Policy & Resources Committee

Approved Minutes

Minutes of a Meeting of the Committee held on Monday 20 November 2017 at the Thurrock Campus at 6.00 pm.

Present:	Dr R Gray (Chairman) Ms O Buck (till 7.00pm) Mr R Launder Ms A O'Donoghue CBE Mr D O'Halloran (from 6.15 pm) Ms M West
In Attendance:	Mr A McGarel (Deputy Principal & Chief Executive) Ms R Brooks (Head of Human Resources – item 8 only) Ms S Lane (Vice Principal, Curriculum & Quality) Ms D Hurst (Director of Finance) Mr P Moore (Deputy Director of Finance) Mr S Smith (Vice Principal, Corporate Resources) Mr R I Millea FCA (Clerk to the Corporation)

1. Apologies for Absence

Apologies for absence were received from Ms K Mulvey (Vice Principal, Student Services & Adult Provision).

2. Declarations of Interest

The Clerk declared his interest as Clerk of Chelmsford College and the Director of Finance declared her interest as Assistant Principal, Audit & Risk at Chelmsford College.

The Clerk declared his interest as Company Secretary of Essex Shared Services Limited and the Director of Finance declared her interest as General Manager, Essex Shared Services Limited.

3. Urgent Business

The Clerk **REPORTED** that Jo McGee (Academic Staff) and Anne-lise Harding (Support Staff) were the only nominations as new Staff Governors and will be appointed from 4 December 2017. They will attend the Board Meeting on that date, replacing Brad Brooks and Rhys Hughes. Jo will join the Curriculum & Quality Committee and Anne-Lise will join the Audit & Risk Committee.

ACTION: CLERK

The Chair of the Committee **REPORTED** that a panel had met with David Kennedy, who applied to join the Board as an independent Member. It is recommended that he be appointed at the Board Meeting on 4 December 2017, subject to joining procedures being completed. If appointed, he will join the Meeting on 4 December 2017 and it is intended he will join the Audit & Risk Committee.

ACTION: CLERK

The Clerk also **REPORTED** that Debs Hurst, Director of Finance and General Manager, Essex shared Services Limited will cease in those positions on 31 December 2017 on taking up a full-time appointment as Vice Principal, Finance & Resources at Chelmsford College.

Peter Moore will take over as Director of Finance for the College and General Manager, Essex Shared Services Limited from 1 January 2018.

Debs was thanked for her work as Director of Finance for the College over the past three years and she was wished well in her new post.

The Chair **REPORTED** that all Principals of Colleges in the FE Sector have recently received a Letter from Peter Lauener, the CEO of the ESFA which outlined ten matters which have come to light from the Agency working with Colleges.

The Chair **REQUESTED** that a short Report detailing our compliance with the points raised be prepared and placed on the Agenda for the Board Meeting on 4 December 2017.

ACTION: DPCE

4. Minutes of the Meeting held on Monday 25 September 2017

The Minutes of the Meeting held on Monday 25 September 2017 were **APPROVED** and **SIGNED** by the Chairman.

5. Matters Arising

Corporation Approvals on 16 October 2017:

HR & Finance KPIs for 2017/18
Risk Management Policy
College Financial Regulations
Committee Terms of Reference

Other Matters

Maya West has agreed to be Vice Chair of the Committee

The Critical Incident Plan is progressing well and the VP, Corporate Resources reported that about 80% of the rapid Action Plan has been drafted and there is a further Meeting tomorrow to progress this further. It will also include the College lockdown procedure which is being tested.

ACTION: VP, CORPORATE RESOURCES

Cash flow Management is addressed in Agenda item 7(b) regarding Going Concern

The Staff Absence Action Plan is addressed in Agenda item 8 – HR matters

6. **Strategic Developments** (Paper PRC.17.22)

This item was deemed to be a Confidential Item under the Instrument & Articles and a separate minute has been prepared, which is attached to these minutes.

7. **College Finances** (Paper PRC.17.23)

Items 7 (b) to (e) were deemed to be Confidential items under the Instrument & Articles and separate minutes have been prepared, which are attached to these minutes.

(a) Draft Audited Financial Statements 2016/17

The DPCE and the Director of Finance **PRESENTED** the draft Annual Report and Financial Statements for the year ended 31 July 2017 for the College Group and its subsidiary company – South Essex Commercial Services Limited.

The Committee also **RECEIVED** for information the Annual Report and Financial Statements for Essex Shared Services limited (the College's joint venture company with Chelmsford College), noting that the Board of ESS had approved these Accounts at its Meeting on 13 November 2017.

The Statements will be reviewed by the Audit & Risk Committee on 22 November 2017, together with the Report of the Auditors (KPMG) and their Highlights Memorandum. The Clerk will pass on to the Audit & Risk Committee the views of this Committee to assist them in reviewing the Statements and recommending their approval by the Board on 4 December 2017.

The Committee also noted the requirement for the Board to be satisfied that the College is a going concern before the Accounts are signed off. The Committee considered (Agenda Item 7(b)) a separate paper on Going Concern.

The College generated an operating deficit for the year of £450K, £11k higher than as reported in the July Management Accounts. After taking account of charges relating to the LGPS pension scheme £1688K and the actuarial gain for the year of £2783K, the final reported surplus amounted to £645K.

The accounts for SECS showed a small deficit of £3,365.

The Director of Finance brought the following matters to the attention of the Committee:

- There has been a change of reporting of sub-contracting activity as advised by KPMG. Income and expenditure relating to this item is now grossed up in the accounts rather than the 'top slice' of the activity being recorded in the College accounts on the basis that the College is the principal not an agent
- The statutory and regulatory audit is finished subject to final formalities (Letter of Representation, Letters of Comfort for SECS and ESS) and no material misstatements or errors in the accounts have arisen.
- KPMG have advised that no adjustments will need to be made to the accounts and their Reports will be unqualified
- Due to under achievement in 2016/17, the College will have to repay £1.7 million in respect of Apprenticeships income and £355K in respect of the Adult Education Budget (AEB) by way of clawback to the ESFA in February 2018
- The College needs to decide how to manage the cash flow shortfall because of the above clawback
- Essex Shared Services Limited reported comprehensive income for the year of £10K, which is net of actuarial gain and pension interest and other costs

- The Committee was provided with a detailed analysis of the movements from the Management Accounts results at 31 July to the final surplus disclosed in the SOCI (Statement of Comprehensive Income) mostly due to the FRS102 pension accounting adjustments (see below) – in summary, the deficit in the July Management Accounts was £439K and the final surplus in the SOCI is £645K
- The main movements in the figures mentioned in the previous bullet point were pension service charges of £1,097K and pension interest charges of £591 and an actuarial gain of £2,783K
- South Essex Commercial Services Limited made a loss of £3,300

One Governor asked about the difference between the College and the Group, which was clearly explained by the Director of Finance. The group includes College, subsidiary company and ESS.

A governor asked why SECS Ltd made a loss. It was explained this is where car parking, conferencing and catering go.

A governor asked about the level of write offs of parking charges at Southend and was informed that it is not significant, although it is sometimes an issue at Basildon due to failure of those parking to have a valid permit.

Having taken into account the Going Concern paper (Agenda Item 7(b)), the Committee **RECOMMENDED,** subject to clearance of outstanding points and any recommendations of the Audit & Risk Committee, the Annual Report and Financial Statements be approved by the Corporation at its Meeting on 4 December 2017.

(f) Management Accounts for the three months ended 31 October 2017

The Director of Finance **PRESENTED** the Management Accounts for the College Group for the three months ended 31 October 2017**.**

Total income to 31 October 2017 amounted to £10.4 million and total expenditure amounted to £11.0 million, giving rise to a deficit for the three months to October 2017 of £604K, compared to a budgeted deficit for the period of £909K, a favourable variance of £305K.

The Committee were reminded that the results in the Management Accounts do not include any adjustments for Pensions accounting in respect of the Essex LGPS.

The Management Accounts include a detailed Commentary on all major lines of income and expenditure. In particular, the favourable variance arises from payroll savings through teaching efficiencies and reduced payroll costs for assessors due to failure to achieve apprenticeship targets.

Governors were concerned with the potential underachievement of Apprenticeship targets and the AEB Budget and therefore income streams for the year – see comments below under cash flow forecast – so that the clawback situation does not recur.A governor asked for a forecast of Apprenticeship levy performance against the year end budget. It was discussed that based on starts at the end of October the College will currently generate £250k v £1.6m target. Further starts are expected but it is unlikely the year end target will be met.

The SMT were further challenged how they will reduce costs accordingly to offset the reduction in apprenticeship income. It was explained that the favourable variance on payroll indicates the savings as vacancies for assessors have not been filled as apprentices have not been recruited.

It was noted that premises costs are showing a favourable variance but this needs to be further researched and confirmed.

The Director of Finance explained the current Financial Health position at 31 October 2017 remains Inadequate (110 points) but, as the EBITDA surplus arises during the rest of the year, this should improve to Satisfactory by 31 July 2018. However, the ESFA methodology is also affected adversely because of the College's lower income this year and the fact that one of the key components in the Financial Health calculation is borrowing as a percentage of income.

Currently, the College is not paying off any debt under the Revolving Credit Facility so, although debt has not risen, this adversely affects the calculation because of the lower income this year under the lagged funding model.

It was noted in Minute 7 (e) that the ESFA have, in writing, confirmed that the College's Financial Health at 31 July 2017 was Satisfactory and, based on the Financial Plan lodged with the Agency, expected to be Satisfactory for 2017/18.

Outstanding debtors

The Committee were provided with an analysis of outstanding debtors at 31 October 2017 amounting to £4.712 million.

The bad debt provision amounts to £364K (unchanged from 31 July 2017) and is deemed to be sufficient.

Balance sheet

At 31 October 2017, group net assets stood at £37.5 million, including fixed assets of £105.4 million. General provisions of £25.2 million represents virtually entirely the FRS102 pension liability, being the amount calculated at 31 July last year.

All bank covenants continue to be met. The current ratio at 31 October 2017 was 0.85, a slight improvement from the position at 31 July 2017.

Pay expenditure to 31 October 2017 was 67.3% of turnover against target of 62.5, but this is still too high.

Borrowing as a percentage of income (gearing ratio) stands at 47% against the sector target of no more than 60% and that 40% is reasonable.

The College Financial Health using the SFA methodology was Satisfactory (130 points) at 31 July 2017 but has now worsened to Inadequate again (110 points).

The Management Accounts were **NOTED.**

Cash flow forecast

The Principal & Chief Executive also explained that the Apprenticeships funding streams for this year remain confusing and complicated and has already had an effect on expected income flows against budget for 2017/18.

A Governor requested an explanation of the difficulties with the Apprenticeship income. Apprenticeship funding (both Levy and non-Levy) and asked how the risks are being managed and minimised. Management responded that this area has been a recurring topic in the ESFA Case Conferences.

The Apprenticeships market is volatile but the ESFA agree that our modelling, to the extent it is possible, is conservative but a lot depends on the success of our bid for funding for this stream of income from January to July 2018. Clarity will emerge on this bid by Christmas. Companies are being slow to commit to spending their levy and we are experiencing cash flow issues re payments from Employers Levy.

Discussions have been held with the EFSA concerning postponing the payment of the clawback (now recalculated as £2.06million) which is due in February to two instalments in March and May. We have drafted a proposal to the ESFA, which has been copied to the Committee, along these lines and this will be submitted shortly.

The indications coming from ESFA in case conferences is that there is a reasonable chance that it will be approved, but that cannot be assumed.

Such a postponement would alleviate the cash deficiency likely in March and it is predicted in the forecast cash flow that this would avert the College from needing an overdraft at that time. So long as the budget for this year is adhered to, then cash reserves should not reduce below a ‘buffer’ of £500K, even at the critical point in early 2018, although the room for manoeuvre is tight.

A Governor asked about the cost of Exceptional Financial Support. It was explained that EFS should be at a very low interest rate which was why it was the preferred option against Sancus which would cost between £40-£50k.

In the light of assurances received, governors felt that the cash flow element of the going concern judgement could be managed and the overall judgement that the College is a Going Concern and will remain so for a period of twelve months from the date of signing of the 2016/17 accounts (4 December 2017) could be supported by the Board.

Governors asked what the predicted cashflow would be for March 2019 and how the College were managing to mitigate against the short term cash requirement. It was explained that the three year forecast shows there is no need for cash in 2019 however this assumes targets are met for income.

Governors commented that we should ensure the College is not in this position again.

Reports on the cash flow of the College continues to be a regular item on the Agenda of this Committee.

The Committee otherwise **NOTED** the position.

Another Governor asked how much we had on account with Barclays which was confirmed as between £4 and £6 million per month. Asked a follow up about whether we could transfer to another bank and get more favourable treatment in terms of an overdraft. It was explained that there are not many banks active in the FE market and Lloyds wanted 200% coverage of any loans.

(g) Learner Numbers and Financial Implications for 2017/18

The Committee was **INFORMED** that recruitment has been steady this year and, as at 13 November 2017, 5027 learners had been recruited, including 80 additional high needs learners. These numbers are subject to ILR verification and will be finalised on 6 December 2017 RO4 Return).

The College has planned the following initiatives to meet the 16-18 allocation target of 5352 for 2017/18:

- 250 extra learners via collaborative partnerships
- Additional Traineeship programmes

It is therefore confidently hoped that the target of 5352 will be met.

One Board Member asked why the High Needs Students were reported separately from the overall 16-18 student numbers. It was explained that it is because of where the funding for these students comes from and how recorded on ILR.

A governor sought assurance about the Cash flow projection in early 2019 which is a critical period and whether it will be as be critical as is anticipated in early 2018. Management responded that, whilst no guarantees can be given, the projection is that, so long as the College achieves it budgeted surplus for 2017/18 and meets it targets on cost saving and restructuring, an overdraft should not be required in early 2019.

However, it is still a RED risk and every effort is being made to remove the need for an overdraft at that time. The Committee were also informed that close control will be exercised over capex and utilising purchase finance which defer up front cash requirements e.g. leasing.

19+ learner numbers (ESFA) are not known at this stage as numbers are recruited throughout the year but the Committee will be kept informed of progress in meeting this allocation. About 2000 have been recruited but the value is not yet known as there is different weighting and benefits attaching to them.

The Board will be informed in December.

The actual number of HE students enrolled is 749, against a target of 848 and this will result in a shortfall in the planned budget of £255K. Steps are being taken to reduce expenditure to cover this shortfall.

A governor asked about the drop in year 2 and year 3 and whether this drop is a concern. The PCE responded that an action plan has gone to HEFCE regarding measuring and controlling retention, which is clearly, at present, not good enough. – Some courses have been dropped which had poor retention. The process of 'intermitting of students' is being discontinued except in a limited number of cases because past experience has shown that such students rarely return.

The Committee was informed that Monitoring Reports have been developed to allow staff to identify withdrawn learners and their destination data. Phase 1 of the College dashboard was launched on 8 November wherein staff can view learner numbers and attendance data for their curriculum areas.

The Committee **NOTED** the Planned Actions for 2017/18 to retain students and to recruit further students during the year.

Overall, Management believed that the College should soon see a reversal in the trend for lower funding as student numbers increase for demographic reasons and learner profile. The successful Ofsted result will undoubtedly help as will the new enrolment process, enabling learners to enrol earlier.

The Committee **NOTED** the Report.

(h) Lennartz Update

The DPCE provided a verbal update. The Committee noted that the Accounts continue to include a provision of £1.6million for this item.

There continues to be communication with VAT Angles who are acting for the College on this matter but no progress, as a decision is still awaited from the Court as to the case. It went to Court on 27 July 2017 with Colchester Institute in the lead on the issue.

(i) LPGS Update

The Chair of the Corporation tabled a letter 6 November 2017) which he had written to the Essex LGPS in respect of their request for security against LGPS liabilities in which he suggested that 2018-19 should, like the current year, continue to be treated as a further transitional year in this regard, pending the likely recommendations of the LGPS Advisory Board which is likely to report around April 2018. Their Report may well adopt a different approach regarding security (i.e. not seek any security) to the current position of the Essex LGPS.

The Committee **NOTED** the letter and **AGREED** the approach proposed by the Chair on behalf of the College.

The Committee will be kept updated.

ACTION: CLERK

(j) Annual Pay Award 2017/18

The Principal & Chief Executive explained that the Senior Management Team has been considering whether a Pay Award should be made for staff for 2017/18, having regard to the College's very tight financial situation and potential risks. She noted that no award had been made last year and that the Remuneration Committee had suggested that, if an award can be afforded, it should be weighted towards lower paid staff.

The Committee was reminded that the 2017/18 Budget included allowance for a Pay Award of 1% but it had not been approved.

The DPCE advised that the College Union representatives had put in a pay claim of a minimum of £900 per staff member with an overall formula of the August 2017 RPI plus 3%. Negotiations begin later this week.

The cost of such a pay award would be in the region of £1.4million compared to the Budget allowance of circa £260k using 1% of payroll as the basis.

8. HR Report (Paper PRC.17.24)

Staff Absence and Turnover

The Committee **RECEIVED** a Report from the College's Head of Human Resources providing the Committee with information regarding staff absence and staff turnover matching actual experience to KPIs. This is a standing item on the agenda of this Committee.

The **current rolling absence rate** is 8.84 days absence per person per annum against the College KPI of 7 days per person per annum during the twelve month rolling period to 30 September. It is slightly better than the last Report (8.99).

However, the actual rate therefore exceeds the KPI for 2017/18 of 7 days per person per annum.

Short term sickness remains a key concern as it equates to 70.8% of absences, the balance being long-term, but it is notable that the number of days has reduced this year compared to the last twelve months rolling period, when it was over 80%.

Sickness absence management remains a high priority for the College and will continue to be managed robustly in order to improve attendance. There is a clear message in the College that absence is not a right but a necessity when required.

The Head of HR reported that recent Benchmarking data shows an average of 5.8 days absence in FE Colleges (AoC survey). The College remains well over this average. However, there is some evidence that our experience is under the rest of the public sector.

The Committee was informed that Senior Management provide staff managers with data of absence of their staff on a monthly basis. They are then required to monitor this absence having regard to the Bradford measurement. Pattern of behaviours are reviewed and other trends and investigated. This monitoring is reviewed by SMT.

In response to a governor question, it was reported that absence patterns and levels are not consistent in each and every Department and this is an area of enquiry and concern.

The Head of HR reiterated the initiatives being pursued in developing the College's overall sickness absence management strategy. These include Health and Well-Being Strategy, Stress Management guidance and a revised Sickness Absence Policy. In addition, the College is reviewing its Occupational Health Service, training opportunities for the Senior Management Team to monitor and manage staff absence and re-evaluating absence data especially where staff are under forms of medical treatment, eg cancer.

An Action Plan is being drafted to address the ongoing management of the absence rate and will come to the next Meeting of this Committee.

The **staff turnover** rate for September 2017 was 1.9%. Extrapolated for a whole year means turnover will reach 22.8% which exceeds the target set for the year of 17%. Last year's average was 17.43%.Most of the turnover to date is natural turnover.

The Rate is benchmarked to AoC workforce data survey 2016 which shows average turnover of 18.2%, with the rates being broadly similar over the different classes of staff (management/teaching/support).

However, the PCE pointed out that there are considerable variations across the country with generally less turnover in the north where FE jobs are more valuable. In the south, there is greater competition for staff and therefore there tends to be more mobility.

Benchmarking figures of this type need to be taken in context and with care. It was noted that there is no FEDEC information with which to compare.

The Head of HR stated that there is an element of turnover which is related to intervention and capability procedures being implemented, but direct statistics are not kept.

The Committee was informed that the Head of HR is now responsible for cross College induction for new staff and a new Policy and process was begun on 8 November. Furthermore, the College is working to achieve cost savings required and is carrying out organisational change, which is contributing to departures.

The Committee was provided with data relating to Performance Management and the number of cases being progressed at the present time.

The Head of HR indicated that cost savings implementation and planned restructuring is likely to result in further turnover.

A governor asked why there was not a correlation between turnover and sickness management. Senior management were challenged as to why more staff have not been dismissed for persistent absence. This was discussed and the committee were informed of the number of staff who are in the process of investigation, hearing or having been issued with formal warnings.

The Report was **NOTED.**

9. Committee Matters

The Clerk **REPORTED** that he has received all Self-Assessment Checklists for last year from Members and provided a verbal summary of the outcomes.

All Members had responded to the questionnaire and the overall average grade awarded for graded items was 1.375 (between Outstanding and Good) compared to last year's average of 1.45, a slight improvement. The Chair's performance was comparable thereto.

All yes/no questions on the checklists were answered in the affirmative. There were no written comments made by Members.

The Committee **RECEIVED** the Report.

10. Forthcoming Events (Paper PRC.17.25)

The Clerk also provided details to the Committee of Forthcoming Events in the College.

11. Date of Next Meetings

Monday 5 February 2018 at the Southend Campus at 6.00 pm.
Monday 23 April 2018 at the Thurrock Campus at 6.00 pm.
Monday 25 June 2018 at the Southend Campus at 6.00 pm.

There being no further business, the Meeting terminated at 7.45 pm.

Signed……………………………………………………….Dated………………….