WEST NOTTINGHAMSHIRE COLLEGE
FINANCE & ESTATES COMMITTEE

Minutes of the meeting held in the Board Room, Derby Road site on Thursday 26th June 2014 at 2.30pm

BOARD MEMBERS PRESENT:	Kate Allsop Terry Dean, Chair Dame Asha Khemka Hari Punchihewa
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
14.24	**DECLARATION 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 declarations were declared.		
14.25	**WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE**		
	Apologies for absence were received from Malcolm Hall, Colin Sawers and David Overton (in relation to Estates matters only).		
14.26	**MINUTES OF THE MEETING HELD ON 1st MAY 2014**		
	AGREED: that the minutes of the meeting held on 1st May 2014 were a correct record and were signed by the Chair.	Chair	26 June 2014
	In relation to a matter arising Members attention was drawn to page 6 of the minutes, the Director of Finance confirmed that 50% of the figure relates to accrued income. He indicated that the figure was so high in March because of the Funders profile of payments.		
14.27	**ACTION PROGRESS REPORT**		
	Members reviewed the action progress table at page 8: Item 1 – remains outstanding and is due for completion. Item 2 – as and when appropriate. Item 3 – due in October 2014. Item 5 – ongoing. Item 6 – concluded.		

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AGREED: to note the update provided.

14.28 PROPERTY STRATEGY UPDATE

The Executive Director introduced this item and updated Members on key matters:

1 – Cladding Six Storey Tower and other buildings

- All works to Tower are completed and sails installed. Supplementary up lighters to the four corner elevations have been ordered. All higher level lighting is installed to enable scaffolding to be dismantled.
- Main entrance to remain closed until scaffold dismantled and the link bridge refurbishment complete.
- Three storey block - all cladding panels on site, installation scheduled for 14th July 2014 completion.
- Cladding programme financial overview. Overall expenditure to end of April 2014 is £3,238,500 (less 3% retention £85,212), £3,153,288 which equates to 91.5% of the total £3,535,902 construction costs. Programme on budget but excludes any potential claim by Contractors for change in design to sails.

2 – Engineering Innovation Centre

- Section 1 completed as scheduled for Fabrication & Welding on 28th April for Students.
- Completion of section 2 went as planned and is now handed back to the College. Work still to do includes external work to car parks, installation of ICT, furniture and engineering equipment, this work will progress through July with a target completion of 27th July.
- Installation of 350 KVA electricity substation scheduled for completion, however, it is not fully resolved. It is likely to be the case that the College will not have full supply until December 2014, in the interim period Energetics will provide generator and diesel at their own expense.
- Engineering programme – financial overview – overall expenditure to end of April is £1,934,105, which equates to 73.6% of total construction costs. Programme is on budget.

3 - Further education condition fund

- The College has been allocated £500k for improvements to the Estates, part of which will be used on improvements to the heating system at Derby Road. Specification of works has been tendered and a separate report is to be discussed under confidential matters later in the meeting.

4 – Studio School

- Lease and building contracts agreed and signed by all parties.
- Contractors are now on site. 1st September is the deadline for opening; although unfortunately because of the delay in the

construction programme there will still be work to be done on site in September. This is planned to be completed with as little disruption as possible. 5 – Visual Arts - Construction progressing to schedule. • Mezzanine floor is constructed, one week is allocated for fit out and relocation of Staff. Visual Arts are scheduled to move into the new centre week commencing 8th September 2014. It was acknowledged that this is a very tight programme but it is currently running to time. 6 – Vision Workforce Skills • Of the 31 sites three are still to be assigned, (Southampton, Coventry and Wolverhampton). The most recent strategic review of the property confirmed an agreement to reducing the portfolio to two operating sites. • VWS is exiting from nine properties in August/September 2014. Break notices have been issued on all of the properties. In general discussion the Principal took the opportunity to remind the Committee of some original reservations regarding the design of the tower cladding and the crown. All acknowledged that the building now looked amazing and the Principal was pleased that it has transformed the College in the way that she had originally envisaged. Scaffolding is now coming down and there is an increased opportunity to see how dramatic the building looks. In relation to the link bridge, Members were advised that brown stains have been observed to the side of the bridge, these have been caused by an unforeseen reaction to the sealant laid on the bridge between the structure and paving slabs with special phosphorous paint used on the columns. It was initially a concern that the bridge may need to be rebuilt; however, Contractors are now confident of securing a resolution and the bridge should be open next week. The Principal raised a concern regarding the bus shelters at the front of the building. It was confirmed that these are the responsibility of the County Council and not the City Council; the Principal raised the question whether anything could be done to change and upgrade these as they are clearly now out of kilter with the quality of the new build. Kate Allsop confirmed that she would try and progress this matter on behalf of the College. In relation to the VWS property portfolio, all acknowledged that June to September would be a very busy period for the Team as premises are exited. AGREED: to note the update provided.	Kate Allsop	July 2014

14.29 LONG TERM MAINTENANCE

The Executive Director introduced this item and summarised some key items:

- Planned and reactive maintenance budget for 2013/14 was £600k.
- Expenditure to 31st May for reactive was £321,828.72 and planned £167,327.69.
- Anticipated expenditure at the end of the academic year (2013/14) for reactive is £390,701.46 and planned £167,327.69. These will be within budget.
- Maintenance budget for 2014/15 is adjusted to take into consideration consolidation of estate and budgetary constraints.
- Reactive maintenance for 2014/15 to reduce from £400k to £325k, this assumes general closure/disposal of Chesterfield Road, Thoresby Street, Sovereign Way, Acorn Way, Regent Street and Woodhouse Road Bay 6.
- Planned maintenance budget of £197k proposed to comprise upgrade of fire alarm system to six storey tower, three storey block, LRC and Enviroblock estimated at £160k. Members were advised that whilst a tender exercise has been undertaken in relation to this work the Team are not confidently able to recommend a contractor at this time, however they are confident that the work required can be achieved for under £160k. To be in a position to adequately progress matters it was noted that there is a need to award the contract and on this basis the proposal was made to delegate authority to the Principal to make an appointment for a sum under £160k. Members were happy to support the proposal and it was agreed that a report on the tender process will be provided at the next meeting.

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AGREED: to approve delegated authority to the Principal to award the contract to upgrade the fire alarm system to six storey tower, three storey block, LRC and Enviroblock at a maximum figure of £160k.

- Derby Road fire – recommendation to implement following review of fire incident. Digital radios to replace analogue at £12k and central barrier from rear steps LRC at £900.
- Condition survey of estate to be undertaken in November 2014. Most recent survey in 2010 prior to estate refurbishment and modernisation. Audit recommendations to conduct a new survey on completion of approved accommodation plans. Estimated cost of £25k.

Members took the opportunity to review the reactive maintenance schedule at 2.2 and questioned why there had been increases, particularly in relation to Ashfield College, Thoresby Street and Station Park. The Committee asked that the expenditure at Station Park be analysed in more detail as they were of the view that as a relatively new facility there shouldn't be a requirement to spend £33.5k on reactive

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maintenance.

Governors, whilst requesting greater clarity regarding the increases did acknowledge that it was a very difficult process to accurately assess reactive maintenance. It was noted that the actual expenditure to 31st May 2014 is £80k under spend. Given the point in time in the year it was generally acknowledged that the remaining £80k was unlikely to be required in the next two months and therefore, there was likely to be an under spend in this area.

Governors expressed some surprise that the planned maintenance is less than reactive. Some indicated that they would expect it to be the other way round. On closer review it was felt that there were some items within the reactive budget which could be considered planned, eg, service contracts. The Executive Director was asked to move these from reactive to planned so that the Committee could better understand the spread of known work against those 'surprises' that happen throughout the year.

In relation to the proposed budget for reactive maintenance at Station Park, estimated at £30k, the Committee felt that this needed closer review. In relation to the condition survey Members questioned whether this was necessary now. The comment was made that this money could be used elsewhere. The Executive Director confirmed that he would review the possibility and implications of putting off the survey by one to two years.

AGREED: to note the update provided.

14.30 <u>FINANCE REPORT TO APRIL 2014</u>

The Director of Finance introduced this item. The Committee commented upon the size of the font utilised in the executive summary. All acknowledged that it was a creative way of producing the report to a maximum size of an A4 sheet.

- April has delivered an improvement in the financial performance of the group (excluding VWS) generating an operating surplus before interest and depreciation of £1,517k for the first nine months of the year. This compares to the forecast of £1,173k and the prior year result of £1,049k.
- The old group position continues to be affected by the performance of Work Place Learning within the College, which is £327k behind forecast contribution. This is offset by continued underspending within pay (£137k in month), a write back from the balance sheet for accrued partner liabilities and a strong performance of bksb, which generated a £956k surplus before depreciation in the year to date.
- Including VWS, the College group result before interest and depreciation is a loss of £1,933k, with the VWS loss of £3,463k in the nine months to date being substantially worse than the

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approved forecast position. The in month improvement in VWS being the result of the clearing of old accruals and therefore a one off and not an improvement in underlying performance. The implementation of actions are underway to address the VWS trading losses.

- The College has generated a surplus of £584k before interest and depreciation in the year to date , which is £299k better than forecast, and better than the prior year loss of £77k. The month of April however, was £450k better than forecast . This though was substantially due to the clearing out of old provisions related to partners, and a revision downwards of the estimated percentage partners will be paid in line with reports presented to board in April.
- Excluding these changes College in month performance was in line with forecast.
- College income was £1,404k behind forecast at £40,763k for the year to date and £998k behind forecast for the month. The main adverse variance is now adult apprenticeships (£ 931k adverse for the year to date). If the level of performance in April continues for the remaining 3 months of the year only £12,515k of adult apprenticeship income will be generated, £2,223k below forecast .
- 16-18 apprenticeships continue to perform below forecast with an adverse variance of £454k for the year to date. College own delivery has weakened over the last few months and is now below phased forecast by £210k, £55k of which is in the month.
- The adult skills budget income is below forecast by £1,724k for the year to date, with a £1,023k under performance in month, as forecast income increased markedly in month. Within this programme, FE Adult Learner Responsive income has begun to slow down markedly in the period although Adult Apprenticeship activity is not increasing.
- There were favourable variances within Educational Contracts (£435k) as a result of partner activity of ESF contracts (although at a very low margin) and other income £336k. The college is taking steps to increase margin within the ESF partner activity for 2014-15.
- Pay costs are £183k below forecast. There are favourable variances in all areas apart from Sessional Teaching , Temporary Staff and Other Sessional budget lines. Overall teaching staff (teaching staff and sessional teaching staff) was £110k below forecast at £8,091k. Work Place learning continues to overspend on pays costs with an adverse variance of £85k. No other school had a significant adverse variance.
- Non-pay costs are better than forecast by £1,535k as a result of a favourable variance on franchise provision costs of £1,941k. Excluding franchise costs, non-pay is £406k worse than planned, the main overspends being in other operating expenses(£285k adverse, which relates to ESF partner payments) , administration and central services (£327k adverse) and Exams (£34k adverse).

The most significant favourable variance is maintenance costs.

- Most schools of learning are now close to phased forecast the only exceptions being a £61k adverse variance in Lifestyle Academy and a £61k favourable variances in both Care & Education Studies and Construction and Building Services.
- Weaker financial performances are the 27.4% contribution made by Business Professional & Continuing Education; and the 25.8% contribution of Lifestyle Academy. Academic, Public Services & Sport Studies continues to produce a strong contribution of 44.1 %. All other schools made contributions between 33.9% and 36.4%. Work related training produced a margin of 17.8% for the year to date, short of the forecast target.
- Vision Workforce Skills performance continues to be poor (a loss of £3,451k before depreciation) mainly as a result of the lower than planned 16-18 apprentice income, whilst fixed costs retained to deliver these courses remain high (property occupation). Although generating a surplus in month due to removal of old balance sheet accruals, the result is still short of forecast (YTD: £2,845k loss) and will worsen in the remaining months of the year.
- Bksb continues to perform well as a result of consistent growth and strong cost control. The surplus, before depreciation, for the year to date at £956k is above forecast by £76k. Total Income at £1,918k is just below plan of £1,962k.
- Vision Apprentices is producing a loss of £23k, £31k worse than forecast due to the substantially lower than planned income, consistent with the college sales performance in apprenticeships.
- Group borrowing was £17m at the end of April 2014, a draw down of £8.5m since last financial year end. This has incurred interest costs of £447k in the first nine months of the year. Group short term solvency has improved from year end (by £1.427m)as a result of the financing drawn down and receipt of £1.503m of deferred capital grants more than offsetting the capital expenditure of £5.690m and group loses for the year to date.
- Cash balances excluding VWS at £12.981m are £6.339m higher than forecast, with a significant reduction in month as a result of payments for building works . Cash balances for the group stood at £14.247m

In general it was acknowledged that the poor performance for the year is as a result of income being under expectations, particularly in relation to adult apprenticeships.

AGREED: to note the content of the Finance Report to end April 2014.

14.31 **2013/14 PROJECTED YEAR END POSITION**

The Director of Finance introduced this item and summarised the expected position.

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- The College reviews and monitors budgets throughout the year but specifically in January, performs a formal mid year review of the financial performance against budget and the prognosis for the remainder of the financial year.
- For 2013/14, the College Group consists of the College and three trading subsidiaries; bksb, Vision Apprentices and Vision Workforce Skills. The two former Safety Plus companies are not trading but hold insignificant transactions following the decision to wind the business down.
- In January 2014, the College and College companies undertook a formal review across all areas of activity in light of the performance up to that point. In March 2014, the Finance & Estates Committee received this mid-year reforecast. At this point the inclusion of Vision Workforce Skills followed a third in year forecast following challenging operating conditions and a need to implement further restructuring.
- Subsequently, VWS has performed worse than forecast and a decision has been taken to close the business down and merge residual viable activity into the College programme from 2014/15 onwards.
- Separately, the College and its other subsidiaries have reported financial performance against this reforecast position and as the year is coming to a close, this report sets out the anticipation of the end of year result for the College Group.
- This end of year forecast has been prepared to concentrate on the operating position of the College and its group companies.
- The current expectations for the end of year result indicate that the outcome for the year will be poor following the large scale losses incurred within Vision Workforce Skills and the weaker than expected performance of the College.
- Whilst the group performance before VWS is weaker than expected, the overwhelming impact on the result from VWS cannot be overlooked and underlines the urgency with which the decision to close the business and transfer viable activity into the College.
- Before VWS, the old College group would have produced an operating deficit for the year after interest and depreciation of £288k. Before Interest and Depreciation this would have been a £1.837million surplus.
- The journey from original budget through to mid-year forecast and end of year forecast indicates a failure of VWS to deliver the activity volumes required and a switch by the College into securing the activity through more external partner delivery and more resulting non-pay costs.
- Whilst the VWS management has sought to control costs, the vast fixed nature non-pay charges and limited flexibility within which to remove significant pay costs has led to the large trading losses.
- College performance is expected to remain in line with the mid-year forecast which was impacted by the weak performance

within work related training compared to budget against which restructuring changes were made. From this point on a recovery in performance was not possible.

- Bksb has delivered another strong performance and will once again exceed both the original budget and mid-year forecast operating surplus, providing £1.182million of surplus to the group.
- Vision Apprentices has stagnated in year and struggles to increase the volumes of ATA trainees over and above the current volumes of between 55-60. Expenditure committed to boost learner engagement has resulted in the small forecast operating surplus moving to a small operating deficit for the year.

In general discussion it was acknowledged that VWS performance has dominated the results for the full year. The most significant influencing factor was poor recruitment. In relation to Vision Apprentices the Company is simply not seeing the expected ATA volume numbers. Bksb shows a usual pattern of performance with a general trend of improvement.

- The biggest difference in the year is the failure of VWS particularly in relation to 16-18 Apprentices.
- The performance for Vision Apprentices calls into question its future role, aim and function as it is just not getting the numbers required.
- The figure for Vision Workforce Skills shows the restructure position.
- Total non pay expenditure is higher than forecast because of the increased partner costs.

In general it was acknowledged that this has been a very poor year and the accounts will reflect this.

In reviewing the table at page 38 Governors commented that at midyear VWS had seen a big reduction in income, Governors felt at that time they would have expected to see a bigger pay cost reduction scheme as a result. The Director of Finance confirmed that there is some inflexibility in relation to the structure but with hindsight it was acknowledged that the Senior Team could have acted sooner.

AGREED: to note the update provided.

14.32 **DRAFT BUDGET 2014/15 & FINANCIAL FORECAST 2016/17**

- The Director of Finance introduced this item and confirmed that colleges are only now required to do a two year forecast and that is the basis upon which the information is provided.
- The College and College Group budget for 2014/15 has been developed according to the planning and allocation processes set by the sector regulators aligned to changes in Government priorities for the public funding of further education. Alongside

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the external processes, the College continues to implement its business plans, and invest in on site facilities supported by commercial borrowing in order to provide an outstanding and attractive student experience.

- For 2014/15 the real impact of reducing public expenditure and a falling cohort of 16-18 learners is beginning to have an impact through the application of downward pressure on publically funded income levels and presents a challenge for the sector and the College for the period ahead. The Board has received information setting out the Colleges final funding allocations providing a comparator to the current year at its recent meetings.
- For 2014/15, income budgets are based on curriculum plans with sufficient contract capacity to meet the income budgeted level.
- The adult skills budget increased substantially since the creation of Vision Workforce Skills with the allocation around double what it otherwise would have been. With the adult skills programme, the College must deliver £16.5million of adult apprenticeships. Failure to meet this target will compromise the future allocation process and may adversely affect the Colleges funding position.
- Additional Learner Support is now into the second year of split funding between the Education Funding Agency (EFA) and the Local Authority. By and large this has worked well although the statistical data supporting the EFA elements of the allocation have improved resulting in an allocation of around £300k lower than the 2013/14 financial year.
- Some variability and risk for the Local Authority element exists (£995k) which is always subject to student recruitment in September so the budget has been set based on current levels which are likely to be similar to those recruited in September.
- Higher Education programmes are now substantially funded through student tuition fees with the residual £507k budget being the Student Opportunity and Widening Participation allocations.
- Commercial income levels from the salons and restaurant has been budgeted at levels which provide a stretch from current activity. For hair & beauty income will be £91k and for the restaurant £130k.
- Additional income from the introduction of Free School meals will be provided through a cashless catering system and boost the throughput in our student catering facility raising income from £485k to £621k.
- The ESF programme running in parallel for NEET and Skills Support for the Workforce (SSW) will see a further increase in income levels in 2014/15 compared to the current year as income has grown particularly in the second half of the year.
- The College pay budget has been set following the confirmed establishment being reviewed by each budget holder and aligned with the operational delivery plans for the year. Pay budgets are modelled in some detail at employee level taking into account

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changes to NI and pension costs and includes the policy of automatic increments built into the proposed pay budget costs.

- Changes to Pension contribution for LGPS have been included in the underpinning assumptions for the 2014/15 financial year at a rate of 11.9% (13.4%) with a one off annual historic charge of £179k.
- Negotiations around pay settlements are concluded within the sector usually at some point leading up to Christmas.
- Pay budget for 2014/15 now includes the impact of transferring in the residual delivery staffing from Vision Workforce Skills within the combined work related training programme.
- Total College non pay costs for the 2014/15 budget of £29.1million continue to be dominated by the costs payable to partners in relation to the delivery of the work place learning provision at £15.1million.
- Clear assumptions of the composite costs of partner delivery have been made which include classroom delivery at 70%, Adult Apprenticeship delivery at 78% and 16-18 Apprenticeship delivery at 80%. A range of payment levels will be set across partners with differing capability and support needs which will require careful planning and monitoring in order to achieve the composite budgetary cost outcome for the partner programme.
- In general, non-pay budgets have been set at levels comparative to current mid-year forecast levels with the addition of targeted saving which amount up to £1.1million across College budgets. This includes around 40 individual targeted measure for non-pay cost management each of which have been allocated to a member of the Executive Team.
- Agreed budget have been brought across from the ex VWS provision in order to support the activity levels anticipated.
- Energy costs continue to rise with expected costs for gas and electricity of £601k (MYF: £492k) as the running costs for the new estate are not currently showing clear evidence of greater efficiency. Space reductions will be evident from 2014/15 and this may provide unbudgeted opportunities for cost savings in this area.
- In line with the changes to the estate, security costs are expected to be much lower at £94k removing and combining the need to manned guarding as better monitoring and a smaller more efficient building footprint come on stream from September 2014.
- The removal of the VWS call centre function has led to the budgeting of a resource to secure leads from brokerage organisations.
- Maintenance costs are expected to reduce into 2014/15 for the estate.
- Partnership costs for the ESF programme will be higher.
- Premise rental costs will be lower.
- Exam and registration costs of £949k will be higher in 2014/15 than the current financial year due to the merger of BWS activity

to form a much larger Work Related Training programme. All costs are linked to volumes for both classroom and work based delivery.

- Depreciation costs of £1.52million are higher than the current year as all building will be brought into use in September 2014. Increases in buildings depreciation are offset by a slight reduction in computer and equipment depreciation charges as significant past investment washes through.
- The proposed budget for the College for the 2014/15 financial year will provide an overall operating surplus before FRS17 charges of £58k on income of £55.5million.
- Depreciation costs of £1.52million and interest charges of £747k bring the budgeted result before interest and depreciation up to a £2.332million surplus. This compares to the current year forecast where the current forecast assumes a 714k surplus at the same level.
- Now that the College has long term debt commitments on its balance sheet, the loan covenants are an important performance measure for the Board to monitor throughout the planning period.
- The College group balance sheet will change substantially after 2013/14 following the drawdown of the entire £17million borrowing facility and completion of the accommodation programme and the consolidation of the VWS losses of over £4million.
- Repayment of the loan will commence from August 2014.
- A further £2.0million of capital expenditure is anticipated in 2014/15 to complete the overall programme. This will bring the total capital spend to £30.97million including the £24million initially approved by Board.
- Cash values will fall to around £4.4million at the end of July 2015 as quarterly repayments of long term debt take hold before increasing in later part of the forecast. This is will return the College to normal operating cash levels following the capital expenditure and consolidation of VWS losses.
- Borrowing will have fallen through repayment to £15.52million by the end of the planning period (2015/16) when net current assets are forecast to have recovered to £1.38 million from a liability position at the end of 2014/15.
- Fixed Asset values will peak at £44.7million in 2014/15 following the completion of the accommodation programme. At this time, total net assets will be £43.9million with net worth increasing to £25million from the current 17.3million at the same time period.
- The proposed budget for 2014/15 includes the impact of the accommodation programme which will impact on the scoring of the Colleges financial health. This will result in an extended time period where the financial health will be classified as satisfactory driven particularly by the level of borrowing within the colleges finances. This rating will not change during the financial forecast period.

The key risks are:

- The Adult Skills budget will continue to be managed and operated as a single budget but will include significant changes to the mix of provision. An expected reduction in 2014/15 will continue into the 2015/16 financial year and will provide further challenges in meeting the priority programmes of Government.
- The 16-18 apprenticeship programme has been a targeted growth area for the College for the past few years, but the impact of quality assurance management and learner engagement since 2011/12 has meant a refocus of the scale of growth that can be secured. A reappraisal of expectations of the size of the programme has been completed but will require continued attention to deliver the quality of outcomes desired. Future changes to all apprenticeship programmes will require the College delivery models to be changed in some areas to remain compliant with the funding model and this presents further risk to the engagement of learners and employers.
- The College must ensure that it controls its underlying costs in the delivery of its core planned programmes to 16-18 and adult learners, and develop and deliver improved efficiencies in its teaching and learning practises in order to provide some protection against cost pressures over and above those included within the forecasting assumptions. This will require specific focus from 2014/15 to deliver a programme to achieve targeted results.
- The College must continue to take opportunities to secure pay cost efficiencies available through staff turnover in order to control the overall pay budget across the institution. Failure to do this will result in further margin erosion and put at risk the affordability of the commercial finance included in the College finances.

In general review a number of comments/observations were made:

- The budget is reflective of the expectation of a fall in cohort because of demographics over the next two years.
- There is the expectation that VWS will be in a cost neutral position for 2014/15.
- The table at paragraph 10 compares what the College would have done in 2013/14 but excludes VWS impact.
- Paragraph 12 shows the budget assumptions with some key lines seeing reductions – 16-18 FE, adult skills budget, adult learner support, 16-18 apprenticeships, however, this is offset by some expected increases in ESF programmes.
- There is a need to continue to review exam and registration costs which are significant.
- What is really important for this Committee and the Board to monitor is the performance against bank covenants. It is critical for the next year not to have a deficit position as the covenants do not permit them in any two consecutive years.
- Page 48 shows the SFA and EFA assessment for the Group

position.

Governors made reference to the projected surplus and questioned whether there was a need to look to put a greater percentage back into reserves to build these back up. The Director of Finance indicated that yes ideally this would be the case, but to achieve this there would need to be more Staff cost savings. He indicated that it was probably too late in the day to give such consideration to the 2014/15 budget, but that this was something to be factored in for 2015/16.

All agreed that what was important for 2014/15 was to set and achieve a realistic budget.

The Committee commented that the cost base, as a percentage appeared quite high. The Director of Finance explained that moving VWS Staff into the College establishment costs will have an impact but that there should be reduced Partner costs within the non pay figures. What is planned is more direct delivery for the College for the next year. It was acknowledged that from a business sustainability model the College is building in more fixed costs which is a risk that will need to be carefully managed. In terms of direct delivery the Committee were reminded that the purpose of bringing in VWS Staff is to ensure that there is greater control over quality and there is an improved margin. However, the risk relates to the fact that the College has not got a very good track record of delivering its forecast in this area with historically over ambitious targets set. All acknowledged that work related training activity is the big risk for 2014/15. The Director of Finance indicated that 2014/15 could be seen as a transitional year with a move forward needed to be more effective at direct delivery. It is clear that if the WRT Team are not delivering, there will need to be quick and significant decisions made in the year.

AGREED: to recommend that the Board approve the draft budget for 2014/15 and financial forecast to 2016/17.

14.33 **CASH FLOW MANAGEMENT – VISION WORKFORCE SKILLS**

The Director of Finance introduced this item and drew Members attention to a number of matters:

- Due to the way in which the College seeks to manage its Corporation Tax exposure all services generated by subsidiary companies are gifted over to the parent company (College) at the end of each financial year. The results are that the balance sheet and reserves of subsidiaries are cleared out annually.
- Whilst this approach is manageable when subsidiaries are profitable, it provides significant cash flow challenges when losses are incurred, placing the subsidiary in a position where they will not be able to meet its liabilities when due.
- The VWS Company will generate losses for 2013/14 in excess of £4million. This follows the return in profits of £545k in 2012/13 following the implementation of the initial restructuring of the

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business.

- A decision to cease trading through the subsidiary has been made by the respective Boards and as a result the business will not add any future income flows to manage its orderly close down as a non-trading subsidiary. Activities in 2014/15 will focus upon discharging property exit and dilapidations, for which the Company receive a dowry of £2.5million.
- However, as the losses remain within the (empty) reserves and with around half the £2.5million required to discharge the dilapidation costs, the business will require cash flow support in the form of a inter company loan.
- The scale of this loan is likely to reach a maximum of around £3.5million and will be consolidated out through the Group reserves of the combined College Group.
- Current cash flow prediction indicates that the loan amounts will be required by the end of June 2014 as the property exits begin to accelerate and will reach around £1.7million by the end of the current financial year (31st July 2014).

The Committee was asked to recommend to the Board the approval of the intercompany loan of up to £3.5million from the College to VWS in order to support the accumulated losses generated in 2013/14 and enable the satisfaction of property exits during the 2014/15 financial year and grant the Finance Director authority to advance the loan in line with cash flow requirements. To achieve this it is proposed
a) the loan will not exceed £1.7million by 31st July 2014,
b) not exceed £3.5million by 31st December 2014, and
c) any further changes to the financing requirements should be reported back to this Committee.

The Committee acknowledged the necessity of the intercompany loan and on that basis were happy to recommend that the Board approve the same.

AGREED: to recommend that the Board approve the intercompany loan of up to £3.5million from the College to VWS in order to support the accumulated losses in 2013/14 and enable the satisfaction of property exits during the 2014/15 financial year.

14.34 **COMMITEE REVIEW**

1 – Self Assessment 2013/14

The Committee acknowledged that the 2013/14 year had been an important one in terms of the property strategy and that this had been a key focus for the Committee. Given that the development works are planned to substantially be completed by September, it was felt that this Committee ought to have a new focus in 2014/15.

2014/15 year will be a critical year financially and therefore the focus of

Signed : ___________________________Chair Date:

the Committee should change given that a lot of work has already been done on Estates and therefore the monitoring role of this Committee will reduce.

In terms of Committee Membership it was agreed that there was a need for an additional Member to join the Committee with finance skills. In addition to this it was felt that the Committee Chair ought to have specific finance skills. The Principal indicated that she had had initial exploratory discussions with Hari Punchihewa and if agreed he would be happy to take over the role of Chair of this Committee in the next academic year. The current Committee Chair agreed that this was an incredibly sensible proposal and reflected the change in emphasis. The Committee took the opportunity to say thank you to Terry Dean for his work as Chair throughout 2013/14.

In terms of the work of this Committee for the next academic year a number of comments were made:

- There needs to be an assessment of where HR sits in terms of the role of sub-committees.
- Reports and review need to be linked to the corporate plan.
- There needs to be more opportunity to look at strategy and longer term planning. It was felt that every other meeting should have a strategy focus and then the other meetings be more operational.

It was acknowledged that the Finance Committees role is to look at the whole Group and not just subsidiaries although it was accepted that detailed financial debate regarding financial performance of subsidiaries was the role of the subsidiary company Board of Directors.

<u>2 – Terms of Reference & Work Plan</u>

Given the earlier discussions it was agreed that there is a need to review the terms of reference and the work plan for 2014/15. It was agreed that the Clerk, Director of Finance and Hari Punchihewa would discuss and agree outside the meeting.

It was agreed that documents would be updated to be approved at the next meeting in September 2014.	Clerk/ Director HR/ HP	Sept 2014

<u>3 – Membership 2014</u>

As discussed earlier Members felt that the Committee could be strengthened by co-opting individuals, particular skills to target are Finance and HR. Given the decreased role of Estates Members questioned whether David Overton would still wish to attend the meeting. It was noted that as the Audit Committee Chair he is not able to be a full member of this Committee in any event.

Members were happy to approve the recommendation to the Board that

	Membership continue for the next academic year as is, but with additional appointees being sourced with finance and HR experience.		
14.35	**AOB**		
	As a matter of additional business the Principal made the request that a clock be sourced for the Board Room.	Exec Director	July 2014
14.36	**DATE OF NEXT MEETING**		
	The Clerk confirmed that the next meeting was scheduled for Thursday 25th September 2014 at 4.00pm.		
14.37	**CONFIDENTIAL ITEMS**		
	It was agreed that confidential items would be recorded separately.		
	Meeting closed at 4.50pm.		

Signed : ____________________________Chair Date: