Meeting/Committee	Finance Committee
Date of meeting	Tuesday 23rd November 2021 at 5pm (via Google Meet)

1 Welcome, introduction and apologies for absence

Attendees:

Janet Pryke	Chair
Jenny Worsdale	
Ian Sackree	
Rob Lawson	
Margaret Cobb	
Jason Austin	

In attendance:

Maxine Bagshaw	Director of Governance
Gavin Teasdale	Interim Executive Director of Finance
Tony De'Ath	Executive Director of Corporate Services

Apologies for absence

Apologies for absence were received from Monika Rodzos.

Margaret Cobb and Rob Lawson were welcomed to their first meeting.

2 Declarations of interest and eligibility

The Chair requested that governors declare any interests at the appropriate time during the meeting. Ian Sakree reminded that he is the CEO of Protocol who are a recruitment consultancy firm and who have placed the interim Executive Director Finance with the college. He confirmed that Protocol also provide periodic advice to the college regarding contingency recruitment at a number of levels. He specifically indicated that he would have some views to share in relation to agenda item 18 which is in the confidential section. Committee noted his declarations and all agreed that this would not prevent him from participating in discussions on scheduled agenda items for the meeting.

3 Minutes of the meeting held on 30th September 2021

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

AGREED: to approve the minutes of the meeting held on 30th September 2021.

There were no matters arising.

4 Action progress report

Committee were happy to note the content of the update provided and the interim Executive Director Finance provided further information in relation to line 6, which was the requested clarification regarding where the college currently is against maximum permitted subcontracting of AEB. Committee were reminded that the maximum permitted is 25% and were advised that the total AEB effort currently sits at 26%, however community learning is a separate funding stream and when removed it takes the figure down to 22%. He also advised that a number of subcontracts can specifically be excluded and, when this is the case, the figure comes down to 20% which leaves the college comfortably within the rules.

One member of the committee asked whether the 25% cap relates to the city region position. Interim Executive Director Finance indicated that the 25% relates to ESFA funded provision and that the college is nowhere near 25% for the Sheffield City Region. CEO advised that, whilst there have been SCR discussions regarding subcontracting, no percentage limits have been imposed.

AGREED: to note the content of the update provided.

5 Covid-19 update

CEO provided a verbal update and confirmed that there have not been significant changes since the last meeting. Key matters highlighted were:

- Number of positive covid cases between 1st and 19th November were 20 staff and 24 students, this appears to be a regular monthly figure.
- There has been no more regional feedback from the local authority, however there is a review meeting scheduled for Friday this week which could mean more information given.
- Covid measures all remain as reported at the last meeting
- College is advised that, the data in and around Rotherham has plateaued and the expectation is that it will fall. The level of hospital admissions is at the same level as the previous spikes however those requiring critical care is lower/smaller numbers.
- College continues to maintain a week to week watch but not much has changed recently.

Committee were then given an update in relation to C02 monitors and key matters highlighted were:

- Government has allocated £25 million to procure C02 monitors across schools and colleges
- These test whether the air is 'stale' as it believed that covid infection is more likely if there are higher levels of C02
- College was provided with 100 monitors
- All have now been tested
- Staff training is to be provided in relation to how these monitors are to be used and the figures/statistics provided
- It is highly likely that in a number of areas the data will necessitate the opening of windows even when the heating is on
- It is envisaged that there will be higher rates of C02 in the smaller classrooms and the health and safety team will have to respond to this on an individual basis.

AGREED: to note the content of the update provided.

6 2020/21 KPI'S – yearend report

The interim Executive Director Finance introduced this detailed report and key matters that he highlighted were:

- College has reasonably strong cash balances
- Budget position for 21/22 are cash reserves of £5 million. Current projections are that by yearend it may be £4 million which still remains a strong position.
- EBITDA is anticipated to be positive at between £2.5 and £2.6 million
- External audit are now completing the yearend review process and it is not expected that there will be any issues
- Forecasts show a budget dip of £1.3 million which would lead to a 'requires improvement' financial health calculation
- Gearing ratio is good/low with a decline from 12% to 10% in 2022/23
- Staffing ratio is 69%, however this does improve if subcontracting is included, however the ESFA measure is to exclude this and the sector benchmark based upon this is 65%
- Financial health calculation is expected to be 'good' in 21/22 and 'requires improvement' in 2022/23 – he explained that this was impacted by EBITDA
- In terms of risks, one red RAG rated area is in relation to the growth in core funding

One member of the committee made an observation that the level of cash days is high and asked whether this is because the potential £1.5 million clawback is excluded. Interim Executive Director Finance confirmed that it is included and that the position would improve even further if excluded. He confirmed that the college has not yet received a response the business case submitted regarding AEB clawback.

AGREED: to note the content of the report provided.

7 October 2021 Management Accounts

The interim Executive Director Finance introduced the detailed report and highlighted what he described as some 'crucial trigger points' including:

- Pay as a percentage of income. Budget is 65% however excluding subcontracting it is currently 70% which is why it is red RAG rated.
- Year to date actuals
  - There is £778k income shortfall. It is believed that the college can improve the position, however there is a major shortfall in relation to AEB and there are concerns regarding the HE numbers and the impact on end of year.
  - There has been a pay reduction of £244k
  - Expectation is that at yearend the college will be at budget, both in terms of pay and non-pay.

In terms of trend analysis one member of the committee asked whether this year is following a similar pattern to last year and, if it is, where is the confidence that the college can make up the shortfall. Interim Executive Director Finance indicated that confidence is informed by the curriculum reviews that have been undertaken this month and that the expectation is that the bottom line will be at budget whilst there are line by line variances. He confirmed that staff have looked at the patterns of enrolment and also the payroll count.

One member of the committee made an observation that pay as a percentage of income is high and asked whether there is a strategy devised to reduce this. Interim Executive Director Finance expressed the view that there is a consensus that the group is underpaying staff when compared to other local providers and therefore it may be that there are more staff employed than in other colleges. That said, there is confidence that the offer is good and may mean that it is challenging to reduce.

CEO confirmed that the period 12 position shows a 69% figure against a target of 65% which has led to a review. It may be possible to use overstaffing in AEB in other areas. Senior team have reviewed the areas where there are larger number of hours i.e. 200+ and believes it is possible to redistribute in a number of areas. It was also confirmed that there are some vacancies that the college would not now need to recruit to. CEO advised that growth in income is all part of the plan too, however he acknowledged that the group is currently overstaffed.

One member of the board made reference to AEB provision and noted that income now comes through a number of funding streams and therefore it is not as easy to mix and match. It was agreed that, for future meetings, more granular information would be provided on this including all income streams i.e. ESFA, Sheffield City Region (which is a devolved budget) and others (ED:Finance – each meeting). CEO confirmed that for D2N2 this is ESFA funded. A challenge from the committee was to better understand where the college is in relation to each income stream rather than just an 'all' position. CEO advised that the funding is roughly £4.6 million from Sheffield City Region and £3.4 million from ESFA. Committee made the observation that it is the SCR proportion that is restricted and therefore will require careful monitoring.

Committees attention was then drawn to page 7 of the accounts and in particular the covenants table. It was confirmed that the college is meeting all of the covenants required by the bank.

AGREED: to note the content of the management accounts presented.

8 Period 3 Reforecast

The interim Executive Director Finance introduced this item and confirmed that a lot of work has been undertaken with the curriculum areas to review. The team have also specifically reviewed the position regarding tuition funding and advanced learner loans.

Committee were advised that a £657k income shortfall has meant that staff costs have needed to be reviewed and a detailed analysis undertaken regarding all pay and non-pay items. He explained that pay costs are under budget primarily because of tuition fee reduction. Vacancy savings are also quite high and the college has been able to see a reduction in running costs. College has been able to identify £657k savings which entirely matches the £657k income shortfall and therefore is expecting EBITDA to be at budget.

One member of the board asked whether there is a reduction in pay costs even with the need to pay agency fees. Interim Executive Director Finance confirmed that this was the case.

Interim Executive Director Finance invited the committee to recommend board approval of the revised forecast and indicated that, if this agreed, future reports would monitor against the revised position rather than the original budget.

AGREED:

a) To note the content of the update provided
b) Recommend that the board approve the revised forecast as presented.

9 Enrolment update

The interim Executive Director Finance presented his written report and key matters highlighted were:

- College is 97% of allocation but is short when compared with the plan
- HE provision is circa 100 students short
- To address the lower than expected student numbers the college is looking at a number of short courses

One member of the committee asked what the ESFA allocation shortfall will mean in terms of the impact on the 21/22 budget. Interim Executive Director Finance advised that he has not yet calculated the 3% impact and reminded that the 22/23 allocation will be based on the R04 submission and that the college is currently only at R03. 2945 is the funded target however the college is quite short in terms of its aspirations re growth. He described HE as the pressure point.

Committee made the observation that for 21/22 it is now a matter of holding the allocation whist acknowledging that on current student numbers there will be no in year growth funding. Challenge from the committee was to ensure that the group is not now overstaffed i.e. on the basis of the growth planned but which has not materialised. Interim Executive Director Finance made an observation that other colleges are in a fairly similar position and, whilst no comfort, this is not something unique to RNN.

A challenge from one member of the committee was that the 16-18 student numbers appear to be slipping back and they asked staff to focus on how this can be stemmed. They agreed that they needed much more analysis regarding market segmentation, campus numbers, student choice etc. to be able to really unpick where the challenges and opportunities are. A question and challenge from one member of the committee was whether or not the college is seeing a strong year 1 or is relying on a strong year 2 whilst experiencing a weak year 1.

The CEO provided assurance to the committee that the business reviews do include analysis regarding student choice, markets etc. Some anecdotal evidence is that some students didn’t take up year 2 and instead have taken HE offers. College is also seeing movement in relation to access numbers with movement to other institutions which aren’t a common trend.

Committee asked for further information regarding the HE demographics/ client group for RNN. CEO advised that universities have foundation years and have modified them because of covid whereas access had no modifications which makes foundation years more attractive. In addition, red brick universities have oversubscribed which has had a knock on impact with non-red brick and this then in turn impacts on FE further down the chain. He indicated that, as a result of the changes, the college is looking at its higher offer and is doing work with employers regarding higher level skills and not just degrees. There is the potential here in relation to a digital offer.

AGREED: to note the content of the update provided.

10 Subcontracting report for 2021/22

Committee were reminded of the sums already agreed by the board with the headline figure being £1.493 million of which £310k is on ACL. College has not allocated the full amount yet and committee were reminded that a 20% management fee is taken by the college. Committee were asked to note that the East Riding Group is above this 20% figure but that this is due to carryover/carry in learners.

An observation made by one member of the committee is that there are three providers on the list with no details given regarding a management fee and that they asked why this is the case. Interim Executive Director Finance was unable to respond to this in the meeting but agreed to find out and then email committee members (Interim Executive Director Finance – November 2021).

Committees attention was drawn to the proposal to increase the allocation to Construction Skills People and one member of the group asked whether a management percentage fee is taken and it was confirmed that it is.

A challenge from one member of the committee was that, having undertaken an independent review of the company, it appears to be incredibly profitable and family owned and that the accounts show that directors are taking a high proportion of the profit as cash dividend and that the EBITDA is 25%. On the basis of the information a question and challenge was whether or not there is confidence regarding the quality of the experience for the learner. Committee made the observation that, if the college is happy with them as a provider, then they are doing really well and there would be something that the college could learn from them. Committee were advised that they are passing all of the QA processes and that there are no concerns regarding student outcomes. An observation made was that they are also a large provider of apprenticeship provision and all therefore agreed that there were lessons to be learned given that the colleges target is to increase its own direct delivery. Committee were advised that the increased proposal would come from the ESFA budget line.

AGREED:

a) To note the content of the update provided
b) Recommend that the board approve amended subcontractor proposals as presented.

11 Risk Report

The interim Executive Director Finance presented his written update and key matters highlighted were:

- Strategic elements are covered within the report provided and the full risk register is far more detailed
- In terms of red risks, these remain as:
    - A failure in the IT structure
    - Student numbers – both ESFA and apprenticeship provision
- Both are likely to remain as residual risk concerns throughout the year with a red RAG rating given the risks that the college is facing
- These risks align with the strategic plan and are monitored regularly
- More detail is provided to the audit and risk committee
- College has a very good risk management system in place which is easy to use and encourages staff engagement

One member of the committee asked whether there is a risk policy in place which would relate to the death of the queen given that this will impact on operations as there will be closure days. It was agreed that this would be added to the risk register and mitigating actions identified (Interim ED: Finance – November 2021).

AGREED: to note the content of the update provided.

12 Review of Going Concern

The interim Executive Director Finance introduced this item and the documents provided and he explained that these are required by the external auditors. Key matters highlighted were:

- EBITDA of between £2.5 and £2.6 million this year.
- Also a positive EBITDA forecast in 2022/23
- Cash in hand at the yearend will be £6.5 million
- 22/23 cash forecast is £5 million
- Minimum/low cash point envisaged is £4 million – this would give 40 days cash in hand as a minimum.
- Whilst there are sector challenges the group is in a strong position
- EBITDA is currently £1.6 million
- Depreciation and pension arrangements do impact on the financial health calculation.

When considering the content of the report committees attention was drawn to page 3 and the sentence underneath the table and it was confirmed that this would be removed prior to the final version going to board next month (Interim ED: Finance – November 2021).

A question and challenge from the committee was that they would like to see some more detailed sensitivity analysis i.e. the changes known, variables anticipated and what resilience the college has in relation to these. An example given was:

a) Income reducing by 5%
b) Pay costs increasing by 2%
c) A few major estates repairs required

They indicated that this would help them to more easily understand any potential impact on going concern (Interim ED: Finance – Dec 2021).

Interim Executive Director Finance drew the committees attention to pages 8 and 9 and he expressed the view that this starts to develop the sensitivity analysis including impact on cash and financial health scores. A challenge from the committee was to really clearly identify where the stress points are.

Interim Executive Director Finance expressed confidence in terms of the college remaining a going concern and advised that these documents are a robust position statement. He expressed confidence that the college will hit all of the bank covenants in place.

One member of the committee made reference to page 7 and the detail given regarding AEB i.e. the possibility that there may be a further £1.5 million available if the colleges business case to the ESFA is successful. They asked whether there has been any impact to subcontractors and also whether the college would want to consider allowing subcontractors to make a similar business case if the college is successful in retaining what would otherwise have been clawed back. Interim Executive Director Finance confirmed that all subcontractors have been paid for the work that they have done and therefore the college would not want to go beyond this.

Committee asked how much of the £1.5 million under delivery relates to subcontractor allocations envisaged. Committee were advised that, for the most part, it is the group and not subcontractors who underperformed.

Committees attention was then drawn to the going concern paper specifically relating to NFPC Limited and were advised that, whilst challenges do remain, there is confidence that the company is a going concern with 90 days cash in hand as a minimum. All acknowledged that the company had made a real transformation in the last 12 months.

AGREED:

a) To note the content of the update provided
b) Recommend that the board approve the going concern reports as presented.

13 Estates report

The Executive Director Corporate Services introduced the written report and advised that there has been no significant movement on any areas except the Dinnington site. Following their presentation to the board on 3rd November 2021, Cube will have a paper ready for the December board meeting which will give much more detail regarding their proposals. He confirmed that he has taken legal advice and that, whilst a joint venture is possible within the context of the instrument and articles, it is a much more long and complex process when compared to sale.

He advised that all land surveys and ground surveys have now been undertaken and that the college is currently awaiting reports. He envisages being in a position to collate everything by mid-January 2022 so that a way forward can be agreed. He indicated that college agents and LocateEd both, pending survey outcomes, have suggested that an application for planning permission would be in the colleges best interests. LocateEd are prepared to provide their professional support should the college want to consider a joint venture as an alternative to a sale.

Committee acknowledged that the board were still waiting for outstanding information before any real progress could be made on this. Committee were advised that there are three developers who are very keen to progress discussions regarding this site.

AGREED: to note the content of the update provided.

14 Space availability and utilisation

Executive Director Corporate Services provided a verbal update and indicated that part of the phase 2 capital bid required the college to do a lot of work in terms of space availability and utilisation but that what now needs to be completed is much more granular testing i.e. building by building and room by room. He indicated that given the 'leg work' required to complete this it will take some time but that he envisages being able to present this to the first committee meeting in the new calendar year.

He advised that the last data that the college holds in relation to this is 18/19 and that since that time there has been a significant reduction in the size of the estate. 20/21 will be the baseline that the college looks to create going forward.

AGREED: to note the content of the update provided.

15 Environmental sustainability

The Director of Governance introduced this item and reminded that this was a follow up to discussions at the strategy day on 3rd November. Committee were advised that an environmental sustainability officer has now been recruited and appointed with a start date envisaged for 4th January. Proposal is that they would undertake an audit of what is currently in place and would be in a position to report to board by the end of February. This would inform board discussions and next steps could then be agreed. Committee agreed that it was important that at a strategic level governors are involved and supportive but that this is distinct from operational activity. All agreed that this was an important piece of work and it was noted that there is an external presenter scheduled to provide a governor development session on 2nd February. All agreed to await the content of the 2nd February discussions and then look to progress with a small task and finish group, with governor volunteers being invited at that point in time.

AGREED: to note the update provided.

16 AOB

There were no items of additional business.

17 Date and time of next meeting

This was confirmed as 2nd December 2021 at 5pm, which is a joint meeting with the Audit & Risk Committee.

18 Confidential items

It was agreed that confidential items would be recorded on a separate basis.

The meeting closed at ?pm.

Signed ________________________________ Chair

Date ________________________________