



**WEST NOTTINGHAMSHIRE COLLEGE
FINANCE & ESTATES COMMITTEE**

Minutes of the Finance & Estates Committee meeting held in Room 021 on Thursday 22 November 2012 at 3.30 pm.

BOARD MEMBERS Terry Dean, Chair
PRESENT: Asha Khemka
 Colin Sawers
 Chris Winterton
 David Overton (for Estates matters only)

ALSO IN ATTENDANCE: Maxine Bagshaw, Clerk to the Corporation
 Andrew Martin, Deputy Principal/Director of Finance
 Tom Stevens, Executive Director: Capital Projects & Estates

		ACTION by whom	DATE by when
12.68	<u>DECLARATION OF INTERESTS IN ANY ITEMS ON THE AGENDA</u> The Chair reminded those present to declare at the start of the meeting any interests that they may have on any items on the agenda. No interests were declared.		
12.69	<u>WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE</u> Apologies for absence were received from Kate Allsop, Malcolm Hall and John Robinson.		
12.70	<u>MINUTES OF THE MEETING HELD ON 27th SEPTEMBER 2012</u> AGREED: that the minutes of the meeting held on 27 September 2012 were a correct record and be signed by the Chair.	Chair	22 Nov 2012
12.71	<u>ACTIONS OUTSTANDING & MATTERS ARISING FROM THE MINUTES</u> There were no matters arising. In relation to the action progress report, it was noted that costings in relation to the six-storey tower lighting scheme have been included within the tender that has recently been sent out. AGREED: to note the update provided.		
12.72	<u>PROPERTY STRATEGY UPDATE</u> The Executive Director: Capital Projects & Estates introduced this item and drew members' attention to his written report, the following was noted:		

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- New build and courtyard – 7-week extension of contract to 25 January 2013 has been formerly requested (including two weeks Christmas closure). Unlikely to be improved, but there is a high degree of confidence that they will actually hit the deadline of 25 January 2013. Members` attention was drawn to the visuals of the Spa/Restaurant/Hair Salon attached at appendix 1, and the updated completion programme attached at appendix 2.
- Premises licence for Derby Road Campus was applied for on 23 October. Subject to approval, the licence will allow stage plays/ films/sporting events etc, any day from 9.00 am to 00.00 pm, indoor or out. The local community has 28 days to object or ask for amendments to the proposals.
- Current expenditure for new build is on target to meet £10,968,853 budget. Change control variations are estimated to be £202,488. Change controls to be approved of £24,763. Anticipated changes of £43,500 and provisional sums of £186,980. Members reviewed appendix 4 which identified the construction expenditure of £5,131,979, representing 63.9% of construction value.
- SFA enhanced grant – the College was successful in its bid for £780k to support relocation of Visual Arts from Chesterfield Road to the Derby Road Trades Building, this is in addition to the £120k received for the renewal grant. Work to commence on interim classrooms to support cladding and six-storey tower early January 2013. Main programme of work to commence on relocation of Fabrication and Welding to new Engineering Centre. Finance & Estates Committee to consider early enabling works later on the agenda.

Members reviewed the report presented and were advised that in relation to the licence applied for, it was anticipated that it would be very rare that the College would ever need to extend licence arrangements beyond midnight. It was noted that today is the last day for the local community to make objections. The Principal indicated that the SFA is likely to announce another round of enhanced renewal grant monies available, estimated to be approximately £100million available to the sector.

The Executive Director: Capital Projects & Estates circulated an additional paper, which made recommendations regarding the appointment of a building contractor to undertake enabling work for the relocation of Visual Arts from Chesterfield Road to the Trades Building Derby Road. The Committee was asked to make a number of decisions regarding professional appointments to support the design, development and implementation of enabling works.

Members reviewed the written report provided and specifically noted the following:

- The Skills Funding Agency informed the College on 31 October that the bid for funding to support the move of Visual Arts had been successful. A grant of £780k is anticipated to support the estimated project costs of £2,364,141.

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Date:

- To assist in delivery of cladding programme for six-storey tower, it was agreed that classrooms would be constructed on the existing mezzanine. One third of the cost to complete this can be charged against the grant.
- The selected procurement route for the project is single stage design and build. The project was competitively tendered to five contractors. The lowest compliant tender at the current time is from B&K Property Services Ltd at a cost of £159,335 plus VAT.
- Professional fees incurred to develop the design, drawing and specification are architects (Taylor Young) £3500, mechanical and electrical (Watermans) £5750, structural (Curtins) £852, all fees are exclusive of VAT at 20%.
- Professional fees for legal (Flint Bishop) £350 and BREEAM (Pick Everard) £9k for complete refurbishment, including enabling work are anticipated.

Members were advised that, at this point in time, there are two additional tenders which may become compliant following requests for additional detail, it was felt that should either of these tenders become wholly compliant and be lower than that currently presented by B&K Property Services Ltd, then there needed to be some flexibility to award the contract to the ultimate lowest compliant tender. It was felt appropriate to delegate authority to the Principal to decide upon the appointment of a contractor when all outstanding queries are resolved. This is on the basis of appointment of the ultimate lowest compliant tender.

Members reviewed the detail presented and questioned whether there would be additional costs associated specifically to the achievement of BREEAM rating. The Executive Director: Capital Projects and Estates confirmed that there would. He estimated that of the £2.3million scheme, approximately £300k costs would be directly associated with obtaining the BREEAM rating. It was noted that BREEAM status was a specific condition of the ERG grant awarded to the College of £780k.

In relation to a number of queries regarding contract changes and cost variations, it was agreed that David Overton and the Executive Director: Capital Projects & Estates would meet outside the meeting.

EDCP&E

Nov 2012

AGREED to:

- a) Note the update provided.
- b) Delegate authority to the Principal to appoint a contractor to commence enabling works on the basis of the lowest compliant tender presented.
- c) Approve professional fees to prepare the design, drawings and specification. Architect Taylor Young £3500, mechanical and electrical, Watermans at £3750, structural Curtins at £862, all fees are exclusive of VAT at 20%.
- d) Approve the appointment of legal and BREEAM consultant support for the whole project at an anticipated cost of £12500 plus VAT.

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Members then went on to discuss the six-storey tower. It was noted that a tender extension had been provided and that the deadline for submission of tenders was only yesterday. It was explained that the tender extension had been required because there was a delay by KME, the panel manufacturers in issuing the cladding cost information. The Executive Director: Capital Projects & Estates indicated that he had not yet had time to review all the tenders submitted, but in broad terms it appeared that the estimates were currently £500k over the budget allocated to this element of the project.

Members discussed the outstanding issues in relation to the Sports Hall. Key issues were summarised at appendix 7, page 30. It was explained that if all of the issues raised by Baggaleys come to fruition, then the variation would be in the order of £186k.

Members reviewed page 31 and the detail provided in relation to all the variations, which are currently the subject of discussions and dispute. It was noted that the sports hall is not technically a multi purpose hall, but is instead an 'enhanced function sports hall'. It was acknowledged that some of the contract variations were improvements made to the specification to allow more speech-based activities. The Executive Director: Capital Projects & Estates informed members that Baggaleys have still not provided the requested information regarding time extensions sought, and until this is provided, the College Team have not been able to quantify the time taken regarding any additional items/extensions.

Members of the Committee took the opportunity to discuss yet again the role of Turner & Townsend and its advice and support to the College. The Executive Director: Capital Projects & Estates gave assurance that he believed the support and advice was appropriate. The Committee agreed that the College had learned lessons from the Sports Hall project, and in the future, wherever possible, they would wish to see the Team agree any variation in cost before implementation. It was, however, acknowledged that there may be some decisions that are time critical and therefore a balance needs to be struck. All agreed that the Team in place needed to learn and improve systems and process and that potential contract disputes were to be avoided and managed going forward.

The Director of Finance provided a financial review of the project and members' attention was drawn to page 39, which provides a summary. He confirmed that in terms of profitability the College Group performance has exceeded that forecast within the original financial plan presented to the Board in June 2011. The two completed years of 2010/11 and 2011/12 have exceeded the expected surplus amounts by a total of £3.315million. Whilst in both completed years the turnover has been below expected levels, total costs have been lower still, providing the improved performance. Within costs it is pay costs that have been consistently lower than anticipated in both of the reported years.

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Moving forward, if the College Group financial performance was to fall short of expectations, the good progress made to date would quickly erode, and any commitment to deliver the Engineering facility would prove to be a risky decision in the light of increasing costs of delivering the core programme, put simply, the College must not be complacent about the Group's financial performance, the management of costs on the current programme, or the commitment of further expenditure for its proposed Engineering facility.

In reviewing the overall project, members acknowledged that the sports hall element of the project was particularly over budget and that the other big variance in costs anticipated at this time is the cost of cladding, and therefore there is an unavoidable impact upon the whole £24million project. The question for the Board to then consider is where it can obtain additional monies and if additional sums are not available, does this make the whole project affordable. It was agreed that the Board, when deciding upon the awarding of the cladding contract, at its December Board meeting, needs to do so within the context of the affordability of the whole project. The Director of Finance confirmed that sufficient financial information on the context would be provided at that meeting.

Director of Finance

Dec 2012

In reviewing the affordability assessment at page 41, it was acknowledged that the plan was based upon estimated results. The College is actually £3.315million ahead of anticipated position, and that this, plus additional grants received, will have had a positive impact upon affordability, however, this has to be taken in the context of the reasons for increased surpluses and not just the surpluses themselves.

It was confirmed that a specific report regarding the costs of the six storey tower cladding and its affordability within the context of the whole project would be presented to the Board at its meeting on 6 December 2012.

Director of Finance/
EDCP&E

6 Dec
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AGREED: to note the update provided.

12.73 ENGINEERING INNOVATION CENTRE UPDATE

The Executive Director: Capital Projects & Estates introduced this item and drew members' attention to the following:

- Options have been explored regarding freehold purchase of Unit C Gateway 28. Potential total cost of a new Engineering Centre on the Mansfield Brewery site is presently not affordable for the College and any timeline to commence development uncertain.
- Proposed purchase price of £1.1million for Unit C Gateway 28 is based upon 30,493 square foot at £36.07 per square foot. This compares with market high of £55 per square foot in 2008/9, therefore a 34% reduction.
- Refurbishment would be undertaken in two phases. Phase 1 relocation of Motor Vehicle Maintenance from Acorn Way and

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Fabrication and Welding from Derby Road, which frees up the Trades Building for Visual Arts relocation. Phase 2 - relocation from Sovereign Way (it was noted that phase 2 may be subject to any future ERG bid for funds).

- Additional electricity supply cost of £84,500 plus VAT to upgrade substation and gas connection charge of £10,448 plus VAT.
- Estimated cost for phase 1 work (Motor vehicle and Fabrication & Welding is £1.505million, including additional power supply).
- Phase 2 Engineering, estimated cost is in preparation. An early assessment, however, indicates costs to be in the region of £2.278million.
- College secured lending facility of £17million. Current estimates include £13million commitment, plus £1million set aside, should it be difficult to dispose of existing sites, leaving £3million for other developments.
- Phase 1 is estimated to be affordable at (site purchase £1.1million and refurbishment at £1.505million), £2.605million. This figure assumes no highways and access improvements are required.
- Phase 2 to follow at an estimated cost of £2.278million subject to affordability and overall College capital commitment.

Members of the Committee were asked to consider at this stage a recommendation to the Board to proceed with continued negotiations regarding the purchase of the freehold site rather than leasehold arrangements. Members were happy to support the recommendation to purchase the site in principle and undertake the required refurbishment, it was however, acknowledged by Committee Members that the decision by the Board needs to be taken within the overall affordability strategy.

AGREED to:

- a) Note the content of the report.
- b) Recommend that the Board continue discussions/negotiations regarding the purchase of the freehold site Unit C Gateway 28 and undertake refurbishment.
- c) Recommend the appointment of the existing design Team for the new Teaching Block & six storey tower cladding (Taylor Young Architects, Watermans Building Services, Curtin Structural Services, Turner Townsend cost management, Sharpe Redmore Acoustics,) to prepare detailed specifications for the new Engineering Innovation Centre.

12.74 FINANCE REPORT SEPTEMBER 2012

The Director of Finance introduced this item and whilst very early in the year, drew members` attention to the following:

- The financial performance for the College and Group has started weaker than budget with a deficit position reported (a loss of £142k), for the College offset by strong performance across the subsidiary companies. This resulted in an overall Group surplus, after all adjustments, of £130k, compared to a budgeted £313k.

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- The core reason for the slower than expected start to the year is the 16-18 apprenticeship programme which has not delivered the volumes of activity planned. It was acknowledged that sometimes there is a delay in logging starts on the systems as the teams are focussing on completions.
- Total Group turnover for the period of £7.274million is some £757k short of the phased budget, with underperformance of £601k against budget for the 16-18 apprenticeship programme. In addition a weak performance in the 14-18 NEET programme has also contributed to the reported result.
- Operating profits for the Group of £62k are some £181k behind budget and include a loss for the College of £142k and strong profit contribution from Skilldrive (£115k) and Safety Plus (£82k).
- The College performance includes an under spend on pay costs of around £32k, which is reassuring considering that a number of senior roles were resourced through agency arrangements, adding costs way in excess of those budgeted. It was noted that these positions now have permanent recruits, and therefore efficiencies should be seen. The main areas of under spend are in teaching and administration.
- College non pay expenditure is under spent as would be anticipated considering the shortfall in turnover and the reliance on partner activity. An under spend of £582 includes £383k of under spend related specifically to franchise partners, with further under spends reported within administration and other operating expenses.
- The balance sheet now includes the first tranche of borrowing associated with the new build programme with a total value of £3.8million as at the end of September 2012. This has incurred interest costs of £30k for the first two months of the year.
- Short term solvency is strong at the balance sheet date, due to the expenditure of the capital programme not being as advanced as anticipated when the loan draw down schedule was confirmed. Cash balances for the Group as at 30 September 2012 were £7.8million and includes some £3million on medium to long term deposit in order to minimise net interest costs on the borrowing facility.
- The College financial health remained as 'good' at the end of September 2012.

In general terms, the Director of Finance confirmed that there are a couple of areas that the Committee and Board would wish to keep an eye on and monitor the College's performance as it is behind target in a number of areas. He envisages that it is likely that the College will see an increase in its Adult Skills budget and this may offset some of the under performing areas, but it is clear that it is going to be a very challenging year.

Members discussed generally the 16-18 apprenticeship programme and acknowledged that, historically, the College has seen a delay in starts being logged as both College teams and partners concentrate on completions for the prior year. It was hoped that digital technology

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would improve this, but as has been seen in the past, it is a year on year problem.

The Director of Finance indicated that he now has the data available for the end of period 3 and in his view the results are still not brilliant, and therefore, there is a need to closely monitor performance going forward. All felt that achievement of the 16-18 year old target would be challenging and a focus area going forward.

AGREED: to note the Finance Report September 2012.

12.75 2011/12 FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER & 2011/12 DRAFT MEMBERS REPORT AND FINANCIAL STATEMENTS

It was agreed that these two agenda items would be considered together as they are inextricably linked. In terms of the audit, the Director of Finance confirmed that KPMG have now completed all of their audit work and therefore there will be slight changes to the wording detailed at page 71. It was acknowledged that the full detail of both of these reports have already been shared with the Audit Committee.

Members reviewed the audit report and noted the summary provided of audit progress and status at page 71. The Director of Finance confirmed that all outstanding information had been provided to auditors and it was anticipated that their audited opinion would remain unqualified for both the College and the subsidiary companies financial statements. The financial position was noted as follows:

- The overall historical cost surplus for the year was £3.4million (7.1% of total income), slightly higher than in 2010/11, which was £3million (7.1% of total income).
- The increase is mainly due to an increase in funding body income and a lower rate of increase in staff costs and other operating expenses.
- The performance of the College subsidiaries has been varied, however, Skilldrive Ltd continues to grow and perform strongly.
- The gross profit of Skilldrive Ltd increased from £979k to £1.007million, whilst administrative expenses rose from £117k to £176k, resulting in a decrease in operating profit (before deed of covenant) from £861k to £831k.
- The gross profit of Safety Plus Training & Consultancy Ltd decreased from £698k to £417k due to a fall in turnover and increased cost of sales. This resulted in an operating loss of £41k compared to the prior year operating profit before deed of covenant of £230k.
- Vision Apprentices increased gross profit from £23k to £85k due to a large increase in turnover not matched by the rising cost of sales. This resulted in an operating profit before deed of covenant of £53k compared to £3k in the prior year.
- In the first year of operation Safety Plus Construction Ltd reported £7k of gross profits, with £22k of administrative expenses, resulting in a £15k operating loss.

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- Page 73 total income was noted as £47,936,000.
- Page 74 summarises the balance sheet and shows that cash at bank and in hand decreased, however net assets have increased. Members noted the net pensions liability and acknowledged it had been the subject of significant discussion at the Audit Committee. The actuarial calculations were explained again.
- Page 75 provides specific detail regarding the FRS17 retirement benefits calculation. All agreed that this remains a significant problem for the future, and that as it currently stands it is a 20 year liability. Whilst concerning, members all felt that there was nothing that the College could do to change the position at this point in time.
- Page 76 provides a summary of the audit work undertaken in relation to subsidiary companies.
- Page 78 provides detail of the two medium priority audit recommendations made. In relation to the first, it was confirmed that the recommendation has been accepted. In relation to the second, the College have explained that the choice made not to accrue the expenditure, Auditors have disagreed with this, however, it has been agreed with Auditors that the College will not make any adjustments in this area.
- Page 79 all information has now been provided.
- Page 82 this cross-references with the detail of the management recommendation at page 78.
- Page 85 onwards provides sector updates.
- Page 91 – it was confirmed that the Financial Statements for the year ended 31 July 2012 have been prepared in line with standard sector model requirements.
- Page 117 provides a summary of the income and expenditure accounts and the balance sheet.

Members were entirely happy that the information presented was in line with expectations.

AGREED to:

- a) Note the 2011/12 Financial Statements Audit Management Letter.
- b) Recommend that the Board approve the 2011/12 Members Report and Financial Statement.

12.76 RECONCILIATION OF FINANCIAL STATEMENTS TO JULY FINANCE REPORT

The Director of Finance introduced this item and drew members` attention to page 146 to 148, which explains variations in the financial statements and the finance report to July 2012. Members all agreed that the report was self-explanatory.

AGREED: to note the reconciliation provided.

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12.77 STUDENT UNION ANNUAL AUDITED ACCOUNTS 2011/12

The Director of Finance presented this information and confirmed that the Students` Union does not operate as a separate company and that their accounts are therefore part and parcel of the College`s framework. Members reviewed the schedule of income and expenditure and noted that budget allocation from the College was £69,485, trading income from the Students` Union activities and student visits was £14,706, making a total income of £84,191. After expenditure, there is a small surplus amounting to £4,816.

AGREED: to approve the Students` Union Annual Audited Accounts for 2011/12.

12.78 EMPLOYER RESPONSIVE UPDATE

The Director of Finance introduced this item and drew members` attention to the written report which provides an update on the previously reported position, the following was specifically noted:

- Overall the College has had another successful year in terms of employer related activity in 2011/12. The finalised funding position is;
 - a) 16-18 apprenticeship budget out turn £5,887,823.66, College £955,778.99, Safety Plus £92,159.63, other partners £4,839,855.04.
 - b) Adult apprenticeship budget out turn £5,955,809.55, College £753,060.70, Safety plus £6,038.73 and other partners £5,149,897.78.
 - c) NVQ budget out turn £4,547,912.83, College £550,819.79, Safety Plus £1,979,275.64 and other partners £2,017,817.40.
- Total income was £16,391,544.

For the first two periods of 2012/13 the College continues to see a challenge to engage sufficient 16-18 apprenticeship numbers, which has resulted in an adverse budget position. The College has seen an increase in provision delivered directly by the College and is securing new partners in this area, but the target remains a significant undertaking. The Adult delivery continues to perform well and the College is hopeful of securing additional funding for 2012/13.

Members reviewed the partner contracts detailed at appendix 1, it was noted that contracts are primarily with existing partners, although a new partnership is proposed (following due diligence processes) with Babbington Business College to help with 16-18 apprenticeship numbers.

Members, in reviewing the partner contracts lists, noted proposed variations shaded in yellow and the risk ratings given to partners detailed in the left hand column.

Signed : _____ Chair

Date:

AGREED to:

- a) Note the update provided.
- b) Recommend that the Board approve partner contract variations as scheduled at appendix 1.

12.79 REVIEW OF FINANCIAL REGULATIONS

The Director of Finance introduced this item. He explained that all proposed changes have been 'track changed'. Members all felt that this made it incredibly easy to identify amendments to be considered. The Director of Finance explained that there were no fundamental changes proposed and that the vast majority of amendments suggested were to reflect changes prescribed by legislation. In addition, he is also trying to slim-down the document, and in doing so has taken out a number of pieces of information which are available elsewhere, examples are Audit Committee Terms of Reference and Audit Code of Practice etc. He explained that it was his intention to encourage staff to actually read the document, and to assist this, his aim is to make it more user friendly.

Members all felt that the proposals made were self-explanatory and that they were entirely appropriate.

AGREED: to approve amended Financial Regulations.

12.80 UPDATE REPORT ON CLADDING OF SIX STOREY TOWER AND OTHER BUILDINGS

It was acknowledged that this has been discussed earlier in the meeting.

12.81 AOB

There were no items of additional business.

12.82 DATE OF NEXT MEETING

The Clerk to the Corporation confirmed that the next meeting was scheduled for 28 February 2013 at 4.00 pm.

Meeting closed at 5.35 pm.

Signed : _____Chair

Date: