

**Minute of the Finance Committee Meeting
held in Ayr Campus
on Thursday 13 March 2014 at 5.30 pm**

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

(Paper 1)

In attendance: Michael Breen
Jackie Galbraith
Alistair Gordon
Bernadette McGuire
Jane McKie
Brendan Ferguson (Minutes)

1 Welcome and Introductions

The Chair welcomed everyone to the meeting.

2 Apologies

Apologies were received from Marie Macklin.

3 Declarations of Interest

There were no declarations of interest.

4 Minute of the meeting held on 11 February 2013 *(Paper 1)*

The minutes were approved as an accurate record.

Proposed: Willie Mackie
Seconded: Heather Dunk

5 Matters Arising

It was noted that actions associated with point 9 (page 4) and point 12 (pages 5 and 6) were completed and the actions were closed.

The Chair requested an update to bullet points two and three as contained on page 3 of the agenda in relation to the Ayrshire College Foundation.

M Breen replied that reports would be received by the College from the Foundation. The format and frequency would require to be discussed and

agreed, for example the receipt of regular progress reports on the business of the Foundation including awards made and activities undertaken. These will form a part of the regular interaction between the two organisations.

In addition, the Foundation is subject to a number of external reporting requirements and returns including an annual return to OSCR. In relation to bullet point three, M Breen emphasised that, while the College and the Foundation will be aligned based on their objectives, they are separate independent organisations with their own governance arrangements. M Breen also explained that any support/ services provided by the College must be clearly set out in a service level agreement which maintains this separation.

6 2013-14 Management Accounts as at January 2014 (Paper 2)

M Breen introduced the above Paper, taking members through the executive summary and the underlying figures contained within the appendices. It was explained that as a result of the unique and unusual nature of this amended financial year for Ayrshire College, the accounts at January 2014 project a favourable variance of £1.011 million. A number of favourable variances were shown in the accounts, resulting in the net improvement of the reported position against budget. M Breen noted that the favourable variance in SFC grants received of £218k is due mainly to additional College Transformation Grants received which are matched by corresponding expenditure.

The favourable variances also include £460k as a saving against budget on core staff costs and commercial salary recharges, and £255k against the budgeted depreciation charge. In addition the provision for £450k recorded in November 2013 in respect of a projected student support funds overspend has been reversed as a result of updated projections on student funding and the receipt of in-year additional funding of circa £1.2 million.

A Gordon explained that adjustments have been made to the budgeted results to take account of the rolling forecasts for the remaining two months of 2013-14. These adjustments reflect further favourable variances of £100k on salary costs and an estimated further £25k on trading income. The forecasts will be updated each month.

A Gordon explained against this is a net unfavourable variance of £429k of prepaid expenditure relating to the Kilwinning PFI which is being proposed as a write off at 31 March 2014. This item reflects one of the balances inherited from the former James Watt College who were writing off, over a period of 25 years, £850k of prepaid PFI expenditure dating back to 1999-2000. A Gordon explained the background to this position and the discussions to date with KPMG, the College's external auditors.

A final adjustment reflects £336k of voluntary severance costs greater than that budgeted for February and March 2014. This adjustment is matched by an equivalent amount of College Transformation Funding (CTF) bringing the total projected severance costs for the year to £1.713 million. The additional costs

relate to the numbers of employees leaving the college between February and July 2014. An appropriate accrual based on reporting requirements will be made at 31 March 2014. The trading position, contained within the appendices of the accounts, also showed income and expenditure in relation to the new campus development in Kilmarnock.

A Gordon explained that the balances and cash transferred from West College Scotland for the Kilwinning Campus had also now been included within these accounts.

A Gordon further noted that the projection to 31 March 2014 will also inform the final transfer (donation) to the Ayrshire College Foundation, and this must take place before 31 March 2014.

A Gordon concluded by saying that the College balance sheet remains strong with £13.3 million of cash balances available at 31 January 2014. It was noted that approximately £2.1 million of this related to capital funds and SFC/SAAS funds held in advance.

The Risks and Opportunities analysis was also noted and the Chair signalled that he would wish to return to this during later discussions.

The Committee discussed the Management Accounts contained in Paper 2 at length. A number of questions were asked and satisfactorily answered. W Mackie began the discussion by saying that while a break even budget had been approved for 2013-14, this positive position was welcome. Further discussions were held on the context of the 8 months reporting period.

T Wallace added that he was pleased to note the level of analysis underlying the accounts and presented to the Committee for consideration. T Wallace sought clarification on the Kilwinning PFI write off and whether there was any advantage in leaving this balance in the accounts. M Breen replied that there was no advantage in maintaining it and the external auditors would in all probability query it during their audit. While maintaining the 25 year write off treatment was not improper, Ayrshire College would prudently wish to write the balance off in the period to March 2014.

T Wallace returned to the Risks and Opportunities Analysis and stated that in his view the analysis does not quite capture all of the risks. While risks are stated, the results for the College should they come to fruition are not included in the analysis. A few sentences capturing the essence of the risks, as described during discussions, would assist the Committee in its future considerations. M Breen agreed and stated that this would be included in the Risks and Opportunities analysis in the new financial year. M Breen requested some assistance from T Wallace on this aspect and this was agreed.

T Wallace questioned the large favourable depreciation variance. M Breen explained that this partly resulted from the different practices for calculating depreciation operated by the legacy colleges, but also the 2013-14 estimated charge appears to have been over budgeted. He added that the Finance Team

were currently working through a number of supporting papers/ systems received from the former Ayr College. The depreciation charge would also be considered in relation to the requirement to adopt Merger Accounting under the relevant Financial Reporting Standard (FRS6). M Breen explained that a report on merger accounting is being presented to the Audit Committee at their March 2014 meeting. Discussions then centred on manual systems and processes with M Breen explaining that asset management required to be revisited by Ayrshire College to ensure a consistent approach. T Wallace recommended that asset management be made a priority for internal audit review in the light of these discussions and particularly as the full explanation for the extent of the variance was not yet known.

The Committee next considered Paper 3 appendix 3.2 which set out the projected Final Income & Expenditure Position for 2013-14. M Breen explained again that this is not a normal year and will be materially influenced by a number of distinct factors the first of which was the estimated impairment of £9.425 million associated with the move of the Kilmarnock Campus from the Holehouse Road site to the new campus in 2016. M Breen explained it was both the External Auditor's and College's view that it was appropriate that the write off of this figure be reflected in the Accounts for 2013-14 given that financial close will be achieved within the period of these accounts i.e. either pre 31 March 2014 or as a post balance sheet event. M Breen explained the second figure related to the projected £7.320 million which it is being proposed will be donated by the College to the Ayrshire College Foundation prior to 31 March 2014. This estimate includes £1.32 million of unspent Capital Funds which the SFC will permit, in this year only, to be donated to the Foundation. The final amount to be donated will not be finalised until later this month to allow for the most accurate position to be presented to the Board of Management for approval at its meeting on 27 March 2014. In overall terms the appendix noted a projected deficit in income and expenditure of £11.5 million for 2013-14, but will still disclose College reserves of £4.67 million.

T Wallace queried the position of the College's working capital when entering the new financial year under ONS. M Breen replied that in order to answer that accurately a full monthly analysis of the 2013-14 budget was needed. M Breen explained that SFC had not specified a working capital level for Colleges post 1 April 2014 but had provided some guidance around factors to be considered. M Breen indicated that 30 days working capital (circa £3.2 million) is currently the working assumption (minimum of £2.5million). This approach aligns with a number of factors e.g. SFC grant will continue to be paid on a monthly basis although cash commitments will require to be funded throughout the month with M Breen further explaining that although the College wished to maximise the donation to the Foundation, it was vitally important to ensure a level of working capital is maintained post 31 March 2014 to continue to operate efficiently and effectively.

After some further discussion it was agreed that T Wallace meet with M Breen and A Gordon prior to the Board of Management meeting to discuss the working capital requirements post 31 March 2014 and resulting donation amount to the Ayrshire College Foundation.

In discussing the projected Income and Expenditure Accounts for 2013-14, the Committee were clear about the reasons behind the disclosures required, however, it was felt that the reporting of this position must be handled sensitively to ensure that no misunderstanding of the recorded accounts occurred within the public perception.

The Committee agreed that the Management Accounts to 31 January 2014 be approved.

Action: M Breen to update Audit Committee on the discussions about Asset Management and their view of making this a priority for internal audit review in the new cycle.

Action: M Breen to meet with T Wallace to further develop the risks and opportunity section.

Action: M Breen to ensure that the reporting of the projected deficit in the Income & Expenditure Accounts is drafted in a manner which seeks to avoid possible misunderstanding within public perception of the accounts.

Action: M Breen to meet with T Wallace prior to the Board of Management meeting to discuss both working capital requirements post 31 March 2014 and the resultant donation to the Foundation which will be proposed to the Board of Management on 27 March 2014.

7 Capital Expenditure as at January 2014 (*Paper 3*)

The Committee noted that papers 3 and appendix 1 represented capital expenditure to 31 January 2014 and takes account of expenditure to that date and the balance of funding available. The tabled paper, appendices 3.1 and 3.2, represented projections to 31 March 2014.

To avoid confusion, the matters contained in appendix 3.2 were dealt with under the previous agenda item and include the estimated £1.32 million in unspent capital funds which the SFC have confirmed in a circular should be transferred to the Foundation on this single occasion pre 31 March 2014. M Breen explained that any update to this figure would be presented to the Board of Management on 27 March 2014 as part of the discussion regarding the amount of the donation to the Ayrshire College Foundation.

The Finance Committee noted the Capital Expenditure Position at January 2014 and approved the proposal to transfer any unspent SFC capital grant pre 31 March 2014 to the Ayrshire College Foundation in line with SFC ONS Circular Number 12.

8 Non NPD Costs – Financial Report at 31 January 2014 (Paper 4)

M Breen reported that, as the Committee were aware, SFC had provided a capital grant of £5.12 million to take account of costs outwith the NPD scope and budget made available by the Scottish Government for the New Campus Project. All the NPD costs are coded to specific cost centres and, at 31 January 2014, a cumulative total of £1,021,147 of expenditure had been incurred as outlined in Paper 4. The College is now working with SFC to adjust the profile of the remaining £4.1 million of spend to better reflect the remaining project stages post Financial Close. The Committee was reminded that all expenditure proposals against the non NPD costs are agreed by the New Campus Project Board.

The Finance Committee noted the Non NPD costs position as at 31 January 2014.

9 College Transformation Fund at 31 January 2014 (Paper 5)

A Gordon reported that, as contained in paper 5, Ayrshire College was awarded £5,370,690 to support the merger process of the three legacy colleges. These funds have been spent as outlined in the paper leaving funding unspent at 31 January of £2,607,492. A Gordon noted that a further £1,458,537 had been committed which resulted in £10,224 of non-VS funding and £1,138,731 of VS funding still being available.

The Finance Committee noted the position of the College Transformation Fund at 31 January 2014

10 Student Support Funds Position at 28 February 2014 (Paper 6)

A Gordon introduced Paper 6 and reported that the projections now include the January 2014 start courses. A Gordon took members through the paper explaining each of the different Student Support Funds including the projected overspend of £67k in relation to SFC Funds provided for Bursary, Childcare and Discretionary support. A Gordon also noted that EMA payments were higher than originally estimated but that the actual expenditure can be recovered in its entirety from the Scottish Government. In relation to SAAS funds for Higher Education Discretionary support there was currently a projected underspend of circa £48k. A number of questions were asked by members and satisfactory responses received.

The Finance Committee noted the contents of the above paper.

11 2014-15 Budget for year ending 31 March 2015 (Paper 7) & 2014-15 Capital Expenditure Programme (Paper 8)

(These papers were taken together as they both relate to the 2014/15 Budget).

M Breen stated that the budget being presented within Paper 7 was for the period 1 April 2014 to 31 March 2015. M Breen reminded members of the previous meeting of the Finance Committee on 11 February 2014 where the Committee took the opportunity to consider the presentation and approach of the draft 2014-15 budget at that stage.

M Breen explained that this approach has provided the opportunity to reflect on the Finance Committee's views in the final budget being presented at this meeting. M Breen noted that the budget being presented has benefited from a further one month's trading experience.

M Breen explained that further refinement of the budget has occurred which now provides more detail than was available in February 2014. M Breen continued by stating that the financial strategy being adopted within the preparation of the 2014/15 budget is a predominantly break even approach on operating results in order to retain maximum financial flexibility in year.

M Breen reminded members that the draft budget presented to the Finance Committee in February 2014 showed an operating deficit of £(212)k. This updated March budget now takes account of a number of changes, as summarised in Paper 7. M Breen noted that the final budget discloses an operating surplus of £27k after all additions and adjustments.

It was noted by H Dunk that the budget presented represents a challenging operating position given the flat 2014-15 income settlement received from the SFC, but reflects Ayrshire College priorities for 2014-15 on the basis of the best information available at this time.

Members noted the above introduction and the budget proposals contained within the papers. A discussion ensued at which a number of questions were asked and satisfactory answers provided. W Hatton asked whether anything was envisaged which could possibly destabilise the budget as presented, such as the ongoing negotiations with the Trade Unions on the agreement of Ayrshire College salaries, terms and conditions. H Dunk explained that there is no certainty yet as to what the outcome of these negotiations may bring or even whether there will be a settlement. M Breen stated that this and other possible factors will be recognised as risks and be assessed and recorded appropriately in the Risk Register going forward.

W Mackie welcomed the budget proposals which he felt to be appropriately pitched and praised the efforts of all the staff involved in its preparations. T Wallace also praised the clarity of the paper which he felt made it easy to follow and understand. T Wallace added that, in relation to the question raised above, further consideration should be given to ensuring that all risks have been

adequately captured and recorded in the risk register, together with their potential day to day impact on the College.

Before reaching a decision on the proposals contained in Paper 7, the Committee moved to consider Paper 8 – **Proposed Capital Works Programme 2014-15** – which predicated the figures for approval in the proposed budget.

The proposed 2014-15 capital works programme had received extensive consideration at the meeting of Estates & New Campus Development Committee (ENCDC) meeting held on 25 February 2014, and the Chair invited W Hatton, Chair of ENCDC, to report on whether the updated paper being considered at this meeting had completed the actions required by ENCDC.

W Hatton reported that a thorough discussion had taken place on 25 February 2014 and this had been fully minuted. As Chair of the Committee W Hatton stated that she was now content that all of the matters discussed had been addressed in the revised paper presented this evening and the proposals contained therein had been clearly identified as relating to and underpinning the priorities contained in the Ayrshire College Curriculum Development Plan (CDP). W Hatton continued that the provision of Centres of Excellence are a driving force behind Ayrshire College and the CDP, in addition to ensuring equality of provision and available facilities across the campuses. W Hatton noted that, from an employer's perspective, the College must demonstrate commitment to equipping students with the necessary skills within facilities that match those that the students will experience on entering industry.

W Hatton continued that the most significant discussion had taken place around the £600k required for ICT equipment. The revised paper now makes it clear that this is a resetting, not a refreshing of these facilities. It is clear that, within the context of the CDP, Ayrshire College has a responsibility to ensure that its ICT facilities are current, i.e. the strategic intention is to ensure no computers are more than 4 years old. This budget will seek to address this matter. The further explanation provided clarifies any concerns previously expressed.

In terms of the Capital Projects (the new campus development was not part of these deliberations) some concerns were expressed about the timescales involved which were viewed as challenging given the College year and the requirement to complete works traditionally over the summer period. W Hatton concluded her comments by stating that ENCDC was fully supportive of the proposals contained within the proposed capital expenditure programme and recommended them to the Finance Committee.

T Wallace thanked W Hatton for her comprehensive report and stated that it is important to demonstrate that proper governance has occurred, that the decisions by each of the respective committees are properly recorded and that the Estates & New Campus Development Committee are content that their requirements have been met and are fully supportive of the capital expenditure proposals.

T Wallace went on to ask in terms of the £5.5 million required to complete the proposed capital programme, how that would be funded. M Breen replied that Capital Grant made available by the SFC for 2014-15 is £1.5 million. The remaining £4 million will be requested from the Ayrshire College Foundation. M Breen further explained that unspent 2013-14 capital grant of circa £1.32 million will be transferred to the Foundation pre 31 March 2014 in line with SFC guidance.

W Mackie stated his support for the capital expenditure proposals as presented and stated that the figures involved were not out of line with the expected total in year capital spending of the three legacy Colleges. W Mackie continued that this was a strategic proposal designed to underpin the CDP which has received the fullest consideration by ENCDC and now the Finance Committee.

The Committee endorsed this view and recognised the need to ensure that funds transferred to the Foundation are used for the purpose of furthering the objectives of education in Ayrshire.

The Committee approved the above papers.

The Finance Committee recommends the budget for the year ending 31 March 2015 for approval at the Board of Management meeting on 27 March 2014.

The Finance Committee notes the Capital Works Programme approved by the Estates & New Campus Development Committee and approves the funding sources required for completion of this programme.

12 Education Contracts & Business Development (*Paper 9*)

J Galbraith introduced paper 9 and explained that the purpose of this paper was to provide information on the activities carried out within the Education Contracts and Business Development Directorate. J Galbraith stated that further papers covering these activities would be brought to the Finance Committee as a standing agenda item and the scope of this paper would be further developed to allow key performance indicators to be reported to members.

J Galbraith set out in detail the context of the paper which included clarification of non-SFC income activities. J Galbraith highlighted the considerable progress being made in gaining a full understanding of how the commercial activities and education contract activities of the legacy Colleges were undertaken and the contribution that these activities made to the Colleges.

J Galbraith provided further details on both of the Skills Development Scotland contracts and commercial income activities. A number of discussions ensued about the paper and a number of questions were asked and satisfactorily answered.

T Wallace and W Mackie noted the high quality of this paper and looked forward to receiving further updates covering Education Contracts and Business Development activities.

The Finance Committee noted the content of the above paper.

13 Ayrshire College Foundation (*presentation*)

M Breen made a presentation bringing members up to date on the progress of the establishment of the Ayrshire College Foundation. A copy of the presentation is maintained in the record of the meeting.

The Committee recorded their thanks to Michael Breen, Alistair Gordon and all the Finance staff of Ayrshire College for all their work in progressing the establishment of the Ayrshire College Foundation and in the preparation of their papers for this meeting.

14 Date of Next Meeting

Thursday 12 June, 5.30 pm, Kilmarnock Campus.

Signed by the Chair _____

Date: 12.06.14