

Minutes of the meeting of the Finance and Estates Committee held via MS Teams on Thursday 26th November 2024 at 17:30

GOVERNORS PRESENT: Edward Rawson, Chair
Paul Wheeler
Andrew Cropley, Principal and Chief Executive Officer
Kudzai Muzangaza

ALSO IN ATTENDANCE: Jon Fearon, Finance Director
Gavin Peake, Director: IT, Estates and Learning Resources
Eloise Hopkinson, Clerk to the Corporation

		ACTION by whom	DATE by when
1	<u>DECLARATIONS OF INTEREST</u> The chair reminded everyone present to declare any interests that they may have on agenda items scheduled for discussion. Standing declarations were noted.		
2	<u>WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE</u> There were no apologies for absence, with all members of the committee present.		
3	<u>MINUTES OF THE MEETING HELD ON 3RD OCTOBER 2024</u> The minutes were reviewed and it was agreed that they were an accurate record of discussions. AGREED: to approve the minutes of the meeting held on 3 rd October 2024. There were no matters arising.		
4	<u>ACTION PROGRESS REPORT</u> The committee members were happy to note the content of the update provided.		
5	<u>RECONCILIATION OF THE FINANCIAL STATEMENTS AND JULY 2024 FINANCE REPORT</u> The finance director presented the financial statements and particularly highlighted the following points: The college is in a positive position.		

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- The EBITDA forecast in the management accounts was £1.747m and in the financial statements was £1.746m. This enabled the finance director to reassure governors that the two were largely in line.

AGREED: to note the content of the update provided.

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OCTOBER 2024 MANAGEMENT ACCOUNTS

The finance director presented the management accounts for October 2024, focusing on the following key points:

- There has been a fairly positive start to the year, with the finances staying broadly on track.
- In terms of income to date, AEB is performing well.
- The finance director indicated that this is the first year that he has not had to report an underperformance in apprenticeships. However, it is possible that this position will slip at the end of the year due to governmental decisions within the budget in relation to National Insurance and the National Minimum Wage. The former is having an impact on hiring and could affect starts – it is not yet impacting construction and engineering but will impact subjects such as customer service and hair and beauty. The pay rate for apprentices has increased, which will also have an impact, and the potential of the increase in the minimum wage for 16-year-olds will further compound this.
- Additional learning support funding from the local authority is currently on target, but the college has gone over in respect of the number of learners receiving this support. Local authority budgets are tight, so the college never takes the view that it will definitely receive funding unless there is a firm agreement. There could potentially be another £200k above the projected income, but it is necessary to be cautious until all the claims and starts are locked in. This demand has impacted pay as the college has hired more staff to support the level of need.
- Staffing is slightly above budget, so the finance director is being very firm in terms of pay contingency. It is necessary to demonstrate savings early on in order to be able to allow new posts later in the year. The finance director is under pressure to authorise requests for additional posts, but he does not want to be in a position where a significant overspend emerges in the future.
- Performance shows some real positives and, if the college were able to recognise the potential additional ALS income, it would be in a really strong position.
- In terms of pay, the impact in terms of the current position has been included. The college does not currently have all the answers, but the employer contribution rate increase will add around £200k per annum to pay costs.
- In terms of in-year funding, the finance director has assumed

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within the budget that the funding target will be met. At the date of the meeting, the college was approximately 80 students above target, and the government had confirmed that there will be a growth allocation. However, there was a caveat that the government reserves the right to amend the formula if demand is too high. The finance director feels that some of the extra funding available will go towards growth. He advised that, although there has been strong demand and growth in the Midlands and the north of the country, this has not been the picture elsewhere. He indicated that, if it averages at a lower level across the country, growth should be affordable for the government. The government will analyse the R14 data, once submitted, and run affordability checks, and it is thought that confirmation will be given in January 2025. In summary, the assumption within the management accounts is that the college will hit its target. Although it could receive more funding due to high numbers, this has not been recognised as there is an element of risk that it will not transpire.

One governor questioned at what point the decision-making in relation to new posts will become critical. The finance director indicated that, regardless of that point, he needs to wait for answers in relation to funding before committing to new roles as it would be irresponsible to allocate money which the college does not have.

- Some of the £300m promised will come into the sector from April 2025, but the Department for Education will not provide the details until the third week of March at the earliest. The growth payment is usually made at the beginning of April but there is normally plenty of notice, so the finance director feels that there will be some certainty about this in late January or early February 2025.

One governor questioned whether the college will be able to continue to educate the number of students enrolled with the staff it currently has in post if the news in relation to funding is not positive. The finance director indicated that it will be able to, but the EBITDA will go below 4% and financial health will dip into 'requires improvement'. Furthermore, it will not be possible to obtain additional staffing resource.

- The increase in the National Insurance employer contribution rate is costing the college £206k.
- Within the budget, the government announced a £5b allocation to the public sector, and the DfE has earmarked £100m of this for further education. The college will probably get a grant in addition to its allocation, but this is still under discussion by the government and the decision will probably not be announced until March 2025. In the meantime, the finance director indicated that the college needs to consider the risks of 20% not being funded.

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The government will need to decide the allocation on a formulaic basis. One questions in relation to this is which data will be used, as this could be old and inaccurate (e.g. at a lower staffing headcount and with lower salary figures). The finance director indicated that there will probably be some loss somewhere within the calculation, and he has included this as a risk within the assumptions.

- A fairly reasonable assumption had been made in relation to the National Minimum Wage, but this has proven to be significantly lower than the actual increase. This has increased costs by an additional £33k and does present some challenges from April to July. Therefore, the college will not be able to immediately address the pay differentials which have come about as a result of the NMW increase and, instead, will need to do this next year. The proposal is now to put all inflationary pay increases in place from 1st January rather than 1st December, which was the original assumption within the budget. Where there is an incremental increase, which is basically contractual, this will need to be paid from 1st December. Originally, the finance director had built in assumptions to tweak some pay bands upwards where staff were receiving inflationary increases as well, but this will not happen now. Very low paid staff will receive 4.5% and the scale will slide down to 2% for higher paid staff, with the proposal to cap increases at £1k. Most teaching staff will receive a minimum of 2.4%, and the cap will only impact staff whose salaries exceed £50k. This will create a saving to mitigate against the increased costs in-year. These changes will broadly become neutral in the budget, but there will be some issues to address into the next financial year due pay band erosion. Regardless of this, the college needs to act within the constraints of the budget and finding it has. Governors were in agreement that the proposed pay award, which will be 2.5% for most staff, seems reasonable. The finance director indicated that he foresees inflation rising across the year, so some of these increases are not going to be inflationary in the long-term but will be acceptable for now. The principal confirmed that the chair of the Corporation Board was comfortable with letting the committee approve this as the changes were within the tolerance of what was previously approved by the board and the plan had only been tweaked to fit within the lines of affordability due to higher-than-expected increases. Enabling the Finance & Estates Committee to approve these proposals today would allow the college to move forward in consultation with trade unions.
- Governors will be given an update as soon as an announcement is made in relation to funding and the allocation.
- Cashflow remains very much where it was expected to be.
- The college is looking forward to finalising a contract with Ashfield District Council and putting in a claim for 1.9m cash, followed by a £200k claim to Mansfield District Council. Once these payments

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have been received, cash will show an improved picture.

- The Outram Street deal (former Wilko's store) is close to closing and will hopefully be complete in early December. At the point of the meeting, delays were back with the seller as they needed to provide some information in relation to exit routes. However, the college was broadly happy with the lease. Some work was being done at risk, and the college has been given access to the building to do this.
- The finance director reiterated that he has maintained a prudent view around some of the revenue recognition.

The chair questioned whether, taking into account everything discussed, it was more likely that the college's financial health would dip into 'requires improvement' than it was at the last Finance and Estates Committee meeting. The finance director indicated that the critical thing was the growth funding. This could be very positive but, if it turns out to be less than expected, this is what will cause the slippage. The ESFA will need to understand that the financial health of those colleges which have committed to taking additional learners will slip if these colleges have been under-funded for growth. This is an ongoing issue and a matter of debate. The finance director informed the committee that the T-Level clawback will be quite large across the nation, but this funding cannot just be automatically used to put back into education – it may need to go back into the Treasury to be reallocated elsewhere.

AGREED:

- to note the content of the update provided
- to approve the pay proposals as suggested.

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RISK REPORT

The clerk presented a detailed report. One new, red RAG-rated risk had been added in respect of the land contamination following the 2016 diesel spill at Chesterfield Road. Further details in respect of this were included within the report presented at item 8 of the agenda.

Other red finance and estates-related risks continued to be cybersecurity; the new adult skills fund; and the demand for bus passes potentially incurring higher than budgeted costs. In respect of the latter, 400 young people had applied for bursary without providing the information and evidence needed to support their application. The intention was to terminate bus passes in December of those students who continued to fail to provide this evidence. Although some of them will come forward with the required proof, some have certainly made an incorrect claim and will have to pay for their ticket if they wish to retain it. This should hopefully bring bursary costs back in line with where they were expected to be. Governors were assured that the college intends to refine this process in 2025/26 and will 'switch off' the free bus passes, perhaps within six

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weeks. It was confirmed that learners have been contacted to inform them of this, but this had not resulted in a large response.

The committee were informed that the National Minimum Wage risk would be removed from the risk register as the facts are now known, but there will be a National Insurance risk to include the potential for the government to not pay the full amount.

AGREED: to note the content of the update provided.

8 **CAPITAL PROJECTS AND ESTATES REPORT**

The director: IT, estates and learning resources presented a detailed update in relation to estates matters. Key items brought to the committee's attention were:

- The Chesterfield Road project is moving at a swift pace and a lot of progress has been made in a short space of time, which provides assurance that the project is on track for the 9th June deadline.
- Part of the Old Brewery will be demolished, and the planners have now responded to say that planning permission was not required to demolish this building – the college will just need to work with them to agree how this will be done, and notices will need to be placed. The process has commenced and competitive quotes are in place, so this will go ahead. This will free up a large area to use as student space or car parking – the latter would mitigate the current cost of parking, which the college is paying for. Some other buildings on the site are in good condition and the college could make good use of these if they can be brought up to a suitable standard.
- In 2016, an oil tank burst at Chesterfield Road and diesel oil was spilled. Insurers were contacted immediately and attended the site, but the whole process took quite a long time. Part of the site was dug out down to 1.2m but, although the building which had been hit by the diesel was cleaned out, it was not moved or demolished. It has since been discovered that the contamination has seeped underneath the concrete slab beneath the building. The planners asked for testing under the conditions of the new-build, and it has been identified that there is some contamination. It is now necessary to establish the limits of the contamination via bore holes and trenches. The likely scenario is that, where there is contamination, the college will have to remove the concrete and soil down to a certain depth. It is also believed that the diesel has soaked into the water table, so it is likely that water will need to be drawn up and run through a set of filters before it is put back into the sewage system, and this will need to continue until it is clear. This work and the testing have been arranged to take place in a way which will not impact the building work, but the car parking is at risk. One of the sign-off conditions was that there must be sufficient car parking, but part of the car park cannot be

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completed until this issue is resolved. The director feels that he can mitigate this parking issue with the planners. Another issue is that the college is not allowed to officially open the new building until the contamination has been dealt with. Testing will start on 2nd January, and there will not be a report until March. There is then a statutory two-month period which will take the process up to May. The building is due to be handed over on 9th June, and the parking and remediation will not be complete by then, so the director will need to speak to the planners. However, the only contamination likely to still be present at that point will be 5m down in the water table. The area affected will be completely fenced off and will be no risk to health, so the director expects that the planners should sign off and allow the building to open, but there is a risk. The Environment Agency has said that this is below its threshold for concern, so the environmental aspect will be dealt with only by local environmental health officers.

One governor raised a question in terms of whose responsibility it will be to pay for the diesel spillage issue. The committee was advised that the insurers will probably pay out for the land contamination. However, they are saying that, at the time of the spill, the college's insurance policy did not cover ground water or anything below 1.2m, and this is why they stopped the remediation at that level. The college never received the final report, as this was sent back directly to Zurich. This has now been received, and it does say there are traces of contamination below 1.2m. The college has sought legal advice, and the solicitor does feel that there is a case to be made, but the question will be around how expensive the remediation will be. It is highly likely that some of the areas will not have any contamination at all and, where there is contamination, this may fall below a threshold. One area will doubtless need some work, but this is for discussion with environmental health. The director: IT, estates and learning resources can use the £6.1m refurbishment budget to cover the work on Ashfield House and can then use the money which was originally put aside for that as contingency for the land contamination. The finance director advised that the insurance company is not happy to fund the investigatory work, but there is probably a strong prospect that it will accept liability if the investigatory work does uncover contamination. It is necessary to obtain all the facts before debating liability and how costs will be covered.

The director: IT, estates and learning resources went on to discuss the town hall in Mansfield, which is proposed as an alternative to the Four Seasons shops, which are less than ideal. Since folding the Debenhams project, the director has been trying to source suitable space for the Community team until the Connect building is available. The director was seeking recommendation for the Corporation Board to approve for the college to go ahead with leasing this space. This will result in a small saving as it is cheaper than the Four Seasons accommodation. Members of the

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committee were happy to recommend this proposal to the board.

AGREED:

- to note the content of the update provided
- to recommend that the board approve the leasing of the Town Hall accommodation as a base for the Community team.

9 **SPACE AVAILABILITY AND FREQUENCY OF USE**

The director: IT, estates and learning resources presented the update, focusing particularly on the following points:

- The college is in a very good position in relation to space usage, which shows an improvement even from last year's already positive position.
- Usage on most sites is hitting or exceeding the ESFA's space utilisation target. The only two exceptions are Chesterfield Road, which is low at the moment, and the Station Park workshops. This latter is partly due to the decanting of some curriculum to other sites to enable building work to take place. The director is working with colleagues at Station Park to look at how they can tighten up usage of the workshops.
- Usage of the Old Brewery's space is fantastic.
- The director indicated that this is very much a good news story, and he feels that Station Park's utilisation will improve once some of its provision has been moved to Pleasley Mill and motor vehicle moved into Station Park.

The principal questioned how utilisation looks across the week, i.e. in terms of some days showing very low usage. The director indicated that it is better than in the past but is still not perfect. Station Park's workshops in particular still have an issue with underutilisation on some days of the week.

AGREED: to note the content of the update provided.

10 **SUSTAINABILITY**

The director: IT, estates and learning resources presented his detailed report, which focused on a number of key matters.

- The college is on a sustainability journey and is making good progress.
- Some significant progress has been made in terms of gas and electricity usage. The college has moved away from entirely green electricity – this will impact next year's figures but, in terms of savings made on usage in-year, is quite significant. The college is installing a monitoring system to narrow down where there are usage issues, and the intention is to try to drive down usage by making this into a competition and getting the students involved.
- An environmental report has presented opportunities for quick wins, which the college is implementing at the moment.

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- CO₂ has gone down year on year.
- The Derby Road site's building management system has been particularly effective.

Solar project proposal

Before the director continued with this item, one governor raised a question in relation to this proposal having first been put forward in 2023. He indicated that the committee had asked for a number of items in order to inform its decision, and these have not yet been provided. The director: IT, estates and learning resources indicated that the college was originally liaising with the French arm of Total Energies about this proposal, and the contact dwindled. There is now a UK team in place, and this team has come back with an amended proposal. However, the situation is further complicated by the Salix bidding opportunity, which could provide a grant of up to £1.7m for decarbonisation. The director informed governors that he has been looking at what he could include and how to make the strongest case possible, as the decision will be made based on the quality of the bid rather than first come, first served. He was told that including solar within the Salix bid would make it stronger, so this has been built in. 86% would be funded by the Salix grant, and the college can cross-fund this so the remainder can come from the refurbishment money and it would not at all affect the college's bottom line. However, the question is now whether the college should wait until it has the outcome of the Salix bid before progressing with the Total Energies deal.

The director indicated that the Salix grant would only enable installation of solar panels at Derby Road, but he could then come back to governors with a proposal for the other sites.

The options and figures presented within his report were around how much of the energy the college will be using itself – all of the panels would be put in place at no capital cost to the college. Governors were informed that the fixed rate shown is competitive and is around half what the college currently pays, and the finance director and the director: IT, estates and learning resources have done some work on costings. Therefore, the report presented reflects two completely different models which are different from the proposal presented in 2023.

One governor questioned whether the rate is fixed for the full 20 years, and it was confirmed that this is a fixed starting rate which goes up by 2% per annum. However, this could result in the market rate being below what the college is paying, albeit it is felt that this would be a low probability.

One governor questioned whether the Salix option enables the college to buy the solar panels itself and sell back the electricity which it doesn't use, all at no cost to the college. He indicated that the Total Energies option would still only be able to provide 19% of Derby Road's electricity. The

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director: IT, estates and learning resources confirmed that this was accurate. The advantage with the Total Energies proposal was that the panels would only be on the sports hall roof and ground-mounted, which would not get in the way of work required to flat roofs elsewhere. Otherwise, some work would be necessary on some of the college's roofs before installing. However, ground-mounted panels would require planning permission.

In summary, the director indicated that there are two choices available, unless the college's Salix bid is unsuccessful, in which case there will only be the Total Energies option.

Governors felt that, at this point, they were not able to see the total costs and all of the pros and cons in enough detail to make a recommendation to the board. They indicated that they would like to see a full business case, to include the full detail and the impact to the college's insurance, and details of how much it would cost to maintain the panels if the college were to buy these itself. Governors felt that they needed more information in order to be able to compare the options and make a recommendation.

The finance director agreed with this request and indicated that the college did also look at leasing panels but decided not to do this involved a nine-year payback. The finance director indicated that he and the director: IT, estates and learning resources had tried to be pessimistic in the assumptions made, but he agreed that they should carry out further analysis, e.g. to look at where and how the college might sell the surplus electricity. Furthermore, the matrix has been changed slightly as the college was initially paying 32 or 33 pence per unit and is currently only paying 19 pence per unit, and this very low rate will have an impact on the desirability of the proposal. If the Salix bid is successful, it will enable to college to move from a gas-based heating system to an electricity-based one, which will change the demand and profile of electricity. This is another point to consider.

The company would remove the panels and any other equipment at its own cost at the end of the deal, if the college required, or would propose a new deal. If the college decided to keep the equipment without a new deal, this would remain in place, but the college would be responsible for the removal and the cost of this if it were later decided to remove it.

It was suggested that the committee will receive an update at its next meeting. This more in-depth update will need to include detail in relation to selling electricity, in relation to which the directors will obtain more advice, and further numbers which fully reflect the risk.

The finance director indicated that the college's demand is only at its maximum for 38 weeks of the year, and usage drops right down at the

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weekends; therefore, the college needs to maintain a sensible level of investment.

One governor questioned the life expectancy of the panels – e.g. how long they should last and whether the college would be tying itself into infrastructure that would steadily become out of date. The director: IT, estates and learning resources indicated that the expected lifespan of inverters is ten years, but they tend to last much longer than this and still have good capacity. The lifespan of solar panels is now possibly around 25-30 years, still with up to 70% output. Although it would be necessary to replace them if the college wished to ensure that it retained the same capacity, the technology is getting better.

The finance director clarified that, if Total's inverters and/or panels were to fail, they would replace them. Total would also conduct all maintenance and review and gather generation data within the 20-year period of the deal.

AGREED:

- to note the content of the update provided
- that the committee will receive a more in-depth proposal and business plan at its next meeting and, therefore, will not make a recommendation to the Corporation Board at this time.

11 ANY OTHER BUSINESS

There were no items of additional business.

12 DATE AND TIME OF NEXT MEETING

This was proposed as Tuesday 28th January 2025 at 17:00.

13 CONFIDENTIAL MINUTES OF THE MEETING DATED 3RD OCTOBER 2024

The minutes were reviewed and it was agreed that they were an accurate record of discussions.

AGREED: to approve the confidential minutes of the meeting held on 3rd October 2024.

There were no matters arising.

Meeting closed at 19:10.

Signed: EDM Chair

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