

**Minute of the Board of Management Meeting
Held in the Boardroom, Kilmarnock Campus
On Thursday 26 March 2015 at 5.30 pm**



Present: Willie Mackie (Chair)
Angela Alexander (to 7pm)
Heather Dunk
Nicki Beveridge
Julie Bradley
Jim English
Barbara Graham (to 7pm)
Emma Hall
Gordon James
Alan McGregor
Marie Macklin
Fiona Skilling
Tom Wallace

In attendance: Brendan Ferguson (Board Secretary)
Michael Breen
Jackie Galbraith
Alistair Gordon
Eileen Mackin
Jane McKie
Liz Walker

1 Welcome and Introductions

The Chair welcomed everyone to the meeting

2 Apologies

Apologies were received from Bill Costley, Stephen Greenwood and Wai-yin Hatton

3 Declarations of Interest

There were no declarations of interest.

4 Chair's Report

The Chair reported that he had attended a number of events on behalf of the College since the previous meeting. However, of more concern to this meeting was the unprecedented funding situation currently facing the College, as reflected in the discussions held at the Finance Committee of 19 February 2015

and reconvened on 24 March 2015. The issues discussed impinged upon the sector as a whole, but the impact was far greater for some Colleges than it was for others. Ayrshire College was significantly affected by a serious shortfall in the student funding allocation made available for 2014/15, which fell well short of expectations, and the withdrawal of what the College had been led to believe was an additional allocation of funds in cash terms to support VS during AY 2014/15. In addition, the sector had received an instruction from the Funding Council (SFC) to set the non-cash "Net Depreciation" figure, allocated by SFC within each College's budget, against the shortfall in student funding and VS. The College had serious concerns around the Governance of this instruction and the deficit in the annual accounts which would result. These concerns would be further compounded if, as widely expected, SFC issued the same instruction regarding the use of net depreciation for 2015/16.

Of further concern was a recently received request from SFC, with no forewarning, for the submission of a Resource Return & Statement of Assurance for the period to 31 March 2015. The reason for this request was that, although the College financial accounting year had been reverted back to run from 1 August to 31 July each year, as a result of ONS re-classification the SFC financial accounting year ends on 31 March each year. Hence SFC had to submit accounts to Scottish Government as at 31 March. Apart from the additional burden that this was placing on the Colleges, the instruction appears to usurp College governance by requiring that the Resource Return & Statement of Assurance be signed off by a senior member of College staff (unapproved by the Board of Management) and without having undergone an audit process.

All of the above reported activity had occurred within recent weeks and without forewarning. The governance concerns alone were such that that the sector was pursuing as a matter of urgency a meeting with the Cabinet Secretary, Scottish Government Officials and SFC. In addition the Chair of the Board, and the Principal would be seeking an early meeting with civil servants and SFC to discuss the situation regarding the funding of the College.

The Chair added that there would be further detailed discussion on these matters as part of the agenda.

The Board noted the above report with concern and recorded their full support for the Chair and the Principal in pursuing urgent discussion with the appropriate authorities.

5 Minutes of the Ayrshire College Board of Management Meeting held on 16 December 2014 (*Paper 1*)

The minutes of the meeting held on 16 December 2014 were approved as a correct record.

Proposed: Tom Wallace
Seconded: Marie Macklin

6 Matters Arising

Page 3, Item 6 – Risk Management Workshop: the Chair reported that the Board/EMT Risk Management Workshop Development Day, re-scheduled to take place in 15 January 2014, had again been postponed as a result of industrial action and had now been rescheduled to form part of the Board Strategy Day on 23 April 2015.

7 Minutes of the Extraordinary Meeting of the Board of Management held on 29 January 2015 (*Paper 2*)

Subject to some minor editorial amendment noted by the Secretary, the minutes were approved as a correct record.

Proposed: Gordon James
Seconded: Nicki Beveridge

8 2015/16 Addendum to the Ayrshire College Outcome Agreement (*Paper 5*)¹

B Graham, as Chair of the Learning & Teaching Committee, introduced Paper 5 and stated that the Committee had been favourably impressed by the content of the 2015/16 addendum. In particular the Committee had welcomed the way in which Government targets had been addressed and the excellent manner in which up to date regional labour market intelligence had been sourced and integrated into the curriculum development. The Committee had also noted with interest that Ayrshire College had the highest transfer rate from school into FE in Scotland. The main concern expressed by the Learning & Teaching Committee, however, had been the shortfall in student funding being provided by the SFC and how that shortfall, if continued into the future, threatened the delivery targets of the College.

A number of questions were asked and satisfactory responses received. During discussion, H Dunk and M Breen confirmed that a continuing student funding shortfall would be the biggest threat to the College achieving its activity target. The funding settlement being applied to Ayrshire College remained a matter of the utmost concern and its resolution was critical in permitting the College to reach its objectives and meet Government priorities.

The Board noted, welcomed and approved the above paper. In so doing the Board further noted its serious concerns in relation to the funding settlement being applied to Ayrshire College by the Scottish Funding Council and the threat this posed towards the College being able to successfully pursue its objectives.

¹ Note by Secretary. This paper was taken out of agenda sequence because the Chair of the Learning & Teaching Committee was leaving the meeting early.

9 Budgets & Forecasts for the 16 Month Statutory Reporting Period to July 2015 (Paper 3)

T Wallace, as Chair of the Finance Committee, reported that the Finance Committee had met on 24 March 2015 and, following full discussion and consideration, had approved the budgetary proposals contained in the above paper. Notwithstanding the Committee's recommendation that the Board approve the Budget to 31 July 2015, serious underlying concerns were expressed by the Committee in relation to:

- the level of student funding allocated by SFC;
- the failure of SFC to make good on a verbal undertakings made to the Chair of the Board and the Principal to provide additional student funding and to support post 31 March 2015 VS funding;
- a number of governance related issues.

The impact of these issues, in particular the first two bullet points above, were that while the College would seek to achieve a modest surplus on trading, the overall budget at 31 July 2015 would show a significant deficit, due to exceptional costs of VS and student funding.

T Wallace went on to report the Committee's view that the level of student funding provided by SFC to the College for 2015/16 was totally inadequate for the purposes of the College, showing a projected shortfall of circa £1.3 million on the funding required to meet the College's activity target. The Committee noted that such a position was unsustainable if carried into the future and would engender a level of ongoing deficit which could potentially lead to "going concern" issues being raised by the College's auditors. Due to levels of cash held, it could also lead to the College having to review its student recruitment policy with a view to decreasing student numbers in line with the level of funding being received (as noted in Item 8 above). Such a move would not be in the best interests of meeting the educational and employment demands of the region or the targets set by the Scottish Government.

T Wallace added that of equal concern to the Committee was the behaviour of SFC on realising the full nature of the demands being necessitated by ONS reclassification. Having moved the financial year back to a 31 July year-end financial close, SFC had at very short notice demanded of all Colleges within the sector the provision of a Resource Return and Statement of Assurance as at 31 March 2015, with a Senior Officer of the College to act as signatory to the accuracy of the content. As a result of the practicalities and timings of this demand, the Resource Return would not be audited by external auditors. In effect this demand usurped the governance role of the Board in acting as steward and guarantor for the public finances received by the College, as defined under the statutory requirements which established the College, the Board of Management and the College's governance arrangements. T Wallace noted that legal advice was being sought on this matter.

A further matter of serious concern expressed by the Committee in relation to governance and financial recording related to the advice provided by SFC that the sector should use the "non-cash" figure to record as net depreciation in the

annual accounts, as an offset to the student funding shortfalls within individual Colleges. This, in effect, was an instruction from SFC on how Colleges' manage their budget. Despite assurances provided by SFC that this matter had been discussed with Audit Scotland and the audit firms, both the College's internal and external auditors had advised that they had not received any approach from SFC, or Audit Scotland in relation to this matter. The overall impact of this "advice" was that Colleges would enter financial deficit, but at the same time offset this deficit in accounting terms by using non-cash net depreciation figures provided by SFC. In the case of Ayrshire College, because the net depreciation was not a cash sum, this would immediately impact on the cash flow position of the College in terms of liquidity. For the period to 31 July 2015, this would be offset by a one off SFC debtor repayment of circa £1.4 million which would be fully reimbursed by 31 July 2015. Nevertheless, were the same situation to be repeated in 2015/16, it was anticipated that it would result in serious cash flow issues for the College.

The Board noted the above report from T Wallace with concern and a lengthy discussion ensued. The nature of the issues being raised by the Finance Committee were considered to be very serious, leading to major reservations in relation to future budgetary management. While the Board noted that the budgetary and cash flow position to 31 July 2015 was now secure, serious concerns remained in relation to the funding and budget for 2015/16.

The Chair reiterated his concern and disappointment regarding the assurances provided by SFC both to himself and the Principal in relation to additional allocation for student funding for 2014/15 and the provision of additional VS funding cash for 2014/15 by SFC, both of which had subsequently been withdrawn without explanation. The Chair added that were the funding shortfall and net depreciation instructions noted above repeated in 2015/16 it would undoubtedly present major challenges in meeting the College's objectives, the Scottish Government agenda and the ONS requirement to achieve a balanced budget. In addition, the Chair echoed the concerns surrounding governance in relation to what SFC was currently implementing, as described above, and stated that the resolution of these governance concerns was also a major priority. H Dunk and M Breen also added their commentary in relation to the funding issues and recent actions by SFC. They concurred that SFC and the Scottish Government must act urgently to address the funding shortfall.

The Board of Management approved the proposed budget for the four months to 31 July 2015 as agreed by the Finance Committee.

The Board expressed its serious concern at the shortfall in student funding received from the SFC in AY 2015/16 and reiterated the view that if the structural deficit in the funding allocation being received by the College was not addressed by the Scottish Government and SFC as a matter of urgency, then the College and the Board would be required to consider what action to take in the future in order to meet the budget break even position required by SFC as part of the resource return.

The Board expressed its serious concern at the "advice" being provided by SFC to use non-cash net depreciation balance to offset the deficit

resultant on the shortfall in student funding. The legitimacy of such an action is considered to be questionable, particularly given the lack of communication with the audit firms who carry out the audit functions for the sector.

The Board expressed its serious concern at the short notice instruction provided to the College by SFC to provide an unaudited Resource Return and Statement of Assurance signed by the Principal or a senior officer of the College for the period to 31 March 2015. The complexity of this requirement came at a significant opportunity cost to the College and, in effect, was now imposing two financial reporting periods across the sector. The Board agreed that in light of the lack of an audit process being applied to the Resource Return, the return and associated Statement of Assurance should be caveated accordingly and legal advice sought.

The Board expressed major reservations over the governance implications associated with the use of non-cash net depreciation balance and the unheralded request for the 31 March Resource Return & Statement of Assurance. In both of these cases the associated governance was at best unclear and at worst contrary to what is expressed in the Acts from which the College's Constitution and Governance Arrangements are drawn. The Board recorded its view that the role of the Boards of Management in stewarding the governance associated with such requests required to be clarified as a matter of urgency.

10 Ayrshire College Estates Investment Programme – Ayrshire College Foundation Update (*Paper 4*)

The Chair reported that the proposals had been agreed by the Foundation who had commended the approach taken and the presentation of the proposals.

The Board noted and welcomed the above paper. The Board also commended M Breen, E Mackin and her team for their work in the preparation of the proposals.

11 Financial Adjustments for Student Support and other Purposes: SFC/AN/03/2015 (*Paper 6*)

Members noted that that that the content of the above SFC Circular, regarding the use and appliance of net depreciation, and the Resource Return and Statement of Assurance had largely been dealt with under Item 9 above. The Board's serious concerns in relation to the actions being taken by SFC and their implications had also been recorded above. Members, nevertheless, expressed disappointment at the quality of the circular, and the fact that such a major issue was dealt with in such a short document, running to less than three full pages.

The Board noted the above SFC Circular and reiterated the concerns expressed under Item 9 above.

12 2014/15 Ayrshire College Risk Register (V4) at February 2015 (Paper 6)

G James, as Vice Chair of the Audit Committee, introduced V4 of the Risk Register. G James reported that the main items for consideration in V4 were all contained within the Finance cluster and related directly to the issues recorded under Item 9 above. As a result of these issues, the Finance Committee had raised a number of the risks within the cluster, with FIN8, "*Failure of the allocated Student Support Funds budget to meet requirements*" being raised to the maximum level of 25, i.e. potentially catastrophic. As a result, the Audit Committee felt that it would be appropriate to bring the entire Risk Register to the Board for consideration.

G James continued that under mandate from the Audit Committee A Walker, as Chair of the Committee, had sought clarification on a number of issues including whether the College auditors had been contacted by Audit Scotland or SFC in relation to the issues discussed under Item 9 above. G James read out an email from A Walker summarising the response received from KPMG (College external auditors). In essence the response stated that no contact re the issues of concern had yet been received by KPMG and that KPMG were awaiting a response from Audit Scotland.

Following discussion members agreed that the report and recommendations received from the Finance Committee indicated that the College was financially secure for the period up to 31 July 2015. In addition, there was no final information yet available in relation to student funding and the use or otherwise of the net depreciation fund in 2015/16 and beyond. In the circumstances, and as V4 represented the most recent iteration of the 2014/15 Risk Register, it was felt appropriate to reduce FIN8 to 20 and that Fin1 and Fin6 should remain at 16 and 20 respectively.

Subject to the reduction of FIN8 to 20, in line with the above discussion and on the understanding that the College remains financially secure throughout the remainder of the 16 month 2014/15 Financial Reporting Year, the 2014/15 Ayrshire College Risk Register (V4) was approved by the Board.

13 New Campus Risk Register (V4) at February 2015 (Paper 8)

Members noted that the above document had been approved by the Estates & New Campus Development Committee and noted by the Audit Committee. It was further noted that that project was still in the construction phase with very little risk at this stage falling on the College.

The Board approved the 2014/15 New Campus Risk Register (V4) as at February 2015.

14 National Joint Negotiating Committee (NJNC) & National Recognition and Procedure Agreement (NRPA) (Paper 9)

N Beveridge, as Chair of the Human Resource & Organisational Wellbeing Committee introduced the above document and stated that there were a variety of issues that will require the Board to have reasoned discussion on this matter as further information becomes available. In essence, the move to national bargaining would remove the Board and the College's strategic and operational control over a significant portion of the College's budget. N Beveridge added that the risks associated with this move would also have to be recognised in the College Risk Register in the future.

The Chair added that the Scottish Government had confirmed that while it expects the College Sector to progress agreement on the RPA and implement national bargaining in good faith, there will be no additional resources made available to meet any salary uplift consequent on the outcome of national bargaining within the sector. Any salary uplift would require to be met from efficiency savings within individual colleges.

H Dunk brought the Board up to date on the progress of the discussion towards the establishment of the NJNC and the RPA, which each individual college would be required to sign up to for national bargaining to occur. H Dunk added that one immediate implication was that job evaluation for Service Staff would have to be placed on hold for the time being as this was likely to form part of the national bargaining agenda.

The above document was noted with considerable interest by the Board. It was agreed that further consideration of this matter would take place at the June 2015 meeting of the Board, when more detailed information would be available and the NRPA was ready for consideration.

15 Financial Memorandum (Paper 10)

Members noted the SFC's "*Financial Memorandum with Fundable Bodies in the College Sector*". In particular, and in the light of the above discussions, the Board noted page 8 which set out "*What the institution can expect of SFC*".

The Board noted the Financial Memorandum.

16 Approval of Board Representative to the East Ayrshire Community Planning Partnership

The Chair reported that he had been invited to become the Board's representative on the East Ayrshire Community Planning Partnership and was seeking the Board's approval to accept the invitation.

The Board approved the nomination of Willie Mackie, as Chair of the Ayrshire College Board of Management, to be its representative on the East Ayrshire Community Planning Partnership.

17 Committee Chairs Reports

The Committee Chairs provided brief verbal reports on the matters considered by the Committees since the last meeting of the Board and not already dealt with under the agenda for this meeting. The confirmed minutes of these meetings would be received by the Board at its next meeting.

The Chairs reports were noted by the Board

18 Standing Committee Minutes

The following Standing Committee Minutes were received by the Board:

- **Audit Committee 09/09/14 and 27/11/14** (*Papers 11a & 11b*)
- **Estates and New Campus Development Committee 19/08/14 & 23/10/14** (*Papers 12a & 12b*)
- **Finance Committee 21/08/14 & 16/12/14** (*Papers 13a & 13b*)
- **HR & Organisational Wellbeing Committee 21/10/14** (*Paper 14*)
- **Learning and Teaching Committee 30/10/14** (*Paper 15*)

19 The Following Were Received For Information

- Letter from Laurence Howells (SFC) re Student Support for Academic Year 2014-15
- Letter to Jane Scott (SFC) re Student Funding 14 May 2014
- Ayrshire College Performance Indicators
- College Operating Plan 2014-15 Exception Report
- Freedom of Information Requests and Complaints received since August 2014
- Code of Good Governance

20 Date of Next Meeting: Thursday 25 June 2015 at 5.30pm, Kilmarnock Campus