**BARNSLEY COLLEGE BOARD OF GOVERNORS**

**MINUTES OF THE MEETING OF THE FINANCE AND RESOURCES COMMITTEE HELD ON 6 OCTOBER 2015**

**PART I**

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| **PRESENT** | S Brian | Governor |
| | G Beever | Governor |
| | J Thirkell | Governor |
| | C Webb | Governor (Principal) |
| **IN ATTENDANCE** | A J Oaks (Clerk) | |
| | T Johnson (VP Corporate Services) | |
| | L Miah (Director of Finance) | |
| | V Dalton (VP Funding, Data & Compliance) | |
| | P Singh (VP Comms and Recruitment) | |
| | A Fairest (VP Property) | |

**APPOINTMENT OF CHAIR**

In the absence of R Dewar, Chair of the Committee, G Beever agreed to take the Chair for the meeting.

**APOLOGIES**

15.91 Apologies were received from R Dewar and G McSkimming.

**DECLARATIONS OF INTEREST**

15.92 The Chair reminded members of the requirement to declare any financial or personal interests in any agenda items. Members reserved the right to declare any interests should any arise during the course of the meeting. No interests were declared.

**MINUTES**

15.93 The minutes of the meeting held on 7 July 2015 (Part I) were agreed as a true and accurate record and were signed by the Chair.

**MATTERS ARISING**

15.94 The Committee received a list of actions arising from previous meetings which were noted.

**DRAFT 2014/15 FINANCIAL POSITION**

15.95 The Committee received an update of the position at the end of the financial year, noting that the figures were subject to final external audit. The Director of Finance reported that the EBITDA of 17.5% was significantly better than forecast due to careful and cautious management of budgets, particularly income and expenditure, by both SMT and heads of department. Financial performance for the year was exceptionally strong with the highest surplus recorded for many years. She added that there were only two other colleges in the sector with a higher EBITDA.

15.96 All Development plan targets had been met with exception of tuition fees and international. Total expenditure was reported to be £2,694k better than budget, with staff costs 8% below budget achieving savings of £2,038k. In terms of the key financial targets, EBITDA as a percentage of income had been exceeded; EBITDA /interest costs had also been exceeded and the SFA financial health grade remained satisfactory. All three key ratios demonstrated improved financial performance in the budget. Banking covenants were expected to be achieved and would be confirmed when the financial audit had been undertaken. The Chair and other members agreed that the outturn was extremely positive and pleasing.

The Report was noted and received.

**CASH REPORTING**

15.97 The Director of Finance presented the report which provided an overview of projections of cash for the next three years, requested by the Committee at the previous meeting. Details of the existing college loans were provided. With financial performance significantly better than planned in the next three year plan, the cash position was improved. Referring to the graph depicting the expected balances of each loan facility over the 3 year period, the Director of Finance explained that the loan facility of £14.7m was likely to reach £8.5m in December 2014 until the cash from asset sales was received. This would then revert to a £4m term loan for 13 years. The £7.4m loan facility, currently at £5.8m, would remain at this balance until converting to a term loan in April 2017. She emphasised that the timings of cashflow would become important as the former loan £14.7m RCF drew closer to maturity in May 2016, therefore asset sales being realised were crucial.

15.98 Further details were provided of actions that would be taken by management should there be any risk of delay in receipt of sale proceeds. The college was in discussion with Santander in respect of the revolving credit facilities maturing and timing of sale proceeds, and had discussed a contingency plan. Santander had indicated an arrangement could be negotiated to suit the college's needs should this be necessary. Further options would be discussed with the bank in December 2015. J Thirkell sought confirmation of whether the contingency would be sufficient should the receipt of asset sales not be as expected. The Director of Finance commented that if this occurred she would be required to negotiate breakage fees. Further to an observation by J Thirkell, the Director of Finance undertook to include the formulas on cash flow projections in future reports.

The Director of Finance added that the Chair of the Committee, R Dewar had suggested that it would be useful for the Committee to receive a monthly cash balance, which would now be included within the monthly management accounts circulated to the Committee.

The report on cash reporting was noted and received.

**CONDITIONS OF SFA CAPTIAL GRANTS UPDATE**

15.99 The Committee received a report updating it on capital grant funding conditions, last discussed in April 2015. Currently the College had five ongoing major capital projects partially financed by the SFA. These were summarised in the paper for information.

15.100 Referring to each capital project, the Director of Finance highlighted the position with regard to meeting conditions and where there was any potential for clawback. SFA had been kept fully informed of progress on all projects, particularly where there had been any delay and in terms of the Sixth Form College revised costings and Board minutes relating to the increase in budget had been submitted. All grant conditions were being met with regard to the SFC and Sports Centre and the SFA had confirmed in writing that they had no issues with regard to Wigfield Farm project. Following zero rating for VAT on the Construction Centre which had opened in September 2015, the SFA had been notified of the changes and had met with management to discuss the position. The College was now awaiting their response. Management believed the risk of clawback was low given that the total project costs remained within budget and the grant had been expended. Following questions from governors, the Director of Finance stated that an assumption had been made in the balance sheet for VAT savings of £600k to be retained, and that she would inform members of the SFA's decision when it was received.

**SORP DECISIONS**

15.101 The Committee received a report from the Director of Finance, the purpose of which was to seek a recommendation of the accounting policy choices required for the change to the new FE/HE SORP. Under the new Financial Reporting Standard FRS102 applicable from 1 January 2015 the College was required to adopt the new reporting regime with comparative balance sheet and opening comparatives requiring restatement. The Director of Finance explained that the first FRS102 compliant accounts for the college would be the year ending 31 July 2016. Presentational changes of significance were highlighted, for example the I&E

account would become the 'Statement of Comprehensive Income' (SCI). Further presentational changes were summarised for Governors' information. The Audit Committee had considered the paper and proposals at its meeting on 22 September and had made recommendations for Board approval.

15.102 The Committee were required to consider choices between an Accruals Model – where the income from capital grants was released to the I&E account over the life of the asset in line with the depreciation charge; and a Performance Model, where the full amount of the grant was recorded as income when all grant conditions had been met. This resulted in the I&E becoming volatile and the impact of depreciation more significant with no grant release to offset it. Grants received from non-government sources would follow the Performance model.

15.103 The Director of Finance explained that whilst the College currently worked to an accrual model for all grants, the presentational changes were quite significant for the college. The value of deferred capital grants at 31/7/2014 was £52.5m of which £5m was non-government grant. Under the revised SORP, the government grant would be transferred from funds to creditors changing net assets from £51.1m to £3.6m. Explaining the implications of the changes on the balance sheet, management were therefore proposing the performance model be adopted. The difference between the two models therefore being a decision between a good I&E position or a strong balance sheet. The decision had no impact on EBITDA. A full balance sheet analysis had been provided to inform debate. The Director of Finance asked the Committee to note that the majority of colleges in the sector would be adopting the accruals model, however due to the uncertainties around the Area Based Review process, short term credit requirements and need to strengthen the balance sheet, management were proposing the performance model was the most appropriate. In response to questions from Governors, it was confirmed that the Audit Committee had recommended the performance model be adopted. The Committee were unanimous in their decision to concur with the Audit Committee.

15.104 In terms of revaluation of assets, three options were presented for consideration, the revaluation of assets being linked to the policy choice recommendation. As the performance model had been recommended for the treatment of capital grants, management recommended that on transition the assets should be transferred at historical cost and not be revalued. Governors agreed with the recommendation which concurred with that of the Audit Committee.

15.105 In response to questions from Governors about the background to the changes, the Director of Finance explained that the new SORP brought Accounting standards in line with international accounting policies worldwide which was considered beneficial in terms of interpreting accounts. Further questions were raised with regard to the presentational changes highlighted, the Director of Finance commenting that she believed the accruals model would be preferred by the majority of colleges. She added that the way in which financial accounts would be presented under this model was so different that it was likely to give rise to unfavourable perceptions from third parties about the financial position. Governors agreed that whilst the accruals model was simpler and more straightforward, due to the significance of the College's capital grants, it was prudent to adopt the performance model at this point in time.

15.106 In respect of revenue recognition, management were proposing the accruals model be adopted as this was simpler in practice and required less resource. Governors were content to agree with the proposal. For Holiday accrual there was minimal impact. It was proposed to estimate accrual each year with a 100% data collection required every three years. The Auditors and the Audit Committee had also been content with this approach.

15.107 In respect of bank loans, there was no policy choice because the accounting treatment differed substantially. Financial instruments were classified as either basic or non-basic instruments and in terms of the college loans, these may be classed as non-basic depending on the structure of the debt. Grant Thornton's view was that the college loans were 'basic' but had yet to confirm this. With regard to intra-group loans, Grant Thornton were currently assessing whether these would be defined as financing transactions. No policy decisions were required in this area.

15.108 With regard to Pensions, no change to the valuation of the LGPS pension liability recognised in the balance sheet was likely, other than changes in how interest was calculated. Further information was provided. Under FRS102 the bank covenants and SFA financial health performance ratio, pension interest was excluded resulting in no significant impact. Details were provided of Investment Property, Governors noting that the nursery cabins at Honeywell generated rental that was outside of the College's normal course of business. The value of the property was not considered material. Basic accounting for leases remained unchanged and in terms of current leases, the photocopier lease would be classed as a finance lease.

15.109 Members were advised that following Board approval, the College's 2014/15 Accounts would be prepared under the new SORP which would be audited by Grant Thornton after the 2014/15 Financial Statements. The report and revised 3 year financial plan under the new SORP would be presented to the F&R Committee at its February meeting. The 2015/16 Management accounts would be reported under the existing SORP until the end of the financial year, and any adjustments necessary to align them to the new SORP would be made as part of the year end. Governors noted that the College's banks had both verbally confirmed that the College would not be adversely affected by the SORP in terms of meeting covenants. Whilst the banks had not announced a transition plan, the College expected the banks may rebase the covenants. The Director of Finance remarked that the SFA financial health grade was uncertain at this stage, with changes expected as a result of the SORP. Following a question from the Principal regarding the likelihood of this moving to inadequate, the Director of Finance commented on areas where she believed that the SFA may make changes including the borrowing/gearing ratio level of debt in proportion to net assets and/or the debt to income ratio, and they could also apply different weightings which would define the limits in respect of the financial health score. She added that the Committee would be informed of any changes as the college was notified, and should it be necessary, would prepare a report for the Committee in advance of the 3 year plan being submitted to the February 2016 meeting.

15.110 The Chair thanked the Director of Finance for the report, which members agreed had been extremely comprehensive and very well presented. Further to discussion it was agreed to recommend the following Accounting Policies:

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| **RESOLVED 15.110.1** | **To adopt the performance model for accounting for Government and Capital Grants and for Asset Revaluation;** |
| **RESOLVED 15.110.2** | **That there would be no revaluation of assets, and that on transition the assets should be transferred at historical cost.** |
| **RESOLVED 15.110.2** | **To adopt the accrual model for revenue recognition for Government Revenue Grants** |
| **RESOLVED 15.110.3** | **to adopt the process outlined above for Holiday Accruals.** |

**HR SOFTWARE SYSTEM**

15.111 The Committee were asked to support proposals for the implementation of a new HR software system before the end of the 2015/16 tax year. The VP Corporate Services explained that the current system, in place nine years, was no longer able to meet the growing demands of the college both in terms of access to staff and with regard to Real Time Information returns to HMRC and pension auto-enrolment processes. The capital request for the HR and Payroll system had been included within the annual capital report approved by the Board in the summer, totalling £150,000, including VAT.

15.112 Tendering had been undertaken via the CPC to ensure value for money and sent to all four suppliers on the framework. Further to the procurement process, evaluation of the analysis and capabilities of the systems, Midland HR were the preferred supplier with a total implementation cost of £136,626. The VP commented that Midland HR had a good reputation in the sector that was reassuring.

**RESOLVED 15.113** **to recommend the College's chosen supplier for the new HR and Payroll software system be awarded to Midland HR.**

**SUBCONTRACTING REPORT AND POLICY**

15.114 The VP Funding, Data and Compliance introduced the report which sought approval for the College's Policy on Sub Contracting, now a requirement of the SFA. Governors noted the current subcontracting arrangements, which had been approved by the Board previously. The internal compliance team continued to monitor subcontracting work and undertake spot checks. The current total value of all planned sub contracts for 2015/16 was £681k, representing 1.7% of all College income and 2.8% of grant income, which was within the SFA threshold.

15.115 The Policy set out the rationale for subcontracting, quality assurance, fees and payment terms. A list of subcontractors had been provided for information. Following consideration, it was:

**RESOLVED 15.116** **To recommend the Policy for Subcontracting be approved.**

**LEARNER NUMBERS AND FUNDING**

15.117 The Committee received a report highlighting FE and HE student recruitment and related income, and an early indication of 2015/16 likely performance. A shortfall of 291 in 16-18 EFA was reported for 2014/15, with the target for 2015/16 subsequently reduced to 4,455. The college had under recruited against the target for 15/16 and would be funded for 4,230 places in 2016/17 against the 3 year plan target of 4,275. Whilst the 14 -24 EFA funding target had been exceeded by £653k, the funding allocation remained the same as budget in 2014/15, with no clawback.

15.118 In respect of SFA Adult income 2014/15, the SFA had made an additional allocation of £330k to support classroom based learning as reported to Committee in February 2015. The College had not met its apprenticeship target and therefore clawback of £334k was possible in February 2016. The VP stated that it was uncertain whether the SFA would apply a 5% tolerance on the shortfall. For 2015/16, the college was reported to be on target with the budget, with the exception of traineeships which were currently £27k behind.

15.119 In HE, it was reported that the college was on track to meet the HE headcount target of 684 for 2015/16. If the target was not met, this represented a shortfall of £350k in income. Questions were raised by Governors to understand the reasons for the under recruitment and the IAG processes, which the VP Comms & Recruitment responded to in some detail. The Principal reiterated the VPs comments and added that recent external marketing had been very successful and that management were currently working hard to manage the recruitment and retention of HE learners. Governors were satisfied with the responses from management, and noted and received the report.

**PROJECTS AND SKILLS FOR JOBS**

15.120 The report on projects and skills for jobs was rag rated green. The final outturn for 2014/15 on Skills for Jobs had generated £2.49m of income. Project income was £188k below budget mainly due to the reduction in the AMRC recruitment by the AMRC Training Centre along with failure to recruit numbers for construction delivery contracts. For 2015/16 the College was confident of achieving the forecast of £1.17m. Governors acknowledged the breadth of projects and commented positively on the work. The report was noted and received.

15.121 The Chair observed that the remaining reports had been provided for information. Comments on the reports were invited from members. Following confirmation that no questions were to be raised, the Reports were noted and received.

## DATE AND TIME OF NEXT MEETING

15.122 The next meeting would be held on Tuesday 1 December 2015 with the Audit committee present to receive the Financial Statements and Auditors report for year ending 31 July 2015

End of Part 1.

Signed G Beever (Acting Chair)

Date 1 December 2015