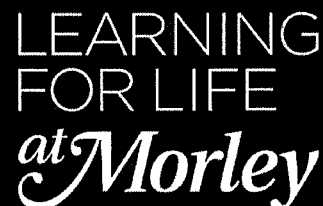


MORLEY COLLEGE LIMITED

FINANCE & RESOURCES COMMITTEE

MINUTES OF MEETING HELD ON 27 JUNE 2011



LEARNING
FOR LIFE
at Morley

Present:

Karen Di Lorenzo	(Chair)
Laurence Elliott	(Staff Governor)
Mary Hawkey	(Student Governor)
Paul Mason	(Vice Chair of Governors)
Ela Piotrowska	(Principal)
Jenny Scribbins	(Chair of Governors)

In attendance:

Nick Rampley	(Vice Principal)
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Clerk:

Graham Cooper	(Clerk to the Governing Body)
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1. Appointment of new Finance & Resources Committee Chair

The Clerk reminded the Committee that at the previous meeting, Paul Mason had indicated that after chairing the Committee for a period of seven years, he had made the decision that an appropriate time had been reached for him to step down. In accordance with its Terms of Reference and the College's Memorandum & Articles of Association, the Committee was therefore required to appoint a new Chair, with appropriate expertise, from amongst its members. Karen Di Lorenzo, who possessed such expertise, had agreed to take on the role of Chair. The Committee unanimously approved Karen's appointment with immediate effect.

Karen then chaired the meeting from hereon, thanking Paul, on behalf of the Committee, for his significant contribution throughout his period as Chairman, and noting that the Committee remained fortunate to be able to rely on his expertise as an ongoing member of the Committee.

2. Apologies for absence / Welcomes

The Chair welcomed Mike Lake, recently appointed Governor, to the meeting.

Apologies had been received from Gareth Julian.

3. Minutes of the meetings held on 24 May 2011.

The minutes were agreed as a correct record and would be signed by the Chair.

4. Matters arising from the minutes other than on the agenda

- a) **Fundraising Strategy:** The Principal advised that interviews had now taken place and that an offer of appointment was in course, with the hope that the new appointee would take up post from the beginning of October.
- b) **Industrial Tribunal:** The Vice Principal advised that no decision had yet been communicated

by the College's insurers as to whether they intended to go ahead with an appeal of the judgment against the College, though it was expected that in view of the amount involved they would consider an appeal not worthwhile.

- c) **Capital Development Plan – Standard template for capital project submissions:** The Vice Principal confirmed the intention to develop a standard template, for consideration at the next meeting of the Property Strategy Committee.
- d) **Improving the efficiency and effective use of Resources - Review of College Support and Curriculum Areas:** The Principal advised that the consultation process had been launched and was currently in the stage of collective negotiation, though there had been no nominations for representatives forthcoming from academic staff, and the process would shortly be moving to the stage of individual consultations. There had been one meeting with the union, who had asked that steps should be taken to ensure that, where possible, displaced staff are redeployed in order to minimise redundancies. In general, the response to the restructuring proposals had been positive.
- e) **Treasury Management – Investment Management Agreement with Royal London Cash Management ('RLCM'):** The Vice Principal advised that the matter was proceeding, with the College currently awaiting a draft contract from RLCM. The Committee requested that, should implementation of the arrangements with RLCM become protracted (which the Vice Principal did not expect to happen), alternative arrangements be made to reduce the proportion of the College's cash deposits invested with Santander.
- f) **Union Recognition:** The Principal advised that, following discussion at the last meeting of the Committee, some amendments had been made to the proposals, which would be put forward to the July meeting of the Governing Body. The Chair of Governors advised that she considered it particularly appropriate for members of this Committee to give full consideration to the amended proposals when circulated.
- g) **Industrial Action:** The Principal advised that the College would be affected by forthcoming industrial action by the union, albeit that recent experience suggested that only a small number of staff were likely to take strike action. Steps had been taken to require all staff to sign in on the relevant day, and for appropriate management of any disruption to students.

5. Capital Development Plan – Update on progress (NR)

The Vice Principal presented an update on projects undertaken since summer 2010 and those planned to take place in summer 2011 in order to complete Phase 1 of the Colleges Capital Development Plan. He advised that in all cases, the Committee had already given agreement in principle. With regard to the first three projects, nothing further was required at this stage, the **Upgrade of the Telephone System** having been completed within budget, and the position with **Provision of External Lighting and Signage** and with the **Refurbishment of the Holst Room** remaining as previously reported. The following projects were the subject of further discussion.

a) **Modernisation of the Ceramics and Sculpture Studios**

The Vice Principal advised that the combined ceramics and sculpture studio tenders had been received in accordance with the timetable. The three lowest tenders were within a 10% variance, a fourth having been discounted since it was much more expensive. The bids for the proposed building works (inclusive of VAT, project management and other professional fees) ranged between £278k and £308k. The preferred provider was the firm whose tender was at the top of this range, but further negotiations had taken place which had brought their figure down to just below £300k (including some contingencies and provisional sums). This did not include an additional £25k on new equipment (mainly new kilns), which was not part of the original estimate but was now included after further discussion with the departments concerned. The Committee noted that this would therefore bring the total expenditure to in excess of the £311k indicated in the summary. The Vice Principal assured the Committee that this was not a situation where departments had been allowed

to add in extra costs to make up savings achieved through the tender process, but the outcome of a robust discussion between the departments and the CLT on what could reasonably and realistically be included.

The Committee reaffirmed the need for this project and others to be underpinned by sound business cases, including, where appropriate, an assessment of the anticipated Return on Investment. The Vice Principal noted that the purpose of developing a standard template, as discussed earlier in the meeting, was to ensure a consistent approach to this. He commented that, whilst a business case had been put together for this specific project and had been previously reviewed by the Committee, the project was driven more by Health & Safety requirements arising from there having been little investment in the facilities over many years. The main rationale was therefore to enable ongoing provision in these areas, which were material to the College overall, rather than to attract new students.

b) Expansion of Current Fashion Studio and Creation of an Additional New Studio

The Vice Principal advised that, in contrast to the ceramics and sculpture studios modernisation, the proposal relating to the fashion studio had been developed very much in response to increasing demand, and that it was fully expected that the College would achieve an incremental return on the investment. An initial tender for the work, amounting to c.£54k, had been received. This was currently being market tested. In addition, new equipment (mainly sewing machines) costing c.£30k would be required to serve the additional capacity created. The Vice Principal highlighted the intention (unlike the other capital projects that were being funded from the c.£1m of reserves that Governors had considered reasonable to allocate to major capital projects) to fund this project by way of a first call on College's 2011/12 Capital budget, to be discussed later during the meeting.

c) Renewal of Network Server Hardware

The Vice Principal advised that since the advice received from JISC as reported to the last meeting, and consultations with other firms who had recently undertaken similar projects, the College had received proposals from seven firms. Since the papers for the meeting had been circulated, the College's preferred provider had changed, one of the bidders with whom the College had worked previously and whose quality of work was familiar to the College, having revised their quotation. The Committee asked the Vice Principal to check to ensure that the College's procedures in relation to tender bids had been correctly followed, and that expenditure in relation to this and other projects was signed off in accordance with the College's Financial Regulations.

Subject to the specific points raised, the Committee gave its approval for the CLT to proceed with the tenders as proposed for the Modernisation of the Ceramics and Sculpture Studios and the Renewal of the Network Server Hardware. The Fashion Studio project would be covered further as part of the discussion on the 2011/12 Capital Budget.

The Chair asked whether there were as yet any noticeable benefits from the recent upgrade of the telephone system. The Vice Principal reminded the Committee that the main rationale for upgrading the system had been that the old hardware had become outdated and the software no longer supported. The upgraded system did, however, provide greater functionality, which was being rolled out on a gradual basis. The Principal's office and the reception and enrolment teams were amongst the first users to experience this, initial feedback had been very positive, but there would also be a more formal follow-up in due course. The Chair enquired regarding the extent to which it was standard practice at the College to carry out formal post-implementation reviews, advising that she was keen that there should be a structured process in place to ensure that expected benefits are delivered. The Principal advised that it was intended to formalise these evaluation processes and undertook to update the Committee on progress at its next meeting.

Action:-

- (i) Vice Principal to check, and report back to the Committee, to confirm that the College's procedures in relation to tender bids had been correctly followed, and that all expenditure was signed off in accordance with the College's Financial Regulations.**
- (ii) Update on the College's post-implementation review processes for major projects to be provided to the next meeting of the Committee.**

6(a). Budgetary Planning for 2011/12 (NR)

The Vice Principal presented the College's draft budget for 2011/12 for consideration and for the Committee to recommend for approval to the forthcoming meeting of the Governing Body. He advised that, in the context of frozen SFA funding, limited opportunities for additional income generation and continuing cost increases, a deficit was anticipated for 2011/12 (although this was less than the budget deficit for the 2010/11 which did not materialise). The draft 2011/12 budget also reflected the much increased depreciation charge resulting from the College's overdue and much needed upgrade of its facilities, and the corresponding transfer from reserves.

The Vice Principal highlighted that the draft budget continued to represent a positive cash generation from operations: an operating surplus of £173,000 after stripping out depreciation. He also clarified that this was a consolidated budget, including figures relating to BEC (also included for the purpose of prior year comparison).

The Committee reviewed each element of the draft budget in detail, with a number of matters arising:-

a) SFA Income

The Vice Principal advised that the figures remained unchanged from those presented to the previous meeting of the Committee, although the SFA had since advised that there would be no potential retention of that element of funding linked to job outcomes during 2011/12 (though failure to meet normal job outcomes might affect allocations for 2012/13).

b) Fee Income

The Vice Principal explained that the budget for fee income represented a 10% increase on forecast actual income for the current year. The starting point for this had been the 2011/12 Course File, but with projected growth then moderated by the CLT utilising historic data to factor in anticipated course closures. Departments had, however, been pushed to ensure that appropriate increases in fee rates were included. With the benefit of improvements in marketing, the CLT had greater confidence than in the current year that the proposed budget increase in fee income was achievable.

The Committee stressed the importance of fee income targets at Departmental level, and the need for accountability by Heads of Department to deliver against these. It was suggested that the lack of incentives/disincentives in the past had led to a degree of complacency, and there was a clear need to ensure that managers were focused on achieving target, rather than just minimum levels of enrolments. The Principal advised that the CLT were very focused on the issue, with the Vice Principal holding regular budget review meetings with Department Heads, and a monthly review of the position by the CLT. The Committee asked that a breakdown of income targets by Department be provided to a future meeting.

The Committee considered the impact of forthcoming changes in eligibility for benefits, particularly in relation to students on Access courses. The Vice Principal advised that the position had changed since last reported, in that the implementation of changes had been deferred, and would not now have an impact until 2013/14, giving the College a further twelve months to consider the likely extent of the impact and its approach to managing this.

c) Other Income

The Vice Principal explained that income from other sources was at best likely to be static, with the exception of the non-cash item of 'transfers from reserves', which matched the depreciation charge on those capital development works, which it had been agreed would be funded from the development reserves.

Although the staff expenditure budget included the cost of a fundraising manager, it had not been assumed that this would result in any dramatic increase in revenue in 2011/12.

It was also explained that the reduction in Gallery income was a direct consequence of planned greater utilisation of the Gallery to exhibit and profile the work of the College, which was regarded as rightly having priority over letting out the Gallery to external exhibitors.

d) Staff Costs

Highlighting that staff costs represented the major part of the College's cost base, the Vice Principal advised that, in line with the discussion at the previous meeting of the Committee, provision for a 1% pay award was included. It was the College's normal practice to follow the AoC's recommendations on pay awards, but there was as yet no indication what the AoC's recommendation would be for the year. The figures presented also assumed implementation of current restructuring plans, and therefore some savings arising therefrom, though in view of timing did not include a full year's benefit, which would only be seen the following year. The Vice Principal explained that the biggest uncertainty within the figures related to the cost of hourly paid tutors, which was directly related to the College's course offering, and which would be impacted by decisions on class closures. There had also been learning from the current year's budget in terms of the amount necessary to cover non-teaching activity such as providing advice and guidance and Observations of Teaching and Learning.

The Committee noted that the overall increase in staff costs included in the budget would be 2%, and asked that the accompanying commentary which made reference to a 3.5% increase in costs was amended to make clear that that related to just full time and fractional staff, in order to avoid any ambiguity.

e) Non-Staff Costs

The Vice Principal reported that where possible, non-staff costs had been maintained at 2010/11 levels or less. A process of "bottom-up" forecasting of costs for 2010/11 had been undertaken, with budget holders submitting "bids" which were then moderated by better information about the current year's actuals. This had led to a 19% reduction in academic department consumables spend compared to the forecast for 2010/11, a 16% reduction in other support services (mainly through reducing the staff development budget), and a 5% reduction in administration and central services expenditure. A general contingency had been retained, at the same level as the current year. He brought the Committee's attention to three specific areas:-

i) BEC

The need to find alternative premises for BEC meant that costs in respect of this part of the College's provision could only be approximate. The College was currently pursuing a number of possible options and the Vice Principal advised that if a more definitive estimate could be made before the meeting of the Governing Body, the budget will be updated accordingly.

ii) Marketing

A £25K increase in marketing expenditure was included so that a greater quantity of departmental or course based publicity and advertising could be undertaken, although this reflected a much smaller level of expenditure than departments had hoped for. The CLT were confident that investing more in marketing was the right thing to do at this stage, though in the context of overall cost restraint, an increase of only £25k was proposed. The Chair of Governors expressed her support for the additional spend, although in doing so, she sought reassurance from the CLT that there was a clear intention to evaluate the apportionment of the expenditure and the effectiveness thereof. In particular, she highlighted the very significant costs of producing the annual Course Guide, the ongoing cost-effectiveness of which needed to be assessed alongside other ways of attracting new students, such as the website. The Principal advised that a number of changes had been made in the current year, including a reduced production run of the Course Guide, and a separate Course Guide for Skills for Life that took a different approach. She acknowledged that the College was aware that new students were

increasing being attracted through the website, and advised that an increasing amount of data was available to better inform future decision making by the CLT on optimal use of the marketing budget.

iii) Accommodation Strategy

No provision had been made in respect of further development of Phase 2 of the College's Capital Development Plan. As reported at previous meetings, it was estimated that the fees involved to develop plans for improving the College's access and profile to RIBA Stage 2 in the course of 2011/12 would be in the order of £50K. Given that this work would be linked to the development of more a specific proposal (and could be potentially capitalised), should the College wish to pursue the Plan in 2011/12 then this would be funded from the Development Reserve rather than the annual revenue budget. After discussion, the Committee expressed a preference for accounting entries to show the expenditure as part of the expenditure budget, and also the contra item from reserves.

The Committee additionally queried other specific cost items included in the draft budget, as follows:-

iv) Governing Body Expenditure

The Chair noted the very significant reduction, compared to current year actuals. Whilst acknowledging that the current year figure included the sizeable costs associated with the recruitment of a new Chair, she highlighted that there would be costs next year relating to the recruitment of other new Governors, and also that the figures ought to include adequate provision for Governors to avail themselves of suitable training opportunities, as well as a sufficient to cover expenses (which, whilst many existing Governors did not currently claim, might become more relevant). The Vice Principal was asked to revise the budget proposals in respect of these costs.

v) Consumables

The Committee were concerned to understand the variances against current year in relation to consumables, and were keen to ensure that expenditure was not being cut to an extent that would adversely affect the quality of students' learning experience. The Vice Principal explained that the variances were largely an issue of inconsistent categorisation by Departments. For the sake of greater clarity, the Committee asked the Vice Principal to include a breakdown of total consumables by Department when submitting the budget to Governing Body meeting.

The Committee debated whether it was appropriate for the College go forward with a budget deficit at this time. It was noted that this had also been the case with the current year's budget, though that actual performance had been more favourable, and that there was a long history of actual expenditure coming in below budget. The Committee also recognised that the College was continuing to aim for growth and that future funding (and the nature of provision that the College would be required to deliver to secure that funding) remained uncertain beyond next year. Whilst expressing caution regarding the risks associated with a deficit budget becoming a norm, the Committee considered that the current year represented an intermediate stage in the College's development, and that the proposed approach was reasonable and appropriate. The Committee therefore agreed, subject to the amendments discussed, to recommend the budget to the July meeting of the Governing Body for approval.

Actions:-

- i) Income targets by Department – breakdown to be provided to a future meeting of the Committee.**
- ii) Vice Principal to submit the budget, subject to amendments as discussed, to the July meeting of the Governing Body for approval.**

6 (b). Three Year Financial Plan (NR)

The Vice Principal advised that the College's Three Year Financial Plan was due to be submitted to the SFA by the end of July, and would therefore be presented to the July meeting of the Governing Body

for approval. The 2011/12 budget would constitute the first of the three years, and form the base, from which the following two years' forecasts would be extrapolated. The Committee's advice was sought with regard to the assumptions and approach to the forecast.

The Committee considered the purpose of the forecast, and stressed that, whilst the College might have aspirations for a more positive outcome, care needed to be taken not to be too over-optimistic in its forecasting. Specifically, the Committee considered that, in the absence of any definitive knowledge to the contrary, grant income should be assumed to be static over the period, with modest growth in fee income. In reviewing the recommended approach in relation to expenditure, the Committee requested that this be amended to include an inflationary increase in non-pay expenditure. The Committee concurred with the proposal to exclude any expenditure in relation to Phase 2 of the Capital expenditure Plan, on the basis that this had yet to reach anywhere near approval and was unlikely to be incurred within the period covered by the forecast.

Action:- Three Year Financial Forecast to go forward to the July meeting of the Governing Body.

7. Capital Expenditure for 2010/11 (NR)

The Vice Principal presented a capital budget for 2010/11, for consideration by the Committee to recommend to the Governing Body for approval. He explained that this excluded the projects that had been identified as part of the College's Capital Development Plan, which would be accounted for separately.

A breakdown of the proposed capital budget, totaling £300k, was provided. This included as a first call, expenditure of £84k on the fashion studio and equipment. The Vice Principal explained that if the Income and Expenditure budget, as discussed earlier in the meeting, was approved, it would result in a net cash generation, (after taking into account depreciation and transfers from the development reserve) of £173k. The proposed £300k capital budget, if approved, would therefore create a budgeted end of year reduction of £127k in the College's cash position.

The Committee considered the appropriateness of the component parts of the proposed capital budget, and focused especially upon the extent to which the proposed expenditure, along with other recent projects, was appropriately spread across the curriculum areas. The level of investment in the Art Department facilities was particularly highlighted, though the Vice Principal emphasised that the Department included a broad range of specialist areas. The Principal also noted that the investment in new computer equipment brought benefits for various curriculum areas. The Committee was particularly keen that expenditure was sufficiently balanced to bring about an increase in the standard of accommodation in general classrooms, so as to enhance the experience of learners in those curriculum areas that were not so dependent on specialist facilities. Whilst the Vice Principal explained that expenditure on general classroom upgrading was treated differently, being included in the College's annual maintenance budget, the Committee highlighted the difficulty of making a full assessment without that detailed information.

The Committee agreed to recommend the 2010/11 capital budget as presented to the Governing Body, whilst emphasising its reliance on the CLT to ensure a balanced approach, as discussed.

Action:- Capital Budget 2011/12 to go forward to the July meeting of the Governing Body for approval.

8. Health & Safety Policy (NR)

The Committee reviewed the College's Health & Safety Policy and Handbook, noting that there were no major changes recommended other than, as identified by the Health & Safety Committee, amendments to reflect that students, as well as staff, had duties and responsibilities in relation to Health & Safety matters. The Committee highlighted that there were other provisions of the policy (such as Section 26 which related to alcohol and drug misuse) that ought also to apply to students as well as staff, and asked the Vice principal to review the policy further to ensure consistency of approach. The

Committee also asked the Vice Principal to undertake a cross-checking of the contents page to individual section headings, highlighting specifically an apparent discrepancy in relation to the heading of Section 26.

Subject to these amendments, Committee agreed to recommend the policy to the July meeting of the Governing Body for approval.

Action: H&S Policy, revised in accordance with the discussions, to be submitted to the next meeting of the Governing Body for approval.

9. Finance Monitoring Report (May) (NR)

The Vice Principal presented the management accounts for the period to 31 May 2011. He advised that both the accounts for the period, and the full year forecast, showed an improvement against the original budget, due mainly to the supplementary grant made by the SFA to college's estimating over-provision in the current year, details of which had been reported to the previous meeting of the Committee.

The Vice Principal also explained that the current year month by month budget had been modelled on the previous year's pattern of income and expenditure, but that current year actuals followed a different pattern due to Easter (and therefore the start of Term 3) falling much later. Whilst, at the end of May, the cumulative figures largely eliminated the differentiation in fee income patterns, the time lag relating to pay claims by hourly paid tutors meant that the same could not be said of such expenditure. With regard to fee income, the Vice Principal also noted that this might be adversely impacted by refunds relating to cancelled courses, but would also increase as a consequence of Summer School fees. Overall, he did not anticipate that the full year forecast would change materially, though consolidating the figures for BEC would result in a slight improvement, as the financial performance relating to that provision was better than budget (albeit partly as a consequence of some of the costs, e.g. in relation to administrative staff, having been included within the College's core accounting).

The Committee noted the single payments in excess of £10,000 since the last report to the Committee, these being:-

Corridor, landing and library foyer refurbishment	£15,514
First instalment of telephone system upgrade	£26,016
OCN examination registrations	£12,000

10. Any Other Business

The Clerk advised that it had been the intention to include on the agenda for this meeting a periodic review of the Committee's Terms of Reference. However, at the recent meeting of the Quality & Standards Committee, that Committee had considered that it would be more appropriate for both Terms of Reference to be reviewed side by side, by a group of Governors to include the Chairs of both Committees, in order to ensure that together all appropriate matters were covered. The Clerk would take forward the matter of a joint review during the autumn term.

Action:- Clerk to take forward a joint review of the Terms of Reference of the Finance & Resources Committee and Quality & Standards Committee during the autumn term.

11. Date of next meeting

The Clerk advised that the date of the next meeting of the Committee has been provisionally scheduled for Tuesday 22 November 2011, though the date would be included within a full schedule of draft Committee dates for next year to be submitted for approval to the forthcoming meeting of the Governing Body.

Graham Cooper

Clerk to the Governing Body

Signed.....

Karen Di Lorenzo, Chair