



MINUTES OF THE SPECIAL FINANCE AND ESTATES COMMITTEE MEETING

Held At Esher College
Thursday 10th January 2019, at 6.00 pm.

Present:

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| Robin John (Chair) | Hannah McKean |
| Dan Dean | Tim Oliver |
| Ian Leigh | Fran Stewart |
| Adrian Mills | |

Simon D’Arcy (Co-opted)
Stephanie Wiles (Director of Finance & Estates)
Kerry Webb (Clerk)

1. REGISTER OF INTERESTS

There was nothing to declare.

2. APOLOGIES FOR ABSENCE

All members of the committee were present.

3. MINUTES OF THE LAST MEETING

The minutes of the meeting of Tuesday 20th November 2018 were agreed and signed.

4. MATTERS ARISING

The Governors agreed that the “Matters Arising” will be addressed at the next Finance and Estates Committee meeting on Thursday 14th March 2019.

5. TO CONSIDER THE FINANCIAL IMPLICATIONS OF CONVERTING, OR NOT CONVERTING, TO AN ACADEMY.

The Chair of the Finance and Estates Committee explained that the objective of this meeting is to look at the financial implications of possible conversion to an academy, with reference to the attached supporting financial information.

The Director of Finance and Estates explained that the attached “Esher College Budget/Financial Plan – 2019 to 2021” was a re-worked version of the budget/forecast that the Corporation reviewed and approved in July. She explained that numbers which have changed were shaded within the plan. Any

changes have been made to update the figures based on the most-up-to-date information/forecasts. All other unshaded numbers remained the same.

In summary:

- Student Numbers – With the exception of 2019/20 projected student numbers remain unchanged from the original July forecast. They are challenging but achievable.
Q. If a student joins after the enumeration day does the College receive additional funding for that student? Yes, but it will be lagged for the following year and will also be pro-rated to reflect that the student joined part-way through the academic year. The overall impact on income of late joiners is negligible.
- Staff and Salary costs – this has been updated to include staff changes since July. It also includes an increase in Teachers' Pension Employer contribution rates from 16.48% to 23.5% with effect from April 2020.
Q. The increase comes into effect from April 2019 so why is any increase not factored in until April 2020? The Director of Finance and Estates explained that the increase in the contribution rate is from April 2019, however it is protected until 31 March 2020 and as such there is no financial cost to the College until April 2020.
Q. An action from the Corporation Meeting in December was to review financial forecasts to ensure they are based on the most up-to-date information available, specifically regarding employer Teachers' Pension contribution rates. Please confirm this is the case. The Director of Finance and Estates confirmed that she had checked, and both the previous version and this updated version include most-up-to-date information on employer Teachers' Pension contribution rates.
Q. Do staffing levels change to reflect current pupil numbers? Staffing levels are assumed to be static.
- Staffing costs – include a contingency for £120k to cover MIS (Management Information Systems) and IT issues.
- Exam Costs – were re-forecast using current student numbers and subjects studied. Thereafter, this cost is increased by 2% each year to allow for inflation.

The Director of Finance and Estates explained that the forecast showed the impact on the EBITDA of a 1% increase over the 2% salary increase already factored into the budget for one year only (2018/19).

Q. Looking at the forecast salaries from 2018/19 to 2021/22 they increase by approximately 10% over this period. Is this correct? Yes. This is largely because of the increase in Teachers' Pension Employer Contribution rates, which accounts for approximately 7% of this increase, and the assumptions made on inflationary pay increases. The Director of Finance and Estates noted the impact on the performance measure of the decreasing EBITDA. The extra pressure of the lack of funding will mean that the College is likely to find it difficult to achieve "Good" financial health without significant cuts to budget.

If the College doesn't convert, given other local sixth form colleges have already converted, it may reach a 'Satisfactory' financial health rating first, and potentially be singled out for ESFA intervention.

Q. Are there any advantages of conversion to an academy from a marketing perspective? The Principal confirmed that there is not likely to be a noticeable difference.

Q. Are there any associated savings with conversion to an academy? There is potential for savings in a multi-academy trust structure as there are opportunities for shared back-office services. However, the Corporation previously ruled out a multi-academy trust application. The application that has been approved is for conversion to a single academy trust.

Q. Based on the forecasts, what happens if we do not convert to an academy? The Department for Education's decision to award the Teachers Pay Grant to 16-19 academies but not sixth form colleges means that the College will be worse off in relative terms. Therefore, due to this external pressure beyond the College's control, unless the student numbers for 2019/20 onwards increase in excess of the forecast student numbers, the lower financial health rating may trigger an ESFA intervention and the College would need to look at reducing its cost base.

Q. How many sixth form colleges are there versus 16-19 academies? There were approximately 90 sixth form colleges before the Area Based Review process started, of which approximately 30 are now academies. Of the remaining 60, a number have been taken over by GFEs (General Further Education). The Committee agreed it would be useful to have more substantiated data on the proportion of sixth form colleges converting to 16-19 academies. It would also be useful to understand how many existing sixth form colleges are likely to reach critical financial health at the same time as this college. The Principal confirmed that this is an issue affecting sixth form colleges across the country and is reflected in the lobbying of the Government to increase the funding rate.

ACTION: **Director of Finance and Estates and Principal** to try to obtain information for the Special Corporation meeting on (i) how many sixth form colleges there currently are nationally; (ii) how many academies there are nationally, both 16-19 single academies and multi-trust academies.

Q. How are schools with sixth formers performing financially? There are more opportunities for these schools to subsidise sixth form places from 11-16 funding, although we are aware some sixth forms at schools are closing. It is likely most school sixth forms in isolation would not be financially viable.

Q. Will any increase in funding rates apply to both sixth form colleges and 16-19 academies? Every provider post 16 would get the same rate irrespective of whether they are an academy.

Q. What scope is there in future years to increase student numbers? It is difficult to exceed the projected student numbers as it is limited by capacity. Student numbers have grown significantly over the last 9 years, but the building capacity now limits further increases in student numbers without impacting on the positive student experience.

Q. What has been the experience of other sixth form colleges who have converted to a 16-19 academy? Some of the S7 colleges have converted. There has been no visible change, but they are now subject to different financial regulations. In terms of the ethos of these colleges and the day-to-day functions there appears very little change.

Q. What are the advantages of converting to an academy?

- The Government awarded the teachers pay grant to 16-19 academies for 2018/19. This is not funded for sixth form colleges. Combined with the VAT relief available to 16-19 academies there are other substantial financial benefits which would help secure financial security in the short term.
- There is a difference in financial management requirements. As an academy, the College would need to set a balanced budget rather than, as is currently required, preparing a budget and achieve a 1% surplus to achieve a "Good" financial health rating.

Q. What are the disadvantages of converting to an academy?

- It is unclear what the Department for Education's long-term position is and whether they will continue to award the teachers pay grant to 16-19 academies.

- It is clear this is a short term fix to ease the financial pressures. The College should continue to explore options for revenue generation and develop its marketing approach to make the college stand-out to attract new students, as well as being able to deliver an appropriate student experience at a lower cost. This is currently a focus of four working groups and a report on progress on this was given to the Strategy and Policy Committee and reported back to the Corporation. A presentation to the Corporation on progress with this work is scheduled for the July Corporation meeting. Cost reduction opportunities should also continue to be explored to further ease financial pressures in the longer term.
- There was discussion regarding how converting would fit within the wider strategic plan of the college.

To summarise and conclude the meeting the following was discussed:

- The Governors agreed that they understood the basis of the Director of Finance and Estates' forecasts and the assumptions made.
- The Governors recognised that circumstances had changed since conversion was last considered, which means without conversion to an academy the College will be worse off in relative terms.
- The Governors agreed that if the college achieves forecast student numbers for 2019/20 and beyond, converting to an academy will result in the College being financially better off.
- The Governors agreed that if all other financial figures remain as forecast, if student numbers fall short of the forecast numbers, the financial pressures will be increased and any future potential deficit position accelerated.

A proposal was made, based on analysis of the forecasts and recognising the divisive nature of the funding for sixth form colleges versus 16-19 academies, that it be recommended to the Corporation that the financial figures show a compelling case for the College to be converted to a single-trust academy.

Proposed: Tim Oliver
Seconded: Robin John

Five Governors were in support of the proposal and two Governors against the proposal, therefore the proposal was passed, and the Governors agreed to recommend to the Corporation that the college be converted to a 16-19 single-trust academy.

The following Governors wished their comments to be recorded as follows:

Fran Stewart – Noted that she accepted the financial figures. However, she believed that there are other options that ought to be considered. She accepted that the tight timescale presents further complications and appreciated that the budget for the following year is developed from March. She wished to note her appreciation of the high-quality work undertaken which had produced detailed forecasts and financial analyses. Further to the earlier action point, she requested more information be gathered regarding what other sixth form colleges are doing in similar circumstances.

Adrian Mills – Noted that he needed more confidence that forecast student numbers will be achieved. He considered changes should be looked at within the overall strategy together with exploring new marketing opportunities, e.g. how we deliver the curriculum and teaching going forward, to ensure that the college remains an attractive option for potential students.

The Governors wished to express their gratitude to the Director of Finance and Estates for her hard work and for preparing thorough and robust financial papers for the meeting.

6. ANY OTHER BUSINESS

There was none.

7. DATE OF THE NEXT MEETING – Thursday 14 March 2018 at 6pm.

The meeting closed at 7.10 pm.

Attendance was 100% (7 out of 7 members)

Signed.....

Date.....

SUMMARY OF ACTIONS

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| FE SPECIAL - 01 | ACTION: Director of Finance and Estates and Principal to try to obtain information for the Special Corporation meeting on (i) how many sixth form colleges there currently are nationally; (ii) how many academies there are nationally, both 16-19 single academies and multi-trust academies. |
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SUMMARY OF GOVERNOR CHALLENGE [C] /SUPPORT [S]

| C/S | Item | Topic |
|------------|-------------|--|
| C & S | 5 | <u>Conversion to Academy Discussion</u> Governors scrutinised financial forecasts provided. Governors questioned opportunities for revenue generation and cost savings and offered strategy development support. Governors provided useful suggestions for further information that could assist their decision-making process. Governors expressed thanks for the hard work preparing the financial papers for the meeting. |