Minutes of the Finance & Estates Committee held on Monday 3rd February 2020 at 4.30pm

Members Present:	Peter Davies (Chair) Valerie Little Jonathan Sandhu Liz Sithole Neil Thomas
In attendance:	Andy Comyn (Chief Operating Officer) Gill Darwood (Senior Officer Corporate Governance) Steve Johnson (Executive Director Estates & Capital Projects) Diana Martin (Vice Principal) Sanjeev Ohri (Chief Officer Business Development & Dudley College Worldwide)

1 Confirmation of quorum and apologies for absence

1.1 Apologies for absence were received from David Whatton. The SOCG confirmed the meeting was quorate.

2 Declarations of Interest

2.1 There were no declarations of interest.

3 Election of Vice Chair for 2019/2020

3.1 Valerie Little was proposed as Vice Chair of the committee for 2019/20.

3.2 **It was resolved** To appoint Valerie Little as Vice Chair of the Finance & Estates Committee.

4 Minutes of Meeting held 4th December 2019

4.1 The minutes of the meeting held on 4th December 2019 were agreed as an accurate record and were signed by the Chair.

5 Matters arising

5.1 There were no matters arising.

6 Finance Matters

6.1 Curriculum contribution analysis 2018/19

6.1.1 The COO presented the curriculum contribution analysis in respect of 2018/19. He explained that this had been compiled using information gathered from both the student records system and the management accounts for the year ending 31 July 2019. It was prepared to help overcome the inherent difficulties in measuring profitability from the management accounts due to the use of the lagged funding methodology in the FE sector. The contribution analysis helped assess the profitability of College and curriculum delivery in one year by matching the income derived from the delivery of provision to the costs incurred in delivering that provision in the same year. The spreadsheet provided a summary by curriculum area of progress towards the aspirational overall 50% gross contribution margin target.

6.1.2 In total, it was noted that the curriculum areas delivered a gross contribution margin of 44% in 2018/19. This was in line with the gross contribution margin delivered over the last few years despite the challenging FE environment and continuing pressure on inflationary pay and non-pay costs. The College had maintained the margin through careful cost control and monitoring of staff utilisation and class sizes.

6.1.3 The gross contribution levels for Arts & Academic and Vocational Skills had surpassed the College target of 50%. The Advanced Technology contribution was close to the 50% target, however had been impacted by the use of specialist external providers to deliver highly technical parts of some programmes. Business & Core had a significantly lower gross contribution margin at 23%. This was primarily because the costs for cross college support for Education Support Assistants (ESAs) and GCSE delivery resided in this area, which meant they were effectively subsidising the costs of providing support to all areas of the College. Furthermore, Business & Core contained the Aspire Centres, which had a much lower staff to learner ratio and therefore comparatively a much higher cost to income ratio. Similarly, the College would not expect partnerships and worldwide to achieve the 50% target as this area had a different business model with the majority of income in this area delivered by third party organisations.

6.1.4 The COO explained that, moving forward the College was working on improving the business and financial intelligence available to managers on margin analysis through its work on Power BI, which was progressing well.

6.1.5 The COO answered questions from members and provided clarification on points of detail as necessary. In response to questions from members, he confirmed that this performance remained consistent with previous years. There were no sector norms for comparison, although other Colleges would look for an aspirational figure of 50%.

6.1.6 **It was resolved** To note the report.

6.2 Management Accounts – to date - 2019/20

6.2.1 The COO presented the management accounts and accompanying report for the period ended 31 December 2019. He explained that the forecast return outturn and three year plan had been finalised since these accounts were produced. The report provided a commentary on the year to date financial performance of the College, the key points of which were noted:

- the EBITDA was £3.383m, £0.91m below budget but £0.8m more than the same point last year.
- income was currently £22.598m, £0.97m below budget, but £3.68m more than last year.
- expenditure was broadly in line with budget.

6.2.2 Whilst it was still relatively early in the year and work was ongoing in preparing a revised forecast outturn, the College considered there would be limited pressure on the full year EBITDA budget of £3.936m, primarily linked to the additional work required at Waltham Forest to build this centre up from a much lower base than the College had anticipated when taking it on in February 2019. Based on early indications of forecasting work so far, the College considered that the revised EBITDA as a % of income would remain in the 7% band, which was unchanged from the original budget and meant there would be no impact on the ESFA's operating performance financial health score. The COO noted however that whilst the above view on the full year EBITDA out turn was considered to be the case at the point of preparing the management accounts, the subsequent detailed work to finalise the forecast had highlighted that the EBITDA would reduce by more than expected above, as outlined in the following agenda item.

6.2.3 The COO answered questions on points of detail and provided clarification as necessary. He confirmed that cash generation remained strong and the College was expected to be able to meet all its obligations whilst remaining within existing credit facilities.

6.2.4 **It was resolved** To recommend the management accounts to Corporation for approval.

6.3 **ESFA Integrated Financial Model for Colleges return**

6.3.1 The COO reported that the ESFA model for Colleges was required to be completed based on the College's three year plan. At this point in time the final model was not yet available but would be based on the figures contained in the three-year plan as presented in this agenda item.

6.3.2 The COO reminded members of the details of the 2019/20 budget, including some key assumptions, which had been agreed by Corporation in July 2019. He explained that in the revised 2019/20 forecast out turn, income was now forecast to be £534,780 below the original budget due to a number of movements:

- £0.7m reduction in Waltham Forest (to be discussed later on the agenda).
- £0.2m reduction in HE fees – due to a trend to more higher level apprenticeships.
- £0.3m increase in income related to learner support.

6.3.3 Variances in expenditure amounting to an increase of £243,919 were noted as:

- Re-alignment of costs between pay and non-pay
- Pay award, incremental progression and majority of staffing efficiencies achieved without compulsory redundancies.
- Additional 3rd party delivery costs incurred from specialist provision

6.3.4 It was noted that these were partially offset by non-pay reductions in both curriculum and non-curriculum areas.

6.3.5 The COO explained some increases in third party delivery costs in highly specialist technical areas had been anticipated, but these costs were now expected to be £0.6m more than planned.

6.3.6 Discussion took place on the causes for this variance and the CE&P explained the measures which had been introduced by the senior leadership group to ensure that this was strictly controlled in future, in the same way as the College's direct staff recruitment. He explained that an immediate review had been instigated to reduce delivery costs to meet the 2020/21 forecast.

6.3.7 Based on the reforecast, this would result in a revised EBITDA of 6.27% compared to a budget of 7.71%, a lower year-end cash position and probable reduction in the current ratio. The impact on the financial health score would be a reduction of between 10 to 30 points from the budget of 190 points to between 160-180 points on the ESFA scoring system, which would fall within the Requires Improvement (for 160 or 170 points) to Good (180 points) categories.

6.3.8 The CE&P and COO provided clarification on points of detail and answered members' questions as necessary. It was confirmed that this performance would not affect the viability of the College.

6.3.9 In respect of future years, the COO reminded members of the College's financial strategy to achieve an EBITDA as a % of income of 9.7% in 2021 and 9.8% in 2022.

6.3.10 The 2020/21 income assumptions were outlined, which included:
- Income £0.7m below financial strategy due to impact of Waltham Forest broadly delaying growth and development of centre by a year and reduction in business partnerships and DISE (Institute of Swimming) income
- Reduction in net total delivery pay costs (including 3rd party) by £0.5m (actions for which would be put in place following an immediate review)
- Pay award of 1%
- Continuation of incremental progression
- The assumptions were resulting in an EBITDA of £4.843m (9.07% of income), £0.4m below the financial strategy

6.3.11 The COO explained that IoT investment was not included in terms of current marketing expenditure and it was felt that this would be needed in order to ensure learners were attracted to the IoT. He outlined a proposal to approve an additional £300k marketing spend which would further reduce the EBITDA to £4.543m (8.51% of income), whilst seeking an additional contribution of £0.2m from partners on top of the £0.3m from DCoT. This would be a one year effect as the IoT would bring in income during the following year which was not included in the forecast at present.

6.3.12 In respect of 2021/22 the revised forecast was based on a number of assumptions:
- Income £0.4m below financial strategy due to impact of Waltham Forest and reduction in business partnerships and DISE income
- Rolling forward delivery cost efficiencies

- Pay award of 1%
- Continuation of incremental progression
- No IoT impact included
  - IoT to open in September 2021
  - Anticipated modest surplus for DCoT from IoT offset by costs of supporting the operation of the new IoT building
  - No income or costs were included in this forecast
- The assumptions were resulting in an EBITDA of £4.945m (9.05% of income), £0.5m below the financial strategy arising from:
  - Impact of Waltham Forest and appropriate increase in cost of delivery above original plan

6.3.13 V Little asked for clarification on where the additional income growth would come from between 2019/20 and 2020/21. The CE&P explained that this came from the growth in 16-18 funding predominantly.

6.3.14 The Chair asked for clarification on why this marketing expenditure was a College expense not an IoT expense. The COO explained that it would be to the benefit of Dudley College of Technology as the College would benefit from the income for learners. The Chair proposed that this could be treated as a development cost and could be carried forward until income was generated. The COO explained that any element of marketing cost that could be attributed directly to the IoT, and not to solely benefit DCoT, would be recoverable from the IoT further down the line when the IoT was profitable.

6.3.15 Members expressed their support for this proposal to increase marketing spend by £300k for IoT promotional activity.

6.3.16 The COO outlined the ESFA integrated financial model which was currently being worked on by the finance team. He explained some issues with the newly introduced model and that the final model had not yet been issued by ESFA but was due on Thursday of this week.

6.3.17 The complexity of the tool meant that it would not be possible at this stage to utilise this for the College's own operations as had previously been hoped. Members agreed the approach to the production of the final integrated financial model, which would be brought to the Corporation for final approval on 11th February.

6.3.18 **It was resolved**

- To recommend the approval of the three-year plan to Corporation and for it to be used to form the basis of the ESFA's Integrated Financial Model for Colleges.
- To recommend the proposal for inclusion of additional marketing expenditure in the 2020/21 year in respect of the IoT of £300k to the Corporation for approval.

6.4 **Insurance – annual report**

6.4.1 The COO presented the annual insurance report which showed the insurance cover in place over College assets and had been prepared to support the College's self-assessment of compliance with regularity and propriety requirements in terms of providing evidence that College assets were adequately safeguarded.

6.4.2 The College's insurance provision helped manage risks to the College by providing insurance cover for College assets, staff, students and visitors, as well as employer and public liability cover. Insurance cover was renewed annually but was reviewed throughout the year to assess its adequacy and ensure it appropriately reflected any changes to the operational activities of the College and its assets in-year.

6.4.3 He explained that the College had last tendered for insurance services in 2017 and appointed Zurich for a 3-year period starting on 1 August 2017. The appointment could be extended annually thereafter for up to two further years. It was proposed to extend Zurich's appointment for the first of two possible years starting 1st August 2020. In response to questions from members on value for money of the current arrangements, the COO confirmed that he was confident that this represented value for money at approximately £130k per annum.

6.4.4 **It was resolved** To recommend the report.

6.5 **Value for money review**

6.5.1 The COO explained that it was a requirement of the College's financial memorandum with the Education and Skills Funding Agency that the Governing Body was responsible for delivering value for money from public funds. This document set out how the College approached securing the efficient, economical and effective management of all College resources, expenditure, capital assets, equipment and staff so that value for money was achieved. The sources of assurance of the effective implementation of this policy were principally through the College's management accounts and annual financial statements, through which the Corporation could conclude that the strong operating performance reflected an efficient use of College resources.

6.5.2 The COO confirmed that the only change to the policy reflected the change of job titles in the College structure.

6.5.3 **It was resolved** To note the value for money review.

7 Development projects update

7.1 **Advance TECC (Waltham Forest)**

7.1.1 S Ohri explained that the report provided an update on the College's progress with the development of the Advance Technical Engineering and Construction Centre (ATECC) in Waltham Forest. In summary he noted that:

- The operation in 2018/19 was broadly as expected.
- It was now clear that the centre had been largely neglected by the previous operators, which had resulted in the College having to spend much more time than anticipated in building up the infrastructure around the centre, particularly in respect of employer and learner engagement. This had impacted on the centre's ability to deliver its plans in the way the College anticipated this year, particularly around core apprenticeship programmes, with most of this having to be developed from scratch.

- Due to the above the College had now completed a re-forecast for the centre which predicted income at £1,239,673 (originally £1,965,000) and a deficit this year of £237k compared to a budgeted surplus of £75k. Whilst the College had been able to control pay costs in line with reduced income/delivery, non-pay costs had remained fixed as the College continued to develop the centre.
- In order to focus resource most appropriately to help speed up the development of ATECC, assistance was now being provided by a team of staff from the College's Advance II operations to support the development and delivery of core apprenticeship programmes at ATECC.
- In addition to core programmes there had been considerable successes in securing project income through the local authority and others. This included £285k from GLA Skills for Londoners Fund to develop a BIM suite and Enterprise Hub, £500k European Social Fund grant for development of Enterprise Hub and £375k from the Mayors Home Building Capacity Fund linked to higher apprenticeships. The bulk of this income was anticipated to be received from August 2020.
- Estates development was planned or underway at the site, including the Skills For Londoners project, an Enterprise Hub and Building Information Modelling (BIM) suite.
- The College was currently exploring options for the use of the land adjacent to the existing buildings.
- Awarding body NOCN were now sponsoring the site and supporting employer engagement and curriculum development activity.

7.1.2 S Ohri outlined plans to further develop programmes at the centre and to develop progression routes for learners.

7.1.3 Members were requested to approve the revised forecast in respect of ATECC. The Chair highlighted the third year target of a modest surplus of £75k. S Ohri stated that the forecast figures were modest and were anticipated to increase from these figures through a number of channels including employer levy for apprenticeships, higher value apprenticeships and workforce development.

7.1.4 The CE&P explained that no other local colleges had the specialism to deliver this training and there was high demand in the area and positive relationships with local FE providers who were signposting learners and vice versa.

7.1.5 S Ohri answered questions from members and provided clarification on points of detail. He confirmed that the rebased income figures were felt to be achievable.

7.1.6 **It was resolved** To note the report and recommend the revised forecast in respect of ATECC to the Corporation for approval.

8 Capital Projects and Estates Matters

8.1 Capital projects update

8.1.1 S Johnson presented an update on the progress of capital projects previously reported. He noted that:

- The IoT licence and capital grant agreement had been signed and two claims had been completed and paid.

- Project costs had been finalised at £17.35 million. This was £0.48m above the original project budget and £0.88m above the existing DfE funding figure of £16.47 million.
- A detailed cost review had shown that there were £1.35 million of exceptional costs within the latest budget cost figures; £0.823m exceptional site costs not known when the original project budget was prepared and £0.534m of costs above the DfE's FE cost norms.
- A proposal was being prepared to ask the DfE IoT team for additional grant to cover the costs.
- In the event that additional funding was not available from DfE, £0.346m of cost savings had been identified but these would materially affect the completed building.
- There was no proposal for the College to contribute any further funding beyond the £3.5m agreed for IoT equipment at this stage.
- The design had been well progressed and final details were being completed.
- The proposed programme start was 24th February 2020, with a completion date of 10th June 2021.
- Planning permission for reserved matters was received on 10th January 2020.

8.1.2 The CE&P provided an update on discussions with the Black Country LEP on the outstanding funding in respect of the IoT expenditure. He confirmed that this was being actively pursued with both Black Country LEP and WMCA.

8.1.3 The COO confirmed that other IoTs were having similar difficulties with funding from the DfE, although this was one of very few big new developments with many others taking the form of redevelopment/rebranding of existing facilities.

8.1.4 In respect of other capital projects, S Johnson reported that:

- A revised bid for the digital T Level Centre at the Art and Design Centre at Brierley Hill had been submitted to the DfE and their response was awaited. There was no change in the financial aspects already agreed by the Corporation.
- The digital T Level Centre project was being progressed to meet the required completion and consultant tender documents were almost complete.
- The Towns Fund proposal for a new university building at Castle Hill had been agreed by local authority cabinet as the preferred option, and the College was helping the local authority progress the bid for submission in summer 2020. The College was in discussion with potential HE providers who might be partners in this development. The CE&P clarified that £170k of development funding would come to the local authority and the College would support the development and submission, but not at its own cost.
- The CAT Centre was now near optimum capacity and the College was investigating the lease on the adjoining Unit 8 to further extend the course offer. A 10-year lease term with a 5 year break option with annual rent of £154k was being considered.
- The business plan for unit 8 showed a predicted surplus of £126k after the first year. It was noted that this income and expenditure was not included in the forecast considered at item 6.3.

8.1.5 S Johnson outlined proposals to sell the caretakers houses still owned by the College based at Mons Hill, which had been independently valued at £120k, to the local authority as part of the IoT land purchase/sale. The College would receive the proceeds from TTPL for this sale. Approval of the Corporation was required for this disposal of assets.

8.1.6 **It was resolved**

- To note the report.
- To recommend to the Corporation the proposal in respect of Unit 8 adjacent to the CAT Centre to enter into a 10 year lease term with a 5 year break option at an annual rent of £154k.
- To recommend to the Corporation the disposal of the caretakers houses at the Mons Hill site at the agreed price of £120k.

9 Partnerships and sub-contracting

This matter is the subject of a separate and confidential minute.

10 Policies

10.1 Treasury Management Policy Review

10.1.1 The COO explained that, following a review of the existing Treasury Management Policy and executive summary, the College was seeking to make only minor amendments to these documents. The changes being proposed were noted as changes to staff titles in line with the College's management structure and minor amendments to the wording and removal of any duplicated clauses, but did not change the essence of the policy.

10.1.2 **It was resolved** To recommend the policy to Corporation for approval.

10.2 Financial Regulations

10.2.1 The COO explained that the Financial Regulations had been revised to reflect some minor changes to wording and job titles, terms of reference for the newly established Finance and Estates Committee, together with minor amendments to some sections, which had been highlighted for ease of reference.

10.2.2 **It was resolved** To recommend the policy to Corporation for approval.

11 Date of Next Meeting

11.1 Monday 11th May 2020 at 4.30pm

12 Any Other Business

12.1 No further matters were raised.

The meeting closed at 18.46.

Approved by the Finance & Estates Committee at its meeting on 11th May 2020