# EALING, HAMMERSMITH AND WEST LONDON COLLEGE
# FE CORPORATION

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| **Meeting** | **FINANCE & GENERAL PURPOSES COMMITTEE** | | |
| **Date** | 25 February 2020 | **Time** | 18.00 |
| **Venue** | Hammersmith and Fulham College, Room E351, Gliddon Road, London W14 9BL | | |
| **Chair** | Phillip Kerle | | |

**Present:** Phillip Kerle; Peter Chapman; Karen Redhead (CEO)

**In attendance**: **In attendance**: Anil Nagpal – Chief Operating Officer (COO); David Warnes – Deputy Principal, Business Development and Marketing (DPBDM) [1]; David Round - (Clerk to the Corporation);

*Attendance at meeting = 75%*

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| **1.** | **APOLOGIES FOR ABSENCE**<br>Apologies were received from Ian Comfort. The Clerk confirmed that the meeting was quorate. |
| **2.** | **DECLARATIONS OF INTEREST**<br>None. |
| **3.** | **MINUTES**<br>The previous minutes from 10 December 2019 were approved as a correct record. |
| **4.** | **MATTERS ARISING**<br>The matters arising report tracking actions from the previous minutes were received and noted. Other matters of report were as follows:<br>• It was noted that a presentation on estates strategy would be made to the Corporation Conference at the end of March by the consultants working on the Independent Business Review (IBR).<br>• The Financial Regulations review would be undertaken at the April meeting as it requires a significant re-write **(ACTION: AN)**. In response to a question from the Committee, it was explained that there were no major implications arising from a delay in the review as the current regulations were in place and it was a requirement |

[1] In attendance up to item 5 only

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| | that staff adhered to them. The COO added that the Finance department had effective procedures in place to ensure that the regulations were followed.<br>• It was explained that since the Board approval of the DFE Facility agreement there had been a number of changes to the agreement made by the department, in particular the separation of the subcontracting clawback from the main loan agreement, The DFE's lawyers had further stipulated a specific wording for the Board resolution. Following completion of a number of revisions to the agreement and a number of actions on the part of the College, the Board would be required to approve an updated resolution. The COO and the Clerk would make the necessary arrangements **(ACTION: COO/Clerk).** It was noted that the College was meeting with the ESFA at the case conference tomorrow (26 February 2020). There would be no further draw-down until the completion of the all of the legal processes. In response to questions, the COO confirmed that the requested further £1.5m drawdown was not in the current cash flow forecast and that the sale receipt from the Southall disposal (£4.2) did not show in the forecast until July 2020.<br>• It was confirmed that the amendments to the Public Interest Disclosure Policy requested by the Committee had been implemented and the updated policy is now published on the College website. |
| **5.** | **SUBCONTRACTING REPORT**<br>David Warnes, the Deputy Principal, Business Development and Marketing presented a report that gave a detailed risk assessed review of the performance of the four subcontractors delivering provision for the College. It was noted that the assessment was based on three criteria:-<br><br>• Their overall compliance with funding rules and administration of enrolment paperwork<br>• Quality of provision<br>• Meeting their contract funding profile and KPI's<br><br>The total value of subcontracting contracts in the current year was £4m; this represented 28% of ESFA post-16 income. Contracts were split between ESFA and devolved administration (GLA) allocations. There was one contractor, *Integer*, whose performance to date was risk assessed as of concern (Amber/Red) and discussions were taking place about a recovery plan and/or bringing some of the contract in-house to deliver directly.<br><br>Governors discussed the issue with the contractor. It was asked whether the College's contractual agreement with subcontractors allowed changes to be made mid-term. It was confirmed that there was explicit provision for such changes in the event of under-performance and that there had already been discussions to that end. Governors also enquired about the reasons for the under-performance. It was commented that this contract was, in part, an unintended consequence of the split of allocations between the GLA and the ESFA. The subcontractor delivered spectator safety programmes; the larger contracts |

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| | tended to be in the devolved areas such as London, Birmingham and the other devolved regions. Whilst the delivery profile of the subcontractor under the GLA contract was on profile, its ESFA contract was significantly down because outside the devolved regions contracts were much smaller because of the smaller venues.<br><br>The CEO commented that the College was considering replacing the under-delivery with in-house provision, potentially via distance learning programmes with schools. This would have a positive impact on the bottom line as more margin would be achieved. In response to questions from governors, it was explained that the provision included safeguarding courses for education providers. It was added that the College had strong relationships with schools in the Home Counties and there was demand for such programmes.<br><br>It was also noted that the sub-contacted work with the V&A was legacy apprenticeship provision and that special permission had been obtained from the ESFA for teach out as the numbers were small (9 learners).<br><br>Other points noted by the Committee were as follows: -<br>1. Details of the current subcontractors were provided including the rationale for the provision;<br>2. The College was in discussions with the ESFA and the GLA on the approval of one additional AEB subcontractor and two additional apprenticeship subcontractors. Depending on the outcome of these discussion, these would be proposed for approval at the March Board meeting.<br>3. The Annual Quality Assurance audit on subcontracting delivery was taking place in early March, which was earlier than usual.<br>4. There was a national consultation on subcontracting rules being conducted by the ESFA. There was a number of proposals including limiting the proportion of subcontracting provision to 25% of ESFA post-16 income, declining to 10% in 2023/24. The agency was also consulting on introducing limits to the geographical distance between colleges and other prime providers holding allocations and subcontracting partners i.e. no more than one hour driving distance. The limit on the proportion of subcontracting would have implications for the College.<br><br>Governors discussed the actions being taken to mitigate the impact of these changes, should they be introduced.<br><br>**RESOLVED: that the report on subcontracting be noted.**<br><br>David Warnes left the meeting at this point (6.35pm). |
| **6.** | **KEY PERFORMANCE INDICATORS**<br>This item was deferred pending the development of an online dashboard system. |

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| **7.** | **ESTATES STRATEGY UPDATE**<br>The COO confirmed that the sale of the unused A&B blocks at the Southall site had been completed on Friday 21st February 2020 and that the funds had been deposited with the College. It was noted that under the terms of the sale agreement, the College was required to expedite a number of minor works at the site, including the a relocation of electricity services within a 6 month period.<br><br>The Committee expressed thanks to the COO, Anil Nagpal and the Project Manager, Laurie Morley, for their work in getting the sale over the line.<br><br>The COO updated the Committee on a number of other matters: -<br><br>1. The College's application to the GLA for capital funding for the Hammersmith Gateway project which had been placed on the reserve list had now fallen into abeyance following the decision of the GLA to close the fund;<br>2. The GLA would be inviting bids from colleges in the summer for capital bids and £20m had been allocated. It was likely that this fund would be targeted towards smaller projects rather than a large project such as the Hammersmith Gateway. Nonetheless, the College would be exploring opportunities to submit smaller bids particularly for its other campuses such as Ealing Green and Southall.<br>3. The College would be closely monitoring the announcements in the forthcoming Budget in relation to the commitment to provide c.£1.8bn funding for capital projects in the FE sector.<br>4. Proposals were being sought from specialist suppliers to update the College's estates strategy, taking into account the work undertaken as part of the Independent Business Review (IBR).<br><br>Governors asked about the appeal against the decision by Historic England not to list the Hammersmith and Fulham campus and whether the matter had been concluded. It was reported that the consultation period ended on 29 February. The College had also applied for a certificate of immunity against further listing applications within a prescribed period but this could not be considered until the conclusion of the appeal process. It was noted that the Evening Standard had published a response by the CEO to the 15th January article about the campaign to list the Hammersmith campus building.<br><br>**RESOLVED: that the estates strategy update report be noted.** |
| **8.** | **MANAGEMENT ACCOUNTS AS AT JANUARY 2020 INCLUDING CONFIRMATION OF GOING CONCERN**<br>The management accounts as at 31st January 2020 were presented to the Committee. It was noted that the accounts were presented in a more detailed format including accounting line variance reporting in line with the recommendations arising from the most recent FEC |

stocktake visit. The key headlines from the accounts, highlighted in the accompanying commentary, were as follows: -

1. The forecast outturn had been revised from (-£371k) in the approved budget to (-£1,580k) (after pensions costs);
2. The significant change in forecast was largely attributable to: a) significantly increased depreciation costs following the decision at the time of the audit and finalisation of the 2018/18 accounts to reverse the previous impairment of the Hammersmith campus because of the suspension of the Hammersmith Gateway project. This has meant increased depreciation costs of £635k for the Hammersmith campus reflecting its higher asset value plus a further £133k arising from the depreciation of capital spending on Park Royal (net £768k additional depreciation cost); and b)  additional interest of £143K expected at year end as a result of agreement with the ESFA converting the EFS/EF of £11m into an interest bearing loan fixed at 2.6% (the full year effect was £325k in interest charges);
3. It was noted that the depreciation charge was a non-cash accounting item;
4. The effect of the unbudgeted increased depreciation costs and interest charges was to change the College's forecast year-end financial health KPI from 'Requires Improvement' to 'Inadequate';
5. Forecast income was largely on track (-£125k);
6. Pay expenditure is showing a favourable YTD variance of £67K and forecast at year end of (-£147K) adverse variance excluding pension costs;
7. Non pay expenditure is showing an adverse YTD variance of (-£176K) with the forecast at year end of (-£1,495K). Unbudgeted increased depreciation costs and interest charges have contributed to the adverse variance as has Pension Liability Net Interest (-£558K) and running costs (-£186k);
8. Attention was drawn to the treatment of the additional Teacher Pension Costs (TPS) in the accounts. The increase, which comprised a 43% increase in employer contribution to the TPS scheme (from 16.48% to 23.68%) with effect from September 2019, was effectively covered by an ESFA grant allocation in the current year. The grant was shown in income although the increased costs were reported on the (teacher) pay accounting line, which led to inconsistent variances being reported in the accounts. The COO was looking at how these items might be more meaningfully reported going forward;
9. During 2018/19, one of the banking covenants was breached. It was likely that the same covenant will be breached during 2019/20 if it is retained in its present form. Discussions are continuing with the bank to review the covenants with a view to their adjustment; and
10. The improved number of cash days, at 44 days YTD, are due to a better retention of cash and receipt of Emergency Funding and the significant creditor stretch is starting to be released.

Members of the Committee discussed the accounts. It was commented that the effect of the conversion of the EFS to a loan by the ESFA meant that one of the College's strategic KPIs for the ratio of borrowing to income approved in the new strategic plan could not now be achieved as planned. There was discussion of the unwind of the 'creditor stretch' and the Committee urged the College to move as quickly to standard 30 day payment terms as soon as possible. The COO said that he thought this could be achieved within the next 2 months. In response to questions from governors about the sensitivity analysis included in the management accounts, the CEO confirmed that the College was currently forecasting a 99% achievement against the Adult Education Budget (AEB) allocation. It was possible that this would be further exceeded as achievement of up to 103% of allocation was funded.

**RESOLVED: that the management accounts as at 31 January 2020 be noted.**

**9. INTEGRATED FINANCIAL MODEL FOR COLLEGES (IFMC)**

The COO presented a summary report about progress in completing and submitting the new Integrated Financial Model for Colleges (IFMC) return to the ESFA. This was a requirements of the agency which had been introduced this year and returns were required by the end of February. The IFMC requires the completion of a detailed 3 year financial forecast in a spreadsheet form. In addition the IFMC spreadsheet was to be accompanied by a 'comprehensive supporting commentary' which included: -

- *a summary of the corporation's strategic objectives*
- *a description of how the IFM is consistent with the corporation's strategic objectives*
- *explanations for significant year-on-year movements in the statement of comprehensive income and balance sheet*
- *explanations for significant variances between the estimated outturn for the current year and the original budget*
- *a summary of how risks to cash flow insolvency have been managed and mitigated the contribution made by all areas of material activity, including corporation subsidiaries and joint ventures, where applicable*
- *how the corporation plans to service its debt and finance its capital projects*
- *sufficient and relevant evidence to support any request to moderate a financial health auto grade of 'inadequate'.*

It was acknowledged that the model had been widely discussed by finance directors in colleges and that its introduction has not gone particularly smoothly with very tight deadlines. There had been a number of flaws with the technical implementation of the model and a 7th version had now been published. The timing of the return was also less than ideal, coming before the completion of the College's annual curriculum planning and before the allocation of ESFA allocations upon which to base income projections.

The College had benefited from assistance from the ESFA in completing the model because of the non-standard nature of the College's financial position and the COO was very grateful for the help the team had received. The output from the model showed a broadly improving picture in relation to the core financial KPIs as described in the following table:

| Key Performance Indicators (KPIs) | Outturn 2018/19 £k | Outturn Forecast 2019/20 £k | Draft Budget 2020/21 £k | Draft Budget 2021/22 £k |
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| **Financial Health** | Inadequate | Inadequate | Requires Improvement | Requires Improvement |
| **Financial Health Score** | 50 | 90 | 130 | 130 |
| **Adjusted current ratio** | 0.46 | 1.24 | 1.01 | 1.01 |
| **Borrowings as % of income** | 35.68% | 47.85% | 44.94% | 43.55% |
| **EBITDA as % of income (education specific)** | -12.75% | -0.41% | 4.31% | 5.42% |
| **Staff cost % of income** | 71.97% | 65.18%** | 62.00%** | 61.64%** |

*** The staff cost as a % of income calculation in the new model currently includes the sub-contracting income*

The College's financial health score would not rise above 'requires improvement' because of the level of borrowing now that the EFS had been converted to a loan. The main KPIs, ie cash neutrality of budgets and staff costs ratio being 65% of income, are achieved over the duration of the plan. EBITDA becomes positive in year 2 of the plan.

The detailed spreadsheet model was presented to the Committee in the meeting and a number of questions were asked about how the model worked.

Governors asked whether it was realistic for income to increase by c.£1m without a corresponding increase in staffing costs. In response the CEO commented that she expected to achieve efficiencies through an increase in average class sizes, which were below the sector norm. In response to questions it was confirmed that the marketing plan and budget supported the projected increase in student numbers. Indeed, the College had already secured increases in funding for next year because of its over-target recruitment of 16-19 year old students this year (an increase of £700k was forecast)[2]. The CEO also commented that improvements in margins would be realised because of the strategic aim of moving an increasing proportion of subcontracting delivery to in-house delivery.

The Clerk drew attention to the ESFA's financial planning handbook published to support the IFMC which stated that

[2] Clerk's note: the College was subsequently advised that the increase would be £1.3m.

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| | *The corporation is accountable for ensuring the financial viability of the college, and must regularly assess financial health, resilience and threats to insolvency, considering all relevant information. The corporation must approve the IFMC.*<br><br>*In submitting the IFMC the accounting officer confirms that the corporation has approved the IFMC using assumptions which support the corporation's strategic objectives. The accounting officer also confirms that the supporting commentary has been prepared with due regard to the financial planning checklist.*<br><br>The Committee discussed the feasibility of submitting the return and Corporation commentary by the submission date. It was clear that the submission and commentary required the acknowledgement of a number of uncertainties in the planning assumptions including the curriculum planning timing issues, funding allocations, the treatment of subcontracting in the staffing cost to income ratio. The COO also advised that the ESFA had indicated that it would require the College to submit the model 4 times per year because it was intervention.<br><br>t was **AGREED** that the matter would be discussed with the ESFA at the case conference due to take place on the following day with a view to submitting the financial model on time and making available the Corporation commentary at a later date after the Board had had the opportunity to consider the model in more detail. If necessary this could be expedited by written resolution.<br><br>**RESOLVED:** that the matter of the IFMC submission be discussed with the ESFA and that, as advised by the Clerk and College officers, the Board takes the necessary action to submit the Corporation commentary as required. |
| **10.** | **ANY OTHER BUSINESS**<br>There was no further business and the meeting ended at 20.05 |
| **11.** | **DATE OF NEXT MEETING**<br>The next meeting is scheduled to take place on Tuesday 21 April 2020 at 18.30 |

**Chair's signature ………………………………………….. Date…………………………..**

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