

SOUTH EASTERN REGIONAL COLLEGE
Governing Body – Finance and General Purposes Committee

Minutes of the meeting of the Governing Body Finance and General Purposes Committee held on Monday 16th November 2015, at 6.00 p.m. in the Lisburn Campus.

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| 1. | <p>Attendance and Apologies:</p> <p>Present: Mr E. Jackson, Mr K. Webb, Mrs B. Larkin, Mr M. Simcock, Mr J. Taylor.</p> <p>In attendance: Mr T. Keating (Director of Corporate and Economic Development), Mr T. Martin (Head of Finance), Mr D. McCullough (Minutes)</p> <p>Apologies: Mr M. Graham, Dr R. Davison</p> <p>In the Chair: Mr E. Jackson</p> <p>The Chair welcomed members to the meeting.</p> |
| 2. | <p>Conflicts of Interest:</p> <p>The Chair asked if any members wished to declare an interest in respect of any item on the agenda. There were no declarations of conflicts of interest.</p> |
| 3. | <p>Minutes of the meeting held on 14th September 2015:</p> <p>Mrs Larkin proposed the adoption of the minutes as a true record and Mr Simcock seconded.</p> |
| 4. | <p>Matters arising:</p> <p>There were no items to be taken.</p> |
| 5. | <p>Correspondence:</p> <p>There were no items to be taken.</p> |
| 6. | <p>Chairman's Business:</p> <p>There were no items to be taken.</p> |
| 7. | <p>Annual Report & Financial Statements for the year ended 31st July 2015</p> <p>The Head of Finance presented the Annual Report and Financial Statements for the year ended 31st July 2015.</p> <p>The Head of Finance outlined the financial statements preparation process as follows:</p> <ul style="list-style-type: none"> - Accounts Direction issued by DEL outlining basis of preparation of annual report and financial statements. - Year-end Management Accounts prepared by Finance and reviewed and approved by College Management Team and Finance & General Purposes Committee; - Annual Report and Financial Statements drafted on the basis of the Accounts Direction, Financial Memorandum, and the Accounting for Further & Higher Education SORP; - 3 levels of review: Management Accountant, Deputy Head of Finance and Head of Finance; |

- Draft Annual Report and Financial Statements presented to F&GP Committee in September and submitted to DEL in late September;
- Audit fieldwork carried out in September/October;
- Fieldwork wrap up meeting held with College Management in October with audit files and draft RTTCWG then being submitted to NIAO;
- Any changes required outlined in final RTTCWG from NIAO and are actioned before sign-off of the annual report and financial statements by the Governing Body and submission to DEL by 30th November 2015.

The Head of Finance informed members of the final year-end financial position:

- College total income for 2014/15 was £48.1m, which was an increase of £1.3m on the 2013/14 total income. The Head of Finance said the bulk of this increase was attributable to a £1m working capital investment provided by DEL Finance during the financial year.
- Total expenditure in 2014/15, before exceptional items, totalled £48m.
- Exceptional costs of £4,052k and exception income of £3,643k were recognised during the 2014/15 financial year, which related to redundancy and the NI FE sector Voluntary Exit Scheme.
- Historic outturn was a surplus of £1,315k (2013/14 -£64k). The College's original estimated outturn as per the College Development plan of a small budgeted surplus of £6k.

Mr Martin explained that the actual results take account of:

- Additional £1m working capital investment provided by DEL Finance during the financial year.
- Employer Engagement income being approximately £700k below the original target.
- Higher than planned income from both the Training for Success contracts and Steps to Work programme.
- Staff costs were £594k less than full year budget due to natural wastage, maximising the utilising of core staff in curriculum delivery, lower than budgeted delivery hours associated with employer engagement alongside delivery of employer engaged by core staff within their annual contract hours.
- Non-Pay expenditure efficiencies were successfully delivered throughout the College;
- Results reflect both exceptional redundancy and VES net costs of £409k and exceptional loss on disposal of property disposals of £142k.

The Head of Finance said that DEL had been informed at the end of quarter 3 that an historic cost surplus of £605k was anticipated. The Head of Finance continued that the actual outturn represents a substantial £711k improvement, with the variance summarised as follows:

- Income remained largely static overall, with falls in employer engagement income offset by additional deferred grant releases and income increases in both Training for Success and Steps to Work contracts;
- Expenditure forecasts in Quarter 3 return held at prudent level to reflect the continued pursuit of employer engagement;
- Actual staff costs realised were lower than forecast in Quarter 3 return due to curriculum volume and both the volume of employer engagement activity and the mix of staff required to deliver it.
- Actual non-staff costs realised were lower than forecast in Q3 return due to knock-on impact of delivery volumes on materials and exam registrations and efficiency drives in other cost areas.

The Head of Finance reported that the College's accumulated income and expenditure reserves totalled £3,761k with cash reserves at £3,727k as at 31 July 2015. The Head of Finance reported, that at approximately 7.7% of income, the College's 2014/15 cash reserves were within DEL's key performance indicator target of between 5% - 10%. Mr Martin continued that the Current Ratio at 1.26 is slightly below the DEL KPI target of 1.5-2.5, but was an improvement on 13/14 ratio of 1.01.

The Head of Finance informed members of one post-balance sheet event, being the authorised allocations from the Public Sector Transformation Fund for the NI FE Voluntary Exit Scheme. Approval was received on 9 September 2015 and DEL instructed the College to proceed with staff exits as reflected in tranche 2. The post-balance sheet event was an adjusting event and reflected in the Financial Statements.

The Head of Finance reported that the Northern Ireland Audit Office's final Report to Those Charged with Governance had not yet been issued, but the current draft identified no significant issues, no significant internal control weakness and no misstatements. The Head of Finance continued by highlighting that the draft report makes only one, sector wide, observation and it was assigned a Priority 3 rating (an issue of a more minor nature which represents best practice). The Priority 3 issue relates to the recommendation for the FE sector to develop an accounting policy on Intangible Assets.

The Chair asked the Head of Finance if Intangible Assets existed in the College, and if so, what type. The Head of Finance explained that the recommendation was primarily related to software as there was increasing investment in software across the sector. The Head of Finance said he would discuss the development of the accounting policy with the sector.

The Chair proposed the recommendation of the approval of the Annual Report and Financial Statements to the Governing Body and Mrs Larkin seconded.

8. Management Accounts Period 2

The Head of Finance firstly brought to the attention of members the reporting format of the 2015/16 management accounts. He informed members that the Whole College Management Accounts are being produced under a new format which highlights the College's Non-Departmental Public Body (NDPB) budgeting categories.

He said there is now a sub-total result entitled "Departmental Expenditure Limit (DEL) Resource Surplus/(Deficit)" as well as the traditionally reported "Historic Cost Surplus/(Deficit)" – both are being included in order to:

- Emphasise the connection between the two (and therefore the connection between NDPB budgeting and SERC's published financial statements);
- Clearly identify the reconciling items between the two; and
- Continue SERC's focus on Historic Cost as the best means of financial control. The Head of Finance said if the College continues to control Historic Cost Performance with the aim of breaking even, then the NDPB budgeting performance will also be controlled.

The Head of Finance continued by saying that the format change mainly impacts the front of the Income and Expenditure account as the detailed income and expenditure lines previously included in SERC's Management Accounts are still laid out in the detailed analysis.

The Head of Finance informed members that the College had recorded an historic cost surplus of £593k for the first two months of the year compared with a budgeted surplus of £420k, giving a positive variance of £173k for the period.

The Head of Finance continued the description of the Period 2 accounts by saying:

- Total Grant-in-Aid and Income of £7,260k was £140k below budget due mainly to a lower level of DEL Other Grant-in-aid than originally budgeted for the first two months. He said the variance had been caused by the delay in finalising the Youth Traineeship and Higher Level Apprenticeship funding models, and the resultant delay in drawing down funding – the variance may therefore be considered timing only at this stage.
- Total Resource Expenditure was below budget by £261k or 3.9% due to a £268k underspend in staffing the year to date. The Head of Finance explained that this was largely a reflection of the impact of the Northern Ireland Further Education Sector Voluntary Exit Scheme.

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| | <p>The Head of Finance said the forecasted outcome is for a historic cost surplus of £44k, which is an improvement on the original break-even budget and reflects the better-than-anticipated impact of the VES.</p> <p>The Head of Finance drew members' attention to the fact that Period 2 accounts were the first set of Management Accounts in 2015/16. He said the Period 3 management accounts (Q1) would provide a more solid anticipated forecast for the full year.</p> <p>The Head of Finance reviewed the Statement of Financial Position with members and explained the reconciliation from original budget to period 2 full year forecast.</p> <p>The Chair asked for an explanation on the variance in staff costs between Period 2's positive variance to budget of £268k and the full year forecast to budget positive variance of £72k. The Head of Finance explained that the variance in Period 2 related to VES backfill costs not being realised in the first two months of the financial year, but the proportionate savings in Period 2 would likely not continue at that scale for the remainder of the year.</p> <p>The Chair noted the significant positive variance of £125k in HE Fees when compared to budget. The Head of Finance said this related to timing of invoice processing.</p> <p>The Chair thanked the Head of Finance for his presentation of Period 2 Management Accounts.</p> |
| <p>9.</p> | <p>NDPB Budgeting and Forecasting Submission</p> <p>The Head of Finance reported that the latest return was submitted on 26th October, which covers the period April 2015 – March 2016 and reflects:</p> <ul style="list-style-type: none"> - Actual performance as per SERC's draft 2014/15 Financial Statements for the period April 2015 to July 2015; - Actual performance as per SERC's Period 2 2015/16 Management Accounts for the period August to September 2015; - Forecast performance as per SERC's Period 2 2015/16 Management Accounts for the period August 2015 to March 2016. <p>The Head of Finance drew members' attention to two further important points:</p> <ul style="list-style-type: none"> - The return reflects the projected savings from both Tranche 1 and Tranche 2 of the Voluntary Exit Scheme. - Return includes a cash monitoring element as the basis of DEL's new cash management proposal, which remains a work in progress. <p>The Chair asked the Head of Finance to explain to members why Grant-in-Aid did not appear in the NDPB Budgeting and Forecast Submission. Mr Martin said the NDPB return (DEL Resource) was essentially the amount that DEL needed to fund through Grant-in-Aid in that it reflects total expenditure less income from other sources.</p> <p>Members discussed DEL's new cash management proposal with the Head of Finance explaining the process is yet to be finalised, but it is expected that the cash management proposal will result in grant allocations being adjusted to align cash balances to the DEL target range of 5 – 10%.</p> |
| <p>10.</p> | <p>10.1 Capital Projects and Estates</p> <p>The Director of Corporate and Economic Development presented the Estates Report and provided an update on three key section:</p> <ol style="list-style-type: none"> 1. Progress on Strategic Objectives 2. PPP Projects 3. General Operational Matters |

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| | <p>The Director of Corporate and Economic Development updated members on The SPACE and the progress of snagging issues with the Contractor.</p> <p>Mr Keating informed members of the Drinks Licence application for The SPACE and the progress to date.</p> <p>Mr Webb highlighted to members that the final monetary value to be drawn-down from the Optimism Bias for The SPACE was still outstanding and once finalised it would be reported through the Governing Body.</p> <p>The Chair referred to the delays in the completion of the project and asked if any compensation events were payable. The Director of Corporate and Economic Development explained that the College was working through a number of contractual issues within the contract – one of which was the delay and any compensation events. Mr Keating said he would inform members of the outcome.</p> <p>10.2 Estates Utilisation</p> <p>The Director of Corporate and Economic Development presented the Estate Utilisation Report, which analyses the management of the SERC Estate and where possible benchmarks the data to ascertain if it provides value for money and whether it is aligned to current best practice.</p> <p>Mr Keating informed members that the report concludes SERC is proactively managing the Estate (both PPP and traditional buildings) resulting in below average running costs and the teaching space is being used efficiently and effectively.</p> <p>The Director of Corporate and Economic Development continued that further data is required on space utilisation in the FE Sector to benchmark more effectively which in turn would promote better efficiency. Mr Keating also said that a more collaborative approach to the management of the FE Sector PPP contracts is desirable to ensure best practice is shared which in turn will also promote better public value.</p> <p>Mr Keating drew members’ attention to Appendix 10, which details space utilisation in the FE sector. Mr Keating noted that SERC campuses consistently performed well in terms of utilisation when compared with the sector, with Lisburn being ranked number 1 in the sector’s estate.</p> <p>The Principal asked the Committee to recommend approval of the paper by the Governing Body and for it to be shared with the Department for Employment and Learning.</p> <p>The Chair said the paper will go to the Governing Body for discussion with the Governing Body members then deciding on how to approach the process of submission to the Department.</p> <p>The Principal noted the report as being a very useful piece of work that could inform discussions surrounding funding of fixed costs.</p> |
| <p>11.</p> | <p>Policies for Approval</p> <p>There were no policies to be considered.</p> |
| <p>12.</p> | <p>Update on Applications and Enrolments</p> <p>The Principal presented the Update on Applications and Enrolments paper for members’ consideration.</p> <p>The Principal reported the 2015/16 enrolment figures and the 2014/15 figures as provided within the report (as at 26 October 2015).</p> |

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| | <p>The Principal explained to members that in recent years there has been a reduction in the FE FT enrolments, which accounts for 87% of the FLU, due to a number of reasons:</p> <ol style="list-style-type: none"> 1. Falling demographic trend in post primary schools; 2. Increase in the number of post primary schools developing and expanding sixth form provision; 3. Competition from specific schools now delivering professional and technical qualifications; 4. Move away from 2 year programmes at level 3 – enabling students to progress, in some cases, to HE after one year at the College. <p>The Principal informed members that FLU funding was directly correlated to student numbers and retention, but was not tied to delivery of qualifications/success rates.</p> <p>The Principal noted that the current funding model's performance measurements was not aligned with the Department's performance measurements as reflected in the Programme for Government.</p> <p>Members discussed the current funding model, including the adjustments made to recurrent grant for under-delivery and quality performance adjustments. Members were concerned that the current funding model did not provide stability for the delivery of the College and DEL objectives.</p> <p>The Head of Finance said he was concerned that the current funding model had strayed from the underlying goal of the original model to such a degree that it no longer adequately served its purpose. He said he believed there was a potential opportunity and possibly an appetite to review the funding model in light of current funding pressures and delivery targets.</p> <p>The Chair thanked the Principal for the update on applications and enrolments and members' contribution to the discussion.</p> |
| <p>13.</p> | <p>Debt Report</p> <p>Members noted the position at 30th September 2015. The Head of Finance commented on the reduced debt compared with the same date in the previous year.</p> |
| <p>14.</p> | <p>Bank Report:</p> <p>Members noted the bank position at 30th September 2015. The Head of Finance explained to members that the low bank position at the end of Period 2 related to a timing issue in relation to payment of capital expenditure and the reclaim of the same from the Department.</p> <p>The Head of Finance drew to members' attention the forecast bank and cash balances over the 2015/16 period and said the College will target to maintain cash balances within the DEL recommended target range of between 5 – 10% of prior year income.</p> <p>The Head of Finance discussed DEL's new cash management proposal with members.</p> |
| <p>15.</p> | <p>Procurement:</p> <p>There were no tenders to be considered.</p> |
| <p>16.</p> | <p>Update on Collaboration Project</p> <p>The Director of Corporate and Economic Development provided members with an update on the FE Collaboration Project.</p> <p>He said Celine McCartan from South West College was appointed as Collaboration Programme Manager for the Collaboration Programme in October 2015, effective from 1 November 2015.</p> |

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| | <p>The Director of Corporate and Economic Development outlined 6 core projects that within the programme:</p> <ol style="list-style-type: none"> 1. Curriculum and Qualifications 2. Resourcing and Workforce Development 3. Industry Support 4. Student Engagement 5. Systems and Technology Development 6. Governance <p>Mr Keating discussed the Curriculum and Qualifications, and Systems and Technology programmes as being the first project areas for the Collaboration Project.</p> <p>The Chair thanked the Director of Corporate and Economic Development for his report.</p> |
| <p>19.</p> | <p>Any other notified business</p> <p>There were no items to be taken.</p> |
| <p>20.</p> | <p>Date of next meeting</p> <p>The date of the next meeting will be 1st February 2016 at 6pm, in the Downpatrick Campus.</p> <p>The meeting ended at 7.45 p.m.</p> |

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(Chairman)

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(Date)