Policy & Resources Committee

Approved Minutes

Minutes of a Meeting of the Committee held on Monday 25 September 2017 at the Southend Campus at 6.00 pm.

Present:	Mr D O'Halloran Dr R Gray (Chairman) Mr R Launder Ms A O'Donoghue CBE Ms M West (from 6.25 pm)
In Attendance:	Mr A McGarel (Deputy Principal & Chief Executive) Ms R Brooks (Head of Human Resources – item 7(f)) Ms S Lane (Vice Principal, Curriculum & Quality) Ms K Mulvey (Director of Teaching & Learning) Ms D Hurst (Director of Finance) Mr S Smith (Vice Principal, Corporate Resources) Mr R I Millea FCA (Clerk to the Corporation)

1. Apologies for Absence and Declaration of Interests

Apologies for absence were received from Ms O Buck.

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.

2. Election of Chairman 2017-18

The Clerk called for nominations for the position of Chairman of the Committee for the academic year 2017/18. The only nomination was Dr R Gray and he was duly elected, unanimously.

The Clerk was asked to see if Maya West, who had not arrived at this time, would be prepared to act as Vice Chair of the Committee. If so, the next Meeting of this Committee can confirm that appointment.

ACTION: CLERK

3. Urgent Business

Revised Staff Sickness Benefit Framework

The Clerk reported that Members of the Committee, by email resolution at the end of July, had **APPROVED** a proposal that for new staff commencing after 1 September 2017, there would be a different sickness benefit scheme in place. It was noted that the entitlements to sick pay for existing staff would not be changed.

Final Ofsted Report and Final Essex Area Review Report

Both of these documents have been distributed to all Board Members.

Stephenson Road Resolution and Clerk's Certificate

The Clerk reported that Members of the Committee, by email resolution at the end of August and exercising their delegated powers, had **APPROVED** the acquisition of 28 and 30 Stephenson Road, Leigh-on-Sea, Essex, a loan agreement with Southend Borough Council in respect of £3,500,000 borrowing to finance the acquisition and related documents. The Facility Agreement with Southend Borough Council was executed under seal. It was further **NOTED** that the Clerk had provided the College's lawyers a certificate at their request stating that the written resolutions had been passed by the Committee under due authority.

4. Minutes of the Meeting held on Monday 26 June 2017

The Minutes of the Meeting held on Monday 26 June 2017 were **APPROVED** and **SIGNED** by the Chairman.

Governors **NOTED** the requirements of the ESFA that challenge by governors needs to be fully documented in Meetings and to be recorded in the Minutes.

5. Matters Arising

Fire Regulations

This matter is covered in 6 below as part of the Capital Projects Update.

Corporation Approval

The Clerk reported that the Board had approved the Capital Works Programme for 2017/18 and Anti-Bribery and Ethics Policies at its Meeting in July 2017.

6. Strategic Developments (Paper PRC.17.18)

Item 6(a) was deemed to be a Confidential Item under the Instrument & Articles and a separate minute has been prepared, which is attached to these minutes.

<u>6 (b) Estates Matters including Cladding Fire Report</u>

The Vice Principal, Corporate Resources gave a verbal update as requested by the Committee at its last Meeting.

Following the Grenfell Tower fire in London, Government (through DCLG, DoE and ESFA) contacted all Colleges with a questionnaire on occupied buildings, where specifications indicated Aluminium Composite Materials cladding.

The College was required to send two samples of Luker Road cladding to the Building Research Establishment for testing and to have an inspection by the local fire officer. The fire officer stated that the College's fire planning, testing and training regimes are satisfactory and the Committee was provided with a copy of the letter from the fire officer in this regard.

No issues arose from the testing as the cladding is not of the type used at Grenfell as the composite material is Rockwool, which is non-flammable stone-wool material.

The Committee **NOTED** this Report.

6 (c) Critical Incident Plan

The Vice Principal, Corporate Resources presented this Plan providing a framework for managing incidents that may occur on College facilities or involving staff/students and focuses on holistic management of a critical event, rather than, as before, on business continuity.

A Critical Incident Team is created with processes for reporting, assessing, planning responses and responding to the incident. It meets on a monthly basis. Further development will involve Response Action Plans for more ‘predictable’ scenarios drawing on external expertise available. There is still much work to be done to develop the supporting strategies under the Plan.

Staff have been told of the progress thus far and the key contact numbers required to report an incident.

The Vice Principal, Corporate Resources was asked when the Plan will be completed and responded that no fixed date has been set but the Committee will be kept informed.

The Principal & Chief Executive informed the Committee that Acid bottles are becoming a threat instead of knives. It seems to be a particular problem at Thurrock. College staff are searching students to limit the risk. The College has banned sports cap water bottles and stopped selling them to further limit the risk that they might be containing acid.

The Committee **NOTED** the contents of the Plan.

7. College Finances (Paper PRC.17.19)

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

(a) Management Accounts for the year ended 31 July 2017

Total income to 31 July 2017 amounted to £47.8million and total expenditure amounted to £48.4 million, giving rise to a deficit for the year to July 2017 of £439K, compared to a budgeted reforecast in May of a deficit of £679K. This shows an improvement of £240K to the position reported in June 2017.

The original budget set in June 2016 showed a surplus of £210K

The deficit in the financial recovery plan was £370K- January 2017

The Committee were reminded that the results in the Management Accounts do not include any adjustments for FRS17 Pensions – item (b) below itemises the effects of pension accounting and other adjustments giving rise to the likely surplus in the statutory accounts for the year.

The Management Accounts include a detailed Commentary on all major lines of income and expenditure.

The Director of Finance explained the current Financial Health position at 31 July 2017 has improved to Satisfactory, as previously forecast. It was explained that the main factor influencing the Financial Health calculation is the College’s current ratio and the College’s borrowing as a % of income.

Outstanding debtors

The Committee were provided with an analysis of outstanding debtors at 31 July 2017 amounting to £801K.

The bad debt provision amounts to £363K (reduction of £81K) and is deemed to be sufficient.

Balance sheet

At 31 July 2017, group net assets stood at £36.2 million, including fixed assets of £105.3 million. General provisions of £24.5 million represents virtually entirely the FRS17 pension liability, being the amount calculated at 31 July last year.

All bank covenants continue to be met. The current ratio at 31 May 2017 was 0.74.

Pay expenditure to 31 July 2017 was 67.0% of turnover against target of 67.2%, but this is still too high, however the Director of Finance commented that the % will increase as total income has reduced

Governors expressed their concern at the continuing significant expenditure on agency staff and what steps are being taken to keep such spend at a minimum.

The Committee was informed that recruitment continues to be very difficult particularly in the areas of Construction & Engineering and English & Maths (especially Maths). In both of these areas, there is a shortage of teachers in the market place and the College is not always able to compete with offering salaries to entice teachers to work for the College. There is a small pool of available practitioners and high demand from Colleges and schools. Furthermore, it is difficult to acquire teachers for short teaching commitments (i.e a few hours per week) where a very high premium is having to be paid. Agency staffing costs are constantly monitored and reviewed to keep them as low as possible.

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 has improved to Satisfactory (130 points). Satisfactory Health arises when the points score reaches 120 or more. The improvement mostly arises from the better current ratio at year end compared to May 2017. However, the lower income of the College over the last couple of years means that the gearing ratio worsens as that ratio is based on the percentage of borrowing over income. Therefore, even though the borrowings have not risen the ratio worsens due to lower income.

The Management Accounts were **NOTED.**

Cash flow forecast

Cash balances at 31 July 2017 are positive at £3.726million. However, the College is facing an ESFA clawback caused by underachievement in 2016/17 of 19+ Apprenticeships and Adult Education Budget of approximately £2.4 million (£1.8m Apprenticeships and £600k for Adult Budget) which is due to be collected in January 2018.

However, this clawback may be reduced once final achievement and support is reported at the end of October 2017.

This clawback will push the College into overdrawn cash at some point in the early part of 2018, probably March. There is no overdraft in place to cover this potential shortfall and there is no mechanism under the revised banking arrangements with Barclays to procure a temporary facility.

In response to a governor question, the Principal & Chief Executive explained that the bulk of the clawback relates to underachievement with our partners for Apprenticeships as to about £1.8 million and the balance was a shortfall on the Adult Education Budget primarily due to students accessing advanced learning loans. It seems there was some holding back on the Apprenticeship work by partners and one partner went into liquidation.

The Principal & Chief Executive also explained that the Apprenticeships funding streams for this year are confusing and complicated. For continuing learners from this year, there is funding and there is also a specific allocation for this year for new Apprenticeships. In addition, the College will have to bid for a contract for delivery from January 2018 and there is no assurance that such a bid will be successful. The College also has to work in the market place to sign up employers to spend their levy funds with the College and that is proving to be difficult for a variety of reasons mainly to do with lack of knowledge by employers of how the levy works and what it can be spent on. Also non-levy payers now have to make a 10% contribution to the cost of training.

Governors challenged the Management Team as to the clear risk to the College this year as to AEB funding and Apprenticeship funding 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 cash flow forecast for the year 2017/18 reflects Apprenticeship income not coming in until November 2017, hitting a peak in April to July 2018. A new senior manager is in place to oversee AEB and clear actions are in place for Apprenticeships.

The Director of Finance provided for the Committee a paper considering options to deal with this issue. As well as the shortfall predicted in March 2018, the College is required to confirm it is a going concern when the Accounts for the year to 31 July 2017 are approved by the Board and signed. This cannot be done unless there are means in place to ensure the College has sufficient cash to meet its debts as and when they fall due.

The Committee were informed of three options to deal with problem:

1. Bank overdraft
2. Invoice factoring (against Student Loans Financing)
3. Exceptional Financial Support from the ESFA

No 1 is not possible as there is insufficient security available to be pledged to any bank to back up a short term overdraft facility.

No 2 involves procuring a loan against future income due from the Student Loan Company or the ESFA based on the issue of promissory notes and a Letter of Undertaking agreed by the Board. The facility is up to £4million but restricted to no more than 85% of the total loan book at a rate of 1% for every 30 days of drawdown. Therefore, a £2million loan for two months would cost £40,000 in interest.

It was noted that we have an outline facility letter from Sancus already.

Governors considered that this was a serious option to consider. They discussed whether it was a reputational risk to use Sancus Finance but were informed by Management that a number of Colleges and universities have used this source of temporary finance. Knowledge of using this finance needs to be carefully controlled but overall it is not considered damaging to reputation.

No 3 has been discussed with ESFA during the monthly case conferences for some time to see if the clawback could be phased and recovered over a number of months rather than being repaid in one lump in January.

The ESFA have advised that if the College cannot afford the clawback to be recovered in one hit as it would force a cash flow deficit in the two or three months thereafter, then the College would need separately to apply to the ESFA for Exceptional Financial Support from the Transactions Unit which sits outside the ESFA, to cover the likely level of cash shortfall.

Governors observed that this is a rather convoluted procedure and it was noted that EFS has to be approved by a different section of the ESFA.

Governors were further concerned that applying for EFS might trigger a visit from the FE Commissioner with possible serious consequence of being on the Commissioner's radar as a College with financial problems. The DPCE responded that we are no doubt on the Commissioner's radar and as we are not a critical financial case, unlike some Colleges, and can repay any EFS, it should not be serious from this standpoint.

There is some optimism that by demonstrating that our FRP is on track we could get support for the short period indicated by the cash flow forecast but, as noted above, it requires approval by a separate part of the ESFA and this cannot be guaranteed.

Governors asked whether the procurement of a loan from Sancus or EFS from the ESFA would affect our Financial Health and were informed that it will not. The Director of Finance made the point that the 2017-18 forecast only envisages an overdrawn positon in March 2018 and of no more that around £750K to £1million, so any financial help (loan or EFS) will be relatively short term, hopefully no more than a month.

A governor posed the question as to whether we could be in the same position in early 2019. Governors made reference to the draft cash flow forecast for 2018/19 which shows no need for an overdraft facility in the January to March 2019 period.

Governors wished to know why this view has been taken and were told that enrolments for the current year look promising so that we should be able to achieve our ESFA allocation for 16-18 year olds. However, governors noted that the position regarding Apprenticeships (as noted elsewhere in these minutes) is very volatile for the medium term. The current forecast for 2018/19 cash assumes careful control of capital expenditure and keeping costs under tight control.

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 2019. Clarity will emerge on this bid by Christmas. Companies are being slow to commit to spending their levy.

Governors remained concerned that the cash position is tough and volatile given there are limited means to utilise in order to provide further breathing space.

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 could be supported by the Board.

The lagged funding model should benefit us next year, but in the medium term, the position will remain tough cash wise for some time and governors remain very concerned. They **REQUIRED** Management to keep them informed as soon as events clarify and, in particular, if the position looks likely to worsen or otherwise deteriorate.

With regard to the short term cash needs next March, the Committee **AGREED** that both Options 2 and 3 above should be pursued as a twin track strategy.

Reports on these issues will be a regular item on the Agenda of this Committee.

The Committee otherwise **NOTED** the position.

(b) Draft Financial Statements for 2016-17

The Committee **RECEIVED** a verbal Report from the Director of Finance. The accounts are in the course of preparation and the audit has begun. Draft audited financial statements will be brought to the next Meeting of this Committee on 20 November 2017 for review.

Meanwhile, the Director of Finance tabled a reconciliation statement showing movements from the Management Accounts to 31 July 2017 (deficit of £439K) to the likely position in the final statutory accounts (surplus £635K). The main adjustments relate to reflecting pension fund accounting. It was noted that the net effect of these entries is a surplus of £995K, caused by the actuarial gain of £2,783K exceeding pension service charges of £1,097K and pension interest charges of £591K.

There will be a Review of assumptions used in the pension scheme valuation by Hymans Robertson to see if Barnet Waddingham are not miles adrift from a realistic judgement and the College will talk to the LGPS based on these findings.

The Committee **NOTED** the Report.

(f) KPI Targets 2017-18 (Finance and HR)

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 8.99 days absence per person per annum (previous year 11.24) against the College KPI of 7 days per person per annum during the twelve month rolling period to 31 August 2017. It is slightly worse than the last Report (8.5). The actual rate therefore exceeded the KPI for 2016/17 of 7 days per person per annum.

Short term sickness remains a key concern as it equates to 82.2% 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.

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 is well over the FE average.

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.

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.

A governor wished to know why our absence rate is clearly worse than other available benchmarks (although these are a little out of date). The Head of HR said that it is difficult to compare directly between organisations and wholly across all employers. There are other factors that affect absence rate and this makes it very difficult to make a judgement on our poor performance against benchmarks and even our own targets.

The Principal and Chief Executive says it is clearly too high and that there are cultural reasons in this College regarding taking sick leave but as a College the issue has not yet been bottomed out. All that can be said at the present time that the level of sick days is on a downward trend.

The Head of HR proposed a KPI for 2017/18 of 7 days or less on average per person per annum, less than 2016/7 and higher than the AoC average.

A Governor said that it is not unrealistic to continue at 7 days per person per annum as it is aspirational and we should work towards it.

A Governor asked how our commitment to Health & Wellbeing of staff works in practice. The Head of HR explained that the College

- Provides training to staff
- Encourages staff to take ownership of their fitness and personal resilience
- Helps staff to manage stress
- Stresses the importance of good diet
- Prompts staff talking about their issues and sharing their difficulties

The whole philosophy is communicated fully to staff and there are lots of meetings with curriculum staff and managers to emphasize the approach.

After discussion, the Committee **APPROVED** the KPI to continue at 7 days per person per annum.

The **staff turnover** rate for September 2016 to August 2017 was 24.63%, of which 18.65% related to staff leaving the College for their own reasons (against target of 15%) and the balance of 5.98% relating to HR/Management intervention and restructuring. The KPI for the year of 15% was not met and it has indeed risen further through to the end of the year compared to the end of May 2017, when last reported to this Committee. The rate at end August 2017 equates to 239 departures since last September.

The leaving procedure for staff has also been reviewed and appropriate action has been taken to ensure that a relevant member of the management team meets with staff who have concerns at an early stage and action is taken to minimise the risk of resignations.

The Head of HR commented that there continue to be difficulties in achieving a fully staffed team in Engineering & Construction but, staff recruitment and stability has improved in English & Maths, although it is still a challenge. This risk was noted above in the high agency spend which is still affecting the College's finances.

The Committee had **REQUESTED** that the future KPI for staff turnover should exclude turnover caused by staff restructuring which results in departures, as this can be a distorting factor, and this is reflected in the figures quoted above.

The Head of HR believed that the target of 15% was not attainable in the present climate and difficult for the College to control and influence and proposed a KPI of 17% for 2017/18. In answer to a Governor question, she believed this target is achievable and not just aspirational, even though it is somewhat below the actual for this year. The Committee felt that the target might not be giving the right message as to this area.

After discussion, the Committee **APPROVED** the KPI to be set at 17% for 2017/18.

Finance

The Director of Finance proposed Finance targets for 2017/18 and reported on the Actual for 2016/17 as against the target for that year, which are itemised in the Paper presented to Members. This paper also reported on the Financial Health Grade as at 31 July 2017, which has improved from Inadequate at 31 July 2016 to Satisfactory (but this is still fragile) and proposes a target as at 31 July 2018 of remaining Satisfactory.

The paper also reiterated the applicable Bank Covenants which have been agreed with the Bank. Compliance has been achieved at 31 July 2017 and that should continue during 2017/18.

The key financial objectives for 2017-18 are:

- Improve to Good Financial Health by 2018/19
- Achieving all income targets
- Surplus in 2017/18
- Meeting loan covenants on an ongoing basis

This would lead to a points score of 150 at end of 2017/18 (Satisfactory is over 120 up to 170).

The Committee **RECOMMENDED** the HR and Finance Targets for 2017/18 to the Board for approval at its Meeting on 16 October 2017.

ACTION:CLERK

(g) Risk Management Policy

The Director of Finance informed the Committee that this Policy was last updated and approved by the Board in July 2016. The Policy has been reviewed and no substantive changes are considered necessary. Whilst there is no formal duty to review the Policy annually, it is good practice.

The Committee **RECOMMENDED** that the Policy be approved by the Board at its Meeting on 16 October 2017.

ACTION:CLERK

(h) College Finance Regulations

The Committee **REVIEWED** the revised Regulations prepared by the Director of Finance and **RECOMMENDED** that they be approved by the Board at its Meeting on 16 October 2017.

The amendments required covered:

- Reflecting the change of the College Management Team
- FRS102 applying to the Annual Report & Accounts
- Updated depreciation policy
- Tenders and quotations consistent with procurement policy
- Restatement of Schedule of Delegations and Financial Authority levels for approving budget amounts

ACTION:CLERK

8. Committee Matters (Paper PRC.17.20)

The Clerk **REPORTED** that he still awaits all Self-Assessment Checklists being returned for last year from Members and will report back at the next Meeting of the Committee.

The Clerk **TABLED** a Report showing the Committee's current Terms of Reference and Compliance with those Terms during 2016/17. The Committee did not require any amendments to the Terms of Reference and **RECOMMENDED** that they be approved by the Board at its Meeting in October 2017. The Committee **NOTED** that the Committee had complied with its Terms of Reference throughout last year.

ACTION:CLERK

9. Forthcoming Events (Paper PRC.17.21)

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

10. **Date of Next Meeting**

Monday 20 November 2017 at the Thurrock Campus at 6.00 pm.

Monday 5 February 2018 at the Southend Campus at 6.00 pm.

There being no further business, the Meeting terminated at 8.05 pm.

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