Minutes of a Meeting of the Finance Committee of the Corporation

held at Highbury College, Portsmouth at 4pm on Tuesday 13 June 2017

Present:	Ms F Calderbank Mrs S Mbubaegbu Ms D Moody Mr J Rees-Evans (Chair) Mr J Snow Mrs N Youern	
Apologies:	Mr M Craft and Mr H Slidel	
In Attendance:	Mr J Cox Ms P Schweitzer	- Group Finance Director - Clerk to the Corporation

M i n u t e s

Part 1 – Standing Items

1213 Membership & Welcome

Mr Rees-Evans welcomed members to the meeting and stated that Mr Craft had sent his apologies. Members agreed that he chair the meeting. The Chair thanked Mr Snow as it was his last Finance Committee meeting.

1214 Apologies for Absence

Mr M Craft and Mr H Slidel sent their apologies. Mr Slidel was back home after an extended period of ill health and hoped to attend College meetings again shortly.

1215 Declaration of Interest

There were no declarations of interest.

1216 Minutes

The Chair stated that as a general principle, information concerning subsidiary companies should be confidential and that the 18 April 2017 minutes as well as today's Agenda should reflect that, with New Work Training minuted confidentially. The Committee agreed. The amended Minutes of the Meeting held on 18 April 2017 were **Agreed** as a correct record and signed by the Chair.

The Chair raised the issue of accountability of the College's subsidiary companies to Corporation. The Principal stated that the issue was under consideration, particularly with regard to the new company formed with Burton & South Derbyshire College in Jeddah, and that proposals would be brought to Search Committee in the first instance and then Corporation.

1217 Matters Arising

There were no matters arising.

Part 2 – Items for Decision

1218 Capital Budget 2017/18

The Group Finance Director presented Paper 2288/17/F setting out the capital budget for 2017/18.

The sum set aside for the 2017/18 capital budget was £150,000, representing an affordable allocation based on the assumptions set out in the five-year financial plan. Additional capital sums could be provided in year if the budget exceeded the projected budget outturn in 2017/18. There were forward commitments against the 2017/18 budget arising from the ongoing cost of leases for IT purchases of a value of £0.1m. The balance after the commitments was currently unallocated.

The capital budget for 2017/18 was **Approved**.

Part 3 - Items for Discussion

1219 International Report

The Group Finance Director presented Paper 2289/17/F providing an update on the College's international related activities.

The overall performance of international activities was improving with an expected contribution to the College of £0.2m. This compared favourably with the negligible contribution in 2015/16 and was a result of rationalisation of structure and associated costs within the International Office. An income of £0.5m was expected in the financial year due to the growth of in-bound international students to EFL and pre-sessional. Significant relationships had been developed with Chinese schools who were running pre A level programmes in 2017/18 with progression to the College in 2018/19 and this continued to be a target market for development. A minimum of 40 overseas students were expected to recruit to A level programmes in 2017/18. The Jeddah contract continued to make a reasonable surplus and the consortium had been successful in winning another contract worth £112k (not included in the projections). With regard to the purchase of the NESCOT shares, the SPA had been exchanged but completion had yet to take place. It was likely that NESCOT would trigger a clause in the agreement of sale providing for additional payment (estimated at £40k) due to non-completion by 31 May. This would be disputed by the College because the delay was due to a hold up between NESCOT's bank and the Saudi bank in processing paperwork for the release of the performance bond. The Group Finance Director stated that the College would put in provisions in place of wind up costs and that even if the College conceded the point (which they would not) NESCOT would only be entitled to 20% of the surplus.

The Group Finance Director summarised that the two strands of international activity; in-bound recruitment and the Jeddah contract, were working well, with the latter anticipated to provide an improved return due to the College having a higher percentage of a profitable business. The Chair asked why, if the College's 20% share in the company represented +/-£200k, a 50% share was not 2½ times that amount, to which the Group Finance Director stated that the Jeddah budget was based on the current forecast that he had and would likely rise above the c£0.14m figure in the table. One member asked if the total projected contribution of £212k for international activity in 2015/16 represented profit. The Group Finance Director stated that it was a contribution to the College's fixed overhead costs and profits and that if all the overheads were added up, it would represent a profit but it was difficult to formulate an equation to determine the exact profit with regards to international activity. The Chair noted that the College would ordinarily look at a 40% profit margin with international activity. The Group Finance Director stated it was slightly different with Jeddah because it did not use College premises.

In response to a question, the Group Finance Director clarified that monies due to the College under the Nigerian CRSG project were not included in the report. He reassured members that money from in-bound students was in the College's bank and money from Jeddah would come in the form of a dividend.

Fees for international students had increased substantially this year and as the College's reputation grew, so the fees would increase further. This was built into the budget. In response to a question, the Group Finance Director stated that the College had not been impacted by Brexit to date and any possible impact was unlikely to be known for another couple of years. He noted that the College drew a lot of its students from the wider international community and that the UK was likely to continue to be a popular student destination due to the English language.

The Principal gave further information on the recently successful bid to develop a health care programme, stating that this was a part of the KSA's nationwide drive to upskill health workers. The consortium had been invited by the Colleges of Excellence to bid for the contract to deliver the programme, meaning that the consortium had not only developed the nationwide programme but would now be responsible for delivering it in Jeddah. The bid had been fast tracked due to a decree that all teaching would cease for Ramadan, so staff at the Jeddah College had used their time to work on the programme and contract.

The international developments set out in the report were **Noted**.

1220 New Horizons Trading Subsidiary Ltd

The Managing Director, Highbury Commercial joined the meeting and presented Paper 2297/17/F providing an update on the New Horizons Trading subsidiary.

The updated 2016/17 budget for the New Horizons franchise (NH Training Services Ltd) showed a forecast of (£13k) against the budget of £317k (a variance of (£304k)). This reflected lower than anticipated growth in apprenticeship income.

In May 2017 the company had moved to the new apprenticeship standards which had significantly higher funding values. In addition, the company had released the Level 4 Network Engineer programme which had a maximum funding cap of £18k per apprentice, thereby offering progression opportunities for Level 3 apprentices. There were planned savings from a staffing restructure following a review of requirements, and due to the sales team's poor performance the business' commission structure had been reviewed and now mirrored the College's scheme and structure. The company was investigating withdrawing from the NH franchise and was selecting a new Customer Relationship Management (CRM) solution to manage apprenticeship candidates more effectively.

There was a discussion concerning New Horizons' performance, with the Managing Director stating that the staff's performance in Birmingham was disappointing. The company had been hit by the funding changes in May but he was confident that the company was now back on track with 12 sign ups in June and 15 the following month. Costs were being managed to ensure the company was more efficient and there was a continuing push on room hires.

The Managing Director and Group Finance Director had met recently to discuss withdrawing from the NH franchise. The Managing Director believed that the delivery platform Adobe Connect and Virtual Labs (essential for the delivery of the apprenticeship) could be purchased at the same cost elsewhere, thereby saving on franchise fees (approximately £100k per annum). New Horizons was a large and reputable company and it had been anticipated that it would push its brand in the UK but this was not the case. A number of other franchisees had bought / were buying themselves out of the arrangement. The Group Finance Director stated that there had been a one off initial fee with New Horizons followed by an annual percentage of income payable for the duration of the contract. Under the mutual termination clause, the company would have to pay the equivalent of a year's royalties ie £150k. The Group Finance Director believed that because of the company's relationships with its customers, they would continue to want to work with the company. The Chair asked whether New Horizons would seek to re-enter the geographical area if the company bought itself out of the arrangements, to which the Group Finance Director stated that that was a possibility.

The Principal stated that there was a key question around the College's commercial aspirations. In line with government thinking the College was seeking to diversify its income away from funding streams but, like other colleges, it had not fully exploited this area. This needed further discussion and she asked members for their views on why this was the case and any learning points.

The Managing Director noted that companies were diverting their training funds to offset the new levy payments and until that equalised, the situation would remain challenging. The Chair stated that some private sector organisations didn't like contracting with colleges, although the Group Finance Director stated that they wouldn't know this initiative was part of a college. He believed that the market was dominated by a few companies and it had been hoped that New Horizons would provide a national challenge but this had not been the case. He noted that this initiative had not been a fruitless exercise, as it was looking to expand into other areas such as accounting and the learning informed future business.

One member noted that a number of the College's ventures had not been as successful as the College would have liked and wondered about due diligence at the start of the project, prior to the decision to get involved, and during the whole development process in general. The Chair stated that the College seemed to have optimistic projections of profitability using figures provided by external companies, with figures later being scaled back. He believed the College tended to expect more early on than could be delivered. The Group Finance Director disagreed that the College's expectations were too high, noting that the Committee carried out due diligence in considering the initiatives and that the College had spoken to several other up and running centres to get a sense of scale. In retrospect he believed that New Horizons underestimated the strength of competition in the UK market and the company overestimated the level of New Horizons support. One member asked if New Horizons had promised things they didn't deliver, whether there were grounds for a refund. The Group Finance Director believed New Horizons would argue that they had provided support. He stated that withdrawing from the franchise would not entail writing off money, it would be paying a one off cost to ensure greater profit in future years. The Chair stated that withdrawing from the franchise seemed the sensible course of action and asked whether the company had set its figures realistically for the following year. The Managing Director stated that the apprenticeship strategy was currently being finalised and it set monthly targets for recruitment and detailed how they would be achieved, so it would be possible to see progress month by month. The Chair noted the point of due diligence linked to the earlier discussion about how the College's companies were monitored and reported on.

The Principal stated that her question around commercial aspirations concerned how to break into the market where people would want to pay. The College would continue to pursue apprenticeship opportunities but it continued to default to grants. The Managing Director stated that his challenge was to train and recruit commercially minded staff so they could spot wider CPD opportunities within companies and bring them back to the College. To achieve this he was building an upselling list and creating a discount structure. One member acknowledged this work and suggested the College review how and what it delivered as companies might want it done differently. Members also discussed staffing, in particular the importance of public relations. The Managing Director stated that he liaised with the College's marketing team and did not have marketing expertise within his group. One member noted that the Managing Director could not do it all and suggested that there could be gap in this area. The Chair noted that the classic reason the public sector didn't do as well as the private sector was due to underinvestment in marketing, noting that if there wasn't enough penetration in the market then leads would not be created.

The Chair concluded the discussion by thanking the Managing Director and stating that the Committee was supportive of his work. He stated that it would be good to see a forward projection. The report on the New Horizons Trading subsidiary 2016/17 was **Noted**. The Managing Director left the meeting.

Minutes 1221 – 1224 were confidential.

Date of Next Meeting
Tuesday 07 November 2017 @ 4pm
The meeting ended at 5.55 pm.

Self-Assessment of Meeting

Two evaluation forms were completed. Members agreed that papers arrived in time (although both members noted that one report was missing) and were clear and concise, containing sufficient information upon which to make decisions. Members felt able to contribute to the debate and decision-making process and all members felt that the Committee challenged and questioned reports sufficiently. Members were satisfied that the decisions arrived at were sound and that the impact of decisions on students and the College was clear. Members felt that the Chair provided effective leadership and ensured that there was enough time for debate and that all Governors were able and encouraged to participate in discussions. Members agreed that the meeting was clerked effectively.