

RNN GROUP
FINANCE COMMITTEE

Minutes of the Finance Committee meeting held (via zoom) on Wednesday 13th May 2020 at 5pm

MEMBERS PRESENT: Nigel Ruff (Chair)
Janet Pryke
Monika Rodzos
Jason Austin, Principal and CEO

ALSO IN ATTENDANCE: Maxine Bagshaw, interim Clerk to the Corporation
Tony D'Ath, Executive Director of Corporate Services
Kate Noble, Executive Director of Finance

1 DECLARATION OF INTERESTS

The Committee Chair reminded everyone present to declare any interests that they may have on agenda items to be discussed. He restated his own declaration in relation to the fact that he is a Dinnington resident.

2 WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE

Apologies for absence were received from Tracy Jackson, the committee co-optee.

3 CONFIDENTIAL MINUTES OF THE MEETING HELD ON 15TH APRIL 2020

The minutes were reviewed and it was agreed that they were an accurate record of discussions.

AGREED: to approve the confidential minutes of the meeting held on 15th April 2020.

4 ACTION PROGRESS REPORT

The Committee agreed to note the update provided. In relation to line 8 it was confirmed that tax payments are not yet due and that Grant Thornton are dealing with this on behalf of the company. The Executive Director Finance explained that, at this point in time, it is not known how much tax is due and owing.

ACTION by whom	DATE by when

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AGREED: to note the content of the update provided.

5 **COVID-19 FINANCE UPDATE**

The Executive Director Finance introduced this agenda item and drew the committees' attention to the summary provided. Key matters noted were:

- In relation to apprenticeship provision the college is assuming 90% for 20/21. The team however are currently reviewing 90% for business administration as it is felt that there needs to be a cautious approach taken in relation to this. The vast majority of other apprenticeship provision is in construction and engineering. The assumptions have built in delays to starts.
- There may be upsides in relation to 16-18 numbers but the college is not relying on this.
- For HE, the forecast position in 20/21 is £3.1 million and thereafter there is a 5% increase anticipated for 21/22. The Executive Director Finance indicated that the college may potentially have to put a provision against the £3.1 million as other universities challenge the colleges market share to make up losses e.g. international students.
- A number of staff have been furloughed and the cost for this is £128k to the end of July 2020.
- Non pay has been fully reviewed which includes the estates budget which has been considered on a line by line basis.
- Updated 3 year cashflow has now been calculated and, included within this, is the impact of furlough.
- March 2021 is an anticipated pinch point in terms of cash. The college believes it will remain in a positive cash position to the end of July 2020, however the position will be 'tight'.
- Non pay savings are tracking better than anticipated, however there will be additional costs incurred as a result of Covid.
- £168k bid submitted in relation to the apprenticeship support programme.
- The college/NFPC company has not yet applied for a business interruption loan. The committee discussed the pros and cons associated with an application made by the group versus NFPC Limited. The Executive Director Finance confirmed that she would approach Lloyds and submit an application on behalf of the company unless Lloyds require the application to be submitted at group level.

AGREED: to recommend that the Board approve the submission of a business interruption loan on behalf of NFPC Limited and/or the college.

In considering the update provided, a question and challenge from the Committee was, whether or not the college should be using the apprenticeship numbers in the forecast given that there are no real

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guarantees and taking on apprentices is not necessarily at the top of the agenda for employers currently. The Committee were advised that the Head of Apprenticeship provision does have confidence in the pipeline activity, but that said, the forecast position a number of weeks ago was at £4.9 million and the view of the senior team was that this was just not reasonable and therefore has been reduced. It was confirmed that the current forecast position has been reviewed by course line and assumptions made have been challenged where it was considered appropriate.

It was acknowledged that there is a risk that employers are currently being optimistic in terms of the return to 'normal' and to address this a number of areas in the forward projections have been removed, these include apprenticeships in sport, hospitality and construction in relation to the development of the local Gulliver's theme park. It was acknowledged that if apprentice numbers decline then it is highly likely that 16-18 on site activity will increase to offset this.

The Committee then considered the forecast losses for NFPC and questioned whether the £800k loss envisaged relates solely to NFPC. The Executive Director Finance indicated that this amount is not entirely NFPC and does also include some full cost income that is unlikely to materialise. She advised that this figure is an estimate at this point in time.

The Committee then discussed HE and it was acknowledged that this is a pressurised revenue stream. Application numbers are down however it is not a dramatic decline. This was described as a very volatile market in any event. The Executive Director Finance confirmed that she has included a 5% withdrawal rate within the £3.1 million forecast. It was confirmed that the college is not relying on a significant increase in HE numbers in any event. In relation to the HE sector the most significant challenge for universities is in relation to international students and, what will be needed to fill the vacuum, is unknown at this point in time.

A challenge from one member of the committee was whether or not the college should have a 'worst case calculation'. The Executive Director Finance indicated that if this was developed then the college would need to factor in pay savings. She indicated that, if apprenticeship income is significantly down, then the college would have to balance this with a reduction in pay costs. This would impact on core staff and would have associated redundancy costs. The Committee all acknowledged that the covid-19 situation dramatically impacts on cash and therefore this has to be a priority, as it is a known position that cash in 20/21 will be tight in any event. They felt that the cash position would also influence how much is required via a business interruption loan. It was confirmed that cash requirements will inform the budget for 20/21 and that this is something that would need to be submitted to the ESFA.

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The Committee debated whether budgeting ought to be on a worst case basis with the expectation that the college would perform better or alternatively take an optimistic approach and run the risk of underperforming. A challenge from the Committee was for the Executive Director Finance to create a forecast that the college can stand behind and fully justify and explain.

AGREED: to note the content of the update provided, including cashflow forecast and income and expenditure report.

6 2020/21 SUBCONTRACT PROVISION

The Executive Director Finance introduced her written report and provided a summary of the current 2019/20 position. She explained that historically the college had contracted with a large number of subcontract partners but was trying to manage this down as part of its strategy, particularly in relation to AEB. She explained that it was easier to manage the quality of delivery with just a small number of partners. The Committees attention was drawn to document 6.3 which sets out the list of all partners, this is a smaller number than in prior years.

In relation to the 20/21 position partners have asked for more allocation than is proposed. The college's strategy is not to allocate out all of the £2.3 million funding available as this would then give flexibility in terms of direct delivery. The proposed subcontract list for 20/21 is £1.495 million.

In addition to the AEB activity there is also a small amount of learners on study programmes that are subcontracted and these tend to be in very niche areas where the college cannot directly deliver itself. It was explained that apprenticeship provision is not included within subcontracted activity and therefore the list to be considered today purely relates to study programmes and AEB.

A challenge from the Committee was in terms of the college directly delivering wherever possible. It was explained that for some activity there are specialisms that the college cannot deliver and/or a subcontractor may serve a particular niche demand. The Executive Director Finance confirmed that it was possible to review the list and focus more on what the college can deliver, particularly the 16-18 study programme learners. She indicated that, if the college was to retain the partnership with Rotherham United but lose other contracted activity, there would be £800k at 75% that the college would not be paying out.

The Committee asked whether it would be possible to transfer some of the apprenticeship staff who are at risk. It was confirmed that this is potentially possible with an element of retraining.

In relation to AEB it was explained that this is not something that the college can directly deliver entirely and therefore subcontractor

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support is required in line with the college's strategy to support the local area and community. It was noted that there is increased interest in distance learning which is an opportunity in terms of AEB funding.

The Committee asked that the proposed list of subcontractors for 20/21 be reviewed so that the committee can be assured that a detailed analysis has been undertaken regarding what can and can't be delivered directly. It was agreed that the Executive Director Finance would review with the Deputy CEO in terms of curriculum considerations. It was agreed that an update on this would be provided outside the meeting before a formal proposal goes to the Board.

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The Committee were advised that the college is still in discussions with Chesterfield United in relation to potentially 20 learners. If the partnership is agreed then this would be circa £80k.

AGREED:

- a) To note the content of the proposals presented,
- b) Request that the executive review before a formal report is presented to the Board at its next meeting.

7 NFPC LIMITED

The Executive Director Finance introduced this item and explained that her summary paper includes:

- The current position,
- Expectations regarding income from now until July 2020, and
- Options regarding furlough recovery

She indicated that the variance of -£356,951 is very much the worst case position but that governors will see that cash is an issue for the company.

The Committees attention was drawn to the cash flow table on page 2 which shows an anticipated deficit of circa -£276k. The Executive Director Finance indicated that, on this basis, a £250k business interruption loan would not cover the anticipated cash requirements. She advised that this negative position is included within the group forecasts.

The Committee discussed the 20/21 anticipated position and challenged the fact that the Managing Director still feels that the company can generate £96k per month income. The Committee expressed reservations that this was a realistic position. The Executive Director Finance explained that the assumptions did include no furlough from the 1st August, however the government has nationally indicated that this will be available up to October 2020.

The Committee asked whether all staff are required or whether there was the option to make some redundant. The Executive Director Finance explained that all were needed to deliver the different courses

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that have previously been offered. The forecast presented was described as a 'medium case'.

The Committee were advised that a lot of the offer provided by the company is based upon delivery over a four day period with learners staying in hotels and that this may not be an option going forward. The Committee were advised that the company cannot improve its position if the centre stays closed. It was noted that there was no income generated by the company in April 2020 at all.

The Committee discussed various options and felt that it was appropriate to furlough all members of staff in June and July, with some staff then returning in August which is an opportunity for them to prove market demand. They considered that the remainder of May should be taken as time to build the online offer ready for August starts. The Committee discussed the potential to top up furlough to 100% but acknowledged that this was not a mandatory requirement. They made the observation that if the 80% is paid by the government furlough scheme then there would be no pay costs in June and July and this would stem exacerbation of the deficit position. A challenge from the Committee was to get cash to the £250k mark so as to avoid continued cash leakage. The Executive Director Finance confirmed that NFPC is a large part of the groups cash worry for March 2021.

A challenge from the Committee was to review non pay in detail and ascertain how much is and isn't fixed. They expressed the view that protecting cash was a priority. All agreed that there was a need to reshape the workforce and align it with market demand and particularly what the company can deliver.

The Executive Director Finance explained that there are currently 8 staff who are on furlough to July 2020. A handful of these are over the £2,500 limit but not many. If they were paid at 80% rather than topped up to 100% then the college would need a contract variation and would need to take advice from HR in relation to this.

The suggestion from the Committee was to furlough as many staff as possible in June and July at 80% and then bring the workforce back flexibly in August to service the demand that is evident at that time.

The Committee asked whether there were any issues in relation to public spend to support a private company. The Executive Director Finance expressed the view that the position is justifiable in the short term as the college has benefited from the company over previous years, roughly at a £100k contribution per year. The Committee all agreed that fundamentally it is the group position that needs to be protected.

A question from the Committee was whether or not it is possible to look at a different operating model for the company in terms of more

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grant funded activity. It was felt that, if this was possible, then the company may need a different strategy. The Committee asked whether employees are able to support other activity within the group.

In terms of taking this forward it was agreed that the Executive Director Finance would speak to the Managing Director to explain the Committees point of view and concerns and that there would be detailed conversations regarding company viability with proposals then to be presented to the Board.

AGREED: to note the content of the update provided.

8 AOB

As a matter of additional business the Executive Director Corporate Services provided an update on estates matters including:

- HUB – the sale is ongoing with two external viewings this week. Rotherham local authority are still moving forward slowly in relation to this.
- Shireoaks – the college has been able to reach a settlement regarding dilapidations on one unit. The landlords are not currently engaged in terms of agreeing a leaving date but the college is anticipating being pushed for June 2020.
- AM2 – this is concluded for the third week in July 2020.
- Carton Road – the original valuation given was between £650 and £750k. There has been one offer for sale at £550 unconditionally. Further viewings are planned and the college does not intend to formally respond to the offer until the viewings have taken place. It feels as if there is some traction in the market in relation to this purchase.
- Langold – the college has received a request from the local authority and is currently working through the detail.
- Dinnington – the Committee were advised that the sale pack in relation to the nursery has gone live today. In relation to the remainder of the site, blocks A, C and D are the key areas of interest. There is interest from Nexus, however the local authority seem to be accelerating their investigations regarding options for the site. The college has been advised that a report will be submitted to the council board on 19th May and very positive discussions are taking place regarding space, rental, boundaries etc. It was noted that Nexus are a subcontractor to Rotherham Borough Council.

The Committee asked what the college will be left with at Dinnington if the Nursery and Blocks A, C and D are disposed of. The Executive Director Corporate Services expressed a view that the remainder of the site would be saleable, particularly as it is possible to establish separate entrances and exits.

The Executive Director Corporate Services expressed the view that

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Rotherham Borough council are asking all the right questions so as to then put themselves in a position where they can make a decision on lease versus purchase options. It was confirmed that Rotherham Borough Council are looking at the wider High Needs strategy for the borough.

AGREED: to note the content of the update provided.

9 **DATE AND TIME OF NEXT MEETING**

The Clerk confirmed that the next scheduled formal meeting is 24th June 2020, however it was noted that biweekly informal catch up calls have been scheduled for all governors.

The Committee discussed the sequencing of meetings for 20/21 and agreed that they would remain on a monthly basis with the meetings alternating between being 'on site' and via 'Zoom' (if and when social distancing allows for onsite meetings again). The Executive Director Finance explained that it takes 10 working days to compile the management accounts from month end it was therefore agreed that Committee meetings would be scheduled towards the end of the month so that governors are reviewing the most up to date financial information.

The Committee asked for the provision of a monthly run rate from August 2020 to now so that they could better understand the patterns.

Meeting closed at 6.40pm.

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