City of Portsmouth College

Minutes of the Finance & Resources Committee Meeting Held Virtually at 5pm on 22 November 2022

Present: Shahlam Ali, Alex Dartmouth, Katie Hill (staff governor), Tim Jackson & Paul Quigley (Chair)

Apologies: None

In Attendance:		
	Katy Quinn	Principal & CEO
	Paola Schweitzer	Director of Governance
	Maria Vetrone	COO

Minutes

1 – Standing Items

087 Attendance and Participation

There were no apologies.

088 Declarations of Interest

There were no declarations of interest other than those previously disclosed.

Minutes

The Minutes of the Meeting on 01 March 2022 were **Agreed** as a correct record.

089 Matters Arising

Governors **Noted** that the matters arising had been completed.

090 HR Update

Karen presented paper 259/22/F&R providing an HR update including staffing, proposed staffing structure reviews and trade union relations.

Full-time equivalent staffing numbers and headcount were lower at the start of 2022/23 compared to the previous academic year, probably due to the number of vacancies and recruitment process timeline. The College was facing increasing challenges in recruiting staff and there was a general feeling at all management levels that recruitment of staff was a significant concern. The People Team were seeking to mitigate these challenges and data indicated there were increases in the average number of vacancy views, views to application conversion rates and applications per vacancy. There was a continued focus on attracting quality applicants and recruiting to a shorter timeline. Staff turnover was 3.82% between August 2022 and October 2022, down from 7.75% in the same period the previous year. This was an early indicator that it might be starting to stabilise closer to the sector benchmark. Sickness absence was an average of 1.41 days per person (0.41 days for the same period the previous year although data was not directly comparable). Sickness absence was monitored weekly to understand, monitor and mitigate the impact on the College's ability to operate, teaching quality and overall service delivery. Tim was pleased to see the reduced turnover figures and noted another positive sign of reduced pay expenditure as a percentage of income as stated in the management accounts.

JCC meetings continued to be held with the College's recognised trade unions. Pay and rewards was a priority topic for the unions, with UCE requesting the College consider a non-consolidated payment. Trade unions were holding national strike ballots in connection with pay levels and to date the College had received formal notification of strike ballots from NEU and NASUWT. The College was updating its industrial action contingency plans to mitigate risk and impact in the event of strike action and there was a focus on communications with students and parents. In response to a question, Karen confirmed that the NEU had notified the College of discontinuous industrial action with the first strike day on 30 November potentially involving 60 staff. Industrial action, if agreed, was likely to start mid-January. Karen reported that staff felt torn about industrial action.

Curriculum areas (except for apprenticeships) and some business support areas were currently reviewing their staffing models. Consultation and implementation of any agreed new structures would be phased over the remainder of the academic year, with some consultations starting shortly. Where proposals increased staffing costs, budget holders would be required to identify where these additional costs would be funded from. Tim confirmed that from the self-assessment validation meetings he had attended, particularly those at the Highbury and North Harbour campuses, it was clear staffing changes were required particularly in the higher technical areas.

Governors **Noted** the HR Update.

091 Strategic Plan Update: People Strategy

Karen presented paper 260/22/F&R setting out the people strategy.

The people strategy 2022/26 was aligned with the College's other strategies and were rooted in the previously agreed values. The strategy had five interlinked building blocks, each of which would be underpinned by data and monitored through KPIs:

1. **Leadership and culture**: Measured through employee engagement, retention, equality, diversity and inclusion (EDI) metrics, attendance and progression of employees into/through leadership roles.
2. **Reward and Recognition**: Measured through employee engagement, retention, recruitment metrics and reward market benchmarking.
3. **Organisational Development and Design**: Measured through employee engagement, retention, internal progression of employees, student achievement, innovation and growth.
4. **Wellbeing & Welfare**: Measured through employee engagement, retention and attendance.
5. **Talent Development**: Measured through retention, internal promotion and progression and learning/development.

Karen explained that the reward and recognition block was unlikely to be achieved within the life of the strategy. Other blocks would feature more heavily in some years than others for example organisational development and design would feature early in the strategy's lifetime given its importance in ensuring College structures were fit for purpose. In response to a question, Karen stated that the strategy focused in the early years on advertising in the right places and speeding up the recruitment process and in the longer term on growing talent. Tim thanked Karen for the strategy and suggested referencing more fully the external context within which the College was operating.

Governors **Noted** the People Strategy and Karen left the meeting.

092 **Financial Statements & Annual Report 2021/22 (paper 261/22/F&R)**

Maria presented the draft audited financial statements and draft annual report for the year ended 31 July 2022. The Committee was asked to consider the financial statements, particularly the notes to the accounts and the audit opinion, prior to their consideration by Corporation on 13 December 2022.

The statements covered the College Group ie the College, its three principal subsidiary companies and Highbury College (Nigeria) Limited. Only Highbury Apprenticeships (Birmingham) Limited was active during the year.

Maria drew governors' attention to the key elements of the statements:

- The Group posted an operating deficit of £1.62m (£0.90m deficit 2020/21) against a planned deficit of £1.84m.
- Total income was £28.57m, an increase from £17.33m in 2020/21, mainly due to the merger and ESFA funded study programmes for 16-18 provision, adult funded courses and non-levy funded apprenticeships.
- Total expenditure was £32.39m, an increase from £19.54m in 2020/21. The largest proportion of expenditure was staff pay which increased by 66% to £20.41m due to merger (the number of staff increased by 348 to 732 in 2021/22), representing 71.4% of total income.
- The Group generated an operating deficit after other gains and losses of £3.82m (£2.22m deficit 2020/21) including FRS 102 pension costs.
- The Group achieved its budgeted measures and targets for the year however performance against some ESFA measures was still weak.

Maria noted going concern was one of the most important areas governors were required to sign off. After examining the rationale and supporting documentation, auditors agreed that the Group had adequate resources to continue in operational existence for the foreseeable future and the College therefore continued to adopt the going concern basis in preparing its financial statements. The risks associated with the 2022/23 financial plans continued to be significant and risk registers with mitigating action plans were in place. The financial plans indicated that the Group would increase its income to £33.4m in 2023/24. However, the cost base was also expected to reach £32.8m to support growth in the business, realising a forecast operating surplus of £0.60m after interest, tax, depreciation and amortisation (ITDA). These forecasts were based on up to date but stretching underlying assumptions for student number growth (2022/23 student numbers were currently slightly behind the curriculum plan but ahead of 2021/22 numbers). Maria briefly outlined other areas covered in the statements including corporate governance and internal control, financial outlook and future plans, carbon and energy, principal risks and uncertainties, gender pay gap, trade union facility time and the governance statement.

Tim believed that student growth so soon after merger was incredible. He asked if the apprenticeship income deficit identified in September's management accounts continued into October and if management were confident the College would achieve the curriculum plan numbers. Maria confirmed that this was the case as apprentices were still being entered onto the student records system (EBS).

Paul asked Maria to contextualise the statements, noting that it was testament to everyone, including governors, that the College had achieved its current position. Maria responded that the College had experienced three exceptional events:

- Special measures: Rectifying the issues incurred by Highbury College prior to being put into special measures in 2019 cost approximately £4.5m, of which just under £0.5m was represented by cash outflow.
- Covid-19: The cost to the two legacy colleges was approximately £700k to the profit and loss account and £600k in cash outflow
- Merger: The cost to the profit and loss account was £1.3m and £1.2m to cash outflow. These were self-financed.

Paul thanked Maria and her team, noting that the representation of the statements painted a positive picture of the College and its aspirations. He also congratulated them on achieving a completely clean audit.

Governors **Noted** the draft audited College Group financial statements and annual report for the year ended 31 July 2022 and **Recommended** them to Audit Committee for review and onward final approval by Corporation.

093 External Audit Management Letter

Maria presented paper 262/22/F&R setting out the external audit management letter for the year ended 31 July 2022, noting that the external auditors would present their findings to Audit Committee on 29 November and Corporation on 13 December 2022.

The external auditor's management letter confirmed its audit findings and the external audit opinion. Appended to the letter was the draft letter of representation which the Corporation was required to sign and provide to the external auditors. The letter was a standard external audit requirement and stated that all information submitted for external audit was accurate and all material information had been disclosed.

Mazars, the College's external auditors confirmed '*We have substantially completed our audit in respect of the financial statements for the year ended 31 July 2022. At the time of preparing this report, the following matters remain outstanding: bank confirmations (Lloyds Bank), bank mandates (Barclays and Lloyds), residual audit work, primarily in relation to fixed assets and deferred capital grants, final going concern work including any the impact of any ONS announcement and final responses to LGPS letter. At the time of issuing this report and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification. Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below*.'

Maria noted that whilst a few matters were outstanding, she anticipated the external auditors would continue to give an unqualified opinion, without modification. She drew governors' attention to the draft regularity representation letter and draft audit report.

Governors **Noted** the External Auditor's Management Letter and **Approved** the Letter of Representation to Audit Committee for review and final approval by Corporation.

094 ESFA Letter of Financial Health October 2022 (paper 287/22/F&R)

Maria presented the ESFA letter of financial health dated 25 October 2022 confirming that the College's financial health was *Requires Improvement* in 2021/22 and 2022/23.

The ESFA had produced financial benchmarking information on the College's performance to support governors in overseeing performance and ensuring financial sustainability and solvency. The dashboards indicated improving financial health based on revenue growth and controlled costs, improving EBITDA representing increased business efficiency, improving balance sheet strength (although the adjusted current ratio dipped in 2022/23 when the College invested in facilities and infrastructure resulting in lower cash days) and negligible borrowing. The College was working towards *Good* financial health in 2023/24 as indicated in its financial plans.

Katy updated governors on the recent meeting with the ESFA to discuss the College's financial Notice to Improve (NtI), noting that it had reinforced the confidence expressed by the FE Commissioner's team in October. The ESFA confirmed the College's improvement and the growth in 2022/23 student numbers and agreed with the way forward but stated the NtI could only be lifted when the College achieved a *Good* financial position. Katy expressed her disappointment, noting that the College would therefore continue to be subject to bidding constraints. During the meeting transformation funding had been discussed and whilst no decisions had been taken, the ESFA has indicated that it was possible that the remaining £200m capital funding would be distributed to colleges based on turnover. Whilst any additional funding would be welcome, any sums distributed in this way would not be sufficient to achieve the College's ambitions. Paul noted that Corporation needed to bear this in mind when future planning.

Governors **Noted** the ESFA's assessment of the College's financial health.

095 Student Numbers 2022/23

Maria presented paper 263/22/F&R setting out 2022/23 student numbers.

Student enrolment had been taking place across all campuses since August 2022 with enrolments processed via the new EBS. The College had now passed the 42 day census point. Key data was:

- The College had currently enrolled 3,039 students including those aged 19-24 with an Education Health Care Plan (EHCP).
- Tangier Campus enrolment was projected to be 67 above target, with a total of 862 new students starting in 2022-23.
- The College had set an ambitious course planning target of 3,105 student enrolments by the census point (the date at which student numbers were used to inform the following year's funding allocation). Currently, the College was expected to be 66 students short of this target.

- The enrolment target for the full year was 3,167, made up of in-year starts within Foundation Studies to support those who were Not in Education or Employment (NEET) or at risk of becoming NEET.
- The current funding allocation was 2,948 students. The projection was that the College would have an additional 92 students in 2022/23. Income for these additional students would be received in the 2023/24 funding allocation.
- The number of students with High Needs Funding (HNF) had increased. The College was currently allocated 150 HNF places but was likely to have 230 HNF students. Extra funding of £480k would be provided by the local authority.

Tim noted the Tangier Campus growth and the importance of bolstering level 3 at the Highbury Campus. Katy agreed, noting that EBS data was now able to provide a greater understanding of what was happening at course level.

Governors **Noted** student numbers 2022/23.

096 Management Accounts: October 2022 (paper 264/22/F&R)

Maria presented the management accounts for October 2022 (P2).

As at 31 October 2022, the College was tracking close to the year to date (YTD) and full year budget. The YTD actual operating deficit of £542k was £130k adverse to YTD budget. The forecast outturn indicated an operating deficit of £1,024k, which was £146k adverse to the full year budget. There was no change to the forecast outturn from the September 2022 management accounts.

Total forecast outturn income was adverse against the budget by £305k because of reduced catering income from Highbury Campus provision that was now outsourced. Total forecast outturn pay expenditure was currently aligned with the full year budget. Total forecast outturn non-pay expenditure was showing a favourable variance of £159k, due mainly to the corresponding cost savings from catering outsourcing. Inflationary pressure on the cost base was starting to materialise in examination fees (there were in-year increases of nearly 20%). Financial risks arising YTD were associated with under-enrolment against Apprenticeship and Net Zero curriculum plans (a recovery plan was in place), maintaining staff costs within budget and managing the non-pay cost base in a cost of living crisis environment. The College was implementing a financial delivery plan to ensure that risks were managed and that the College's overall financial recovery could continue as planned. Maria noted that it was too early to make robust financial forecasts for the year and that costs would start coming through in the following accounts.

There was a discussion about apprenticeships, with Maria confirming she was reasonably confident that the curriculum plan forecast numbers would be achieved by year end. Whilst the College was short-falling by £400k as at 31 October, this was due to the fact that not all enrolments were entered onto EBS (Tim noted for the benefit of other governors that onboarding entailed roughly 90 separate tasks so represented a challenge for providers and employers) and there were still backlogs for end point assessments (EPA). The EBS would be up to date by RO4 (December).

The trade unions had asked the College if there was any scope for making a staff pay award. Maria noted that the management accounts indicated this was not currently possible. Katy agreed, stating that the financial impact to the College of the minimum wage increase in April 2023 and the Brazier court case concerning holiday entitlement for term-time only staff had not yet been fully costed. Governors **Agreed** that a proposed course of action be brought to Corporation's next scheduled meeting.

Governors **Noted** the October 2022 management accounts.

097 **Capital Programme 2022/23**

Maria presented paper 265/22/F&R setting out the 2022/23 capital programme.

The capital programme included planned building refurbishment and replacement works across the estate to the total value of £1.456m. It had been prioritised and responded to feedback from students and staff. This included capital building projects that were capital grant funded to the value of just over £1m. Other capital building projects to the value of just over £455k would be funded from College resources. A separate budget of £1.234m for capital equipment was in place for the upgrade of IT infrastructure and classroom equipment. The total value of all budgeted capital expenditure in 2022/23 for both building refurbishment/replacement works and capital equipment was therefore £2.69m inclusive of capital grant funding.

Governors **Noted** the 2022/23 capital programme.

098 **Fees Policy 2023/24**

Maria presented paper 266/22/F&R setting out the fees policy, noting that no changes were proposed from the previous year's policy.

Fees were set to ensure that when public funding was taken into account, the College was able to at least cover the full costs of each programme of study. Tuition fees were charged for ESFA co-funded courses, learners aged over 19 starting on Level 3 and 4 (unless studying their first level 3 entitled course), HE courses, learners under 16 (fee charged to institution responsible for the learner), apprenticeships (charge made to employers), full cost/commercial courses and overseas learners. All fees payable to the College were due at enrolment. Tim noted that HE students generated less income than FE students and asked if it would be possible to see the HE cost/contribution in the future, to which Maria confirmed it would and that costs would change if the College proceeded with ASTML.

Governors **Approved** the 2023/24 fees policy.

099 **Subsidiary Accounts**

Maria presented paper 267/22/F&R providing the draft audited financial statements for the College's subsidiary companies for the year ended 31 July 2022.

The College Group had three principal subsidiary companies as well as Highbury College (Nigeria) Limited. Only one of these, Highbury Apprenticeships (Birmingham) Limited was active during the year ended 31 July 2022 although its activities had diminished as apprenticeships were now delivered in-house. It was 100% owned by the College. The other companies had not traded during the year and remained dormant. The three sets of subsidiary accounts had been audited and required Corporation approval. Maria stated that all but one of the subsidiary companies (Highbury Apprenticeships (Birmingham) Limited) would be dissolved, with further proposals brought back to the Committee. Highbury College (Nigeria) Limited was not a UK company and had therefore not been consolidated into the accounts. Enforcement action was being undertaken in Nigeria to recover the monies owed, in line with DfE requirements.

Governors **Approved** the draft audited financial statements for the College's subsidiary companies for the year ended 31 July 2022 and **Recommended** them to Corporation for approval.

100 **Student Union Report & Accounts**

Maria presented paper 268/22/F&R setting out the Student Union report and accounts. The accounts showed a deficit of income over expenditure of £253.51 for the year with a closing bank balance of £2,766.83 on 31 July 2022. The accounts had been audited as part of the College's accounts.

Governors **Approved** the Student Union report and accounts for the year ended 31 July 2022.

101 **Statutory Settlement Payments (paper 269/22/F&R)**

Maria summarised statutory settlement payments, noting that one payment of £160 had been made since the start of the 2022/23 academic year. Governors **Noted** the statutory settlement payments.

Estates & Sustainability Committee Minutes 08 November 2022

Governors **Noted** the Estates & Sustainability minutes from 08 November 2022.

The meeting ended at 6.50pm.