

**Minutes of the Finance Committee Meeting
held in Boardroom, Kilmarnock Campus
on Thursday 7 November 2013
at 5.30 pm**

Present: Tom Wallace (Chair)
Kathryn Cole
Heather Dunk
Dr Waiyin Hatton

In attendance: Michael Breen
Alistair Gordon
Jane McKie
Jackie Galbraith
Carol Nisbet

1 Welcome and Introductions

T Wallace welcomed everyone to the second meeting of the Finance Committee.

2 Apologies

Apologies were received from W Mackie and B McGuire.

3 Declarations of Interest

There were no declarations of interest.

4 Matters Arising

Governance Arrangements – Closure of Financial Year 2012-13

M Breen advised that the wording had been updated in terms of papers and recommendations presented to this Finance Committee meeting.

M Breen confirmed that the views of the Finance Committee had been presented to the Audit Committee at their meeting on 24 September 2013.

M Breen stated that a paper highlighting the key accounting policies of the three predecessor colleges, compared to those of Ayrshire College, was included in the papers for this meeting and showed that the only significant difference in policy relates to the policy for Tangible Fixed Assets which has been impacted by the larger size of the new Ayrshire College and the higher capitalisation thresholds now in force.

M Breen noted the action in relation to historic Ayr College Management Accounts. T Wallace stated that he would wish to consider further some aspects. M Breen explained that the Chart of Accounts and format had been updated for Ayrshire College which would address the point made around coding and presentation of information within “Other” budget lines.

M Breen explained that the preparation of key actions and priorities for the coming year had been deferred due to a number of factors including the budget paper being presented this evening, further ONS clarification required from SFC and the recent decision of the Ayrshire College Board of Management to progress the Charitable Foundation. M Breen explained that once these matters have progressed, an email update to Members would be provided in the next few weeks.

In relation to Kilmarnock College Accounts, M Breen confirmed that the revalued land and buildings figures were included within the Annual Financial Statements.

Action: M Breen to provide a more detailed explanation of the 'other income' line in Ayr's management accounts.

5 Financial Year 2012-13

5.1 Ayr College 2012-13 Financial Statements (after external audit)

A Gordon provided the background to Paper 2 and explained that the Statutory 2012/13 Annual Financial Statements are based on the Ayr College Management Accounts which were presented to the Finance Committee at their meeting on 19 September 2013, adjusted for year-end requirements. The Financial Statements have been audited by KPMG.

A Gordon noted that the draft Ayr College Financial Statements show:

- Income for the year of £14,934,000.
- An operating surplus for the year of £86,000.
- Net assets of £24,717,000.

A Gordon highlighted that the Ayr College Strathclyde Pension Fund position, valued as at 31 July 2013 by Hymans Robertson, resulted in a reduction of £259,000 in the net pension deficit.

In relation to Land and Buildings, A Gordon explained that a revaluation was carried out by the District Valuer as at July 2013 and this has resulted in a net increase in valuation of £8.75m primarily in respect of the main Ayr Campus.

A Gordon noted that Ayr College land and buildings were last revalued in 1999, although the Riverside and Aero buildings have been built since then and have been carried in previous financial statements at depreciated cost. The increase in value arising from the revaluation represents an uplift of approximately 50% overall to the carrying value of the Ayr College premises.

A Gordon also noted that, within these figures, the surplus land at Newtonhead, Ayr, has been valued at £375,000. These premises were previously shown in the Ayr College Management Accounts at a net book value of £121,000 at July 2013 (£124,000 at July 2012 in the Financial

Statements). These premises have been on the market for approximately five years with offers in the region of £1m being invited.

Given the above, the Finance Committee agreed that advice should be sought on a potential reduction in the marketed price, with this approach to be agreed by the Estates and New Campus Development Committee at their next meeting.

A Gordon noted that the external audit fieldwork has been completed by KPMG and a close out meeting was held with them on 22 October 2013. KPMG have confirmed that they intend to give a clean audit report.

T Wallace asked a number of questions including the Severance Costs noted in the Ayr College Financial Statements and whether they were funded by the College Transformation Fund and appropriately authorised. M Breen confirmed that these were authorised by the Ayr College Board of Management and funded by the College Transformation Fund. Severance Costs and authorisation processes are considered closely by External Auditors in relation to SFC Guidance. M Breen noted that the External Auditors report would be presented to the next Audit Committee and that no matters have been raised on this aspect.

T Wallace confirmed that the Finance Committee was content to recommend approval of the 2012/13 Annual Financial Statements for Ayr College to the Audit Committee at their meeting on 21 November 2013.

H Dunk noted that J Wilson, Ayr College Director of Finance, had recently left the College after having finalised the Ayr College Financial Statements for 2012-13. The Finance Committee asked that their thanks to J Wilson be recorded.

5.2 Kilmarnock College 2012-13 Financial Statements (after external audit)

A Gordon provided the background to Paper 3 and explained that the Statutory 2012/13 Annual Financial Statements are based on the Kilmarnock College Management Accounts which were presented to the Finance Committee at their meeting on 19 September 2013, adjusted for year-end requirements. The Financial Statements have been audited by Henderson Loggie.

The draft Kilmarnock Financial Statements show:

- Income for the year of £14,100,000.
- An operating surplus for the year of £481,000.
- Net assets of £16,570,000.

A Gordon explained that 2012-13 represents the second (and final) year of Henderson Loggie's appointment as External Auditor. The appointment was made by Audit Scotland and was originally for five years but this has been superseded by the merger to form Ayrshire College as from 1 August 2013.

A Gordon noted that the external fieldwork has now been completed by Henderson Loggie and the formal audit clearance was held at Kilmarnock College on 1 November 2013. Henderson Loggie have informed the College that the audit process has gone well and that there are no material matters they wish to raise.

A Gordon noted that the Kilmarnock College Strathclyde Pension Fund position, valued as at 31 July 2013 by Hymans Robertson, resulted in a reduction of £1,360,000 in the net pension deficit.

A Gordon explained that Land and Buildings were revalued by the District Valuer as at July 2013 and this resulted in a net increase in valuation of £930,000 primarily in respect of the Holehouse Road premises with all necessary adjustments included within the Statutory Accounts.

The Finance Committee asked that the disclosure in the Operating and Financial Review in the Financial Statements be updated to note that the College will be reviewing its Estates Strategy in due course, including for the Holehouse Road premises, in light of the intended move to the new Kilmarnock Campus.

A Gordon, for completeness, noted that the Board of Management of Kilmarnock College and its Committees discussed in 2012 the setting up of a restricted reserve (with £900,000 of existing cash balances being ring fenced) for the new campus project. This was discussed with the External Auditor and also reviewing SFC guidance. The Board of Management agreed, in 2012, within the College's Management Accounts and Cash Management Strategy, to approve a designated reserve of £900,000 and transfer cash balances to reflect this. In addition, Kilmarnock College Board Members made a statement of intent in this regard within the Board of Management Annual Report.

T Wallace confirmed that the Finance Committee was content to recommend approval of the 2012/13 Annual Financial Statements for Kilmarnock College to the Audit Committee at their meeting on 21 November 2013.

Action: M Breen to update the Operating and Financial Review to include mention of the College Estates Strategy being reviewed in light of the intended move to the new Kilmarnock Campus.

5.3 James Watt College 2012-13 Financial Statements

M Breen explained that the preparation and presentation of the James Watt College 2012-13 Financial Statements was the responsibility of West College Scotland and the James Watt College External Auditors – Wylie Bisset. M Breen explained that A Gordon had met with his counterpart in West College Scotland and a current position had been determined which was noted in the Management Accounts Report presented to the Committee this evening. A final "transfer" position would be advised to Ayrshire College once

the final audit had been completed in line with the agreement between West College Scotland and Ayrshire College.

6 Financial Year 2013-14

6.1 2013-14 Revised Budget (October 2013) - 8 months

M Breen presented Paper 4 being a summary of the revised budget for Ayrshire College for the 8 months to 31 March 2014. This budget was based on the original budget approved by the Ayrshire Partnership Board which, at that time, showed a budgeted operating surplus of £166,000 for the 12 months to 31 March 2014. This budget had now been reviewed and:

- Update to reflect the Ayrshire College Chart of Accounts
- Updated to reflect internal reclassifications to ensure consistency
- Now includes the incorporation of CTF grant income and an Exceptional Costs category to reflect both CTF expenditure and the reallocation of the Student Support budget in line with accounting guidelines.
- Split into separate budgets through phasing with the budget for the 8 months to 31 March 2014 being presented to the Committee today, this being required by the College's 'ONS' move to a 31 March year end.

The revised budget for the 8 months to 31 March 2014 shows an operating surplus of £43,000 with a final Retained Surplus of £249,000 after all adjustments.

Cash flow arising from this revenue budget is positive and is approximately £560,000 in the 8 month period.

It was noted that no projected Balance Sheet has been completed at this stage and that this will require to be done in due course, incorporating the outstanding Balance Sheet split for James Watt College as at 1 August 2013 and also the establishment of an Ayrshire Region Charitable Foundation, funded through cash and/or assets to be transferred from the College to the Foundation before 31 March 2014. It was agreed that the Projected Balance Sheet be prepared and incorporated into the next Finance Committee agenda.

T Wallace noted that there was a risk of variances arising which would impact on any funds to be transferred to the Foundation and he recommended that the College look at their forecasting tolerances in the coming months to assist in agreeing the range of possibilities for transfers to the Foundation.

The Finance Committee confirmed their approval of the revised Budget for the 8 months to 31 March 2014, to be presented to the Board of Management at their meeting on 9 December 2013.

Action: M Breen to prepare a projected balance sheet for the next meeting of the Finance Committee

Action: M Breen to ensure that College results forecasts for the period to March 2014 reflect and incorporate a range of possible outcomes to inform the Board's decision on the appropriate transfer to make to the Foundation.

6.2 Management Accounts at September 2013

A Gordon presented Paper 5, being the Management Accounts for the College for the two months to September 2013. A Gordon explained that these Accounts were very early in the financial year and as such are not indicative of any prevailing trends. A Gordon highlighted that the operating surplus for the period was £759,181, being a favourable variance of £443,517 against the budgeted result for the first two months. A number of questions were asked and answered.

Each of the principal variances were discussed, with T Wallace and W Hatton noting that any financial savings in the year may allow investment by the College in educational opportunities.

It was further noted that the figures presented do not yet incorporate the opening balances to be inherited from James Watt College in respect of the North Ayrshire Campuses. The management accounts show the current indicative year end asset captions and values. These balances are currently being reviewed in line with the agreement brokered by SFC in early 2013. The balances will be subject to an External Audit report by Wylie Bisset to both Ayrshire College and West College Scotland.

The Committee noted the strong Ayrshire balance sheet shown as at September 2013 and particularly the £13.6m of cash balances albeit that a significant portion of these balances represented monies received in advance from SFC (including Student Funding) and also monies held for capital investment.

The Finance Committee approved the Management Accounts for Ayrshire College as at 30 September 2013.

6.3 Capital Expenditure Position at September 2013

A Gordon presented Paper 6 showing the capital expenditure position as at 30 September 2013.

Capital funding available to the College for the year to July 2014 amounts to £2.937m, principally from SFC support but also including £750,000 to be funded from College Reserves.

Capital expenditure in the two months to September 2013 amounts to £97,234 with further significant spend planned in the coming months.

The Finance Committee noted the Capital Expenditure position at September 2013.

6.4 Student Support Funds Position at September 2013

A Gordon presented Paper 7, updating the Committee on the Student Support Funds position at 30 September 2013, including projected expenditure to July 2014.

The principal element in Student Funding relates to SFC support for Bursary, Childcare and FE Discretionary funding. The current projection for these funds shows a projected deficit of £799,000 against the £9.682m of SFC budget allocation.

The factors impacting on the projected deficit were discussed, noting that these figures do not yet include any in year allocation of additional funds from the SFC (£715,253 was received last year by the Ayrshire Colleges in this regard) but neither do they include any Student Support Funding that will be required for any January 2014 starts.

It was agreed that this area should be kept under review, noting that the Ayrshire College budgets for 2013-14 include additional internal provision of £450,000 of funding to help mitigate financial risk and assist with student needs.

The College is seen as having minimal exposure to risk or under funding issues in respect of Educational Maintenance Allowance and HE Discretionary funds.

The Finance Committee noted the Student Support Funds position as at 30 September 2013.

7 College Transformation Fund at September 2013

M Breen presented Paper 8 to update the Finance Committee on the status of the College Transformation Funding as at 30 September 2013.

The College has £3,067,242 of CTF funding available at September comprising:

CTF funding in respect of VS costs £2,746,953

CTF funding in respect of non VS costs £320,289

Against these sums the College has committed CTF funding of £205,227.

The Finance Committee noted the position of the College Transformation Fund as at 30 September 2013.

8 Non NPD Costs Financial Report at September 2013

M Breen presented Paper 9, updating the Finance Committee on the cumulative Non NPD costs incurred to September 2013 against the grant made available by SFC.

At September 2013 the College has incurred a cumulative £873,206 of expenditure covering financial years (to 31 March) 2011-12, 2012-13 and 2013-14.

There are £4.245m of Non NPD cost funds still available from SFC up to 31 March 2016. As the Preferred Bidder stage has been reached, we will work with SFC to adjust the profile of the remaining spend to better reflect the remaining project stages.

The Finance Committee noted the Non NPD Costs as at 30 September 2013.

9 Date of Next Meeting

The next meeting of the Finance Committee was scheduled for Tuesday 28 January 2014 at 5.30 pm in Kilmarnock Campus. It was agreed that this meeting should be re-scheduled to the middle of February, in order to allow review of the management accounts to December 2013.

Action: M Breen and T Wallace to confirm rescheduled date for the next Finance Committee meeting.

Signed by the Chair _____

Date: 11.02.14