

Minute

Finance Committee

5.00 pm 6th June 2016 Motherwell Campus

Present: Linda McTavish, Stuart Reid, Paul O'Donnell, Moira Jarvie, Martin McGuire.

In Attendance: Iain Clark, Gordon Kerr, Diane McGill, Stewart McKillop, Penny Neish.
For the NCL Catering Report: Paul Watson, James Rushford, Maria Koch.

1. Chair's Welcome

The Chair welcomed everyone to this meeting of the committee and noted that representatives from South Lanarkshire College would now attend all meetings of the Committee.

2. Apologies

There were apologies from Keith McAllister.

3. Declaration of Interest

There were no declarations of interest.

4. Minutes

4.1 The minute of the meeting of the 7th March 2016 was approved.

5. Update on the Catering Contract

5.1 The Chair took Item 10 on the agenda -the Update on the Catering Contract - first on the agenda to allow those updating the committee to leave after this agenda item.

5.2 The committee was informed that there continue to be challenges at the Cumbernauld and Coatbridge Campuses but improvements are being made across the campuses to harmonise the provision. Headway is being made at Cumbernauld to improve the offering to offset the competition from the Town Centre e.g. the introduction of a baguette bar. There are increased operational efficiencies and improved financial budgeting in the quarter to April 2016 and the catering team are predicting a breakeven position by the end of the last quarter.

5.3 The committee was informed that the staff morale at Motherwell was high after the staff were brought into the college. The Chair thanked the staff for coming to the meeting and for their papers. He asked for an updated forecast to be sent to the Board Secretary for circulation to the committee.

6. Matters Arising

6.1 Update on Review re AMCOL Nursery: The Board Secretary updated the committee on progress with the review of nursery provision which was agreed at the last meeting of the committee on the 7th March 2016. The scoping paper from Stuart Reid and comments from Paul O'Donnell had formed the basis of the draft scope which had been reviewed and agreed by the Chair and sent to Wylie & Bisset who had been instructed to carry out the review. Wylie & Bisset have assigned an auditor to the work. The auditors are now reviewing the scope and the final draft would be sent to the Chair for approval before the work begins.

Action: A report will be brought to the next meeting of the committee.

6.2 Iain Clark informed the committee that he had received and would complete the requisite papers for becoming a Board member. At the Chairs' meeting on the 23rd May the issue of the second appointment to the AMCOL Board was discussed and it was recommended that this be a staff member.

Decision: Moira Jarvie agreed to become a member of the AMCOL Board.

6.2 Update on Student Funding

6.2.1 At the last meeting of the committee on the 7th March 2016, the committee was informed that there was a c £500k funding gap for NCL for 2015-16. The SFC redistribution process allocated c. £229k so the balance of funds has to be taken from net depreciation in the main. NCL is, therefore, on track to cover student funds for the year although the use of net depreciation for this and other SFC notified priorities will result in another technical deficit this year. The committee also noted that, whilst there has been more for student funding this year in the original allocation, there has been a circa 70% cut to funding for estates to off-set this.

6.2.2 The committee was updated as follows: SLC have student funds of £300 k that they cannot spend and, therefore, want to retain these funds in the region with NCL taking the funds to cover the shortfall in its allocation. This would save the use of net depreciation for this purpose. The SFC were at first supportive of this proposal but now the issue of the different accounting years has arisen with SFC saying that NCL can only utilise the student support funds from the 1st April 2016 to July 2016. NCL will, therefore, not be able to utilise these funds. There will be a conference call with the SFC to resolve this issue tomorrow (the 7th June 2016) and the Chair of the Committee will be briefed so that this can be included in his report to the Board. Iain Clark informed the committee that if this issue was not resolved additional budget cover would have to be requested from the SFC to cover other budgetary pressures which would have been met from the release of depreciation funds.

6.2.3 The Principal again highlighted the need for a different model for student funding. There had been a smoothing process this year but the net depreciation approach was still being used.

Action: The Chair will be briefed on the outcome of the conference call to the SFC.

7. NCL Management Accounts to 31st March 2016.

7.1 The committee was informed of the following:

- These Management Accounts have been prepared on a comparable basis to 2014/15 and do not yet reflect the impact of the new FE/HE SORP.
- The Full Year Budget figures reflect the application of savings of £1,157k across the operational budget. The budget presented to and approved by the Finance Committee in June showed a cut of 5% applied to non-staff costs and an increase of 2.5% to non-SFC income targets. Accordingly individual Income and Expenditure Account lines vary slightly from the original June budget.
- NCL's cumulative operating deficit for the eight months to 31st March 2016 is £932k, £684k behind budget. £722k of the deficit to budget arises due to the Scottish Government accounting rules in relation to the "Net Depreciation Cash" position (last year £1,928k). This has been used to cover a shortfall in Student Support funding, the 1% pay award settled in March and any other pay pressures.
- Further discussion took place on the latest position particularly around the issues of unfavourable positions on staff costs and fee income. NCL is now looking at a net deficit position of 0.5% - 0.6% as opposed to a breakeven position. However, this does include c£1.9 million technical adjustment which balances the books in Income and Expenditure terms but not in cash terms. Improvements will have to be made to forecasting and budget monitoring and control issues will be addressed.

7.2 Iain Clark informed the committee that both the cash and the budget position is very tight for this year but will be even tighter for next year when the full impact of changes to National Insurance, teachers' pensions, an Apprenticeship Levy and National Bargaining will affect the financial position. Stuart Reid asked what the position was across the sector and Iain Clark informed the committee that Audit Scotland is reporting a £28 million deficit across the sector for the accounts to the 31st July 2015. However, this figure should be treated with caution as there are large technical adjustments (pensions, net depreciation and asset impairments) and ALF transfers. Iain Clark informed the committee that the Board will have to decide whether to put forward a deficit budget if the budget does not balance.

Action: The Chair requested that a special meeting of the Finance Committee be convened to discuss this issue. The Board Secretary will make arrangements.

8. 1 NCL Resource Return to 31st March and 30th April 2016

The committee noted the Resource Returns and the notes to accompany the returns. Iain Clark asked that this return be independently audited given the scrutiny at Scottish Government level. This is consistent with the approach of some of the other colleges in the sector.

Decision: The Finance Committee will refer this to the Chair of the Audit Committee.

9.0 SLC Finance Committee Papers 9th March 2016

9.1 Gordon Kerr presented the papers from the SLC Finance Committee. He highlighted the following:

- The management forecast shows a projected surplus for the 12 months of £13k. The net depreciation charge for the period will be subject to change from the previous figure by virtue of changes in reporting requirements.

- The college has been awarded additional core funding of £484k and income lines have been amended accordingly. There will be additional costs incurred and this has been factored into the forecast.
- Wages and salaries are forecast to be marginally ahead of budget.
- The SFC Strategic Funding has an unusual payment profile with part of the monies paid in arrears after the end of the academic year. A debtor of £389k at the 31st July is not reflected in cash flow.
- Cash flow problems have been created as a result of SFC financial year budgets only allocating 63.15% of academic year Grant in Aid cash to the 8 months to 31st March 2016 rather than 66.67% and the Strategic Funding monies note above being paid substantially in arrears.

9.2 There was discussion at the committee about the issue of the Scottish Government enforcing self-insurance for the colleges. Both colleges agreed that this is not a practical option. There is currently a three year concession during which the sector has to present a viable business case for continuing with commercial insurance. There is not enough funding now with the introduction of ONS to cover a major incident e.g. the fire at the Glasgow Art School.

9.3 The Chair thanked SLC for their reports and presentation.

10.0 Regional Finance Reporting

10.1 Iain Clark tabled a paper on Regional Finance Procedures which was required by the SFC as part of a suite of Regional Strategies in their Action Plan for the RSB achieving fundable body status. On approval by the committee of this paper the SFC would update their Audit Committee which would meet on Wednesday the 8th June 2016. This was the last paper that has to be in place to attain fundable body status. The SFC had confirmed that all regional funds (including student funds) would be transferred to NCL in its function as the RSB and SLC's funds would then be sent out from NCL to SLC accounts. Banking arrangements would be in place to ensure same day transfer of funds received and due to SLC.

10.2 Stewart McKillop requested a change to the first sentence under the heading Financial Statements.

Action: It was agreed that an alternative wording would be agreed the next day to “.....the RSB having “control” over all governance and financial matters during a relevant financial period.....” and the paper would then be submitted to the SFC.

11.00 Facilities Management Review

11.1 This item was referred to the Finance Committee from the Audit Committee on the 23rd May 2016. Wylie & Bisset had carried out a review of the Facilities Management Contract (Motherwell) and this was presented to the Audit Committee on the 29th February 2016. At that meeting, the Audit Committee agreed that because of the specialist nature of security issues this aspect should stay outsourced and that ground maintenance should also continue to be outsourced. The committee agreed that senior management should carry out the full costing recommended in the report and then, assuming continued cost neutrality, decide on the best way forward with this contract. Senior management drew attention to the original scope of the audit but agreed to carry out the full costing. At the next meeting of the Audit Committee, on the 23rd May 2016, the committee was informed that the full costing recommended in the report had now been carried out by senior management and significant additional costs of £150-£175k per annum had been identified e.g. holiday pay, costs of absenteeism and consumables. Additional one-off capital costs of equipment such as fork lift trucks and specialist cleaning equipment would also be incurred. These

additional costs would now have to be verified by the auditors and there was a deadline of the 30th July to determine how the contract was to be taken forward.

11.2 The auditors had now audited these figures and had written to verify the position of additional costs of £150k-£175k to bring this service in-house. The letter had been circulated to the Finance Committee. In discussion, the committee noted the aspiration to bring this service in – house but unlike the catering service there is no off- setting income stream and the financial situation as discussed earlier at the committee is very tight with no budget cover for additional costs. The current facilities management services at Cumbernauld and Coatbridge were not included in this review as they are operating effectively although some refinement is required in these areas. Iain Clark made it clear to the committee that the APUC guidance is that the new procurement rules preclude running a parallel in-house process. There is a reputational risk in doing so plus the risk that some suppliers would no longer bid for contracts. During the period of the new contract a review of the full cross campus service would be carried out.

Decision: The Finance Committee had no option in the current financial climate and had to put this contract out to tender.

12. NCL HMRC – Tax on VS Payments

This item was referred to the Finance Committee from the meeting of the Chairs on the 23rd May. Iain Clark advised the Committee that NCL had followed the practice in Motherwell College in the payment of tax due on voluntary severance i.e. the individual would be responsible. Motherwell College took legal advice on this approach and this advice was made explicit in the individual compromise agreements. HMRC subsequently approached NCL for payment of tax due on a number of VS payments which NCL has paid and letters have now been sent by NCL to relevant recipients of VS payments asking them to refund monies due. The committee noted this report.

13. AOB: The committee had received a bid from the New College Lanarkshire Students’ Association to NCL for operational funding.

Decision: The Committee decided to refer this to the Senior Management Team for their input and advice.

14. Date of the Next Meeting.

The proposed date for the next meeting is the 19th September 2016 at 5pm in the Boardroom at the Cumbernauld Campus.