

**Minute of the Finance Committee Meeting
held in the Kilmarnock Campus
on Thursday 12 June 2014**



Present: Willie Mackie (Acting Chair)
Heather Dunk
Kathryn Cole
Waiyin Hatton
Marie Macklin

In attendance: Michael Breen
Brendan Ferguson (Minutes)
Jackie Galbraith
Alistair Gordon

1 Welcome and Introductions

W Mackie, as Acting Chair, welcomed everyone to the meeting.

2 Apologies

Apologies were received from Tom Wallace, Jane McKie and Bernadette McGuire

3 Declarations of Interest

There were no declarations of interest.

4 Minute of the meeting held on Thursday 13 March 2014 (*Paper 1*)

The minutes were approved as a correct record.

Proposed: Waiyin Hatton. Seconded: Marie Macklin

5 Matters Arising

The Chair confirmed that all actions were complete, apart from the 2nd action on page 5. M Breen and T Wallace have still to meet to discuss the risks and opportunity section.

6 2013-14 Management Accounts at March 2014 (*Paper 2*)

In introducing the Management Accounts, M Breen reminded members that 2013/14, the first year of operation as Ayrshire College, had been a highly unusual year from an accounting perspective for a variety of previously discussed reasons. While there had been a number of significant exceptional items, including the initial transfer to the Ayrshire College Foundation and the accounting impairment for the Holehouse Road Campus in Kilmarnock prior to the move to the new campus in 2016, the actual trading position had shown a surplus. Although the accounts have not yet been audited, ongoing advisory discussions had been held with the College's external auditors, KPMG, throughout 2013/14 and KPMG had indicated that they were content with the way in which the College accounts were being managed and presented.

M Breen continued that the strategy being adopted was to position the College's finances for future years and to place the College in the best position to ensure its future financial sustainability.

A Gordon proceeded to take Members through the accounts pack in some detail covering the income and expenditure accounts including highlighting variances against budget, the College balance sheet and cashflow.

The Committee noted the above report along with Paper 2, and in particular noted the commentary on the exceptional items contained in Appendix G. The Committee was aware of the nature of these exceptional items from previous discussions and agreed that this strategy placed the College in a very good position to maintain future financial sustainability. A number of questions were asked and satisfactory answers received.

The Committee also noted that the College has to submit a 2013-14 'Financial Forecast Return' to SFC by 30 June 2014 and will use these March 2014 figures in that return.

The Committee approved the Management Accounts as at 31 March 2014, subject to finalisation of year-end adjustments and external audit, and commended them as being well-managed and robust.

7 Capital Expenditure at March 2014 (*Paper 3*)

M Breen stated that this paper had been received and considered by the Estates & New Campus Development Committee held on 10 June 2014. The Paper provides the total and the mix of Capital Expenditure from 1 August 2013 to 1 March 2014 (i.e. the revised reporting year due to the ONS reclassification). The total expenditure of almost £1.6 million was spent on ICT equipment, furniture and fittings, upgrading the fabric of the buildings and purchase of curriculum equipment to improve the student experience. The Principal reported that the feedback received from the students as a result of this spend had been excellent, with the students commenting on how much they valued the investments made and how the consequent improvements in the learning

infrastructure had been invaluable in supporting their experience at Ayrshire College.

The Committee noted the Capital Expenditure position at March 2014 and the very positive feedback received from the students.

8 College Transformation Fund at 31 March 2014 (Paper4)

A Gordon introduced Paper 4 and took members through the contents of the paper including the financial tables as detailed within the paper.

The Committee noted the position as set out in the paper and in particular the position with regard to the budget remaining of circa £475,000 within the Voluntary Severance funds (VS) provided by SFC. The Committee noted and supported the position that, in the light of the fact that a number of further VS agreements may be forthcoming as a result of the Organisational Review currently underway, further funding may be required. The Committee was also aware that Ayrshire College in August 2013 had agreed to transfer the sum of £850K to the West College Scotland from its total College Transformation Fund allocation, and agreed with the Executive Management Team (EMT) that this would provide a basis for discussions with the SFC in order to request additional funding support.

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

9 Cashflow Forecast at April 2014 (Paper 5)

M Breen introduced Paper 5 and stated that this paper demonstrates the approach that is being taken to managing cash flow post 1 April 2014. On that date the ONS reclassification took effect and the College became a central government body for accounting and financial purposes. It is now required to keep within its allocated part of the Scottish Government's cash resources and budget cover. As a result, it is now required to submit detailed monthly cash flow forecasts to SFC at the beginning of each month, following which the SFC will make grant payments in the middle of each month. This represents a very significant change in the practice and culture of cash flow management across the College sector.

The revised practice under ONS was designed to ensure that Colleges have enough, but not too much, cash reserves available to maintain their trading position. The approach being taken by Ayrshire College is to maintain the cash flow balance between an 'upper band' notional 30 days trading cash position and the lower band which is the agreed overdraft facility with the Bank of Scotland. The College operational strategy is designed to avoid using the available overdraft which would incur interest charges.

A Gordon added that the SFC, during the first few months of operating this new structure, have paid what has been requested. However, issues may start to emerge later in the financial year across the sector as cash flow requests begin to approach the limit of the SFC budget allocation. A Gordon stated that further updates would be provided to the Finance Committee throughout the year.

The Committee noted the content of the above paper.

The Chair, on behalf of the Committee, stated the view that the robustness of the Ayrshire College management process was clearly evident within the paper and the above recorded report.

10 Student Support Funds Position at 30 April 2014 (Paper 6)

M Breen introduced Paper 6 and reported that the paper provides an account of the actual expenditure to 30 April 2014 and the projections to the end of the academic year on 31 July 2014. The in-year allocation of circa £1.223 million had significantly reduced the earlier projected overspend which was now projected to be circa £62K across all funds, or 0.6% of the overall SFC Student Support Funds available.

A Gordon provided further details to Members covering the position with regard to Bursary, EMAs and SAAS funding.

M Breen referred Members to Section 4 of the paper. The initial 2014/15 SFC Student Funding Allocations represents a 1.2% increase against the 2013/14 allocation. However, a 1.9% increase had been awarded to students in relation to their bursaries. This represents an effective “real terms” decrease in the allocation made to the College. The initial SFC allocation is a matter of concern. The College would again be reliant on receiving a significant in-year allocation. M Breen reminded Members of the circa £1.2 million received for AY 2013-14 and the resulting break down position. M Breen stated that there is no guarantee that such a sum will be provided during 2014/15. This potentially leaves the College in a position where there could be a significant shortfall in the funds available to pay student bursaries based on a similar pattern of Students presenting for courses in AY 2014-15.

M Breen went on to confirm that the College had raised this matter with the SFC in writing and, in the view of the EMT, SFC had underestimated the Ayrshire College bursary funding requirements from the start. There was a de-facto recognition of this by SFC when Ayrshire College was awarded the largest in-year allocation of bursary funding in 2013/14. The Principal stated that the provision of bursaries to eligible students was a critical matter. The alternative of not providing bursaries when the available funds ran out would restrict recruitment and act against the best interests of the College, the employers and the wider community in Ayrshire. On this basis the Principal stated that she would propose that Bursary allocations be continued in the event of a consequential funding shortfall and, if necessary, the College enter into deficit in this area. In the meantime, discussion would continue with the SFC on the

provision of a funding figure on which to rebase the Ayrshire College Bursary Funding Allocation

The Committee noted the above Paper.

The Committee noted with concern the commentary above on the position in relation to AY 2014/15 SFC Student Funding Allocations, particularly Bursary Funding, and were supportive of the position being adopted by the College.

The Committee looked forward to receiving future reports on the 2014/15 Student Support Funds Position, and any proposals that may be contained therein

11 WSUMs Report at 29 May 2014 (*Paper 7*)

M Breen took the Committee through the above paper in detail, explaining that there had been a 14.8% (28,423 WSUMs) increase in the WSUMs target set by the SFC during the transition year of 2013/14 in comparison with the legacy Colleges' 2012/13 targets. For the reasons outlined in Paper 7, a shortfall of 4,473 WSUMs had been prudently projected. The SFC had been kept aware of this position since the projected shortfall had been identified early in 2014.

The College was currently working towards increasing its WSUMs delivery and there was a possibility of reducing the shortfall before 31 July 2014, the SFC reporting cut-off date. In finalising its 2013/14 accounts, the College was prudently making allowance for a possible clawback of the price of 5,000 WSUMs by the SFC, although the indications from SFC was that they would not be in a position to make any decision on clawbacks before October 2014. This meant that the College would have to sign off its 2013/14 financial statements without knowing whether it was facing a financial clawback unless this position changed.

The largest shortfall in meeting the WSUMs target was in North Ayrshire. However, the College was confident that its Curriculum Development Plan WSUMs targets for AY 2014/15 would be met due to the comprehensive planning processes now in operation. H Dunk explained that NAC were very positive about what the College was achieving in North Ayrshire and the staff and students were also seeing the difference that Ayrshire College was making and were responding to it. As an example, H Dunk pointed to the investments being made in the provision of Hospitality courses at the Kilwinning Campus, the applications that were being attracted and the surge in interest from employers.

A number of questions were asked and satisfactory responses received. One of the questions, from W Hatton, concerned what progress was being made by the SFC in relation to simplifying the funding process? The Principal replied that the matter of moving from SUMs to credits was still under consideration by the SFC, but there had been no recent indications from the SFC on what, if any,

progress had been made. H Dunk confirmed that updates would be provided to relevant committees on this matter as it develops.

The Committee noted the contents of the above paper and the current 2013/14 WSUMs position, including a projected shortfall in WSUMs delivery against the SFC target.

The Chair noted the dissemination of information from the EMT to the staff of the College at the Campus meetings that had been held recently, and the Committee commended the EMT on their openness and transparency.

12 Ayrshire College Foundation: College Funding Applications *(Paper 9)*

M Breen introduced the above paper by stating that it was to inform the Finance Committee on the progress of the Grant Request Applications submitted to the Ayrshire College Foundation (ACF) and their outcomes. M Breen went on to confirm that all of the applications submitted by the College for a total of circa £4 million had been approved by the ACF trustees, who had been fully supportive of the ambitions of the College. In addition, the ACF had commented very favourably on the quality of the applications that they had received.

The Committee noted the content of Paper 9 and the successful funding applications made to the Ayrshire College Foundation.

The Committee congratulated M Breen, Alistair Gordon and his team on the time and effort committed to ensuring the high quality of the papers submitted.

13 2014/15 Capital Expenditure Programme (Funded by SFC Grant) *(Paper 8)*

Following on from Paper 9 above, M Breen stated that the successful applications to the ACF meant that a requirement now existed to review the utilisation of the SFC Capital Grant of £1.5 million. M Breen went on to say that Appendix 1 to Paper 8 provides a breakdown of how it is currently envisaged that this funding may best be utilised. However, in discussion with both the Estates and Finance Committees, the College Management would like flexibility to vary the spending of the SFC Capital Grant in-year as priorities dictate.

Within Appendix 1, the Committee was asked to note the £350K allocated to the Irvine Royal Academy Project, representing the agreed contribution of Ayrshire College to the funding of the preparatory work. It was felt that, given the urgency of the project and in order to minimise risk, this funding should be utilised from the SFC Capital Grant in the first instance.

M Breen confirmed that this paper had also been considered by and received the support of the Estates & New Campus Development Committee.

The Committee approved the updated proposals for the 2014/15 Capital Expenditure Programme funded by SFC Capital Grant.

The Committee further agreed that there should be flexibility attached to the utilisation of the SFC Capital Grant, with in-year reviews associated with evolving priorities being undertaken when appropriate.

14 Business Development and Education Contracts (*Paper 10*)

J Galbraith introduced Paper 10 and stated that it provided the Committee with an update on the outcome of the Skills Development Scotland (SDS) bids for Modern Apprenticeship starts and Employability Fund Places, together with a summary on the progress being made on the provision of commercial courses. In April 2014 the SDS confirmed a total of £764,000 in contract awards had been made to Ayrshire College, split as £518,844 for Modern Apprenticeships and £245,525 for Employability Fund places. The emphasis would be on higher level apprenticeships and J Galbraith stated that all would be taken up. There will be 900 apprentices in total being trained at the College. This makes Ayrshire College one of the leading providers in this field, a fact that the College will promote and market to both employers and the wider community. Employment partners include Prestwick Aircraft Maintenance (Ryanair), Spirit Aerosystems, Avanticell and Glaxo Smithkline.

In relation to the Employability Fund, J Galbraith reported that 198 places have been awarded for 2014/15. The College was working with all three community planning partnerships (CPP's), Job Centre Plus and Skills Development Scotland to determine the most effective use of the College's employability provision, including that supported by the Employability Fund. Details of the allocation of the Employability Fund places across the community planning partnerships together with the specific and targeted employability programmes designed to meet the needs of the region were contained in Paper 10.

In terms of commercial income, J Galbraith stated that Ayrshire College was on course to meet its income target for 2013/14. J Galbraith listed the following as examples of the bespoke training being offered by the College:

- Supporting British Airways Maintenance Group (BAMG) in the recruitment of 30 maintenance engineers. Those recruited will receive specialist follow on training delivered by BAMG and Ayrshire College Staff.
- A Catering for Carers course, delivered in partnership with the NHS, targeted at care home catering staff and designed to teach staff how to prepare nutritious and appealing food for their residents.
- Delivery of a programme of short one day courses for over 50 service users of the Addiction Recovery Services, including first aid, introduction to IT, elementary food hygiene, manual handling, customer service and CSCS training.

The Committee noted the above report with great interest and welcomed the excellent progress being made. In particular the Committee noted:

- **The outcomes of our 2014/15 bids for modern apprenticeship starts and Employability Fund places and progress being made in filling these places; and**
- **The progress being made in preparing and delivering planned and bespoke commercial courses.**

15 Risk Register – Finance Extract at February 2014 (*Paper 11*)

M Breen introduced the Risk Register and stated that the last version had been presented to the Board of Management in March 2014. M Breen explained that due to the timing of the Committee cycle the updated Risk Register would be considered by the Audit Committee next week. In that sense therefore, this was a historical document and the revised Risk Register would be considered by the Board of Management at its meeting on 25 May 2014.

The Committee noted the Risk Register as at February 2014.

The Committee also commented on the excellent work that had been undertaken over the last year in preparing a Risk Register that was clear, coherent and easy to understand.

16 Letter from Laurence Howells re Addendum to the Financial Memorandum with SFC (*Presentation by M Breen, paper copy in the meeting file*) and **Scottish Colleges Insurance Arrangements** (*Paper for information*)

M Breen made a presentation outlining the content of the draft addendum to the Financial Memorandum, prepared in response to the requirement for Colleges to comply with the Scottish Public Finance Manual. This requirement came into effect on 1 April 2014 as a part of ONS reclassification and, as no such addendum currently exists, represents the Scottish Funding Council's interpretation of how the Scottish Public Finance Manual should be implemented in relation to Scotland's Colleges.

M Breen reported that while the Financial Memorandum itself is uncontentious and represents a logical update to the 2006 version, the addendum is contentious and contains a significant number of items which will change the way in which the College require to operate. In particular, the delegated spending limits are highly restrictive and do not represent the financial size and capacity of the new Regional Colleges. Such restrictions would severely hamper the ability of College management to properly undertake its role and would attract a significant opportunity cost in the amount of time devoted to the bureaucratic process of seeking permission to spend relatively small amounts.

In addition, under the requirements Colleges would be expected to become self-insuring bodies with effect from 1 August 2015. In effect this would mean that Colleges could no longer commercially ensure against risk. There were certain legal exemptions reported by M Breen, such as motor vehicle insurance, the insurance of the PFI building in Kilwinning, existing property leases and the new build project in Kilmarnock due to the provisions contained within these contracts. However all other insurance matters, including the Ayr Campus buildings and public and employers' liability, would no longer be subject to commercial Insurance. M Breen went on to say that Colleges Scotland have been asked to prepare a business case for exemption from the insurance requirements of the Scottish Public Finance Manual. M Breen also stated that further clarity was required in a number of areas including Board insurance.

Members of the Committee noted their concern. In members' view, not only did the reported limitations to be imposed seriously restrict the ability of management to manage, any requirement to cancel commercial insurance arrangements would impose serious risks upon the College.

The Committee noted with concern the above matters and asked that the Chair convey this concern, as appropriate, at an early opportunity.

17 Date of Next Meeting

Thursday 21 August 2014, 5.30 pm in Kilwinning Campus.