WEST NOTTINGHAMSHIRE COLLEGE
FINANCE & ESTATES COMMITTEE

Minutes of the meeting held in the Boardroom, Derby Road site on Thursday 14 November 2013 at 4.00 pm

BOARD MEMBERS PRESENT:	Kate Allsop Terry Dean, Chair Hari Punchihewa Asha Khemka
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
13.54	**APPOINTMENT OF THE COMMITTEE CHAIR FOR 2013/14**		
	AGREED: To appoint Terry Dean as the 2013/14 Committee Chair.		
13.55	**DECLARATIONS OF INTEREST**		
	The Chair reminded those present to declare at the start of the meeting any interests that they may have in items on the agenda. No interests were declared.		
13.56	**WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE**		
	Apologies for absence were received from Malcolm Hall, Colin Sawyers, Chris Winterton and David Overton (in relation to estates matters only). The Clerk to the Corporation circulated a note received from David Overton regarding matters on the agenda.		
13.57	**MINUTES OF THE MEETING HELD ON 26 SEPTEMBER 2013**		
	AGREED: That the minutes of the meeting held on 26 September 2013 were a correct record and were signed by the Chair.	Chair	14 Nov 2013
13.58	**MATTERS ARISING AND ACTION PROGRESS REPORT**		
	Members reviewed the minutes and the action progress table at page 16 and all agreed that items requested were progressing well.		
13.59	**PROPERTY STRATEGY UPDATE**		
	The Executive Director: Capital Projects & Estates introduced this item and drew members` attention to the following:		

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- Cladding six-storey tower – red cladding on west side of tower 75% complete and 50% complete on the east. Window installation has commenced and is on schedule as of today.
- Design for new science laboratory on the ground floor of the tower approved and in design stage with the aim of commencing instillation in early January 2014.
- Three storey instillation date to be confirmed. Hopefully progress on tower will enable a February 2014 start.
- Programme on time with overall expenditure to the end of October 2013 at £1,960,150 (55.4% of programme).
- Financial credit rating of main contractor J Tomlinson Ltd is 60. Main subcontractor Key Clad Ltd is 93. Cladding manufacturer KME Yorkshire Ltd is 54. All are good or very good credit worthy.
- College Capital Investment Fund Round 3 (CCIFR3) - on 27 September 2013 the college was informed that a competitive bid for a capital grant to support the relocation of the LRC and catering facilities plus modernisation of heating plant at Derby Road was unsuccessful.
- Skills Infrastructure Capital Fund – a small pilot infrastructure fund is available to bid for high technology equipment with a minimum of £100k plus VAT. Capital must be spent by 31 March 2014 and in operation for September 2014. Applications by 7 November 2014. The college is considering bidding for equipment to support visual arts/engineering.
- Studio School building contractor - Kier Construction appointed. DFE confirmed that college can purchase ICT equipment and active infrastructure. Procurement budget of £234,317 has been allocated.
- Draft curriculum plan and identified space requirement is being prepared.
- Design team met three times to progress the design. New toilet blocks and refurbished catering for part of the refurbishment programme. Trees to be removed from the front elevation which will be illuminated. Planning permission is required.
- Heads of terms for Chesterfield Road are under review.
- Visual arts project – detailed design work is underway and a long list of building contractors is being prepared. The final RIBA stage C layout approved by visual arts is included with the paperwork. Tender documentation is targeted for issuing early January 2014. The provision of cost management, CDM coordination and project management has been tendered. It is proposed that Gleeds be appointed. The provision of BREEAM consultancy has been tendered and it is proposed that Anderson Green is appointed.

Members discussed the content of the report and were advised that the catering facilities in the tower will need to be decamped when the windows are changed. The intention is to combine all of the catering facilities in West One. If the combined service is successful then the college will look to retain a single provision moving forward.

Members discussed the data on page 20, particularly relating to the credit scorings and felt that the rating in relation to KME was a concern. It

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was acknowledged that this has declined significantly in 2012. In discussion it was acknowledged that there is only 25% of the overall project cladding requirement still to be supplied (with 75% received). It was acknowledged that KME do have some capacity issues as it has become clear that, if the contract is running ahead of the installation plan, then KME are unable to keep up with demand. All things being equal members felt that whilst there was a risk it is a risk that can be managed but requested that a very close eye be kept on KME`s performance on the remainder of the contract.

The Executive Director: Capital Projects & Estates took the opportunity to circulate appendix 2 which is the 'Heads of Terms' for the Studio School lease. Governors took the opportunity to discuss what will happen regarding the lease if, unfortunately, the Studio School is not successful. The Director of Finance confirmed that if the Secretary of State terminates the funding agreement then he/she has 90 days within which to inform the college of an intention to put a new Studio School in the property. If the Secretary of State fails to do this, then the building reverts back to the college. It was noted that the lease proposed at this time is a 125 year lease with break clauses at 25 years. The committee was advised that legal advice has been obtained with two particular recommendations made:

1) Ask the DFE to approve break clauses at 10 years with break options for both parties and not just the tenant.
2) At the current time changes to the building/alterations can be made by the Studio School without the landlords' permission. As it is a listed building the view is that the college, as a landlord, ought to seek to include a 'permission' clause, such permission not to be unreasonably withheld.

Governors felt that whilst these two amendments would be beneficial they were not crucial to concluding the lease arrangements. They would not wish the college to appear to be difficult just for the sake of being difficult and requested that the management team take a practical approach to this.

David Overton's comments, made in his observations summary, were discussed. The Executive Director: Capital Projects & Estates gave assurances that everything raised by David Overton was in hand.

AGREED:
a) To note the content of the update provided.
b) Approve the appointment of Gleeds to provide cost management services and CDM coordination at fixed fee of £19,000 plus VAT. Project management services to be charged at an hourly rate of £60 plus VAT.
c) Approve the appointment of Anderson Green as BREEAM consultant on the visual arts project at a fee of £8,990 plus VAT.

13.60	**<u>VWS PROPERTY PORTFOLIO</u>**		
	The Executive Director: Capital Projects and Estates introduced this item and confirmed that the content of the report was discussed extensively at the VWS meeting on Tuesday. In reviewing the data provided, all agreed that what was clear is that the college/company has inherited a lot of properties with very high cost to the business. In going forward there is a need to ensure that the portfolio meets the company's needs.		
	It was noted that VWS is currently operating from 11 transferred sites (14 leases) plus 121 Canal Street Nottingham, Corby call centre and Ransom Hall for administration. It was explained that in relation to all of the other sites (not the 11 that have been identified as to be retained) that the management team are trying to terminate/surrender as early as they can. It was indicated that, in relation to non operational centres, the team are looking to settle dilapidations figures early and not wait until the end of the lease as this will ensure certainty regarding the extent of dilapidations dowry to be utilised.		
	The Principal confirmed that at the January Board meeting the college would have a full VWS report.	Principal	January 2014
	The Executive Director: Capital Projects and Estates confirmed that he has an interim contracts/site manager supporting him regarding the VWS portfolio. He confirmed that the property strategy is to be reviewed again by VWS in January 2014.	VWS	January 2014
	In terms of future reporting governors indicated that they would find it useful to have profitability summarised on a centre by centre basis so that they could get a real feel for which areas are doing well and which are not.	Dir Fin/ Exec Dir	Standing Item
	AGREED: To note the content of the update provided.		
13.61	**<u>MANAGEMENT ACCOUNTS - DRAFT TO 30 SEPTEMBER 2013</u>**		
	The Director of Finance introduced this item. Prior to bringing a number of matters to the committee`s attention, it was confirmed that Work Related Training would be a presentation topic at the December Board meeting.	Dir. Fin./ VP	December 2013
	In reviewing the data the following was brought to members` attention:		
	• Significant issues – the financial performance for the college and group is poor in the first two months of year, primarily as a result of the abject performance of work related training within the college and the large loss being incurred by VWS, partly as expected. • The group has lost £868k in the first two months of the year after depreciation and interest, £540k before interest and depreciation. This is primarily due to VWS which lost £882k after depreciation and		

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interest. This loss is partly ameliorated by the continued strong performance of BKSB which made a surplus of £207k. The core college lost £174k after interest and depreciation.

- College – the performance of the college with a loss of £174k for the year to date is £335k worse than budget. The main factor is the poor performance of work related training school which lost £53k in the two month period this is £570k worse than target. If the business development unit, which almost exclusively supports it, is added to this it lost £147k, this does not take into account other support services.
- Income – college income was £1,139k worse than budgeted at £9,028k for the first two months of the year. The main adverse varience being 16-18 apprentices which underperformed by £1,454k generating only £635k of income, the vast majority by partners including VWS. Although it should be noted that there are substantial dificulties in producing accurate income figures at present as a result of the SFA failing to produce the funding submission software in a timely manner.
- The adult skills income exceeded budget by £240k. This, however, was due to partner adult learner responce activity which had a favourable variance of £765k at £1,289, though this is not a key target area. There were also adverse variences within HE income £54k and other income £51k.
- Pay – pay costs were £189k below budget due to good cost control within admin and central services where there was a £319k favourable variance which covered the budgeted pay savings of £215k. Overall teaching staff (teaching staff and sessional teaching staff) was on budget at £1,974k.
- Non pay – non pay costs are better than budget by£721k as a result of a favourable variance on franchise provision costs of £760k. Non pay costs, excluding franchise costs, are £39k worse than planned with all areas apart from teaching support (£37k favourable) other operating expenses (£110k favourable) interest payable (£47k favourable) and depreciation (£5k favourable) showing adverse variences. The most significant adverse variance being administration services where there was a £94k overspend.
- Schools of Learning – the only school within college to show a favourable variance was Academic Public Services and Sports Studies which generated a 47% contribution. Of significant concern is the 10.1% made by Business Professional and Continuing Education, £103k below budget. All of the schools made contributions between 25 and 35%.
- Group balance sheet – the balance sheet includes borrowing associated with the new build programme with a total value of £10.5 million as at the end of September 2013. This has incurred interest costs of £77k in the first two months of the year.
- Group short term solvency has improved from year end as the financing draw down £2 million was less than group losses and capital expenditure. Net current assests at the end of the last financial year of £538k have increased to £854k.

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- Cash balances for the group of £13.758 million are higher than forecast (by £5.062 million) primarily as a result of the receipt of funds by VWS for future liabilities including £2,361k of dilapidations and £3,047k of initial liabilities. The latter contributed the group having £21.495 million of accrued liabilities and deferred income on the balance sheet, an increase of £5.10 million from the year end. In discussing this area all agreed that the accrued liabilities were significant but mostly related to lease dilapidations and income recieved from the SFA but not yet earned.
- Subsidaries – VWS has lost £882k in the two months so far this year, £442k worse than plan. This is due to a failure to attract new students resulting in a £1,018k adverse varience on income excluding the effects of accounting treatment of the dowry. Costs, although controlled, were only £577k better than budget due to the significant fixed property costs within the business.
- BKSB made a £207k surplus in August and September, £54k better than budget as a result of strong cost control. Costs were £78k less than planned.

In reviewing the data generally it was acknowledged that, if the group were to take out the VWS loss, then the remainder would be in a surplus position. All acknowledged that BKSB was performing very well and was now a key critical component to the college`s operating position.

The Director of Finance explained that there are a number of issues currently taxing the management team, these include:

a) Both college and VWS struggling with 16-18 apprenticeship recruitment.
b) SFA softeware problems. He explained that the college, and indeed the sector, cannot submit the funding returns required and as an alternative are having to use their own calculations. Whilst confident that calculations are on a sound basis, this does come with a risk.

The committee was advised that the adult skills apprenticeship funding position is positive and there may be an opportunity for further funding in this area. In terms of 16-18 apprenticeships, the college and VWS are struggling to recruit which is a frustration because it is the highest government priority area and, therefore, the college would be guaranteed further funding if it could over recruit. It was acknowledged that underperformance in relation to 16-18 year olds will impact on the bottom line as the college is paid on performance (not on profile as is currently the case).

Members discussed the balance sheet data at page 47 and acknowledged that the underlying position for the college is a negative one. Cash in from VWS is supporting the solvency of the college at the current time and this cannot continue. All acknowledged that the college cannot continue to make increasing losses. The management team felt that there were known areas to address and these are being progressed as a

	matter of urgency. Governors all agreed that if the VWS cash position goes negative and the college is still underperforming then the combined position will be a huge problem. In terms of the VWS budget, all acknowledged that the targets set were simply not achievable. It was confirmed that a reforecast position would be presented to the December VWS Directors meeting. All Governors acknowledged that VWS is a challenge but agreed that there was a need not to panic at this stage as there are clear actions being taken to address the issues evident. In terms of VWS, the Director of Finance confirmed that there were some funds in reserve (circa £280k) which have not been released into the accounts as not reflective of the trading position. He explained that, if required, they could be released but that what the management team want to ensure at the minute is that there is a clear focus with no one-off benefits masking the trading position. AGREED: To note the content of Management Accounts to 30 September 2013	Director Finance	December 2013
13.62	**<u>2012/13 FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER</u>**		
	The Director of Finance introduced this item and confirmed that the document has been through the Audit Committee and been reviewed. He confirmed that the report was presented in a standard format and whilst audit work was substantially complete, there was some tidying up on wording to be completed. He explained that auditors were currently waiting for a final letter statement from the SFA on funding earned and that when received this can be inserted into the document to finalise. He drew to members` attention the fact that 2012/13 was a significantly worse performance than that seen in 2011/12. In reviewing the report, the following was specifically noted: • Audit work is now substantially complete and auditors anticipate issuing an unqualified audit opinion on the year on the college financial statements following the approval of the financial statements by the Audit Committee and the College Corporation. • The college has recorded a surplus for the year of £0.275 million which represents a significant reduction on the surplus of £3.404 million recorded in 2011/12. • Result for the year – this has been an extra ordinary year for the college with the acquisition of VWS. This is a nationally based education training provider. The college acquisition of VWS brought with it a number of liabilities, particularly redundancy costs, leases and dilapidations costs. The total liabilities were estimated at £16 million at the point of acquisition. To offset these liabilities the college was paid a dowry at the point of acquisition by the selling body equal to the estimated liabilities at this point. In accordance with FRS6 Mergers and Acquisitions an opening balance sheet for VWS was created with the cash received at this point and debtor		

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being offset by an equal creditor, this being the sum accrued for restructuring dilapidations owns leases etc. Auditors are satisfied with this treatment.

- During the period from the acquisition to 31 July 2013 i.e. the closing group balance sheet date VWS has undertaken normal trading and the income and expenses associated with this have been accounted for through the income and expenditure account as normal. However, in addition during this period a number of the opening liabilities have been settled particularly in relation to redundancy costs. The effect of this was to reduce the remaining liability and associated asset at the balance sheet date with any credit due to the settled liability being less than originally forecast being credited to the income and expenditure account. Auditors are satisfied with the college treatment of the acquisition of VWS.
- Income and expenditure subsidiary companies:
  a) Safety Plus Construction – the loss on ordinary activities before taxation dividends for the period 31 July 2013 amounted to £12,831 (2002 – loss of £15,275) with no dividend or covenant being paid to the college.
  b) Safety Plus Training and Consultancy Ltd – the profit on ordinary activities before taxation and dividends for the period of 31 July 2013 amounted to £40,115 (2012 – loss of £40,319) with a covenant of £265,589 (2012 nil) being paid to the college.
  c) Vision Apprentices Ltd - the loss on ordinary activities before taxations and dividends for the period 31 July 2013 amounted to £31,023 (2002 a loss of £6,146) with a covenant of £49,223 (2002 – £59,122) being paid to the college.
  d) BKSB Ltd (formally Skilldrive Ltd) – the loss on ordinary activities before taxation and dividends for the period 31 July 2013 amounted to £7,163 (2012 profit of £25,401) with a covenant of £1,158,847 (2002 – £819,582) being paid to the college.
  e) Vision Workforce Skills Ltd – the profit on ordinary activities before taxation and dividends for the period 31 July 2013 amount to £545k (no previous year comparator) with no dividend or covenant being paid to the college.
- In total the college received £1,469,959 (2012: £878,704) from the operation of the subsidiary activities which represent an increase of 67%.

It was acknowledged that auditors have completed the regularity audit and have no observations to make.

The Director of Finance assured members that the management team have unpicked the contributing factors to reduced performance and are clear where efforts need to be directed in the current academic year. All acknowledged that it was a disappointing year in the context of strong prior year surpluses. All acknowledged that KPMG will be issuing an unqualified opinion. It was noted that VWS has been accounted for on an acquisition basis. It was explained that this has been the subject of much debate between the college and auditors.

Members were reminded that the two Safety Plus companies are now going to go into dormant status and that, whilst they will still exist as companies, only very short annual returns and annual accounts will be filed.

Members reviewed the pension position and acknowledged that, whilst it had improved on the prior year, it was still a long term future concern and one that the college and the sector will have to deal with at some stage.

The Director of Finance explained that the audit process this year had been more challenging than in previous years and that this was primarily due to the acquisition of VWS. He gave assurances that both the Finance Team and auditors now know what needs to be done to improve for the following year.

AGREED: To note the content of 2012/13 Financial Statements Audit Management Letter

13.63 <u>2012/13 DRAFT MEMBERS REPORT AND FINANCIAL STATEMENTS</u>

The Director of Finance introduced this item and confirmed that the numbers in the accounts are the same as provided in the management letter. Members' attention was drawn to page 77 which gives an equivalent OFR commentary on performance. He explained that there may be some very minor changes to be made before the final document is presented to the December Board meeting.

Members reviewed the content of the information and noted:

- Page 82 – cash flow
- Page 85 – risks and management
- Page 100 & 101 – this will be signed off by KPMG
- Page 102 – regularity audit
- Page 104 onwards – financial statements and accompanying notes

In reviewing the draft members report members felt that it was an accurate summary of the year. The Director of Finance confirmed that this version of the members report and financial statements picks up items/recommendations made by the Audit Committee at its recent meeting.

AGREED: To approve the 2012/13 Draft Members Report and Financial Statements.

13.64 <u>RECONCILIATION OF FINANCIAL STATEMENTS TO JULY FINANCE REPORT</u>

The Director of Finance introduced this item and drew members` attention to the table on page 135 which summarises the variances. The following was specifically noted:

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- The table shows the changes to the group result from the original budget through to the mid-year forecast, the July end of year forecasts and finally to the draft financial statements for the 12/13 financial year. The key points to note are highlighted within the body of the report, but it is important to note that the trading result measured before FRS17 and other non trading items whilst improving on the forecast end of year position remains weak, compared to both the prior year and the budgeted position.
- A regular difference between the management accounts and the financial statements comes from the removal of discretionary hardship funds for young people and adults, which for the year amounted to some £1,153k. Both income and costs are removed from the financial statements reported and are disclosed in the notes to the accounts as amounts dispersed as agent.
- Aside from this specific difference, a few specific adjustments were made to the final accounts relating to the acquisition accounting treatment of VWS Ltd following discussions with the college external auditors.
- In the July end of year forecast the full income from the dowry provided by Pearson in relation to the restructure of the business had been disclosed as turnover. The required treatment by the auditors and to comply with FRS6 and FRS5 was to create an opening balance sheet within VWS and charge costs incurred against the provision for opening liabilities.
- In order to reflect the incoming resources associated with the activities in the year, there has been a separate disclosure on the face of the income and expenditure accounts, reflecting the forecast end of year position set out in the table, recognising £63,514k of total incoming resources.
- A post year end deal to utilise some of the colleges allocation was also completed in October 2013 which provided a further £1.1 million of income and a further bottom line contribution of £220k (HIT training)
- The finalisation of the ILR on 25 October and the vast increase in partner activity at the end of the period led to some other movements within the ILR which reconciles turnover.
- The impact of VWS clearly was not reflected within the original budget and mid year forecast as the opportunity emerged well into the financial year. As a result, the budget and mid-year forecast did not include any aspects of VWS income or costs.
- The difference between the pay disclosed within the end of year forecast and that included as a cost within the draft financial statements, relates to the adjustment of removing pay costs from the income and expenditure account and charging them against the opening liabilities within the balance sheet as a result of the acquisition accounting treatment.
- Non pay costs are similarly affected by the costs removed to the balance sheet for VWS activity. In addition, the costs associated with amounts dispersed as agent and the HIT Training deal make up the

residual reconciliation between the end of year forecast and the draft financial statements.

AGREED: To note the content of the reconciliation report provided.

13.65 **STUDENT UNION ANNUAL AUDITED ACCOUNTS 2012/13**

The Director of Finance introduced this item and confirmed that the activities of the Students` Union which include the organisation of events and end of year celebrations and the provision of lunch time facilities for students are embedded within the college's student support directorate. The Students` Union does not exist as a separate legal entity to the college, but operates within delegated budgets. The budget is ultimately delegated through to the Deputy Principal: Teaching and Learning up to the end of 12/13 financial year.

The union relies on the college`s finance department and its financial systems to administer and provide its finance and accounting services. The activities of the Students` Union are not separately or specifically audited but form part of the overall work of the college financial statement auditors in reaching their conclusions on the college`s financial statements.

For the year ended 31 July 2013, the Students` Union generated a surplus on its operations of £1,821 (prior year £4,816). This represents a positive performance and supports the efforts made by the Union to broaden its accessibility and support to the college's student community.

In reviewing the accounts provided all acknowledged that the Students` Union was heavily subsidised by the college and that the vast majority of its expenditure related to staff costs.

AGREED: To approve the Students` Union`s Annual Audited Accounts for 2012/13.

13.66 **AOB**

There were no items of additional business.

DATE OF NEXT MEETING

The Clerk to the Corporation confirmed that the next scheduled meeting was 27 February 2013.

CONFIDENTIAL ITEMS

It was agreed that confidential items would be recorded separately.

The meeting closed at 6.00 pm.

Signed : ____________________________Chair Date: