

**Minutes of the Finance and Estates Committee meeting held on Monday 4<sup>th</sup> November 2019 at 5.30pm.**

**GOVERNORS** Paul Frammingham, Chair  
**PRESENT:** Charles Heaton  
Andrew Cropley  
Tony Westwater

**ALSO IN ATTENDANCE:** Maxine Bagshaw, Clerk to the Corporation  
Gavin Peake, Director of IT and Estates  
Jon Fearon, Finance Director  
Jane Peacock, ESFA Observer  
Mike Firth, ESFA Observer

ACTION by whom	DATE by when

**1 DECLARATION OF INTERESTS**

The Chair reminded everyone present to declare any interests that they may have on agenda items planned for discussion. No specific declarations were made and standing declarations were noted.

**2 WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE**

Apologies for absence were received from Kate Truscott. Mike Firth was welcomed to his first meeting and round-table introductions were made. It was explained that Mike will replace Jane Peacock as the college's named ESFA link/observer going forward.

**3 MINUTES OF THE MEETING HELD ON 2<sup>ND</sup> OCTOBER 2019**

The minutes were reviewed and it was agreed that they were an accurate record of discussions. In relation to the third bullet point towards the end of page 8, it was noted that the liability detailed to refund to the ESFA was not yet confirmed/absolutely crystallised as it is subject to the planned ESFA audit. The Finance Director confirmed that, if the figure does differ (i.e. an increase), the increased proportion will be provided for in the 19/20 year rather than 18/19, so that there is no delay in finalising the yearend accounts.

Signed :  Chair

Date:

AGREED: to approve the minutes of the meeting held on 2<sup>nd</sup> October 2019.

**4      ACTION PROGRESS REPORT**

The Committee were happy to note the update provided.

**5      DRAFT 2018/19 ACCOUNTS (SUBJECT TO AUDIT)**

The Finance Director introduced this item and explained that it was a very early look at the annual accounts so that the Committee could take a view on how they were developing and, in particular, review the key points in the narrative. He explained that there were two policy aspects currently being discussed with auditors and that KPMG have finished all their fieldwork. The expectation is that the audit will be concluded by Friday and the college is working to update as fast as it can in line with auditor observations and comments.

The Committee were advised that the college did have an issue in terms of subsidiary company consolidation, however, this has now been resolved, albeit that identifying the issue was time consuming. He confirmed the intention to review the system of preparing the accounts and consolidation well in advance of the same exercise being undertaken next year.

Key aspects still to update in the accounts include:

- The final figures. It was noted that the college will not end the year in a positive position. There has been £2.2 million of exceptional items, with £385k being exceptional items within the BKSBS accounts alone that were not previously highlighted.
- Actual operating performance shows some improvement when the exceptional items are stripped out.
- EBITDA at the operational level generated cash.
- The college is improving to plan.
- Cash flow presupposes a BKSBS sale to ensure that the college can confirm it remains a going concern and meets its bank covenants.

The Finance Director indicated that he has spoken to Lloyds in relation to the covenants in place and their interpretation of them is slightly different to the college's previous assumption; therefore, this pushes back the breach risk to March 2021 rather than October 2020.

There are two technical issues being discussed with KPMG; these are:

- 1) The exclusion of some turnover on the basis that it is distribution to an agent. He confirmed that this would be excluded from the management accounts going forward and that there are no profit implications, and
- 2) The balance sheet is weak and because of this the college would like to defer the treatment of capital grants to improve

Signed : \_\_\_\_\_ Chair

Date:

the position. At this point in time, it is not known whether KPMG will view this as too significant an adjustment or whether they will agree to the same. He acknowledged that it may be difficult to change the treatment now because of consistency issues.

The Finance Director described the document as very much a 'work in progress', and invited the Committee to provide feedback. A challenge from the Committee was to ensure that any improving trends are clearly stated and to be clear that the college is turning the situation around. They asked that the accounts very clearly state that there is a recovery plan in place and that the college is delivering to plan, and that the figures, whilst not positive, are in line with the planned position.

A point made by the ESFA observer was that there needs to be consistency in terms of the amount of exceptional financial support received. £10.4 million appears in this document, whereas the actual is £10.25. The Finance Director agreed to review the document and ensure that the correct and consistent figure is used throughout.

FD

Nov.  
2019

The document was reviewed on a page by page basis and the following was noted/agreed:

- Page 7 – the paragraph headed 'financial plan' should not refer to EFS in the final sentence as there is no longer any such fund: it is now referred to as an emergency fund.
- Page 8 – under cash flow and liquidity – the final sentence should have the correct amount of EFS stated. The request was also made to remove the reference to 'healthy cash balances because of the receipt of EFS' as this was not the ESFA's intention.
- Page 6 – the paragraph in relation to student achievements needs to be updated in line with the actuals.
- A challenge from the Committee was that the operating profit stated needs to be match with the P&L.
- On page 11, the Committee agreed that they would find it useful for the table to show a year by year comparison.
- A challenge from the Committee was the use of acronyms, and they asked that plain English be provided wherever possible.
- Page 13 onwards is the narrative on corporate governance; the Committee indicated that it needs to be clear that a lot has been and is happening, and that improvements are being made.

The Finance Director confirmed that there are currently five outstanding items on the KPMG list and that it will be possible to reduce this to two by tomorrow, therefore the college should be seen as very much on target. He confirmed that there is no issue regarding going concern, however, there is a sensitivity regarding the potential sale price of BKSB.

Signed : \_\_\_\_\_ Chair

Date:



AGREED: to note the content of the draft document provided.

6

**MONTHLY MANAGEMENT ACCOUNTS – SEPTEMBER 2019**

The Finance Director introduced this item and confirmed that a large amount of revenue has had to be estimated at this point in the year. He advised that a key trend to monitor is pay, and a summary report was circulated. He confirmed that the position continues to be on track and is positive, and that this demonstrates good control. Key matters that he brought to the Committee's attention included:

- 16-18 income is fixed.
- The 16-18 student numbers in 19/20 are looking really positive. The college may have an option for an in year application for increased funding but, if this is not possible, the student numbers seen will mean growth in income next year.
- ESFA have announced additional uplift to some level 3 courses, including Construction, Engineering, Motor Vehicle and ICT. This will be a benefit to the college and will be from the 20/21 academic year.
- In relation to AEB, this has been accounted for in line with budget and the college has accrued for levelling out for the year with subcontractors.

The Committee considered the financial data provided as page 11 and questioned why there was a negative figure in relation to AEB for the month of December. The Finance Director explained that the forecast includes an assumption to make a repayment on underperformance, however, the position is now expected to be better than forecast. He explained that the college's AEB prediction for 18/19 yearend was prudent, i.e. not achieving the 97% required, and on this basis there would be a circa £400k clawback. He advised that the actual is much more positive and the college is currently working with £100k tolerance, therefore the risk is minimised. However, it was acknowledged that this is subject to audit. He confirmed that, within the accounts, this provides for a safety net element. He confirmed that the audit will take place in the week of the next Finance & Estates Committee meeting, therefore it may be possible to give a verbal update on 28<sup>th</sup> November 2019.

The Committee's attention was drawn to page 10, which gives an update on the cash flow: all agreed that it looks sensible and prudent. The Finance Director confirmed that the October management accounts will provide much more certainty once the prior year finalisation has been completed. The October management accounts include three months of data and are therefore far more representative of the college's actual position. That being said, he described the management accounts and the college's direction of travel as positive and progressing well. The Committee were advised that the college has not yet released the budget pay saving of +£590k.

Signed : \_\_\_\_\_ Chair

Date:

One member of the Committee questioned when the agreement with NTU will start to mean that the college sees savings. It was explained that this will be from August 2020 and that at this point in time the college will see a lower pay bill, however, it will also see reduced income. The Finance Director confirmed that the agreed rent and service charges will offset some of the income reduction. He explained that, at the starting point of the agreement, the position for the college will be neutral and that this then moves to a positive as NTU grow their delivery. Year 3 is when the college will financially start to see the full benefit of the agreement.

When considering the pay report, a challenge from the Committee was whether or not the level of staff cost savings/underspend is sustainable. The Principal indicated that it was necessary, at the start of the year, to add in some additional posts, particularly in relation to maths and English, administration and coaches. These were mostly on a temporary basis and the senior team will be discussing the continuation and/or continuing need for the additional staff in the next few weeks. The Finance Director confirmed that the rate of saving has slowed down and that it currently provides a cushion. The Committee were specifically asked to note that there has been a 15% increase in the number of students resitting maths and English GCSEs, therefore this is a significant drain on planned resources.

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

## 7 **RISK REPORT**

The Finance Director drew the Committee's attention to the updated register and confirmed that there were no additional new risks added. He confirmed the intention to focus on the risks where the arrows are showing an increase in the level of risk perceived. These were discussed on a line by line basis:

- Line 1 – it was confirmed that the college has been successful in its application to reregister on RoATP, however, the risk now is a potential Ofsted grade 4 for apprenticeships. Should this occur, it would prevent the college from being able to recruit new apprentices. In terms of the register, one aspect of risk has been removed; however, there is still another aspect to consider.
- Line 9 – it was confirmed that the college has been selected for a funding audit and a particular risk in the sector is being able to adequately evidence the 20% of off the job training required.
- Line 8 – the reference made to the potential breach of bank covenants can now move to spring 2021 rather than October 2020.
- Line 10 – the Finance Director indicated that, at the mid-year

Signed : \_\_\_\_\_ Chair

Date:

reforecast, there is a need to move to a 20% deduction from subcontractors. He explained that there is provision for 27% in the budget, therefore there is a shortfall that needs to be adjusted. He indicated that, to offset this, the college has been allowed circa £600k rollover activity, which is much higher than envisaged, and the hope is to get to a neutral position at reforecast.

- He advised that other risks added to the risk register are not financial and in the main relate to health and safety.

A question and challenge from the Committee in relation to the risk register as a tool was whether or not it is possible to give an idea of the magnitude/value of the risk so that managers and governors can scale them as presented. The Finance Director confirmed that he would review and add in an additional column to try and capture this.

Finance Director

Nov. 2019

A challenge from the Committee was that it would also be useful to summarise in a table the 'flipside', i.e. the opportunities. They agreed that it would be useful to see a log of these as it would help them to better understand the balancing effect. The Finance Director confirmed that, going forward, he would provide a cover report that shows both the risks and the opportunities, and that he would provide a table showing the values for each.

FD

Nov. 2019

AGREED: to note the content of the update provided.

**8**      **DEBT REPORT**

It was agreed that discussions on this item would be recorded on a confidential basis.

**9**      **PROCUREMENT OF ELECTRICITY AND GAS**

The Finance Director drew the Committee's attention to his detailed report and confirmed that the college currently purchases energy from ESPO. They are predominantly a public sector service provider. The Committee were advised that the college historically was able to secure a 10% saving when it moved to use LED lights and that a Salix loan was utilised (a government-backed interest free loan) and can prove that the savings made were larger than the loan.

He confirmed that his recommendation is for the college to remain with ESPO as a provider as they can prove their big buying power (as seen on the market performance review circulated) and that they can clearly demonstrate value for money. He explained that they use a very sophisticated procurement process and key matters to consider include:

- A strong track record
- They are easy to use
- The college knows them well

Signed : \_\_\_\_\_ Chair

Date:



- No evidence to show that an alternative consortium would yield better results/savings.

On this basis the Committee were happy to put forward the recommendation to the Board that the procurement of electricity and gas remain with ESPO. It was noted that one Governor will have a conflict of interest in relation to this agenda item, as Clive Pitt is the Finance Director for ESPO.

AGREED:

- a) To note the content of the update provided
- b) Recommend to the Board that the placement of approximately £1.6 million of energy procurement over 4 years be placed with ESPO to tender as part of a wider energy procurement process.

The Committee were then asked to consider the subcontract contract additions as set out in paragraph 2. They were happy to do this in line with the explanations provided.

AGREED: to recommend that the Board approve the subcontract amendments proposed.

#### **10 TREASURY MANAGEMENT UPDATE**

The Finance Director provided a verbal update and confirmed that the only treasury management activity that the college undertakes is placing money on deposit with Lloyds. He asked the Committee to note that the levels of cash will diminish in the medium term, therefore there is no priority to change the existing arrangements. He indicated that the college will have very limited funds for investment in the longer term, therefore a treasury management review is not considered a priority for this academic year.

AGREED: to note the content of the update provided.

#### **11 DATA PROTECTION AND DATA RETENTION POLICY**

The Director of IT and Estates introduced his written report and confirmed his proposed policy changes in line with advice received from the DPO Centre, which is the company that provides guidance and ensures compliance for/by the college. He confirmed that 80% of the content has been provided by the DPO Centre's legal team, with the additional 20% being included to reflect the college's bespoke arrangements.

When considering the policies proposed, a question and challenge from the Committee was in relation to the potential retention timescales. They asked whether they are aligned to the minimum legal requirements. There was some debate as to whether or not the retention timescales should align to minimum legal levels or whether

Signed : \_\_\_\_\_ Chair

Date:

they should be longer. Governors felt that some of the retention dates may not be accurate and therefore asked the Director of IT and Estates to speak to the DPO Centre and ask them to confirm the legal obligations.

The Committee asked for detail on the college's email retention policy/procedure. It was explained that emails are currently retained for as long as an individual remains with the organisation plus three months. The committee indicated that they would wish to see emails sent/received by members of the SMT to be retained for a longer period. A challenge from the Committee was to consider the retention of email timescales in light of the proposals presented today. They asked whether there should be specific provision in section 4 for the retention of emails. They acknowledged that this area was a challenge but felt that there needed to be a level of certainty and consistency.

A challenge from the Committee was in terms of ensuring that staff know what their obligations are. It was explained that staff are required to undertake mandatory training regarding data retention on an annual basis. In addition to this the DPO comes on to site once per month to review the practical operation of arrangements. A challenge from the Committee was in terms of something to be done with staff in terms of best practice regarding emails.

A question and challenge from the committee was in relation to whether or not there is any externally held data outside the UK/EU. The Director of IT and Estates explained that all data is held in either the UK or Ireland.

The Committee were in principle supportive of the proposed amended policies presented but did ask that, before presentation to the Board for final approval, there was a review of the retention timescales proposed. In relation to section 4, they asked for clarity and assurance that the timings proposed are correct. In relation to line 5 of the table in section 4, they asked that number 2 in the reason column specifically refer to statutory tax and deductions.

Subject to the above, the Committee:

AGREED to recommend that the Data Protection and Data Retention Policies be approved by the Board.

## **12 ANNUAL REVIEW OF STANDING ORDERS**

The Clerk presented the proposed update with any changes for consideration being highlighted in red. She explained that, in the main, they were administrative changes to reflect the current position. The Committee reviewed the document and a number of matters were discussed/agreed:

- The proposal to include a paragraph regarding written

Signed : \_\_\_\_\_ Chair

Date:



resolutions was agreed, although the guide from the Committee was that it should only ever be used sparingly. The Clerk confirmed that she would incorporate this at the appropriate point in the document.

- On page 8 section 4.5, the Committee questioned whether it should specifically identify limits on the timescale for appointment as Chair and Vice Chair. They were of the view that best practice would look to see the role of Chair and Vice Chair change periodically. The Clerk confirmed that she would check whether guidance is included within the FE Code of Good Governance and would include clarity on the expected terms of appointment and re-appointment.
- Section 23 on page 17 – the Committee felt that utilisation of the seal should normally be by the Chair and/or Vice Chair; however, they felt that to give flexibility there could be provision for any one of the independent Governors to take their place if two of the current three were not available. The Clerk confirmed that she would make this change and would also update the list of authorised signatories for the use of the college seal.

AGREED:

- a) To note the content of the update provided, and
- b) Subject to changes identified in the meeting, recommend that the Board approve the updated Standing Orders.

The Committee considered the work plan appended to the standing orders, and the ESFA made the observation that the deadline date for the three year financial plan submission to the ESFA is to change and that it may be January/February, rather than 31<sup>st</sup> July which has been the deadline date in prior years.

**13**      **AOB**

There were no items of additional business.

**14**      **DATE AND TIME OF NEXT MEETNG**

The Clerk confirmed that this is Thursday 28<sup>th</sup> November 2019 at 6pm.

Meeting closed at 7.30pm.

Signed : \_\_\_\_\_ Chair

Date:

