Minutes of the Finance and Estates Committee meeting held on Tuesday 25th June 2019 at 5.30pm.

GOVERNORS PRESENT:	Paul Frammingham, Chair Andrew Cropley Tony Westwater
ALSO IN ATTENDANCE:	Maxine Bagshaw, Clerk to the Corporation John Owen, interim Finance Director Gavin Peake, Director of IT and Estates Jonathan Fearon, observer/incoming Finance Director Jane Peacock, ESFA Observer

		ACTION by whom	DATE by when
1	**DECLARATIONS OF INTERESTS**		
	The Chair reminded everyone present to declare any interests that they may have on agenda items planned for discussion. Standing declarations were noted.		
2	**APOLOGIES FOR ABSENCE**		
	Apologies for absence were received from Kate Truscott, Neil Shaw, Adam Mussert and Jon Mold. Jonathan Fearon, the incoming Finance Director, was welcomed to his first meeting of this Committee.		
3	**MINUTES OF THE MEETING HELD ON 30TH MAY 2019**		
	As a matter of accuracy, it was noted that Jane Peacock had been missed off the list of attendees. The Clerk confirmed that she would update and amend. Subject to this one change requested, it was agreed that the minutes were an accurate record of discussions.		
	AGREED: to approve the minutes of the meeting held on 30th May 2019.		
	There were no matters arising.		

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4 ACTION PROGRESS REPORT

The Committee considered the report and an update was provided on a number of areas:

- Line 2 – Retrospective Authorisation of Purchases – the interim Finance Director confirmed that he now has a report that is system-generated, but is of the view that the raw data is misleading and there is a requirement to better understand the context for a number of aspects. By way of an example, he indicated that in relation to subscriptions the decision to renew is taken only when the invoice is received. If the decision is made to renew then an order is raised, this would technically count as retrospective authorisation but is common practice. Another example would be in relation to DBS checks, whilst the college knows the cost of each it does not know the number of certificates required and therefore retrospective authorisation is necessary. Other examples given were in relation to exam fees; again, the college knows the amount per exam but does not actually know the number until after exam entries have been submitted. Also given as an example was engineer call outs for repairs, for example a plumber and a leek. It would always be the case that the issue would seek to be resolved as a matter of urgency rather than issuing a purchase order prior to necessary actions being taken. In light of the comments made the Committee indicated that Governors need to better understand the process to be fully assured regarding the controls in place. For the next meeting they would like to see a report which details the controls and then any matters can be reported by way of exception. They asked for sight of the procedure which show accepted practice so that they could better understand the controls and any gaps that exist. Given the timing of the interim FD's departure, it was agreed that a summary report would be prepared and circulated to members of the Audit and Finance committee before he leaves on 31st July and that thereafter John Fearon will be able to pick up in the next academic year. — Interim FD — 31.07.19
- In relation to line 4 the Clerk confirmed that she would ask for the requested information to be circulated by the HR Director before she leaves in July.
- In relation to line 5 it was acknowledged that the Management Accounts now provide longer term forecasts in relation to cash flow.
- Line 10 – the request made to introduce KPIs regarding processing of apprenticeship induction requests – the Director of IT and Estates explained that the college can record the induction process timescales from now on but that it is hard to do retrospectively, as previously no single record was compiled. It was agreed that this would be part of the KPIs included in the Board reporting pack for the next academic year. — Dir of IT & Estates — 2019/20

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	• In relation to line 14 there was a separate report provided in relation to contribution analysis and targets. The Principal confirmed that this was something to be discussed at the leadership conference scheduled for next week. There will be discussions generally regarding delegation with an assessment of what is needed, desired etc. in the short, medium and longer term. He indicated that his initial view is that some departments are credited with too much income which tends to skew the data. Examples given were in relation to disadvantaged funding and weightings. In terms of the contribution analysis matrix currently in place, his view is that there should be more saved centrally rather than attributed to certain departments. He undertook to provide a more detailed model following internal discussions. An observation from the Committee was that the college seems to be moving in the right direction in terms of accountability but that this needs to be with the right level of support. There will need to be wholesale agreement and buy in regarding the systems, processes and people.	Principal	Sept 2019
	A question and challenge from the committee was whether or not a common template will be presented and required in relation to accountability. The Principal confirmed that in terms of the model to be utilised there will consistency regarding core expectations but that he would not wish to stifle creativity and innovation, as ultimately the college needs to see more innovation from its staff base. He provided assurance that he would move forward in a controlled and measured way and would use delegation to encourage new thinking.		
	• In relation to line 15 the interim Finance Director confirmed that all of the balance sheet reconciliations were now complete and up to date. • The Principal advised that the staff satisfaction survey has opened today and results should be available to allow a short verbal update to the Board on 11th July 2019.	Principal	11.07.19
	AGREED: to note the content of the update provided.		
5	**<u>MONHTLY MANAGEMENT ACCOUNTS – MAY 2019</u>**		
	The interim Finance Director confirmed that the College was at the point of the year where things are 'pretty much set' and that there is limited scope to influence either positively or negatively. He confirmed that the college was tracking in the right direction but that there is still an expected £4 million deficit for the year. Key matters brought to the Committees attention from the accounts were: • Income – this is on budget • Page 7 – this shows that HE income is down as is AEB • Page 8 – the apprenticeship position is shown in the old style in the management accounts but agenda item 9.2 covers the new		

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way of presenting.

- Page 5 – the underlying trend is positive
- Page 10 – pay cost analysis – total college pay costs of £1,555,000 for the month are £48k less than the MYF with professional staff costs £22k adverse in total. Pay costs including restructuring for the year to date are £97k more than the MYF and £2,152,000 lower than for the same period last year. Underlying pay costs, excluding restructuring, are £3,270,000 lower than last year.
- Redundancy costs in month of £12k bring the total costs of phase 1 of the restructure to £1,240,000 to date. Actual costs to date for the individuals impacted by phase 1 are £97k less than forecast at the start of the restructure programme. Restructure costs of £1,147,000 have been allocated for phase 2 in June and July. Calculations connected with this phase indicate that costs will be materially less than budget. Further details will be provided in the June accounts. Further costs of £200k are budgeted in the Recovery Plan for 19/20.
- Page 11 - the overall position in relation to non-pay is as anticipated with cost controls in place. There are no particular items to bring to the Committee's attention.
- The lower level of AEB income subcontracted in month has generated lower partner costs resulting in a favourable variance of £111k a month. This is set against the higher costs incurred in April, giving an adverse variance of £194k year to date.
- Page 14 – the cash flow has not changed substantially. The college is on profile and as expected regarding ESFA income and restructuring costs. The low point in the year will be August where the college is at 12 cash days, it was explained that this is almost entirely due to profiling of receipts from the ESFA. A challenge from the Committee was whether or not the college is comfortable that this gives sufficient head room. The interim Finance Director confirmed that he is comfortable as the college has not needed to draw down any RCF or any in year Gift Aid from BKSB and therefore this gives additional headroom if required. A question from one member of the Committee was whether or not the college has noted the changes to the payment dates from the ESFA. It was confirmed that it has.

The Committee generally discussed the BKSB in year Gift Aid advances and the interim Finance Director explained that in 18/19 none have been taken but historically a termly advance would have been sought.

A question and challenge from the Committee was in relation to the cash days covenant in the Lloyds documentation. The interim FD confirmed that the minimum expectation in covenant documentation is 20 days except for March, with this is in mind the Committee asked whether the anticipated low point of 12 in August is a concern. The

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interim FD explained that the college has recently agreed with Lloyds that the covenants will be calculated against cash days plus the RCF, therefore in August the college will have £1 million cash plus access to £3 million RCF facility which equals 40 days, and therefore the college will not breach the covenant.

- Page 15 – the interim FD advised that the numbers presented are purely college figures and exclude BKSB so as to avoid any distortion.

The Committee discussed the FE Adult Learner position and noted that income is £418k above the midyear forecast year to date, however, in month there is an adverse variance of £64k. Subcontracted income was delivered earlier than expected last month with only £397k of income in May compared to £482k in April. Subcontracted delivery is £123k adverse in May, however it remains £203k favourable year to date. The delivery profile of subcontracted activity is being carefully monitored against the full year forecast of £5.2 million and this should be obtained at the current delivery rate. If college delivery of AEB is also sustained and the college delivers 97% of its AEB allocation the college is permitted to retain the remaining 3%.

The Committee then discussed the table provided on page 6 which details potential clawback amounts that are still subject to investigation. In relation to the second line, it was confirmed that data collection for this investigation is now complete and a report is envisaged from KPMG shortly. The Committee asked for further detail on the comment made that the 'maximum liability could be greater than previously reported'. The interim Finance Director advised that the previously reported risk was £1.1 million, however, this could now be more as auditors have gone back one further extra year. He confirmed that the report investigates activity from 15/16 onwards. The expectation is that the report from KPMG will be received by the end of June and this will then allow the college to crystallise its liability in this area and the amount will be included within the 18/19 accounts.

AGREED: to note the content of the Management Accounts to May 2019 as presented.

6 **2018/19 YEAR END FORECAST AND 19/20 BUDGET/3 YEAR FINANCIAL PLAN**

The interim Finance Director confirmed that agenda item 6 and 7 should be taken together as this gives the whole picture. He explained that this will be the numbers/figures that will be submitted to the ESFA in their required format by the end of July. As an overview, the 19/20 and 20/21 budget show a small surplus.

He advised that the issue regarding the apprenticeship non-levy cap has now been resolved. The college will receive £600k more than the

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figure which was an initial concern. The split between 16-18 and 19+ is not ideal though as it is predominantly focused on 16-18 and therefore limits the college's ability to recruit 19+. A number of key matters were drawn to the Committees attention from the written report: • The yearend outturn forecast for 18/19 shows a deficit of £3,953,000 which is £992k better than the recovery plan and £722k better than the college's mid-year forecast. The improvement is largely driven by income being £1,046,000 greater than the recovery plan. This arises from better than expected AEB delivery combined with additional discretionary support funds and some project income. Generating this additional income has caused staff costs to be £380k higher than forecast, but continued restraint over non-pay meant that these are now expected to be £300k lower than forecast. Neither the financial recovery plan nor the budget include any allowance for FRS102 pension costs; an estimate will be made of these and will be included in the forecast that will be submitted to the ESFA. • A number of minor adjustments to the financial recovery plan figures have been included in the budget for 19/20 as new information has become available. This simply reflects the passage of time but there have been no changes to the underlying assumptions. Total income is £44k less than the recovery plan, staff and non-pay costs are £81k and £16k more respectively but these are offset by a reduction in the depreciation in interest charges totalling £380k. This means that the surplus before any FRS102 charge is £241k higher than in the recovery plan at £250k. He indicated that this does however mask a £140k reduction in EBITDA and the college needs to be aware of this because of the covenants. The interim Finance Director confirmed that he would revisit the EBITDA position. There has also been a modest increase in the forecast surplus for 20/21.	Interim FD	11.07.19
• Staff costs for 19/20 are now expected to be at £18.3 million The Committee's attention was specifically drawn to the risks set out in section 5.1 of the report. The interim FD advised that generally the main funding lines have been built up from a base position and known positions utilised when looking at growth. Following general discussion there were a number of matters discussed/noted: • Page 1 shows an improving trend in relation to surplus/deficit before ITDA • On page 4, the crèche staff costs needs to be checked as the nursery is now closed • Voluntary redundancy is a contingency figure only in 19/20 and there are no plans to undertake a restructure.		

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- Page 2 includes the Teachers' Pay Grant included in 'other income'. The College is not budgeting for it to continue but if it does it will be a positive benefit.
- There is no provision for LGPS increased contributions, and this is a risk identified. He explained that a 10% increase would equate to £500k. The college's LGPS contributions are low compared to other organisations within the Nottinghamshire LGPS scheme and, therefore, it would be a fair assumption that the contribution level for the college will increase at the next review.
- A challenge from the Committee was that the pension grant income should move to the ESFA income line rather than sit in 'other'.
- A question and challenge from the committee was whether or not it was possible to strip out the non-profit generating income as this distorts the I&E and balance sheets. Examples given were bursaries and grants to employers. The view expressed was that it would be more accurate to call these items 'dispersals to agents'. All agreed that stripping these out would help to focus on college core performance. The committee felt that this would be a sensible thing to do moving into 19/20 reporting. Their challenge however was that, in terms of recording and reporting things differently, it is important to pull out and make the change very clear in the accounts.
- In relation to page 3 the Committee questioned why there were no funds for basic maths skills in 2018, £318k in 2019 and then only £12k in 2020. The interim Finance Director explained that this was cash received which is rolled forward in to future years. The intention is to release it against actual spend. A challenge from the Committee was to ensure that a consistent approach has been taken and whether income/expenditure is recorded in the right year.
- In relation to page 4, it was explained that 17/18 was a fundamentally different model therefore it is harder to realistically compare year on year.
- Page 5 sets out the non-pay costs. In relation to catering, it was explained that increases planned are driven by more students being on site as the college moves to direct delivery. The increasing trend in relation to examination costs was questioned and it was explained that going forward costs include end point assessors which is a different model in the standards versus framework situation. In relation to other costs it was explained that there is an increased need for capital following receipt of the conditions survey, however the vast majority of work needed will be considered as repairs rather than capital expenditure.
- The Committee questioned and challenged the position in relation to sessional costs and asked whether the college was being overly optimistic in terms of the reductions proposed in

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19/20, particularly this being the year after restructure. The Committee were given assurance that this is an area where the college does have tight controls. The need provided for in the 19/20 budget is based upon the curriculum plan and therefore this gives confidence. It was explained that staff cost savings will offset some sessional staff costs.		
Having discussed the forecasts in detail the Chair asked whether, stepping back, this is a budget that this Committee can recommend to the Board. All agreed that the financial recovery plan is the key driver for the budget and therefore this Committee can recommend it if the numbers and the budget align with the financial recovery plan. The Committee indicated that, for the Board meeting, it would be very useful to explain the key lines as a comparison table with the position of 19/20 budget, figures in the financial recovery plan and any variance explanation provided. They would like this for all key items, for example minimum cash, cash days, EBITDA etc. They also requested a summary of what the plans are in terms of optimism and pessimism and the range. They requested that the interim Finance Director provide a schedule of risks and opportunities calculated in £s, for example pensions, BKSB sale price etc. This is in relation to what are considered to be the top 5 risks and opportunities.	Interim FD Interim FD	11.07.19 11.07.19
A challenge from the Committee was whether or not the Executive team are fully on board with the assumptions and budget as presented. The Principal confirmed that they are.		
In relation to page 1, a challenge from the Committee was whether or not it is possible to show the operating position with the restructure costs split out. It was felt that this would show a more positive and accurate operating position and trading performance. This would give slightly more confidence to the Board and to external stakeholders.	Interim FD	11.07.19
The interim Finance Director confirmed again that he will revisit the EBITDA calculations and this may lead to a 'tweak' in the costs so as to give more of a cushion in relation to the bank covenants.		
Having discussed the matter in detail, the Committee felt that they were in a position to recommend that the Board approve the budget presented, subject to a schedule showing how this aligns to the financial recovery plan.		
An observation from the Committee was that the ESFA plan needs to have really strong commentary showing clear alignment to the financial recovery plan, details regarding any sensitivities and mitigating actions taken and to be taken. A challenge from the Committee is that the narrative needs to be clear so that Governors have a full explanation regarding the context.		

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	a) To note the content of the update provided, & b) Recommend that the Board approve the 2019/20 budget as presented (subject to receiving a schedule showing alignment to the financial recovery plan).		
7	**LLOYDS BANK**		
	It was agreed that discussions on this agenda item would be recorded on a confidential basis.		
8	**RISK REPORT**		
	The Committee considered the schedule of financial risks and an update was provided on a number of lines. Key matters noted were; • Line 16 – the risk is now lower than originally anticipated. • Green arrows downward show where risks have decreased. • Line 3 – the Principal confirmed that he has a meeting with the Chair of the LEP on 24th July and will then have an opportunity to progress further. Indications are however that there is a low likelihood of an adverse outcome. • Nothing has moved up in terms of increasing risk. • Line 17 – the risk for 18/19 has now gone away however the risk for 19/20 remains. Going forward the Committee asked that the Finance Director provide a periodic subsidiary company report which is to include BKSB performance.	FD	Termly 19/20
	• In relation to line 5 there is now more certainty regarding the outcome of the restructure/redundancy and this risk can be removed from the register. • Lines 6 and 15 can be removed from the register, and in fact line 15 could be positive in terms of a free school being a feeder to the college. • Funding position in relation to high needs, to continue to be monitored.		
	The interim Finance Director then went on to the second part of his report which gives an update in relation to Apprenticeships. This is the current position and the risks associated with the non-levy cap. In relation to the latter he indicated that the risks have reduced given the fact that the college has now received confirmation of an additional £600k, and this changes the context entirely. He indicated that the uplift is heavily skewed towards 16-18 and therefore does come with its challenges, particularly the message to employers regarding funding available for 19+ apprenticeships. Effectively, this will mean that no new money is available to go out to SMEs. A question and challenge from the Committee was whether or not there is a risk in relation to the lag on enrolled apprenticeships. There was a view that this may form the basis of a business case submission to the ESFA. Going forward there will be no money in the system for 19+ except through the levy paying supply chain.		

In terms of the Apps current position it was explained that the projected percentage outturn is 100% and therefore the risk has been mitigated. It was confirmed that the college will continue to monitor this closely until after the year end.

AGREED: to note the content of the update provided.

9 **2018/19 EXTERNAL AUDIT OF FINANCIAL STATEMENTS – KEY MILESTONE DATES AND TIMETABLE**

The draft audit plan prepared by KPMG was considered and the Committee were reminded of the context for the request that this be brought to this Committee. It was acknowledged that there is a need for Committee and Board assurance regarding the timeliness of preparation of the accounts and because of this Governors would like early sight of the documents. What they want to avoid is the accounts being presented on a 'fait accompli' basis. They would like engagement, particularly in terms of the Director's report, much earlier in the process so that the key high level messages can be thoroughly debated and agreed. All agreed that the 18/19 accounts deserve a level of positivity and confidence and that agreeing this message upfront will be critical.

The Committee, whilst acknowledging the timetable, did request light engagement through the process and it was agreed that the broad narrative would be presented in the autumn term.	AC/JO/JF	October 2019

AGREED to note the content of the update provided.

10 **CAPITAL SPEND SUMMER 2019**

The Director of IT and Estates presented his proposals which include:

- IT spend
- Replacement of goods lift at the Derby Road diner
- Maintenance works on Relish building skylights
- Conditions survey items

In relation to IT spend, he explained that it was a small variety of usual IT items over the summer. The figures provided are all exclusive of VAT. He explained that the purchase prices for PCs, laptops etc. were indicative at this stage.

In relation to the replacement goods lift he confirmed that three quotes have been secured and the proposal is to award the contract to Stannah lifts on the basis of affordability. The committee were happy to support the proposed expenditure but acknowledged that it was subject to ESFA approval.

In relation to the maintenance works at Relish and the conditions

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survey items, it was confirmed that these have now been moved to the maintenance rather than capital budget.

The Committee challenged in terms of the process of Executive scrutiny regarding capital expenditure requests. The Principal confirmed that proposals were reviewed by Executive and they are supportive.

The Committee were advised that the college has pushed the IT strategy to its limit over the last few years and that there is now equipment being used which is 10 years old and at the end of its life. It was reiterated that the Executive have reviewed and that they have no issues and that the proposals are in budget limits.

A challenge from the Committee was in relation to the management accounts and they requested that the interim Finance Director separate out the capital spend and the debt repayment so that there is greater clarity in relation to this.

A challenge from the Committee was that the proposals feel slightly as if there is a step missing in terms of Executive recommendation. They asked that the college clarify its internal processes regarding capital expenditure requests and its approval. They asked for greater assurance on this and it was acknowledged that this ties in with an outstanding action for a policy and procedure to be developed in the autumn term.

It was confirmed that replacement of the lift was identified as a requirement in the conditions survey.

AGREED:

a) To note the content of the update provided
b) Approve in principle the capital spend proposed (subject to the college obtaining the necessary ESFA approvals as required)

11 **AOB**

There were no additional items of business. The Committee thanked John Owen for all of his hard work in ensuring that the college has got to the current position on its journey of recovery.

12 **DATE AND TIME OF NEXT MEETING**

The Clerk confirmed that the next scheduled meeting was 26th September 2019 at 5.30pm.

CONFIDENTIAL ITEMS

It was agreed that confidential items would be recorded separately.

(Gavin Peake left the meeting at 7.55pm)

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Meeting closed at 8.15pm.

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