

CORPORATION/COMMITTEE PAPER

Finance and General Purposes Committee

6 October 2021

<i>TITLE</i>	Minutes of the previous meeting held on 23 June 2021
<i>PURPOSE</i>	To receive, agree and approve the minutes of the previous meeting held on 23 June 2021
<i>RECOMMENDATION</i>	Governors are recommended to note the minutes and agree their accuracy

<i>No. of pages in main paper</i>	7
<i>Appendices (with no. of pages)</i>	None
<i>Risk Register Reference</i>	-
<i>Operating Statement Reference</i>	-
<i>Financial Implications</i>	None
<i>EDI Implications</i>	None
<i>Other Risk Implications</i>	Failure to follow agreed and proper practices
<i>Paper Previously Considered by</i>	-
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MINUTES OF A MEETING OF THE BOARD OF LEICESTER COLLEGE CORPORATION:

FINANCE AND GENERAL PURPOSES COMMITTEE HELD VIA TEAMS ON 23 JUNE 2021



Present: Danielle Gillett (Chair) Ed Marsh
Verity Hancock Tim Gray
Chan Kataria

In Attendance: Louise Hazel Director of Governance and Policy
Shabir Ismail Deputy Principal/CEO
Della Sewell Director of HR

1 DECLARATION OF INTERESTS

- 1.1 Verity Hancock, Louise Hazel, Della Sewell and Shabir Ismail declared an interest in items 10 and 11.

2 APOLOGIES FOR ABSENCE

- 2.1 Apologies for absence were received from Caroline Tote and Jonathan Kerry.

3 MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- 3.1 **The minutes of the meeting held on 5 May 2021 were received and agreed.**
- 3.2 As a Matter Arising it was explained that the College was not able to confirm the number of students supported through the debt collection process as the information was not separately recorded.
- 3.3 The Director of Governance and Policy confirmed that the revolving Credit Facility Agreement had now been received and was ready for signature. The cut-off date for the Agreement was 2 July and it was expected that the Agreement would be in place by then.

4 FINANCE REPORT (PERIOD 10) AND SUMMER REFORECAST

- 4.1 The Deputy Principal presented the finance report (period 10) and summer reforecast. The following points were highlighted.
- 4.1.1 The year-to-date result was an operating surplus after restructuring costs of £109k compared to the budgeted deficit of £16k.

- 4.1.2 The latest data return suggested the College remained slightly down on its 16-18 learner responsive learner number and funding target.
- 4.1.3 Apprenticeship income was on track to meet the forecast figure of £4 million. The only unknown at this stage was EPA income which was forecast at £400k but could be higher.
- 4.1.4 The AEB income remained the area of greatest risk. There had been little change since the end of May and income was likely to be in line with the spring 2 reforecast. Between 58-60% of the allocation was expected to be achieved. Recruitment including summer schools was continuing. If this reforecast position were not achieved, there could be an impact on bank covenants.
- 4.1.5 Overall, HE income was on target. Advanced learner loans were down slightly because of some withdrawals.
- 4.1.6 A reduction in income for PMLD had been assumed with a worst-case loss of £78k.
- 4.1.7 The costs of putting in place COVID-19 testing and other measures to cope with the pandemic were estimated at £1 million; the College had received £39k. It had also spent around £150k on the teacher assessed grades (TAGs) process, for which there was no compensation.
- 4.1.8 Pay continued to be tightly controlled.
- 4.1.9 Non-pay savings of £360k had been identified. The ESFA had confirmed that the matched funding for the T level specialist equipment allocation was based on affordability; given the £3.2 million clawback, the College could no longer afford to match fund the allocation and so £200k for equipment purchases had been released.
- 4.1.10 A summer reforecast had been undertaken. Overall, the expected total comprehensive income after restructuring costs had increased by £450k, from a deficit of £1,451k to a deficit of £1,001k.
- 4.1.11 Following the summer reforecast, the College was predicted to meet its bank covenants and remain in the 'requires improvement' financial health rating. The position was sensitive and adverse movement of £100k could lead to the College breaching covenants.
- 4.1.12 The College had adequate cash balances for operational purposes for the remainder of the academic year but would suffer cashflow pressures from the repayment of grants in 2021/22.

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

- 4.2.1 **There were no changes from the spring 2 reforecast income projections for the main income lines?** Correct. All the income lines had been reviewed; most were now secure and income banked with the exception of AEB.
- 4.2.2 **Given the sensitivity around the covenants, had this been discussed with the bank manager in the context of the credit facility?** The credit facility offer was based on the spring 2 reforecast position which included the breach of one covenant. The bank was aware of the position but the relationship was good and the bank was kept informed of the College's position.
- 4.2.3 **Whether everything possible been drawn down from the job retention scheme (JRS).** There were still a very small number of staff

on furlough and the College had taken as much opportunity to use the JRS as possible. The scheme continued and would be kept under review although it was now less favourable.

- 4.2.4 **Whether there was confirmation in writing of the position on match funding for the capital allocation.** There was and it had also been confirmed in a meeting with the DfE.
 - 4.2.5 **Whether there was confirmation in writing of the bank's treatment of COVID-19 related items as exceptional.** There was.
 - 4.2.6 **Whether the biggest threat remained the AEB.** It was; everything else was firmed up. A worst case was a 2% reduction on the forecast position equivalent to £200k which could lead to a breach of covenants. However other income lines, such as the tuition funding, should help to mitigate the position.
 - 4.2.7 **It was a big achievement to get to the £1 million deficit given the difficult year and the tolerance decision. It did however hide real challenges going forward which might not be financial and therefore harder to quantify.** Agreed; the T level capital project had been compromised by the decision.
- 4.3 **Governors noted the finance report (Period 10) and agreed to recommend the summer reforecast to the Corporation for approval.**

5 DRAFT BUDGET 2021/22 AND 2022/23 FINANCIAL PLAN

- 5.1 The Deputy Principal presented the draft budget 2021/22 and 2022/23 financial plan. The following points were highlighted.
- 5.1.1 The budget for 2021/22 set out a breakeven position of £27k surplus. The College's EBITDA would be £2,011k (4.6%) in 2021/22 rising to £3,010k (6.7%) in 2022/23 which was closer to the FE sector benchmarks. It was noted that some elements were excluded from the figures in the appendices.
 - 5.1.2 Total income for 2021/22 was forecast to increase by £3.1 million to £46.3 million. This was mainly due to AEB income returning to the allocation level. Other income streams were also expected to increase following the effects of the pandemic. There was no AEB subcontracting and reduced HE subcontracting.
 - 5.1.3 It was assumed that £500k of efficiencies would be achieved. The position would be reviewed after recruitment had taken place and if necessary, targeted efficiencies would be needed.
 - 5.1.4 Pay expenditure in 2021/22 would increase by £1.2 million before restructuring costs. Pay awards and the pay progression were included although these might need to be reviewed depending on the efficiencies required.
 - 5.1.5 Non-pay expenditure of £15 million was included with £4.5 million for continued investment in capital projects, estates improvements and IT.
 - 5.1.6 One of the financial objectives, generating cash inflow from operating activities, would not be achieved in 2021/22 due to the AEB clawback being paid in December 2021.
 - 5.1.7 Financial health under the ESFA criteria graded the College as 'Good'

in 2021/22 with a point score of 180. However, this was sensitive to a small adverse movement of £30k. Cashflow remained healthy; gearing was low. The planned budget met all banking covenants.

- 5.1.8 The assumptions and sensitivity of the budget and financial plan were described. If the overall position moved to a deficit of £1.1 million, the College would breach one of its bank covenants although the financial health would remain requires improvement. If the position moved to a £1.5 million deficit with a financial health score of 130 points, the College would move into early intervention and bank covenants would be breached. A £3.2 million deficit would move the College into formal intervention.

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

- 5.2.1 **When would it be necessary to take action if recruitment was not as planned?** August and September recruitment would be key. The first Autumn reforecast would need to include an action plan if recruitment was significantly down; early action in term 1 would be crucial.
- 5.2.2 **Despite a very challenging year and the AEB clawback, setting a breakeven budget was positive and an improvement. What were the optics in terms of maintaining pressure on the Agency?** The only way to get the Government's attention was to fail catastrophically which the College did not intend to do. The College had highlighted both the inequity of the tolerance decision and the impact on the T level project, one of the Government's key policies, but there was no interest and no indication of any change in decision.
- 5.2.3 **Although no-one wanted not to give a pay award, this would still need to be a consideration; what was the timing of that decision?** A decision would be made in December so there would be time to review the financial implications at that point.
- 5.2.4 **Natural wastage of £1.2 million provided a significant buffer; was that at the expense of agency or temporary staff costs?** No; vacancies were covered by existing staff wherever possible although if staff were needed for teaching, agency staff were sometimes used. There had been a drop in turnover which might mean there was less scope for savings than previously.
- 5.2.5 **The AEB was £600k lower than the current year; how likely was it the College could achieve that?** It remained a risk and would depend on how confident people were coming back to face-to-face teaching.
- 5.2.6 **Was there the option for more savings around the HE subcontracting; could more be brought in house?** There was very little margin in the subcontracting and it was being wound down. High quality subcontracting might still be considered if there was a good rationale.
- 5.2.7 **Were there any savings streams that could be considered early and if so, when?** The Curriculum Plan assumed a full establishment. The College would not know how many students it had recruited until they turned up so efficiencies could not be identified early. If the AEB was seriously affected on an ongoing basis, it might be possible to make efficiencies through sessional staff without major restructures.

- 5.2.8 **It might be necessary to arrange more meetings if the position was concerning.** Agreed; further meetings would be arranged if necessary.
- 5.2.9 **The assumptions seem entirely reasonable but there was considerable uncertainty; the budget should be considered a starting point.** Agreed.
- 5.2.10 **Pension costs remained considerable; should these be reviewed again.** This was discussed at the March Corporation meeting and a decision had been made to take no further action at this stage.
- 5.3 **Governors agreed to recommend the draft budget for 2021/22 to the Corporation for approval and agreed that the Committee monitor the position carefully and take further urgent action if needed.**

6 HR STRATEGY 2021/22

- 6.1 The Director of HR presented the HR Strategy for 2021/22. The following points were highlighted.
- 6.1.1 This was a one-year strategy. The context was primarily that the pandemic had impacted on the workforce and on ways of working.
- 6.1.2 There remained staff shortage areas particularly in Construction and IT
- 6.1.3 A 10 point action plan had been developed covering:
- Learning and development
 - Management development
 - Data systems and improvement
 - Pay and reward
 - Employee engagement particularly internal communications
 - Recruitment
 - Workforce planning including hybrid working
 - Well-being particularly mental health
 - EDI including the black leadership 10 point plan
 - Employee relations.
- 6.2 Governors asked a number of **questions** including:
- 6.2.1 **It would be helpful to capture more staff data to help with planning. The plan identified challenges including for new ways of working.** Agreed.
- 6.2.2 **It was good to see EDI and psychological safety included. Did management development include leadership development?** This was a question of terminology but leadership development was included.
- 6.2.3 **Should work around the ethnicity pay gap be included?** This was business as usual now and reports would continue to be brought to governors. Any actions arising would need to be covered in this or future plans.
- 6.2.4 **Was transformation and organisational development included or would that be a longer term plan?** This was not explicitly included although a lot of what was in the plan, particularly around ways of working, could be considered transformational.

6.3 **Governors approved the HR Strategy 2021/22.**

7 SUBCONTRACTING AND TENDERING POLICY

7.1 The Director of Governance and Policy reported that the ESFA had recently released new subcontracting funding rules which set out requirements for subcontracting policies. The policy would need to be rewritten and brought to Corporation so it was not necessary for the Committee to consider the paper.

8 BAD DEBT WRITE-OFF

8.1 The Deputy Principal presented a paper requesting authority to write-off debts that were considered uncollectable. The following points were highlighted:

8.1.1 The debts had been to court with judgments lodged against the individuals.

8.1.2 Any attempt to re-enrol by students with unpaid debts would trigger an alert and they would not be allowed to re-enrol until the debt was paid.

8.2 In response to a **question** about the costs of collecting the debts, it was confirmed that the debt collection agency worked on a commission basis and would get a percentage of successfully recovered debts.

8.3 **Governors agreed to approve the write-off of uncollectable debts totalling £12,669.90.**

9 COMMITTEE TERMS OF REFERENCE AND WORKPLAN 2021/22

9.1 The Director of Governance and Policy presented the Committee Terms of Reference and workplan for 2021/22. The following points were highlighted.

9.1.1 The terms of reference were unchanged although governors were asked to consider whether a separate Remuneration Committee was needed.

9.1.2 The workplan was similar to the current year; additional meetings could be called if necessary.

9.2 **Governors discussed the need for a separate Remuneration Committee but concluded that this was not necessary at this time. This would be kept under review.**

9.3 **Governors agreed to recommend the Terms of Reference to the Corporation and approved the workplan, subject to any additional meetings that might need to be called.**

Verity Hancock and Shabir Ismail left the meeting.

10 SPH REMUNERATION ANNUAL REPORT – CONFIDENTIAL

Louise Hazel left the meeting.

11 SALARY FRAMEWORK FOR SENIOR POSTHOLDERS

11.1 The Director of HR presented the salary framework for senior postholders. The following points were highlighted.

11.1.1 A minor change was proposed to the framework. Additional wording had been added to include reference to the local and regional picture when analysing the current market position, to ensure the College was paying competitively and appropriately.

Della Sewell left the meeting.

11.2 **Governors agreed to recommend the salary framework for senior postholders to the Corporation for approval.**

12 DATES OF NEXT MEETINGS

- 6 October 2021
- 1 December 2021
- 2 March 2022
- 4 May 2022
- 22 June 2022

13 ANY OTHER BUSINESS

13.1 There was no other business.