Finance Committee
MINUTES

Date	20 March 2019	Time	18.00
Venue	Boardroom, 5th floor, Hastings		
Chair	Pat Farmer		

Membership: Pat Farmer (Chair), Clive Cooke (CEO); Henry Ball; Mark Fisher, Russell Higginbotham, Sue Walton
In attendance: Biram Desai (Chief Finance Officer (CFO)), Dan Shelley (Executive Director – Strategic Partnerships and Engagement (EDSPE)), Tim Hulme (Executive Director Resources and Development (EDROD))

Apologies: Sue Walton

	Item	Action
1)	**Apologies and declarations of interest** Apologies had been received from Sue Walton. Mark Fisher declared that he has an interest as member of Council for the University of Sussex. He is also treasurer of Age Concern Eastbourne and a director of Good Money, a community interest company. Pat Farmer declared that he is a member of the Hastings and Rother Taskforce and a director of Plaza Trading.	
2)	**Minutes of the last meeting held on the 20 November 2018** **AGREED: THE MINUTES OF THE MEETING HELD ON THE 20 NOVEMBER 2019 WERE AGREED AS AN ACCURATE AND TRUE RECORD.** **Proposed Henry Ball, Seconded Mark Fisher.**	
3)	**Matters arising** Pat Farmer asked for an update on the proposed additional finance resource intended to specifically address the issues raised from the Internal and External Audit reports concerning Financial controls. Biram Desai said that the Group has recruited a strong management accountant and the majority of the Finance team is now in place. There is additionally a small amount of temporary resource. There will be a key financial controls audit on 1 April 2019 and the Group is in a good place to receive a clean audit in September 2019. Pat Farmer asked the Audit Committee to send the Finance Committee a copy of this report. There was discussion about the informal finance meetings and their value to the members of the Committee. Mark Fisher said that he has found them extremely useful when he has been able to attend and he has valued the informal notes circulated when he has not. Henry Ball said they are useful both in very real	

	terms and also serve to demonstrate that the Board is closely monitoring and scrutinising financial issues and maintaining an active dialogue with the Executive Team. A new set of dates will be arranged by Biram Desai, Pat Farmer and the Director of Governance.	 Biram Desai/Pat Farmer
4)	**Report of KPIs relating to Finance** **Transaction Unit KPIs relating to Finance** Biram Desai has received confirmation that the TU would like a report quarterly from April 2019 onwards and proposed that an additional page be added to the management accounts. Russell Higginbotham asked if the Committee is clear what the expectations of TU KPIs are against benchmarks and how close the Group is to achieving them. Biram Desai said the Group has targets and that there are some national benchmarks in a number of areas. The Committee asked that where possible these benchmarks be included adjacent to the targets in the April report going forwards.	Biram Desai
5)	**Financial Planning** **1a) January 2019 Management Accounts** The Committee noted these. **1b) February 2019 Management Accounts** Confidential item. Henry Ball commented that the 18/19 budget had been predicated on a set of circumstances which transpired in reality to be far more complex when the merger took place and the data was interrogated. The situation was compounded by the AEB provision and finances came under greater pressure than expected. These factors have led to the forecast that the financial health of the Group will be inadequate at the end of the year. He suggested that the report to the funding agencies offers some context to show that the effective audit and control processes post-merger allowed the Group to identify the problem and make rapid intervention. Pat Farmer reminded the Committee that the Group is in regular dialogue with the ESFA and will be communicated to the FE Commissioner's team during the anticipated diagnostic visit. Clive Cooke explained that the financial health grade is produced via a set framework and allows no room for commentary. **1. Budget 2019-20 – initial assumptions** Biram Desai thanked the Chair, Russell Higginbotham and CEO for their assistance in providing insights into sensitivity analysis and contingencies when considering this draft. He reported the following: a. He is confident that the Group can plan for a satisfactory health grade next year. b. The financial environment for the FE Sector appears to get harder	

	each year. c. The Group is well-advanced in curriculum planning d. He thanked the CEO for challenge on the effectiveness and efficiency of the curriculum plan e. The curriculum planning cycle has been extended to allow rigorous interrogation of the process. f. The Group is now budgeting for a 1% pay increase. g. The Finance Team is producing a top-level budget 2019/20 and there will be a detailed budget for May 2019. h. The Group will budget for a 65% pay ratio to income. i. Catering will come in-house and this will generate income to the College but will increase pay-costs. j. There is an aggressive approach to reducing non-pay costs looking at a small number of in-house maintenance staff to avoid monthly sums being paid to external contractors. Governors asked for an idea of the sums involved. One example is an electrical contractor receiving £10k per month as a round sum call-off contract. k. The Group's contribution to the Teachers' Pension Scheme rate is likely to go up to 23.6%. The Group is creating a budget taking account of the AoC guidance that there is a likelihood that the government will fund this for 8 months next year. Governors asked how much the impact would be in monetary terms – it is likely to be circa £200k. l. Estates strategy – led by Dan Shelley and Tim Hulme the Group is looking at enabling works to free up buildings in Eastbourne in preparation for disposal. There are some items requiring investment for taking catering in-house and the MIS system. m. Given the above, Replacement CAPEX will be very limited, and based upon affordability. Biram Desai reminded the Committee that cashflow is critical and the peaks and troughs created by main government funding streams are significant. If these could be flat-lined the cash flow issues would not occur for colleges nationally. The potential pinch point for the Group forecast for March 2020 has been flagged with the ESFA and Barclays Bank. **Financial Health** – The Group will have satisfactory financial health next year. The Group will seek to ensure that there is sensitivity analysis in the budget. This will include the suggestion from Russell Higginbotham that the sensitivity should show best and worst case scenarios. Mark Fisher said that the University uses fan charts to give a visual representation of the situation and suggested that they would be useful for the modelling reports. Mark Fisher said that the University of Sussex (UoS) uses models to look at external factors when modelling its budgets to assess political and environmental risks. Biram Desai said that this would be very useful and suggested that he might work with Dan Shelley to include this in their process.	

	Henry Ball commented that he meets with national figures in FE on a regular basis and it is clear that there is now an acceptance that more money needs to be invested into FE. There is an expectation of reform to accompany this. He suggested that the Group might model what the impact of these reforms might be. Pat Farmer said that the Group is aware of many of the major risks to its revenue streams. He asked how realistic are the assumptions for 'in-house' delivery of AEB as they show significant growth. Dan Shelley explained that this forecast is robust as the plan is to ensure that more of the delivery is in-house. He described some innovative models of working with partners to ensure that the Group achieves the maximum margin possible. It was pleasing to note that the LGPS has agreed to split the costs of pension strain across three years. The Chair and Chair of Finance had discussed whether there should be a higher figure for savings wherever possible to offer some contingency in the budget. Biram Desai agreed that savings need to be delivered as aggressively as the business model will allow without affecting the educational character. Clive Cooke agreed that the Group will recommend the greatest number of savings and the most realistic income. £1m of management savings will be made but more would adversely affect the Group and threaten the educational character of the Colleges. Further savings might be afforded by removing areas of the curriculum offer. This will be a Board decision. Pat Farmer reminded the Committee that the budget must demonstrate that each of the Colleges is making a positive contribution. Governors asked for a future projection of this. Biram Desai will include this in the detail for 19/20 and there will be a top-level projection for a further 12 months.	
6)	**Update on Newhaven financial plan** Dan Shelley said that the Group had been informed on 14 February 2019 that it is the preferred provider to take over the UTC Newhaven site. Since then, despite efforts by the Group, there has been little more detail. The Group has communicated its red lines – one of which is a guaranteed learner number (250) for the next three years and colleagues at the DfE are now considering this. Tim Hulme and Dan Shelley had a meeting with the DfE about capital issues. This indicated that there would be no flexibility on the lease and that assets may be removed and transferred to other UTCs. This discussion did not reflect a sense that the ESCG is regarded as helping the situation. Governors asked why the contribution would drop in years two and three. This was due to increased cost of delivery. Pat Farmer said that this would indicate a 14% contribution from this activity and asked why the Group would want to be involved in an activity with such a low margin. Biram Desai explained that there would be no extra back-office costs generated. There was discussion about the fact that this is also a defensive strategy in addition to its contribution. Dan Shelley explained that the contribution is low as the volume of students is low. Governors asked if there is realistic potential to increase numbers of students.	

	Tim Hulme responded that Newhaven is an unusual environment with little to attract students outside the educational provision. The infrastructure would need development in this regard and the Group is in discussion with local council about this. Governors agreed that this supported the 'red lines' outlined by the Group. Clive Cooke said that the Group would need to make a strategic decision about the long-term value of a site at Newhaven juxtaposed against the development plans for Lewes. Henry Ball reminded the Committee that there would be implications in release of Denton Island and a dialogue with the District Council in this regard. It was also suggested that following developments of new facilities at Lewes, the need for provision at Newhaven may not be required so it was essential we had a break clause in any property lease. Discussions are ongoing and more detail will be brought to future meetings.	
7)	**Update on FE Commissioner two day diagnostic visit** Confidential item	
8)	**Subcontracting – this will be reported to the May 2019 meeting.** 1. Update on overall subcontractor landscape 2018/19 2. Approval of proposed changes to some contracts – to recommend to ESCG Board. 3. Overview of proposed process for allocating 2019/20 volumes 4. Update on Sussex Skills Solutions	
9)	**Estates Strategy** Tim Hulme offered an update on the strategy and reiterated the importance of this on the Group's financial sustainability. The strategy presented to the planned June 6 conference will include all sites. The options are broadly the same for Lewes and Eastbourne. The Education Case is complete and will be presented to the Board on March 26 2019. This will inform the estates strategy and a reduction in footprint from 71k sqm to 60k sqm Progress is good and the Group is engaging Wilmott Dixon to support them in ensuring that maximum revenue is achieved. The financial modelling is underway and the methodology chosen for the development will affect the outturn. There will be a presentation of this, detailed models of the options and the associated risks to the Board, to inform the strategic decisions in June 2019 via the CIC and Finance Committees. The Committee discussed in detail the scale of the project and the potential risks and agreed that the Board meeting will address of all these issues.	Exec Team
10)	**Risk management, risk management policy and strategic risk register update** Tim Hulme said that the Group has not yet prepared a Group Risk management policy but it is using the existing SCCH model. He presented an emergency risk register which outlined the factors affecting the Group. The Executive Team did not consider that the strategic risk register	

	provided adequately oversight of the risks so revisited the external and internal risks. The emergency risk register outlines the risks which are taken for a first line of assurance to the Audit, HR and Finance Committees; then it is reviewed internally by the Group management team and a third line is the review of RSM. Tim Hulme reminded the Committee that all the inherent risks are red. The Committee thanked Tim Hulme for the excellent document which captures all the issues. He in turn thanked his leadership colleagues for the extensive work on this. Mark Fisher suggested that it is crucial that the Board needs to understand the interdependency of all these risks and the vulnerability of the model. The additional element of the changes to the Board in terms of the planned departure of the CEO, Chair and Pat Farmer is a key concern for governance. Henry Ball recognised that and said there is a national context and many colleges are facing a similar situation in the FE Sector. However, it is important to understand that there is an equal and opposite potentially larger risk that if the Group does not execute this estates model, its sustainability might be threatened. Russell Higginbotham commented that this is a realistic and accurate representation of the situation facing the Group. Clive Cooke said that in the 1400-1500 slot before the main board meeting; there will be a model showing the Group's inability to progress without strategic intervention in terms of capital disposals and a renewed curriculum strategy. The cash injection is vital to support future viability. There is still a need to explain the Group's financial fragility and the narrow contingency available. Clive Cooke said that the Group has some provision which still requires improvement or is inadequate whilst at the same time making savings of £1m in management costs. Pat Farmer said that the Finance Committee had discussed at previous meetings that if the model cannot be made viable, more stringent action may have to be taken to ensure the sustainability of the Group. Clive Cooke commented that the budget for the Group is progressing well and based on volume and low margins which will underpin its success.	
11)	**Policy for Tuition and Other Fees** Pat Farmer asked what has changed since previous iterations. Biram Desai outlined limited technical changes 10% from employers is under review and will now be 5% which is a significant boost. ESCG fees will be in line with Government policy. Also as noted, the College is standardising the general fee assumption across the Group, so that the fee element is 50% of the funding value set by the government, which is the accepted practice. Dan Shelley reiterated that the apprenticeship section will need to change to reflect the change to apprenticeship contribution of 5%.	

	Governors asked to what extent the College fee remission reflects best practice for disadvantaged learners. The team confirmed that government policy supports learning for learners who earn less than £16k per year and that the Group upholds this. **AGREED: THE COMMITTEE RECOMMENDED TO THE BOARD TO APPROVE THE POLICY AND THE FEES MODEL.** **Proposer Pat Farmer Seconded Henry Ball**	
12)	**ICT Strategy – this item will take place in either June or November 2019**	
13)	**Any other business notified to the Director of Governance in advance of the meeting** Pat Farmer explained that UoB has asked the Group to release its option on Havelock Road in order that it might offer the property for sale. The Committee discussed the issues of this proposal and agreed that as it was unlikely the Group would want to use the property and that it had no material cost to the Group to release it, that this should be confirmed. However, it was proposed that we should request that UoB should, in return, give equal support on outstanding requests from ESCG. **AGREED: The Committee agreed to recommend to the Board that the Group releases its option to lease Havelock Road from the University of Brighton until 2020.** **Proposed Pat Farmer, Seconded Mark Fisher.** Clive Cooke said that the ESFA has notified the Group that the normal case conference cycle has been cancelled due to insufficient capacity and it was agreed that is a positive indicator. The meeting closed at 20.00	Dan Shelley