Leicester College

AGENDA REFERENCE
A2

CORPORATION/COMMITTEE PAPER

Meeting of the Corporation

14 July 2021

TITLE	**Minutes of the special meeting held on 15 April 2021**

PURPOSE	**To receive, agree and approve the minutes of the special meeting held on 15 April 2021**

RECOMMENDATION	**Governors are recommended to note the minutes and agree their accuracy**

No. of pages in main paper	6
Appendices/Annexes	None
Financial Implications	None
Risk Implications	Failure to follow agreed and proper practices
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MINUTES OF A SPECIAL MEETING OF THE BOARD OF LEICESTER COLLEGE CORPORATION

HELD ON 15 APRIL 2021 VIA TEAMS

Present:	Jonathan Kerry (Chair)	Verity Hancock
	John Allen	Chan Kataria
	Zoe Allman	Zubair Limbada
	Lisa Armitage	Ed Marsh
	Shaun Curtis	Simon Meakin
	Kathy Foster	Louisa Poole
	Anne Frost	Abigail Proctor
	Danielle Gillett	Caroline Tote
	Tim Gray	Tom Wilson

In Attendance:	Louise Hazel	Director of Governance and Policy
	Shabir Ismail	Deputy Principal
	Della Sewell	Director of HR
	Tina Thorpe	Vice Principal
	Kully Sandhu	Vice Principal
	Karen Walker	Director of Re-engagement (item 4)

1 DECLARATIONS OF INTERESTS

1.1 There were no declarations of interest.

2 APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence. Jai Sharda was absent.

3 AEB TOLERANCE LEVEL FOR 2020/21

3.1 The Principal outlined the situation on the AEB tolerance level for 2020/21 and gave an update on action taken to date. The following points were highlighted:

3.1.1 A decision had been taken to set the AEB tolerance level at 90% for 2020/21. There was no rationale or explanation for the decision. It appeared that no-one, the ESFA, DfE nor the Treasury had considered the consequences of the decision and all regarded it as a one-off issue.

3.1.2 The decision was inequitable. Areas with devolved budgets were making different decisions; colleges in the west midlands were able to keep their whole allocations.

3.1.3 GFE colleges where there were high levels of poverty were worst affected. Lobbying was taking place nationally. The Association of Colleges (AoC) had made the sector's anger clear and had written to the Secretary of State and the Prime Minister. Letters had gone to all colleges' MPs. The City Mayor, both universities and the Chamber had also written letters of support. There was strong media interest.

3.1.4 The Principal had written to the ESFA; this had elicited an inadequate response. The Chair had then written and received an insulting and inaccurate response which implied that the College should have done more to get more students enrolled online. It assumed the College should have known there would be further lockdowns and planned accordingly. It ignored the scale of the College's adult offer, the second largest for a single college in the country.

3.1.5 The decision would have a massive impact on the College's immediate and future strategy.

3.2 **The Chair commented that he would be replying to Eileen Milner's response to express the College's anger and incredulity at her response, and to reiterate the injustice of the decision, particularly given the more reasonable approaches being taken by the Combined Authorities.**

3.3 The Deputy Principal presented the Period 8 Finance Report and Spring 2 Reforecast. The following points were highlighted:

3.3.1 A revised reforecast had been undertaken. The main objectives of the reforecast included: maintaining sufficient/reasonable cashflow balances; starting T level provision from September 2021 with good resources; ensuring sufficient resources to bid for Wave 3 T level capital; maintaining a reasonable financial health score; avoiding inadequate financial health; avoiding breaking bank covenants; and avoiding early or formal intervention.

3.3.2 The AEB tolerance level of 90% would result in a £3.2m cash clawback and a negative impact of £1.4m on the operating position.

3.3.3 Apprenticeship income was currently on track to meet the current forecast figure of £4.3m. In addition, there was potentially around £700k of additional achievement funding in the system.

3.3.4 Overall, the expected total comprehensive income after restructuring costs had decreased by £703k, from a deficit of £748k to a deficit of £1,451k. The main movement was from lower AEB income.

3.3.5 The College now expected to achieve around 60% of the AEB allocation; this was an increase on the spring 1 reforecast.

3.3.6 Pay and non-pay costs had been reviewed. Pay savings of £368k were factored in. All posts had been placed on hold; recruitment was on an exception basis. Further savings might be possible in the last term although not without pain. Tight control over non-pay costs was also being exercised; only essential orders were being processed.

3.3.7 The College would breach its debt service cover bank covenant, although the bank had confirmed in writing that it would treat COVID-19 related issues as exceptional items for this year. The College remained in the 'requires improvement' financial health rating following this reforecast with a score of 140.

3.3.8 The College had adequate cash balances for operating purposes for the remainder of this academic year but would suffer cashflow pressures from the repayment of grants in 2021/22. Without action in 2021/22, the College's cash would fall to £0.5 million at its lowest point which was not sustainable.

3.4 **Governors asked a number of questions including:**

3.4.1 **The management team had done exceptionally well to achieve this position given the impact of the loss of income. How confident were they that the additional £1 million could be delivered by the end of the year, taking into account external factors?** Assuming there were no further lockdowns, since the College was now open, it was confident that it should be possible to achieve the additional £1 million. The areas which were largely responsible for delivery could normally deliver significantly more than this in one term. On-line learning had been developed further to include additional embedded qualifications; referrals from the DWP were now starting to come through; entry and pre-entry programmes had been extended, weekend and twilight sessions were being offered and summer schools would be run. Considerable marketing activity had taken place including contacting former students and encouraging them into community venues which were now open.

3.4.2 **Whether the decision would impact on next year's allocation.** This would be covered later in the meeting but the allocation for next year looked broadly similar.

3.4.3 **Whether there was any mileage in planning for less on the basis of there being external factors and uncertainties.** There were other areas where income might make up any shortfall and additional savings; this would be covered shortly.

3.4.4 **Whether the repayments could be negotiated.** This might be an option; informal conversations had taken place with the ESFA. It might be possible to pay over a four-month period from December but if these payments went beyond April then there was the possibility of formal intervention which would bring additional costs.

3.4.5 **It was good to hear that the bank would treat the COVID-19 impact as exceptional but would it not want to see some recovery soon?** Agreed; it was not an option to do nothing about the position. A proposal had been outlined to the bank the previous day. The bank had indicated it would want to see the College move to an operating surplus; this would be necessary if it wanted to negotiate a loan in the future.

3.4.6 **Would the bank still be willing to agree a credit facility?** The facility had been approved by the credit team. It was not linked to any capital projects and the process to put it in place was underway.

3.4.7 **A phased repayment might still be helpful.** Agreed, provided it did not lead to intervention.

3.4.8 **What was the debt service cover ratio?** It was 1.5. The College was generating less cash but should be able to meet the covenant by 2021/22 based on the draft 1 budget.

3.5 The Deputy Principal then presented the draft 1 budget for 2021/22. The following points were highlighted:

3.5.1 The Agency funding allocations for 16-19 funding and AEB had been received. The total AEB allocation was £10,238k compared to £10,794k in the current year. There was little change to 16-19 funding of £20,160k. Overall, allocations were 1.8% lower than the current year.

3.5.2 The two-year plan was outlined. This included £45,694k income in 2021/22. Pay costs were at £31,163k including £500k of efficiencies, to be achieved through natural savings, and a 1% pay award. The aim was to break even in 2021/22 and achieve a surplus of around £1,000k in 2022/23. EBITDA was £2,013k, 4.5%; FEC and bank benchmarks looked for closer to 6% which was planned for 2022/23. This level would be needed for a bank loan.

3.6 **Governors asked a number of questions including:**

3.6.1 **What assumptions had been included around interest rates and inflation?** Inflation had been included at 1% across the board; interest rates at 3.5%.

3.6.2 **The SLT had done really well in delivering a solution to the financial crisis but the impact and longer-term consequences should not be underestimated or downplayed.** Agreed. The College would continue to lobby for a change in the decision.

3.6.3 **Whether the Trades Unions were involved; they would need to be made aware of the £500k efficiencies.** They had been informed of the 90% decision and were being kept up to date; they were taking a measured approach. There were no immediate plans to make redundancies; any further actions would depend on recruitment when staff resources would need to be reviewed.

3.6.4 **The new post-16 Audit Code of Practice now indicated a requirement for funding audits to check the accuracy of funding income claims; were there any concerns over the outcome of these and would they have any impact on allocations?** Discussion on this was still ongoing. The College had been through funding audits previously and not suffered any clawback as a result.

Danielle Gillett left the meeting

3.7 The Deputy Principal then outlined the impacts on capital funding. The following points were highlighted:

3.7.1 The SLT had reviewed the capital commitments and agreed that, subject to any mitigation or change to this decision, the College could not proceed with the T Level Wave 2 capital project because it could no longer afford the matched funding required.

3.7.2 At very late notice, the planned Wave 3 funding application had not been submitted because it was no longer affordable.

3.7.3 The College could instead pursue a more modest refurbishment of existing premises, which would accommodate all planned T Level numbers set out in the T level delivery plan and provide a good classroom and real work experience for the students. However, it would not provide the same top-quality facilities and environment that had been envisaged.

3.7.4 This would save £1.8m which would help with the cashflow position and could later be used to support a Wave 3 application.

3.8 **Governors made the following comments:**

3.8.1 **The overall impact on the College should not be lost sight of. The revised proposals seemed well thought out and prudent, and should be approved.**
3.8.2 **The College should take the long-term view and support the actions proposed with a reduced investment in T levels.**

3.9 **Governors noted the period 8 Finance Report, approved the Spring 2 Reforecast and approved the revised capital budget including the change to the Wave 2 T level capital project.**

3.10 The Principal also explained that the College was coming up to an inspection year. It would be important to maintain quality but inevitably there would be impacts on quality with staff working hard, vacancies being held and the inability to invest as planned.

3.11 **Governors noted the position.**

4 PROPOSED PROJECT WITH NSS

4.1 The Director of Re-engagement presented a proposed project with NSS. The following points were highlighted.

4.1.1 NSS had approached the College to outline a proposal to work with them in the East Midlands.
4.1.2 The project-based partnership would not involve a subcontract but NSS would perform elements of the project, recruiting both employers and trainees to the programmes run by the College. NSS would arrange sites for practical elements of the course and assist with moving candidates into employment.
4.1.3 The project was potentially attractive as it addressed a growth sector and one in which the College did not deliver; the development of HS2 was an opportunity for employment in the area. The project would also help avoid potential competition from out of area; it would provide opportunities to work more closely with employers in this sector, progress students into jobs and further strengthen the College's relationship with JCP.
4.1.4 The intention would be to reduce risk by starting with one cohort as a trial; a second group would follow during the 2020/21 summer term, if time permitted. The intention would then be to offer five programmes in 2021/22, two in each of the first two terms and one in the final term. The fifth programme could be a Level 3 if there was sufficient demand.
4.1.5 Assuming all five programmes were offered, the project would draw down around £250k AEB funding during the 2021/22 year.

4.2 **Governors made the following comments:**

4.2.1 **What was needed in terms of QA processes?** All costs including QA were included and NSS would identify someone to IQA the programme.

4.2.2 **The project was an interesting development in an area of regional significance.**

4.3 **Governors <u>approved</u> the trialling of the project with NSS with one Level 2 cohort, with the option to extend this to further cohorts during 2020/21 and 2021/22.**

5 ANY OTHER BUSINESS

5.1 There was no other business.

6 DATES OF NEXT MEETINGS

- 11 May – Special Corporation
- 11 June – Strategic Session
- 14 July