

## Finance Committee MINUTES

Date	22 May 2018	Time	16.00
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Venue	Boardroom, Eastbourne
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Chair	Pat Farmer
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**Membership:** Pat Farmer (Chair), Mark Fisher (Vice-Chair), Clive Cooke (CEO), Russell Higginbotham, Debbie Baldock-Apps, Jonathan Reid

**In attendance:** Biram Desai (CFO), Dan Shelley (Executive Director – Strategic Partnerships and Engagement), Tim Hulme (Executive Director Resources and Organisational Development) (as required)

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Item – the numbering of the items follows the agenda and items were taken out of order to facilitate debate and the inclusion of members dialling in.	Action
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1.	<p><b>Apologies</b> Apologies had been received from Debbie Baldock-Apps. Jonathan Reid did not attend. Russell Higginbotham would join the meeting via telephone later. Tim Hulme did not attend as he was not required.</p>	
2.	<p><b>Declarations of interest</b> Pat Farmer declared an interest under item 4. He also declared that he is a member of the Hastings and Rother Taskforce and a director of Plaza Trading. The Committee discussed the protocol that, in future, governors should declare any interest that may become relevant at a later date.</p> <p>Mark Fisher is a member of Council of the University of Sussex. He is also treasurer of Age Concern Eastbourne and a director of Good Money, a community interest company.</p> <p>Dan Shelley has just resigned as a trustee of the Friends' Centre in Brighton, which is a partner of SCCH. Biram Desai declared that he is a director of Plaza trading</p> <p>Pat Farmer said that his role as Chair places him in a role of mediator and conductor and that, as such, he will not be doing the majority of speaking but rather inviting others to do so. He outlined the following expectations:</p> <ul style="list-style-type: none"> <li>• Members of the meeting are asked to speak through the Chair one at a time</li> <li>• The assumption is that everyone has read the papers in advance of the meeting and therefore the executive team will only draw attention to the highlights</li> </ul>	

	<ul style="list-style-type: none"> <li>• Papers will be sent out a week in advance.</li> <li>• No papers will be tabled.</li> <li>• If there are any matters of any other business these must be notified in advance of the meeting to the Director of Governance</li> <li>• On all recommendations a proposer, seconder and a vote will be required.</li> </ul> <p>It was suggested that the Directors of Governance add these to the Board protocols for all meetings. It was agreed this was prudent and will be done as soon as possible.</p>	Dir Gov
4	<p><b>Confirmation of Chair and Vice Chair</b></p> <p><i>Pat Farmer left the room at 16.15</i></p> <p><b>THE COMMITTEE AGREED TO APPOINT PAT FARMER AS CHAIR OF THE FINANCE COMMITTEE FOR A TWO YEAR PERIOD UNTIL 21 MAY 2020. PROPOSED MARK FISHER SECONDED CLIVE COOKE CARRIED UNANIMOUSLY</b></p> <p><i>Pat Farmer re-joined the meeting at 16.16</i></p> <p><i>Mark Fisher left the room at 16.16</i></p> <p><b>THE COMMITTEE AGREED TO APPOINT MARK FISHER AS VICE CHAIR OF THE FINANCE COMMITTEE FOR A TWO YEAR PERIOD UNTIL 21 MAY 2020. PROPOSED PAT FARMER SECONDED HENRY BALL CARRIED UNANIMOUSLY</b></p> <p><i>Mark Fisher re-joined the meeting at 16.18.</i></p>	
3.	<p><b>Chair's introduction and welcomes</b></p> <p>Pat Farmer welcomed the members and introduced himself. Biographies of Mark Fisher, Russell Higginbotham and Jonathan Reid can be found here:</p> <p><a href="http://www.escg.ac.uk/governors">http://www.escg.ac.uk/governors</a></p>	
8.	<p><b>Summer works</b></p> <p>The Committee discussed the paper which outlined £495k of summer works. Tim Hulme and Biram Desai have commenced work in identifying where 'quick wins' might be made on the campuses. Members asked that more detail might be included before the proposition goes to the Board. Biram said that this work is still being scoped and he is working with Tim Hulme to include more information but reminded the Committee that it is in line with the TU model. It was agreed that broad categories of expenditure are in the detailed budget to the Board. Members asked that they might review this document prior to the meeting.</p>	<p>Biram Desai</p> <p>Biram Desai</p>

	<p><b>AGREED: THE FINANCE COMMITTEE AGREED TO RECOMMEND THE SUMMER WORKS EXPENDITURE IN LINE WITH THE RECOMMENDATION TO THE BOARD ON JUNE 26 2018.</b></p> <p><b>Proposed: Pat Farmer Seconded: Mark Fisher Carried.</b></p>	
9	<p><b>Subcontractor overview and 2017-18 subcontractor list</b></p> <p>Dan Shelley has reconciled the AEB budget for the two colleges and it is now £5m with a 97% tolerance level for the East Sussex College Group. [confidential item]</p> <p>The actions outlined will enable the Group to achieve the full AEB allocation. The first is to increase the subcontracting and the second is to work with an existing partner to support the Group to access up to £400k of AEB that will be delivered by College staff. All partners have been through a rigorous due diligence process and this is being presented to the Finance Committee for approval.</p> <p>Members asked what percentage of the subcontracted training would be outside East Sussex. Dan Shelley confirmed that some will be outside the County but will be within the two LEPS with which the College works. This action will secure future AEB allocation and give the Group the ability to bring the AEB training within the Group catchment area.</p> <p>Dan Shelley also explained that in future years an electronic processing system will be used which will allow the group to tender as and when required. This will be detailed and proposed to the June 2018 meeting.</p> <p>ESCG has a co-commissioning model with ESCC to provide training in areas such as construction, low level engineering etc. which will be innovative in its delivery.</p> <p><b>AGREED THE FINANCE COMMITTEE AGREED THE VALUES FOR THE ADDITIONAL SUBCONTRACTING CONTRACTS.</b></p> <p><b>Proposer Pat Farmer; Seconder Henry Ball Carried unanimously</b></p>	
10	<p><b>Plaza Trading</b></p> <p>Pat Farmer explained that there are five Directors of Plaza Trading. Pat Farmer is the only governor and suggested that an additional governor from the main ESCG Board might join the subsidiary. It was agreed that the Directors of Governance would seek external professional advice on the duplication of membership between the main board, wholly owned subsidiaries and subsidiary committees and boards.</p> <p>Biram Desai told the Committee that the Group is seeking to expand Plaza Trading across the colleges to other campuses. The purpose of Plaza Trading is to make a profit to support the business.</p>	Dir. Gov
11	<p><b>Policies</b></p> <p>a. <b>Tuition and Fees Policy</b></p>	

The Committee reviewed and discussed the tuition and fees policy. Biram Desai said that this Group policy had been developed from input by both Colleges. It is based on the Sussex Coast model but includes best practices from both. Mark Allen has had an input into international fees. A fees appendix helps to inform the policy.

Members asked if the fees are based on last year's fees plus a percentage uplift. Biram Desai confirmed that this is the case for some courses but the fees had been set in consultation with the marketing team to ensure that they reflect competitor information. Dan Shelley added that wherever possible the maximum fee is charged but the Group is mindful that fees must reflect the market. One example is that the HE courses are marketed as cost-effective when compared to some other institutions.

**AGREED: THE FINANCE COMMITTEE AGREED TO RECOMMEND THE TUITION AND FEES POLICY TO THE ESCG BOARD.**

**Proposed Pat Farmer Seconded Henry Ball Carried unanimously**

**b. Student Support Funds Policy**

Biram Desai reported that both Hannah King and Gillian Davis, the student support managers for the College Group, are very experienced practitioners and that they had co-authored this policy. The colleges had differed in their payment periods – one paying support funds weekly and the other monthly - but the Group will seek to standardise on a monthly payment to reflect the world of work. Governors discussed if this lengthened payment might increase hardship for learners and asked the Executive to research this and report back with some evidence.

Exec Team

*Russell Higginbotham joined the meeting at 17.00*

**AGREED: THE FINANCE COMMITTEE AGREED TO RECOMMEND THE STUDENT SUPPORT FUNDS POLICY TO THE ESCG BOARD.**

**Proposed Pat Farmer Seconded Henry Ball Carried unanimously.**

**c. Financial Regulations**

Biram Desai presented the paper and explained it is primarily based on the Financial regulations of SCCH. At the time it was drafted, SCCH had gone to the FE network and taken feedback from seven colleges and KPMG to reflect the best practice in the sector. The document is a key element of the assurance framework which ensures that the business is run appropriately. It is critical that it is robustly reviewed, approved and that it is rolled out to all staff who should receive training. They have not significantly changed from last year and there is one small technical update of changes of job title. The modern slavery act now applies to the College as it is an institution of more than £36m. Exceptional travel support for staff has been reserved in certain circumstances during the transitional period.

3.3a – a job title change to CFO needs to be made

Biram Desai

	<p>3.4 Director of Governance to provide the wording from the Instrument and Articles for signatories of the seal</p> <p>3.9 Governors asked for clarification on advance payments. BD said that this wording had been advised by the auditors and the limits are as recommended. He reminded the Committee that this would only be in exceptional cases.</p> <p>Financial regulations are presented to the Finance Committee annually. It was agreed that any versions in the future would come with ‘tracked changes’ to enable governors to see changes easily.</p> <p>Governors asked if this had already been reviewed by internal auditors – Biram Desai confirmed that this will be done before its recommendation to the June 2018 board.</p> <p><b>AGREED: THE FINANCE COMMITTEE AGREED TO RECOMMEND THE FINANCIAL REGULATIONS SUBJECT TO THE AMENDMENT TO 3.3 and 3.4 AND REVIEW BY THE INTERNAL AUDITORS TO THE ESCG BOARD. Proposed Mark Fisher Seconded Henry Ball carried unanimously.</b></p>	<p>Dir Gov</p> <p>Biram Desai</p>
12	<p><b>Terms of reference</b> These are in line with those of SCCH but have been reviewed and enhanced.</p> <p>Members asked about 5.1 and it was agreed that this clause would be altered to: ‘To consider and advise the Group Board on all aspects of the ESCG Finances as per the Financial Regulations.’</p> <p><b>AGREED: THE COMMITTEE AGREED TO RECOMMEND THE TERMS OF REFERENCE TO THE ESCG BOARD. Proposed Henry Ball Seconded Pat Farmer Carried unanimously</b></p>	Dir Gov
13	<p><b>Cycle of Business</b> The Committee agreed that the cycle of business is appropriate with the following corrections:</p> <ul style="list-style-type: none"> <li>• The May date for the 2018/19 calendar must be updated to May 2019</li> <li>• Item 2 under November 2018 – should read – “this will be done in the prior summer term from next year onwards”.</li> </ul> <p><b>AGREED: THE COMMITTEE AGREED TO RECOMMEND THE CYCLE OF BUSINESS TO THE ESCG BOARD AT ITS JUNE 2018 MEETING. Proposed Mark Fisher. Seconded Henry Ball. Carried Unanimously.</b></p>	
5	<p><b>Post-merger finance items including Transaction Unit terms and conditions</b> Biram Desai explained that this was a summary of the sizeable transactions which have taken place since the merger and confirmed that they are all in line</p>	

	<p>with expectations.</p> <ul style="list-style-type: none"> <li>• The expected funds had been received on merger day</li> <li>• The existing Barclays Loans had been repaid on merger day</li> <li>• A new loan from Barclays began on merger day</li> <li>• The first 50% of the CPO provision had been paid on merger day</li> <li>• Second tranche of CPO is due in August 2018</li> </ul> <p>The loans and conditions were also outlined. The campuses given as security were listed. The valuations received from the two valuers are significantly different and are of interest.</p> <p>In July 2018 the first quarter of TU monitoring will begin. This will then happen quarterly.</p> <p>[confidential item]</p> <p>Members asked for clarification on the TU covenants. Biram Desai explained that the TU covenants test the cash flow available for debt servicing (CFADS) for the 12 months' historic and 12 months' future from the date tested. CFADS is a term commonly used in banking and is calculated as EBITDA adjusted for balance sheet movements and capital expenditure. The covenant reflects the cash generation of the business in relation to the cost of servicing debt (interest and capital). A cover of at least 100% indicates that the business is sufficiently cash generative to meet its loan and interest payments, although, of course, a higher cover level is preferable.</p> <p><b>TU KPIs</b></p> <p>Members asked for detail on the KPIs under discussion with the TU. These will be drafted by the Executive team and brought to the Committee on June 12 2018. The finance KPIs are the key metrics that the TU would expect. He advised that any KPIs agreed with the TU should reflect and resonate with ESCG strategic plan.</p> <p>The Committee discussed broader College KPIS and asked that they be linked to the risk register. Mark Fisher will review the draft and offer input.</p>	<p>Biram Desai</p>
<p>6</p>	<p><b>Management accounts</b></p> <p><b>Current management accounts</b></p> <p>Biram Desai reminded the Committee that there will be a report each November which reconciles the management accounts to the financial accounts. Pat Farmer said that at the SDC practice of holding joint Audit and Finance Committees at the November meeting was an extremely useful format and requested that this is repeated for the ESCG.</p> <p>Biram Desai explained that there will be a set of SDC statutory accounts which will be a closing 8 month financial statement. There will be a consolidated group set of accounts to 31<sup>st</sup> July 2018.</p>	

ESCG has informed suppliers that they will not pay invoices without a purchase order to enforce cost control. He said that at SCCH there are only 4-5 staff who create purchase orders but this practice needs to be widened to Eastbourne and Lewes. There is a procurement officer post in the structure of the finance department.

Members asked about the bad debt provision of £476k. Biram Desai said that this requires further investigation and it may be a result of poor processes. Work is ongoing and represents a huge amount of staff resource but must be resolved by year-end.

### **Finance systems migration**

SDC has now migrated to Agresso with QLX only being in place for the financial statements. There is more work to do in terms of training and glitches in the system. The ESCG is trying to recruit a Finance Director and other key finance roles. There are interims in post but more work to do.

Biram Desai is planning to have all systems in place in Agresso by August 1 2018. From this point he is confident that the Group will be in a good position going forward. There will still be a requirement to train staff on financial regulations and use of systems. A robust approach to this and non-compliance will be adopted. His significant concern will be on pay-costs going forward as there is a significant shortfall in an establishment report to provide data but this is in progress.

There was a discussion about how each of the local Colleges will monitor and manage their budgets as part of the overall Group budget. The details of this are still being finalised but Clive Cooke confirmed that it is intended that each Principal will have devolved responsibility for their own College.

### **Format of future management accounts to reflect the three separate colleges.**

Pat Farmer asked that the management accounts going forward offer more detail than the top level accounts and give detail about the discrete areas. There was a discussion about the different budget areas and how they will be reported either at Group or division level. Biram Desai confirmed that going forward the Management Accounts would clearly identify the contribution against budget for each of the three colleges

Members asked what will be done to ensure that the legacy data is preserved for at least six years after the statutory accounts are produced. Mark Fisher advised that the College ensures that the data is accessible for future requirements. The Committee recognised that there are GPDR implications.

Biram Desai confirmed that there will only be one legal entity in Agresso as Plaza Trading is kept in Sage accounting package.

*Russell Higginbotham left the meeting at 18.00*

Biram  
Desai

<p>7</p>	<p><b>Draft budget 2018-19</b></p> <p>Biram Desai reminded the Committee that this is an initial draft and is presented to this meeting for input to a final version which will be ready for the June 12 2018 Finance Committee and ultimately the June Board meeting. He noted the following:</p> <ul style="list-style-type: none"> <li>• It is ambitious on income</li> <li>• Overall a positive budget showing the benefits of merger</li> <li>• Shows an operating surplus of 1.4%</li> <li>• The narrative from TU needs to be intact for the budget</li> <li>• A draft cashflow has been completed but is being reviewed to ensure accuracy</li> <li>• Paycosts allow for a 1% pay inflation award for 18/19</li> <li>• There are around 100 cost centres – there had been circa 70 at SCCH</li> <li>• There is an ESFA financial model which needs to be submitted by the end of July 2018. Key extracts will come to the Finance Committee on June 12 2018.</li> </ul> <p>Members asked that if the TU grant was built of a number of elements, would the College have to repay any of these if they were underspent or if it is a total grant? Biram Desai responded that there is no precedent but the CFADS model will be monitored and the TU will want to understand that the College has met its requirements. Pat Farmer explained that the TU does not hypothecate its loans.</p> <p>Members expressed concern that the budget does not currently offer a sensitivity analysis and that the items of savings in table 5 add up to £2.8M which represent a significant amount. If these were delayed or not achieved, a contingency might be prudent. There is also a forecast of a significant increase in adult income and this may also be ambitious. The 22% margin in apprenticeships is an area of concern. Dan Shelley explained that there is some analysis of the gross margin per course and this information should be available for academic year 2018/19. The Committee asked Biram Desai to revisit the budget and look at the sensitivities in light of the risks and to consider reducing the forecast outturn.</p> <p>Governors asked Clive Cooke if the targeted reductions in staff numbers can be met and not adversely affect the budget. He expressed confidence that this can be achieved by the end of 2017/18.</p>	
<p>14)</p>	<p><b>Any other business</b></p> <p>Henry Ball said that the message from David Russell is that the new tighter funding regime means that the budget will get tighter in coming years and he urged the Committee to consider the implications of this in the future.</p> <p><b>The meeting closed at 18.30</b></p> <p><b>Dates of next meeting</b></p> <p>The next meeting will be held on Tuesday 12 June at 16.00 in the Boardroom at Station Plaza, Hastings</p>	