Colchester Institute Corporation

Minutes of a Meeting of the Resources Committee
held on 28th November 2016
at the Sheepen Road Campus

Present:

Richard Wainwright, *in the Chair*
Alison Andreas
Brenda Baker
Christopher Bridge
David Gronland
David Kerridge
Karen Tarling

In attendance:

Gary Horne	Executive Vice Principal: Finance and Corporate Development
Shaun McConnell	Executive Director: Human Resources
Hazel Paton	Clerk to the Governors
Mark Smith	Scrutton Bland, Financial Statements Auditors
Jill Wognum	Executive Vice principal: Curriculum, Planning and Quality

Apologies for absence were received from Sue Thompson-Arnold.

1. **Declarations of any conflicts of interest**

None.

2. **Report and Financial Statements 31 July 2016**

The Committee received and considered:

- CIC/RC/16/5/1, Report and Financial Statements 31 July 2016, and
- CIC/RC/16/5/2, Management Letter including Letter of Representation

2.1. Report and Financial Statements 31 July 2016

The Financial Statements Auditor gave an overview of the financial statements which had been prepared in accordance with the new FE and HE SORP, based on the new UK accounting standard. The main change is in relation to the balance sheet and the reporting of accrued holiday pay at 31st July and pensions.

The consolidated statements of comprehensive income were considered. It was noted that income was significantly down on the previous year. The main variances were in relation to funding body income (SFA, EFA and HEFCE). The number of staff increased by 15 compared to the prior year and staff costs were impacted by an increase in the Teachers' Pension Scheme contribution rate (16.4% compared to 14.1%) and increased employers' national insurance contributions. Total expenditure was down compared to 2015, mainly due to reductions in other operating expenses. As in previous years the College is including an additional disclosure showing the operational position before FRS102 adjustments and exceptional items.

The actuarial loss in respect of the Local Government Pension Scheme (LGPS) was discussed. It was reported that the increase from £0.5m in 2015 to £6m was due to the corporate bond rate used to discount the liability. Two years ago the corporate bond rate was 4.35%; in 2015 it fell to 3.8% and is now 2.5%. Governors asked how the annual pension valuations carried out for financial reporting purposes fits with the triennial actuarial valuation (due in April 2017) and were advised that the triennial review will be used to set future repayments and may have an impact on cash flow. The Executive Vice Principal: Finance and Corporate Services reported that he was working with other Essex colleges on a number of issues relating to the LGPS, including the request for a form of security from colleges and the long term sustainability of the fund. A meeting is planned to explore the benefits of offering a secondary, defined contribution scheme, as an alternative to the LGPS. As a scheduled body the College is required to automatically enrol all support staff into the LGPS but it could offer an alternative for individuals to opt into. LGPS contribution rates are tiered depending on salary and some younger staff may find an alternative scheme with lower employee contribution rates attractive. It was reported that some universities have introduced an alternative scheme and seen 30% of existing staff opt out of the LGPS in favour of the alternative. A paper will be brought to this Committee for review and recommendation to the Boar d in due course.

The balance sheet was considered. It was reported that the fixed asset position includes the final costs relating to the completion of South Wing and an annual depreciation charge of £2.2m. Total current assets are significantly down on the prior year. The large movement in trade and other receivables relates to a debtor (£1.8m) for a capital project (Gainsford Avenue). Cash is also significantly down; the £3.8m held at the end of 2015 included a grant payment from the SFA which was being held pending receipt of an invoice from a contractor. Creditors (amounts falling due within one year) include £1.3m holiday pay accrual. This has been restated for the prior year. The increase in other taxation (£300K) relates to the annual repayments previously made to HMRC under the Lennartz scheme.

Total assets less total liabilities is in line with the previous year. The defined pension obligation has increased to £28.7m, an increase of 36% compared to the previous year. It was reported that the pension liability would have been higher (45% increase) had the College not asked for a revised valuation based on CPI for staff costs inflation.

The consolidation statement of cash flows was discussed. Despite the operating loss the College maintained a positive cash flow from operating activities.

Governors' attention was drawn to the accounting policies and the changes to the new reporting framework. As part of the transition the College had the option to revalue the estate to strengthen the balance sheet but decided against it as it would have led to increased depreciation charges. The College considered revaluing just the land, which is not depreciated, but if one campus was revalued it would have been necessary to revalue all the campuses and it was not considered worthwhile pursuing this.

It was noted that the statement relating to going concern would need to be updated once the position of the bank in relation to the covenant breach is finalised. The note relating to the bank loan (note 16) will also need to be updated. The Executive Vice Principal: Finance and Corporate Development updated the Committee on discussions with the Bank. It was reported that the bank remains committed to working with the College to resolve the issue of the breach. The Bank has now agreed to provide a clean letter of waiver, subject to a couple of conditions, which should be received within the next few days. The position has been complicated by the request from Essex Pension Fund for security for the pension liability. The recent revaluation of the Sheepen Road campus (£12.5m) did not meet the Bank's expectations. The Bank was looking for a valuation of £16m to cover the amount outstanding on the loan (£11.5m) and give them some headroom. The College has made representations to the RICS accredited valuer that the valuation is well short of market value and they are revising their figures. The Bank has requested additional security on the Clacton campus, which would allow them to agree a second ranking security for the Essex Pension fund should it be needed. This would allow them to agree the waiver, subject to an interest rate increase to be negotiated over the course of this academic year and payable from 1 August 2017. The College has provided some modelling figures to the bank on what is affordable. The bank is looking for a 2% increase, which will not be affordable until at least 2018-19, but have committed to work with the College to agree a stepped increase. The College has considered the potential for refinancing with another lender but this is not realistic because of the break clauses. In response to a question it was confirmed that the College has no plans for the Clacton campus and the additional security over the campus will be released at a future date as the amount owed reduces, subject to a revaluation of the Sheepen Road campus.

Governors' attention was drawn to the new reporting requirement to disclose the emoluments of key management personnel. The definition is fairly wide and could be as few as one. The individuals are banded according to pay scales.

RECOMMENDATION TO THE BOARD: that the Report and Financial Statements 31 July 2016 are approved.

2.2. Management Letter

The Management Letter was received for information. The Financial Statements Auditor highlighted key points. It was noted that staff costs as a percentage of income increased in 2015-16 as a result of a reduction in funding which was not offset by a decrease in staff costs. Staff costs for 2016-17 are forecast to be more in line with sector benchmarks.

It was noted that the College has budgeted for a significant growth in apprenticeships starts for 2016-17 (910 compared to 623 in the previous year). The dropout rate in 2015-16 was 10% and the College will need to over recruit to meet this increase.

Attention was drawn to the Lennartz VAT arrangements. The College has not made any repayments since 2014 and the amount unpaid is included within creditors in the accounts. If the case in the first tier tribunal is unsuccessful it would have a significant impact on the College's cash flow.

The procedural recommendations arising from the audit were noted. Of note by the Financial Statements Auditor was the finding that some members of staff had been overpaid and that the individuals had been invoiced for the overpayment. In response to questions, the Executive Director: HR confirmed that repayment of those monies is being pursued and in response to the matter raised by the Auditors, it had been stated that the overpayment balance outstanding stood at 0.1% of budgeted staffing costs for 16-17, circa £30k. The Financial Statements Auditor noted this and advised in their findings there was no single employee who had been overpaid more than £3k.

The Letter of Representation was received, considered and accepted.

3. **Minutes**

The minutes of the meeting held on 3rd October 2016 (CIC/RC/16/5/3) were received and confirmed. The Chair signed the minute book.

4. **Matters arising from the minutes**

4.1. **HR Targets**

CIC/RC/16/5/4, All Targets 2016-17 and performance against Targets 2015-16, was received. The targets have not previously included human resources and the Committee considered the proposed targets for this important area. The targets will be used to enhance performance management within the College.

Governors noted that staff sickness absence (average days absent per employee) was currently 6.9 days and asked whether the proposed target of 5 days was realistic. It was reported that the target is possible, if stretching, and will be used as the cornerstone for policy review and triggers for intervention.

The target for staff apprentices by July 2017 (20) was discussed. It was reported that there is a long tradition of employing apprentices in the finance office studying AAT and the College is now looking at other vacancies to see if they could potentially be filled by an apprentice. The College is also looking at opportunities to use apprenticeships as part of the CPD for existing staff. Under the existing frameworks staff are not eligible to enrol on a Level 2 or 3 programme if they already have a higher qualification because of the higher achievement condition, but under the new standards the prior achievement rule no longer stands. The College is looking at apprenticeships in customer service, business administration and leadership and management.

The target for staff turnover (12%) was considered appropriate in the context of CIPD data of 13.6% across all sectors, and AoC data of 20.9% turnover in colleges. It was suggested that the AoC data may be impacted by short term assignments.

Governors asked why the target for PDR completion of 90% was less than 100% and were advised that the target recognised that there will always be new starts and a proportion of hourly paid staff who only work during certain times of the academic year that will affect the figure.

The HR targets 2016-17 were APPROVED.

4.2. **Local Government Pension Fund**

The Executive Vice Principal: Finance and Corporate Development reported that there was nothing to recommend to the Board at this stage. He was in discussion with FEDEC Finance Officers ahead of the triennial valuation expected in March.

5. **Chair's Action since last meeting**

The Chair signed (03.10.16) a Deed of Variation between Essex County Council and Colchester Institute relating to the transfer of Local Growth Fund Grant for the Embracing STEM at the College at Braintree Project.

6. **Sickness Absence Report**

CIC/RC/16/5/5, Sickness Absence Report, was received and presented by the Executive Director: HR. It was noted that the number of days sickness absence has been increasing year on year and the highest category is absence due to stress, depression and mental health. CIPD and AoC benchmark data shows that total absence is increasing across all sectors and in education. Governors asked if the stress was work related or due to external factors and were advised that the figures also included depression and mental health and it was difficult to disaggregate and track. The Executive Director: HR was asked to review the categories used to capture sickness absence data and tailor them to meet the College's needs.

It was reported that the most recent staff survey included a specific question asking if staff had taken any time off due to stress over the last 12 months, which will be monitored. It was noted that some banks offer a financial health and wellbeing service for large organisations and the College may wish to consider offering this to staff. Arising from the discussion it was noted that the staff survey highlighted a lack of awareness of the staff benefits currently available and action has been taken to raise the profile of staff benefits.

7. **HR Plan 2016-17 and Outline HR Strategy**

CIC/RC/16/5/6, HR Plan 2016-17 and outline HR Strategy, was received and presented by the Executive Director: HR.

The HR plan includes better use of staff on bank and an agency procurement exercise (currently underway) which it is anticipated will achieve a 5% reduction in the cost of engaging temporary workers. A review of contracts and policies will cover things such as notice periods and the reference period for sick pay entitlement (currently 12 months rolling period). As part of an enhanced performance framework, a management dashboard will be launched in January, providing College Management Group, and subsequently Area Heads, with data on a number of HR indicators for their area, including safeguarding training, induction checklists, and progress on appraisals. A key priority is the initiation of a management development programme, including apprenticeship qualifications and specialist input from external providers, and a training and development programme for business support staff. The programme of moving paper processes on line will continue with electronic timesheets, e-recruitment and electronic control and change forms. It is also hoped to use the HR software for the annual DBS-related criminal conviction declarations.

The HR strategy is likely to include elements around stress and the findings from the culture and engagement strategy. The staff reward strategy (pay, progression, increments, salary scales) will also be central to the strategy. It was noted that the College has not made a cost of living pay rise for the last five years but has continued to pay staff increments. The Board may wish to review this.

The HR Plan 2016-17 and outline HR Strategy was accepted for recommendation to the Board.

8. **Student's Union Annual Accounts 2015-16**

CIC/RC/16/5/7, Student's Union annual accounts 2015-16, was received, considered, and accepted.

9. **Financial Plan 2016 to 2018**

The Committee and noted:

- CIC/RC/16/5/8, letter from the SFA regarding the Financial Plan 2016 to 2018, confirming the College's financial health grade for 2015-16 is Inadequate.
- CIC/16/5/9, Financial performance dashboard prepared by the SFA

The College will be issued with a Notice of Concern and will be working with SFA Intervention Officers to have the Notice lifted as soon as possible. It was reported that the SFA Officers who had visited the College earlier in the term were supportive of the actions that had been taken and of the College as a whole.

10. **Financial Monitoring**

CIC/RC/16/5/10, October 2016 Management Report [Period 3], was received and considered. The Executive Vice Principal: Finance and Corporate Development reported that performance to date was slightly ahead of budget. There are some concerns and apprenticeship recruitment remains at the top of the corporate risk register. The College has enrolled 440 apprentices against a full year target of 968. Construction and Engineering will overachieve their original target of 340 and the target has been increased in year to 380. The other risk area is HE tuition fees. The College is currently short of the year to date budget target despite enrolling to target. The reasons for this are being investigated. Adult FE learner numbers have exceeded the full year target. The College has over recruited to priority areas, largely construction and engineering, and would like to maintain its existing plan for the remainder of the year delivering to the unemployed through the Learning Shops. Last year the Local Authority had funding available to give to other providers and the College is in discussion with them about sub-contracting some of their provision. Other avenues could be pursued if this is unsuccessful. The additional adults are mostly full time in-filling with 16-18 year olds.

FE loan income is higher than last year but there is still more funding available. A brochure is about to be produced for Marketing specifically for FE loan courses starting in the New Year.

Costs are largely under control. Cash flow remains an area of concern and is being monitored. The College anticipates receipt of £99k from HMRC in settlement of it 'Brockenhurst College' claim which is not currently in the budget. Other HE funding could potentially be available through a direct grant related to the Student Opportunity Fund and also indirect funding through the University of Essex. There is also the potential to defer the purchase of some of the equipment for the STEM Innovation Centre if it will not be required until September.

11. **Property Issues**

11.1. **Braintree Campus Developments**

It was reported that work on the STEM Centre is progressing to plan to have the accommodation ready by the end of April 2017. There were no major risks to report at this stage.

The sale of part of B Block to the District Council has been completed and work on the conversion to a doctors surgery is due to start in early December.

11.2. **Update on LGF Bids**

The official announcement of the successful bids to the SE LEP Growth Fund is awaited but it is understood that the College's two projects are unlikely to be high enough on the list. There has been an appeal to the Treasure to provide more funding to the SE LEP. The College is still in discussion with Essex County Council, which is keen on the College's proposal for a health and care scheme.

12. **Principal's Report November 2016**

CIC/RC/16/5/11, Principal's Report November 2016, was received and noted.

13. **Annual Report to the Board 2015-16**

CIC/RC/16/5/2, Resources Committee Annual Report to the Board 2015-16, was received, considered and approved for submission to the Board.

14. **Date of next meeting**

Tuesday, 31st January 2017 at 4.30pm.

15. **Any other Urgent Business**

None.

Part II – these minutes are not confidential but the supporting papers are confidential

16. **Part II Minutes**

The Part II minutes of the meeting held on 3rd October 2016 (CIC/RC/16/5/13) were received and confirmed. The Chair signed the minute book.