cost of building purchase at £1.3million), which would be affordable if the College`s core provision can be stabilised.		

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Members reviewed the proposals set forward and were happy to accept the recommendations.

AGREED that:
a) Resubmission should be made of the proposal to create an Innovation Centre as part of the application process for the second round of the College Investment Fund.
b) Approve expenditure of £84,500 plus VAT for installation of electricity supply, and £6,312 plus VAT for installation of gas supply.

It was noted that the electricity figure may reduce as detailed in previous discussions.

(David Overton left the meeting at 5.05 pm).

13.17 **FINANCE REPORT TO MARCH 2013**

The Director of Finance introduced this item and drew the following to members` attention:

- Financial performance for the College and Group, excluding Vision Workforce Skills (VWS) is well below mid-year forecast, although improving on that reported at the last period.
- His report includes the pass through income and cost for VWS through the College, but does not include the income of VWS generated, which for the period to March 2013 is £1.2million.
- The performance of the College, with a loss of £1,231k for the year to date, compared to a mid year forecast of £885k loss remains concerning, until evidence of sustained improvement in activity volumes is delivered. At Group level, the year to date loss of £203k compared to a surplus of £71k forecast has improved by a sum of £138k in the period. He confirmed that there does appear to be some evidence of stabilisation, but that the College needs to now see a sustained improvement and that without this the forecast remains cautious and concerning.
- In month the Group had a surplus of £138k compared to a forecast surplus of £96k, with the College generating a surplus of £20k. The subsidiary companies combined producing a surplus of £118k compared to a forecast of £70k surplus.
- One of the key areas of concern is the 16-18 apprenticeship programme which, at current rates, the College will only generate £5.195million, £805k below forecast. This, however, includes VWS activity of £0.474millin passed through in its entirety to the subsidiary.
- Excluding VWS activity, College based activity is £102k behind year to date plan and partners £553k.
- Partner income is not the core issue within college performance. The under delivery of partner activities excluding VWS to plan at planned margin would have delivered approximately £450k more of margin. Higher than anticipated margin equates to approximately £400k of

this. Partner activity is still delivering approximately £1.9million margin before support costs.

- One of the most significant issues in College is the work based delivery school, where contribution is currently £275k behind plan. Other and support services contribution is currently £267k behind plan. He explained that the College had taken the strategic decision to move all workplace delivery to a single business unit and unfortunately this isn't performing as well as expected. At the current time the provision is being reviewed to assess whether or not under-performance is an issue of management, lack of efficiencies or lower than needed or expected sales.
- Total Group turnover for the year to date of £31.821million is £842k above the phased mid year forecast due to the inclusion of income for VWS. Partner costs are likewise increased resulting in no bottom line effect. Therefore, including VWS income in the core group, Group turnover is £1.523million below forecast year to date.
- The College performance includes an under spend on pay costs of around £83k. This is mainly on teaching staff, £120k and administration and central services, £35k. In month, there was a small adverse variance £4k reported.
- College non-pay expenditure is over forecast by £1,053k of which partner costs represent £700k, this includes partner payments to VWS. Excluding partner payments, the most significant factor in this amount is the overspend in administration and central services of £258k. Premises costs in total are £60k below forecast. There are no significant favourable variances for the year to date. It was noted that in the accounts, VWS is presented as a partner. Excluding VWS, non-pay expenditure is better than forecast by £1.172million year to date which is predominantly attributable to partner costs (£1.525million favourable excluding VWS).
- Currently only Academic, Public Services and Sports Studies is producing above the target contribution of 40%, however Creative Industries and Digital Technology is currently producing at 39.4% contribution and is expected to be above 40% at the year end. All other areas are under target contribution and of particular concern is the Construction provision.
- Given the re-basing of the comparator, only direct delivery schools producing significant adverse variances in contribution was in Work Placed Learning (£274k).

Members discussed the variances in some detail and particularly noted the following:

- Bad debt provision is £47k higher than expected. This may be a sign of the times in relation to the introduction of more and more individual fees.
- Overspend on non-pay particularly relates to the age grant.
- £31k has been spent on recruitment advertising and external agencies, these relate to costs of appointment for senior posts.

- Higher than expected rent is still being paid in relation to Regent Street. It was confirmed that notice has now been served on the landlord and payments in this area will reduce in due course.
- The balance sheet includes borrowing associated with the new build programme with a total value of £8.5million as at the end of March 2013. This has incurred interest costs of £178k in the first 8 months. Members were advised that the second draw down of borrowing was due in June so as to be available in July 2013.
- Group short term solvency has declined over the first 8 months of the year, as expenditure on fixed assets has exceeded financing. Net current liabilities at the end of the last financial year of £0.523million have increased to £0.588million.
- Cash balances of the Group of £13.838million are higher than forecast (by £9.153million.

In general discussion the Director of Finance confirmed that the figures showed a bit of stabilisation in March, but there was a need to significantly improve over the next two months and close the gap.

One query was raised by a member of the Committee in relation to the number of full time posts, it was noted that teaching posts are as budgeted but non teaching costs are over budget. The Director of Finance indicated that this was particularly related to partner management and central services provided by the College to subsidiary companies. He explained that in the next academic year, there is a need to reduce the partner list so that it is much easier and cost effective to manage, and that the current risk v benefit decision is being made in relation to individual partners with a view to minimising the list. All agreed that this is an area to monitor. The Principal confirmed that the Partner Strategy for 2013/14 would be a topic for discussion at the June strategy residential meeting. | VP BD | June 2013

AGREED: to note the content of the Finance Report to March 2013.

13.18 <u>CONTEXT FOR THE BUDGET 2013/14</u>

The Director of Finance introduced this item and confirmed that his report sets out the assumptions made when drafting the budget, he confirmed that this will lead into the budget paper, which will be presented at the next meeting. In terms of the background and policy context, he confirmed that the sector has seen two major changes, which would impact upon budget setting for the next academic year:

a) Change mechanism for funding ALS.
b) Introduction of 24+ advanced learner loans.

Members reviewed the content of his detailed report and the following was noted:

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- Colleges will continue to be funded in much the same way with notable exceptions covering Learner Support for 16-24 year olds and the way in which courses for over 24 year old learners at level 3 and above are funded. The changes bearing on the sector for 2013/14 come with a fundamental change to funding methodology for both 16-18 and adult learning, although the fundamental aims and objectives of public intervention funding for skills development and education remain the same.
- For adult skills funding there will be a reduction in actual expenditure between the current year and 2013/14 with an indicative forward look at 2014/15, which indicates a flat funding settlement, although this might see a large shift towards loan funding finance. Members` attention was particularly drawn to the table in paragraph 11 - what is clear is that there is likely to be less adult skills activity as a result of loan introductions. It was noted that the provision for advanced learner loans is set to expand massively from 2013/14 and beyond.
- 16-18 further education – the College`s current allocation of £12,001k represents a reduction of around £478k compared to the current year (2012/13), and is largely as a result of the volume of learners recruited during the 2012/13 financial year. Interestingly and perhaps reassuringly, the change to the 16-18 funding methodology has not resulted in the College being disadvantaged on a student by student basis.
- The movement of responsibility for funding ALS for young people up to the age of 24 represented a significant challenge for the College as it has a very large programme of specialist support, which could have been under threat dependent on the way in which the local authority approached this new responsibility. He confirmed that the College feels that it has developed a good relationship with the Local Authority and anticipates that it will get a budget allocation similar to that in 2012/13.
- Income adult skills budget (including 16-18 apprentices) – the College`s allocation for adult skills in 2012/13 of £20,382million includes a further £5million of funding secured to support Vision Workforce Skills transfer between February 2013 and July 2013. The level of funding agreed for 2013/14 of £9million for adult skills and £4million for 16-18 apprenticeship activity is included in the College allocation but would be passed through to its subsidiary company.
- The total allocation of £22,404k for 2013/14 after removing the Vision Workforce Skills element, provides for a College allocation of £13,404k, which is a reduction of £1,946k. This follows the shift towards student loan based financing of level 3 and above programmes for over 24 year old learners. The College has been allocated an indicative loan funded value of £1.175million which will not be met due to the inherent challenges of securing learner engagement to enrol to such programmes in the volumes required. This represents the reality of the curriculum planning process, where indicative income levels suggest that around £750k will be generated. The budget will therefore be set at these levels. It was acknowledged that whilst the College does have the opportunity to utilise

£1.175million, it certainly will not budget on the basis of this figure.

- Contract allocations for 16-18 apprentices continue to be higher than the current level of performance and on the basis that the College has been continually ambitious, but ultimately unsuccessful in the growth of this programme, it will not set the budget to the full contracted allocation.
- The prognosis for future years for adult funding remains challenging with national reductions in expenditure, the potential expansion of FE loans and the need to enable the unemployed learners to get back to work. Apprenticeship programmes for all ages up to 24 remain a priority for Government. It will be imperative that the College makes it offer by age group, which to those outside of the sector could become complex and confused. Members all agreed that unfortunately what will be on offer is an age discriminating system in the sector.
- College tuition fees – the College tuition fee policy for 2013/14 does not account for any increase in the majority of fees, outside of the advanced learner loan programme. The College has taken the decision to freeze its other fees in order to maintain competitiveness in the market and support learner engagement during the current economic challenges.
- Higher Education – the past working restrictions within Higher Education student number caps are not causing restraint for the Colleges programmes but remain technically in place for 2013/14. The student number cap for 2013/14 has been set at 211FTE, exactly the same as it was in the current year. Fee levels will be maintained at £5.5k for full time and £3k for part time learns.
- Public funding from the agency (HEFCE) has been provided for 2013/14 and is higher than had been forecast at £716k by around £73k. This is a positive starting position and is likely to provide some flexibility against recovery of fees, amounting to £2,057k, which is planned for 2013/14. Current anticipated recruitment levels are unclear, though it remains early in the year to make clear conclusions about the Colleges enrolment performance. It was noted that HE enrolments do not seem to be price sensitive as had previously been expected and what appears to be the case is that the market for colleges and universities is very different.
- It is very difficult to predict future years` recruitment numbers, following a forecast dip in 2012/13 and the forecast process will assume the same three year profile of recovery as set out in the previous year, although it was acknowledged that this assumption was a risk.
- Pay costs – assumptions included within the forecast for pay provide for a continuation of the automatic incremental increases coupled with the cost of living pay freeze for 2013/14 and 2014/15. Thereafter, a combined 2.5% inflation will be applied over the longer term of the pay forecast.
- Pay policy remains a decision for the Board to take and this decision will be taken in the lead up to Christmas following reflection of the AoC pay negotiations and College performance. However, the Board

should note the assumption taken in the setting of the budget and the financial forecast. • A pay budget contingency budget will be created to accommodate any limited decisions that the Board may choose to make towards the outcomes of the sector negotiations once known. • Non pay costs – for 2013/14 the budget for non pay costs will continue to be dominated by partnership costs associated with the delivery of employer based and apprenticeship programmes. • However, due to the challenges in maintaining quality and continuing growth of 16-18 apprenticeship programmes, the budget is likely to reflect an increased share in partner provision and providing for a revenue share of 80/20 in the partners favour rather than the current 70/30 split in an attempt to attract better quality and more reliable partner providers. This increase in the cost base will have to be set against a growth in income in order to maintain overall contribution levels. This will require that for every £1million of partner 16-18 apprenticeship delivery at an 80% split additional income of £500k to maintain the position. • The non pay budget will once again assume a 0% inflation rate for 2013/14 in general terms across non pay budgets, unless specific evidence suggests otherwise. Any inflationary pressures will be budgeted to be consumed within general efficiency gain. • Maintenance and running cost budgets will be set against current manageable levels for 2013/14 following the opening of the first two phases of the accommodation modernisation programme. Whilst the College should start to see some gains from the new build these have not been budgeted, this will be coupled with associated rent and running cost savings from the relocation of Hair & Beauty curriculum from central Mansfield. • Future assumptions regarding accommodation decisions relating to the Engineering provision will not be built into the submitted forecast, until after the Board have made a clear decision on which direction to pursue. As a result further potential accommodation savings emanating from the change of use of Chesterfield Road will also not at this stage be included in the forecast. • Capital transactions – expenditure up to the end of July 2013 is forecast to reach £20.7million, with a further £7.8million due for expenditure up to the end of July 2015. Interest rate costs for the £8.5million EIB funds have been fixed at 4.7% over the 16 year term, while the remaining facility will be subject to much shorter fixed deals, being renegotiable every seven years on an 'evergreen' basis. This will provide for longer estimated forecast uncertainty, but will be included at 6% in the financial plan. • College financial objectives – the Director of Finance confirmed that the objectives previously utilised continue to be fit for purpose in relation to College financial health, particularly as a result of the impact of the major build programme, namely to the management of working capital and borrowing facility in order to minimise interest rates. He confirmed that this will result in the College`s rating in the sector being no better than 'satisfactory' in terms of the indicators	Director of Finance	November 2013

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for a number of years, he confirmed that this was as expected.

Members discussed the context and budget assumptions in general terms and acknowledged that because of the high number of Access to HE students usually enrolled there was likely to be an impact following the introduction of the 24+ loans. Also, a challenge to manage is the introduction of study programmes and the impact that this will have on funding. The Director of Finance expressed the belief that the changes were not better or worse, just different, and will need careful management. What will be the challenge, in relation to study programmes is finding the work placements for students.

Members discussed the challenges in relation to 16-18 recruitment, and felt that if the new facilities do not attract greater numbers then the College needs to ask why this is. It was accepted that the College is in stiff competition with the schools and needs to get ahead of the game.

The Director of Finance indicated that at the current point in time he would anticipate the setting of a deficit budget for 2013/14 based upon reduced income and increased interest and that the only opportunity to reduce the deficit forecast is in relation to non pay. He confirmed that the Executive Team were looking at partner provision and the costs paid in this area. There is a need to review the extent of work with partners, but also core provision and the delivery by assessors. He explained that the College has two choices really. These are to caseload more of its own Assessors instead of using partners, or to continue reliance on partners and reduce internal Assessor resources.

In terms of the budget to be set, Members felt that there were two significant changes that needed to be clearly identified, these are a) the impact of borrowing, and b) clarity regarding the recharge to subsidiary companies. It was felt that management charges need to properly reflect costs to the College.

AGREED: to note the content of the report provided.

13.19 **<u>FEE POLICY 2013/14</u>**

The Director of Finance introduced this item and confirmed that no substantial changes were proposed on the prior year. He explained that the intention is to keep co funded tuition fees at the same level to ensure that the College remains competitive. It was noted that the most significant change is in relation to level 3 courses, which will be hit by the introduction of 24+ loans.

Members reviewed the schedule of fees to be applied to each course on pages 46-48. It was noted that fees have been set to match what the College has lost from public funding and not what it could possibly charge, as this is significantly higher. Of particular concern to the College is the Access courses in the Business School, these have historically been

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	very popular courses, but will now attract a fee of £1950 for 24+ individuals and £350 for under 24. Members, having reviewed the schedule of fees and the policy proposed, were happy to agree the proposals presented. AGREED: to approve the fee policy proposed for 2013/14.		
13.20	**<u>CONFIDENTIAL MINUTES OF THE MEETING HELD ON 28 FEBRUARY 2013 AND MATTERS ARISING</u>**		
	AGREED: that the confidential minutes of the meeting held on 28 February 2013 were a correct record and were signed by the Chair.	Chair	9 May 2013
	There were no matters arising.		
13.21	**<u>AOB</u>**		
	There were no items of AOB.		
13.22	**<u>DATE OF NEXT MEETING</u>**		
	The Clerk to the Corporation confirmed that the next meeting was scheduled for Thursday 27 June 2013 at 2.30 pm.		

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