

Further Education Corporation

Meeting of the Policy and Resources Committee budgeting group

23 May 2022

MINUTES

Timings	18.00 to 20.05
Location	By teleconferencing
Present (Governors):	Lee Freeman (Chair) Louise Parr-Morley Andy Ray Sarah Stone Denise Brown (Principal and CE)
In attendance	Anthony McGarel (Deputy Principal and CE) Daniel Olorode Melissa Drayson (Clerk to the Corporation)
Apologies for absence	Dr Rod Gray Elizabeth Sipiery
Quorum (4)	The meeting was quorate throughout

Item	Action lead
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1. Preliminary Items

Daniel Olorode was welcomed as the new Director of Finance.

The Chair of P&RC reminded governors that the reason that the sub-group had been convened was to challenge budget assumptions at an early stage, particularly in the light of concerns around cash and the accuracy of forecasting that had been expressed at previous meetings. The objective was to avert a similar situation as the current year, when forecast figures were repeatedly not being met.

1.1 Apologies for absence

Apologies listed as above

1.2 Declarations of interests

Previously declared interests were brought forward. There were no new declarations relating to items on the agenda.

1.3 Urgent items of other business

No urgent items of other business were raised.

2. **Draft budget assumptions**

Supporting papers presented by the Principal and Chief Executive and the Deputy Principal and CE

Management reported on income and expenditure assumptions and was asked to highlight items that were fixed and additional work that would be needed before the Policy and Resources Committee on 27th June. It was stressed that the draft budget was currently an organic working document and some figures were moving daily. The figures presented to P&RC would be fully worked through and as final as possible. They would be supported by a commentary explaining the rationale for all forecast income and expenditure.

Governors' attention was drawn to the EBITDA, which was strong due to the high level of depreciation. It was confirmed that a key measure for the ESFA was EBITDA rather than surplus/deficit.

Governors stated the need to be able to understand the impact of the figures on the balance sheet, particularly KPIs such as current ratio.

The Principal made the point that, in the past, there had been a heavy emphasis on achieving a surplus that had put a lot of pressure on the organisation. An alternative of budgeting for a lower surplus, with a contingency line, was proposed.

Income

Assumptions for each income line were described.

- 16-19 income represented continuing risk unless the decline in numbers over the past five years could be reversed. Any measures put in place now to improve recruitment and student retention would not be reflected in income until 2023-24. Scope for growth was limited in the light of the need for considerable investment, and local competition. The college was also continuing to deliver unviable curriculum because of the negative impact of closing courses on 16-19 numbers.
- Most volatility (Downside risk and potential upside) related to Adult Education Budget, apprenticeship and commercial provision.
- Apprenticeship income risk was dependent on recruitment. The budget included £3.2m of carry forward apprentices, but these carried the risk of non or late completion. Consultancy resource had been brought in to evaluate apprenticeship income forecasts taking into account the various variables. The proposed figure of £4.3m was currently reliant on on-time completion of End Point Assessments.
- Adult income target of £3.5m can only be achieved if the college continued to subcontract £0.5m, although this was adverse to the Board's position to move away from subcontracting. This specifically related to GLA AEB delivery in London.
- Higher Education income risk related to the HE market and the College's position in terms of student choice. The worst case was thought to be level with last year's figures.

- High Needs funding risk related to the difficulty estimating the numbers of learners with additional needs in advance of enrolment.
- The other biggest risk was the possibility that the Teachers Pension Scheme grant would be withdrawn in 2022-23. This would have an impact on staffing costs decisions.

Governors asked for more clarity about the fixed, downside and upside quantum against each income line, so there was a clear depiction of likely, best case and worst case.. The focus should be on the element of income that was at risk, the impact on financial KPIs and bank covenants and the mitigations.

Expenditure

Non-pay costs

Governors suggested that the percentages in Spring Statement might be applied across all non-pay, to include a specific inflationary element for utilities costs. A clear explanation around inflation costs in the commentary should be added to give governors and other readers confidence that these were all covered.

Governors asked how much capital spending was not derived from a loan/ other funding and would therefore come out of cash. Approximately £700k would be set aside for planned maintenance.

Pay costs

This was the biggest area of influenceable expenditure. The figures included staffing to deliver additional income, along with the ambition to award a 5% pay increase average against the backdrop of inflation in non-pay costs. Governors noted the status of the current negotiations between the AoC and trade unions, with unions pressing for 10%. It would be impossible for colleges to provide this with income pressures and rising inflation. It was reported that HE was generally settling on 3% average, with lower grade staff receiving a higher percentage and increases in living wage accommodated.

There was discussion of the ability of the college to afford the pay increase and meet its cash commitments. This was balanced against the key concern that the college was struggling with staff recruitment, attraction, attrition and wanted to reward talent. Great care needed to be taken about how far costs were pared back.

It was also commented that Ofsted might consider our investment in the quality of teaching and learning as too low. Some lecturers had been poached by universities, who were paying considerably more for the same grade. The college's pay and reward system would have to be addressed irrespective of the inflationary spike and the percentage pay rise to make the college a more commercially viable organisation.

Cost savings

Options and actions included:

- Making arrangements with big suppliers to vary payment profiles

- Reviewing the efficient use of estate footprint, especially Thurrock campus which was extremely under-utilised.
- Review of the management structure.

Governors recommended reflecting on the history of the delivery of savings, as this would help to guide final figures and might make difference to what is included in the bottom line.

A more detailed savings plan would be brought to the June P&RC.

AGREED: That the final draft budget paperwork to P&RC on 27th June should include:

- **Income and expenditure summary sheet to incorporate two additional columns for downside and upside against the probably position, and detail of mitigating actions in areas of wide variance.**
- **A detailed savings plan, as well as savings assumptions to be included within I&E summary sheet.**
- **Numbers to be modelled through the balance sheet to illustrate the impact on the current ratio.**
- **Commentary to explain ‘the story’ clearly.**

There being no further business, the Meeting finished at 20.04

Signed.....Dated.....