MINUTES

Directorate:	**Governance**	
Minutes of:	**Finance & Property Committee**	
Date:	**18 November 2016**	**Time: 8.30**
Venue:	**Executive Meeting Room, Uxbridge Campus**	
Present:	Alasdair MacLeod	Governor (Chair)
	Laraine Smith	Principal
	Mike Cox	Governor *(item 6 only – Audit Committee member)*
	Sharon Jenkins	Governor *(item 6 only - Audit Committee member)*
	Nasim Khan	Governor *(item 6 only – Audit Committee member)*
Apologies:	Anuja Karia	Governor
In attendance:	Vikash Patel	Financial Controller
	Sara Sands	Vice Principal – Finance & Corporate Services
	Tracy Reeve	Clerk to the Corporation
	Nick Simkins	Partner, Moore Stephens LLP

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1. Apologies for absence
Apologies had been received from Anuja Karia who was unwell.

2. Notification of any urgent items members may wish to raise under Any Other Business
There was no other business.

3. Notification of Interests Members may wish to declare relating to any item
No interests were notified.

4. Minutes of the Finance & Property Committee meeting held on 16 September 2016
The minutes were approved and signed by the Chair.

5. Matters arising from the minutes of the Finance & Property Committee meeting held on 16 September 2016.

- ***Bad Debt write-off*** *(minute 6 page 2):* VPF&CS confirmed that after analysis it had been found that the bad-debt provision had included a duplicate debt which had resulted in an over-statement of £871 in the bad-debt provision. SS confirmed that the bad-debt provision for 2015/16 had now been reduced to £18,714.
  Noted

There were no other matters arising that were not already covered by the agenda.

6. Report and Financial Statements for the period ending 31 July 2016
The VPF&CS reported on the Financial Statements stating that the audit by Moore Stephens LLP had gone well with positive feedback received from the auditors. A few adjustments were to be made with no significant items raised in terms of control

a) FINANCIAL STATEMENTS FOR THE PERIOD ENDING 31 JULY 2016

The Vice Principal Finance and Corporate Services (VP F&CS) introduced the draft reports and financial statements for the period ended 31 July 2016. The meeting was reminded that the format of the accounts had been amended for 2015/16 to meet the requirements of FRS102 which had become mandatory for FE colleges from 2015/16. SS confirmed that the 2014/15 figures in the accounts had also been restated to meet the format of FRS102; this enabled accurate comparison. The meeting considered the impact of the changes which resulted in the operating surplus for 2014/15 being restated as £1.752m from £2.094 (due to the impact of changes in accounting for deferred capital grants and holiday pay accruals).

The following key points were highlighted:

- The operating surplus for the year was £491,000 (compared with £1.752m in 2014/15).
- Once the impact of the FRS17 pension deficit was applied this resulted in a deficit of £1.89m (compared with a profit of £386,000 in the prior year).
- The balance on the income and expenditure account (excluding pension reserve) now stood at £34.349m (compared with a restated figure of £36.240m in 2014/15).
- The College had accumulated reserves of £34.141m, net assets of £34.349m and cash balances of £9.993m.
- The LGPS pension liability was £12.420m compared with £9.301m last year. Members expressed concern that this figure was completely outside the control of the College but the meeting was reminded that the pension liability (FRS17) was not included by the SFA when assessing the financial health of colleges.

The meeting went through the Income and Expenditure account and the Notes to the Financial Statements and Balance Sheet in detail. The meeting noted that in 2015/16 the College delivered activity that produced £26,391,566 in Agency main allocation funding (compared with £25,761,000 in 2014/15). SFA and EFA funding grants had gone up by £1.29m to £23.640m compared with prior year. Income for Higher Education from HEFCE grants had decreased to £231,000 compared with £236,000 in 2014/15. Income from Work Based Learning had stayed broadly the same as in the prior year at £1.732m (£1.717m in 2014/15) but the meeting was reminded that the College had under-delivered on the contract due to issues with a sub-contractor. Programmes for the Unemployed (at £180,000) and the Employer Responsive Offer (at £16,000) had both decreased markedly (circa 50%) compared with the prior year. The total Agency funding was noted as being at 83.35% of income (84% in prior year). Total income had increased from £30.776m in 2014/15 to £30,793m in 2015/16 and expenditure was noted as increasing from £29.024m to £30.301m.

The notes to the accounts were considered in detail:

Note 6 – The meeting was given more detail on the Ormsby Fund and the Gavin Taylor Fund which made up the endowment asset investments of the College. The decrease in income compared with the prior year (£61,000 compared with £73,000) was noted as being due to lower interest rates.

Note 7 – The tight control on staffing was noted; the total number of full time equivalents had remained virtually static at 368 (compared with 371 in July 2015). Overall payroll costs had only increased by £117,000 on a prior year figure of £19.605m even though there had been increases to National Insurance contributions, pension costs, and staff moving up pay-scales. This had been achieved through a number of redundancies in support roles and some variations to hours in order to contain costs. SS highlighted the slight increase to agency teaching costs which had been a disappointment to the SMT; this had been the result of having to cover vacancies and a number of cases of long-term sickness.

Note 9 – The meeting sought, and was given, clarification on what made up 'Teaching Costs'; this was confirmed as materials, consumables but excluded exam costs which at £798,000 during the year were a sizeable expense. The slight decrease compared with the prior year figure of £820,000 was noted as not being significant – there had been a small decrease across all areas.
Note 12 – The Chair of Audit Committee sought, and was given clarification on how the College benchmarked its method and timescale for deprecation. The variation within the sector was noted as UC depreciated its buildings over 35 years whereas some other Colleges used 50 or 75 years to minimise the annual impact. ***SS agreed that she would review the UC Depreciation Policy to ensure that 35 years was still appropriate going forward into 2016/17.***
Note 15 – The slight decrease in cash compared with prior year was highlighted, £9.993m compared with £10.556m in 2014/15. However the meeting was reminded that the College had paid off £1.5m in loans during the 2015/16 year.
Note 18 – SS informed the meeting that the remaining loan would be fully repaid in 2021; Lloyds had informed the SMT that the break fee would currently be circa £160,000.
Note 24 – The meeting considered the increase in the FRS17 pension liability due to increase deficit in the scheme (£12.420m compared with £9.301m at 31 July 2015). The meeting accepted that actuarial assumptions had been challenged and verified during the audit and that the College had to accept the valuation. NS confirmed that Moore Stephens had verified the actuarial assumptions used against sector norms. The meeting sought more detail on the level of Harrow and West Thames Colleges' pension deficits and were assured that this information would be presented to the Corporation in December 2016 within the findings of the first stage of due diligence.

The meeting considered and noted the Statement of Corporate Governance and Internal Control and the assessment of the College as a 'going concern'. It was noted that the other senior members of the SMT had contributed to the narrative of the Members Report and that the text alluded to the possible merger that the College would undertake at the beginning of 2017/18. The Chair sought, and was given, confirmation that the external auditors had done their own 'controls testing' to validate the audit process. The meeting also noted the SFA Finance Record which would be submitted on behalf of the College; this confirmed a financial health grade of Outstanding for 2015/16. The restated Management Accounts for 31 July 2016 were also noted by the meeting and the adjustments arising from the preparation and audit of the Financial Statements. It was noted that adjustments totaling £669,000 had been made against the income and expenditure.

b) SFA FINANCE RECORD

The meeting considered the detailed SFA Finance Record 2015/16 that was required for submission to the SFA. VPF&CS reminded the meeting that this showed the financial information as well as the recorded annual financial health grading: the College would be classified as outstanding for 2015/16. Members considered the detailed financial performance ratios in the Ratio Analysis Schedule 2b. The College Performance Ratio was noted as 14.53%, with anything over 10% classified as Outstanding. Governors sought clarification on whether there were any aspects of the financial ratios to be concerned about. The VPF&CS informed the meeting that the only area where the College was close to missing best-practice targets was staff costs as a percentage of income; at 64.83% this was close to the target of being below 65%. VPF&CS confirmed that this return would be submitted to the SFA to meet the deadline of 31 December 2016.

c) MANAGEMENT ACCOUNTS - JULY 2016

The meeting noted that the revised July 2016 Management Accounts included post year-end adjustments totaling £669,000 against income and expenditure. The revised operating surplus for the year was £494,000 against a forecast surplus of £876,000.

The significant adjustments were highlighted as follows:
Income
A favourable adjustment of £94,000 mainly as a result of release of funds confirmed by the SFA for mainstream provision and prior year income.

Employer Services
A favourable adjustment of £149,000 due to final reconciliation of SFA returns.

Employee Costs
An adverse adjustment of £107,000 due to: to late receipt of invoicing and overtime across schools; accrued holiday pay relating to 2015/16; late receipt of invoices within Learning Support for support staff; and an additional charge of £49,000 relating to FRS17 confirmed in the end of year actuarial report.

Expenses
An adverse adjustment of £787,000 relating to accruals for late invoices and in relation to provision for claw-back of ineligible and high risk enrolments.

Balance Sheet
It was noted that the balance sheet remained extremely strong with a cash balance of £9,993,000, (against a forecast of £10,237,000 and a year-end budget of £5,581,000). All other ratios were strong with 117.1 cash days in hand, a current ratio of 1.92 and reserves as a percentage of income at 135% (the sector average was noted as circa 51%).

d) AUDIT REPORT & MANAGEMENT LETTER FROM MOORE STEPHENS
The meeting noted the Management Report and that it would be reviewed and approved by Audit Committee and would be taken to Corporation for approval, (13 December 2016). NS confirmed that the external auditors anticipated issuing an unqualified audit opinion following the approval of the accounts by the Corporation. Members were pleased to note that there were no recommendations raised as a result of the audit (this had also been the case during the four previous annual external audits). The meeting also noted the Letter of Representation from Moore Stephens which would be considered and approved by the Audit Committee later in the day.

e) FUNDING ASSURANCE REPORT
The meeting noted the Funding Assurance Report from KPMG that would be considered and approved by the Audit Committee.

Chair and Members commended the continued strong financial performance of the College in a year of ongoing financial uncertainty and change; especially when the Area Review and possible merger had generated additional work which could have proved a distraction. The Committee thanked VPF&CS and her team for their excellent work which had resulted in a fifth year with no recommendations ensuing from the external audit.

- ***It was AGREED that the Committee RECOMMEND the Financial Statements and the SFA Finance Record 2015/16 to the Corporation for approval.***
- ***The adjusted Management Accounts for July 2016 were RECEIVED.***
- ***The Management Letter from Moore Stephens was NOTED.***
- ***The Funding Assurance Report was NOTED.***

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7. Higher Education (HE) Fees for 2017/18

The meeting noted that in order to comply with the Consumer Rights Act 2015 and guidance issued by the Competition and Markets Authority (CMA) the College was required to publish the level of HE fees in November for the following academic year. This was to ensure that information was transparent and readily available to students in advance of them accepting an HE place. SS confirmed that the HE Fees schedule would be published on the College website; this was an element that would be verified when the College was subject to a quality review of its HE provision in spring 2017. The meeting noted that the proposed HE fees for 2017/18 had been calculated based on a course costing model with inflation applied at the following rates: 1% for staff costs and 5% for tuition fees. It was confirmed that all fees for second year students would be maintained at the same level as the first year so only first year HE learners and those undertaking 1 year courses would be subject to an increase. The meeting noted that the proposed fees ranged from £3,087 (HNC L4 Dip Mechanical Engineering) to the maximum of £6,000 (HND L5 Computing Plus). Members were reminded that the College could not charge more than £6,000 as it did not have its own 'offer agreement' with HEFCE. SS confirmed that the College was working to put an 'offer agreement' in place but this would take some time and would not be implemented in advance of 2017/18. Governors sought, and were given, confirmation that these fees were funded through learners taking out a loan with the Student Loan Company. Members discussed the impact on recruitment of the level of HE fees and noted that if priced too cheaply there was sometimes a drop in demand but adversely that Uxbridge College could not charge anywhere near the maximum threshold of £9,000 per annum.

The schedule of HE Fees was APPROVED.

It was AGREED that in order to enable the HE Fees to be posted to the College website as soon as possible these would be RECOMMENDED to the Chair of Governors for approval (under Chairs' Action) and then taken to the Corporation for ratification (13th December 2016).

8. Management Accounts for 1st Quarter ending 31st October 2016

An historical cost surplus for the period ending 31st October 2016 of £1,446,000 compared to a budgeted surplus of £839,000 giving a favourable variance of £607,000. The significant variances were highlighted as follows:

- Education Income of £7,193,000 compared to budget of £7,277,000, (adverse variance of £85,000). Within this major variances were noted as: an adverse variance of £14,000 in overseas tuition fees due to a lower number of overseas students than forecast; £135,000 large positive variance for Tuition Fees Home (due to greater uptake of 24+ Loans than anticipated); a large adverse variance of £186,000 in HEFCE Funding (Fees) due to 1 cancelled HNC course in HSC&F and lower recruitment on Computing and IT HND courses. It was noted that the College was short of approximately 50 HE learners against target. The Principal informed the meeting that FE Colleges were struggling to compete with other Higher Education Institutions (HEIs) that were now offering foundation degrees and offering places on full degrees on the basis of lower grades.
- Employer Services income of £534,000, a favourable variance of £139,000. The meeting discussed the various short-courses. The meeting also discussed the ongoing Work Based Learning provision which was currently showing a favourable variance of £94,000. The Chair sought, and was given an update on the current sub-contractors for delivery of WBL in 2016/17.
- Employee costs of £4,353,000 compared to budget of £4,727,000, (favourable variance of £375,000 due to vacant posts within Academic and Support staff). Members were reminded that the budget assumed all posts would be filled for the

whole year. The meeting sought clarification on any curriculum areas that were experiencing difficulty in recruiting staff; one pressure point was noted as Business where there had been 2 recent resignations. The Principal confirmed that previous issues in staffing for H&SC and Mechanical Engineering had now been resolved.

- Expenses: a favourable variance of £176,000 against the budget of £2.277m. This was noted as mainly being due to timing issues with later expenditure on exams and materials than forecast. The Chair sought, and was given, confirmation that the College was still holding the under-spend on Free College Meals provision from prior years. SS confirmed that this money was still ring-fenced whilst the sector was awaiting confirmation on whether claw-back of under-spent funds would take place.
- Balance Sheet remained strong with a cash balance of £13,174,000. This was against a budget of £11,653,000 due to better surplus, later capital expenditure, higher creditors partly offset by higher debtors. The Chair sought clarification on what was included in the £152,000 negative variance against the Fixed Assets budget of £53,557. The meeting noted the breakdown on page 20 of the management accounts and the lower capital expenditure on smartboards, tablets and schools equipment was noted as a timing issue. VPF&CS informed the meeting that the schools were slow to spend money on equipment at the start of the year while they were focussing on settling learners into College; this would be redressed in the second half of the term.
- All ratios were healthy: cash days in hand at 147.4 (forecast of 130.4); current ratio at 1.84 (forecast 1.89); and reserves/ income at 133% (forecast 131%).

The Management Accounts for the first quarter to 31st October 2016 were RECEIVED

9. Notification of any attempted fraud in the period 2015/16

The meeting noted a report which stated that that there had been no instances of attempted financial fraud during the period 1 August 2015 to 31 July 2016 or during the year to date 2016/17.

The report was NOTED.

10. To receive the Finance & Property Committee Risk Register

The Committee considered the finance element of the Risk Register. The major risks and recent changes in risk score were identified as:

- <u>Strategic Aim 4:</u> '16-18 and 19+ mainstream recruitment not met leading to reduction in funding in current and future years.' Risk score had risen from 12 to 15 due to the enrolment for 2016/17 being below target for all ages.
- <u>Strategic Aim 5:</u> 'WBL 16-18 and 19+ apprentice's targets not met including in-year variation.' Risk score maintained at 15 due to the underperforming sub-contractor in 2015/16.
- <u>Strategic Aim 5</u>: 'Students requiring maths/ English at FS of GCSE level not identified lead to loss of full rate of funding during the following year'. Risk score reduced from 12 to 10 due to close monitoring by SMT on a weekly basis.
- <u>Strategic Aim 5</u>: 'Insufficient student demand to achieve long term growth targets'. Risk score raised from 5 to 10. The Principal informed the meeting that the SMT would be undertaking a thorough review of the College's portfolio for 2017/18.
- <u>Strategic Aim 5</u>: 'Underachievement of funding target'. Risk score remained high at 15.

The Risk Register was noted.

11. SFA Confirmation of Financial Health Category

The meeting noted a letter from the Head of Provider Financial Management and Assurance at the SFA to the Principal which confirmed that the assessment of the financial health of Uxbridge College (UC) was at Outstanding for 2015/16 and for the current budget year 2016/17. The underlying financial health grade was also confirmed as Outstanding. The accompanying Dashboards showing KPIs for the College were noted and commended for the useful information.

The SFA confirmation of Outstanding Financial Health grade for UC was NOTED.
The letter and accompanying Dashboard of Financial Information would be sent to the Chair electronically for information.

(Action: SS)

12. To receive an update on the Insolvency Regime

The meeting noted the Association of Colleges (AoC) response to the Government's consultation on an insolvency regime for FE colleges. The plans to implement an insolvency regime for FE and sixth form colleges had been published by the Government on 6 July 2016. Members were reminded that the planned timetable was for the legislation to go before Parliament during 2016/17 with implementation at the end of the Area Review process i.e. late 2018 or 2019. Current plans were that colleges would in future be covered by normal commercial insolvency rules but the Secretary of State would have the power to overturn an insolvency petition and appoint a special administrator. Members noted that the prospect of this insolvency regime for colleges was influencing how stakeholders – such as banks and pension funds – viewed the risks associated with the FE sector; previously seen as a low risk sector.

The update was NOTED

13. To receive the AoC Autumn Statement 2016 Update

The meeting noted a briefing document from the AoC in response to the Government's Autumn Statement 2016. This paper provided a good analysis of issues facing the FE sector, particularly in relation to funding but also with respect to planning.

The update was NOTED

14. To confirm and agree the dates and times for the meetings in 2016/17

The dates and times of the meetings were agreed as follows:

- Friday 10 February 2017, at 8.30am
- Friday 12 May 2017, at 8.30am
- Friday 23 June 2017, at 8.30am

15. Any Other business

Merger between Harrow College, West Thames College and Uxbridge College

The meeting discussed the proposed merger between Uxbridge College and two other local FE colleges with NS. The potential issues around the pensions fund and bank loans were discussed with NS as the College's external auditor. SS reminded the meeting that any negative issues around crystallisation of the LGPS fund deficit or break clauses on loans held by the other colleges would be identified by the Phase 1 Due Diligence – financial and legal - which was currently underway. It was noted that the VPF&CS was meeting with the Finance Directors from the other two colleges and their bankers (Barclays) on Monday 21st November to consider this matter further.

NOTED

MINUTES

There was no other business. The meeting closed at 10.15am

Signed ………………………………………

Date ……………………………………..

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