**Finance Committee**

**Minutes**

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| Date | 29 June 2021 | Time | 3.00 |
| Venue | Zoom | | |
| Chair | Mark Fisher | | |
| **Membership** Mark Fisher (Chair), David Smith (EO), Rebecca Conroy (EO), Madina Tash, Tom Sanderson, Graham Cook  In attendance - Martin Penny, Dan Shelley, Tim Hulme (as required), Mia Bryden | | | |

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|  | Item | Action |
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|  | **Apologies**  Madina Tash was not in attendance. |  |
|  | **Declarations of Interest**  There were no declarations of interest. |  |
|  | **Minutes of the previous meeting**  Minutes of the last meeting were approved as a true and accurate record**.** |  |
|  | **Matters Arising**  The matters arising were noted as completed as per the cover paper.  RAG rating – R.A.G letters are now being used.  CFFR – there was request to ensure the report to this committee is more user friendly going forward. **Action for CFO** | **Martin** |
|  | **Terms of Reference 2021-22**  The DoG advised of the change from the IMFC to College Financial Forecasting Return (CFFR).  The DoG advised that in consultation with the CFO oversight of the Subcontracting and Supply Chain Policy in 2021-22 will move into the ARaC Committee following revisions to the Joint Audit Code of Practice following an update to the ESFA’s subcontracting standard, which introduces the requirement for independent assurance reports on subcontracting arrangements to be considered by audit committees.  The following changes were requested:   * Transformation Committee- remove and replace to CDB * Ensure CFFR referenced in G.   **Action for DoG.**  David Smith advised that the ESFA were invited to consider areas of risk for the Board to focus on during the Strategic half-day on 28 June.  Based on discussion with the College during ESFA monitoring visits and the number of ESFA investigation cases that the College has been involved with, the ESFA suggested the Board consider where the College is reliant on other organisations to deliver e.g. subcontracting or referral agencies, what more could/should the College be doing to ensure that it is sighted on any shift in policy, practice or priorities that could impact on college performance and/or reputation.  David Smith said the College, under the direction of the Board, has committed to reduce reliance on sub-contracting but there are several strands of activity where the College are significantly dependent on the performance of others.  The CEO said this is very much captured on the ESCG Risk Register, under the scrutiny of the ARaC Committee.  **Resolution**  The Committee agreed to recommend the TOR are approved by Board on 14 July.  **Action for DoG.** | **Mia**  **Mia** |
|  | **Cycle of Business for 2021-22**  The DoG advised a date is still being sought for September 2021 but that the contents of the CoB have been designed in consultation with the CFO.  Mark Fisher asked the CoB fits in with CFFR cycle of reporting. The CFO advised the cycle is yet to be determined.  David Smith highlighted minor typos around numbers. **Action for DoG.**  **Resolution**  The Committee agreed to recommend the CoB for approval by Board on 14 July  **Action for DoG.** | **Mia**  **Mia** |
|  | **May Management Accounts**  The CFO presented the May Management Accounts. It was noted that the College continues to maintain good cash reserves and did not require any additional support during the cash low point in April 2021. The financial health score remains as ‘Requires Improvement’. The revised forecast shows an EBITDA of +£4.95m and a total comprehensive income of £706k. Year to date EBITDA continues to run ahead of year to date budget.  The Committee were asked to note the changes expected to the AEB income level.  AEB YTD earnings continue to be behind profile and the forecast has been reduced to £4.3m. The Committee were advised this would result in circa £900k being clawed back by the ESFA in December 2021. The Chair of the Committee and the Chair of the Curriculum and Standards Committee have been notified and have been in close communication with the CEO and CFO. The Chair of C&S has said that is concerning that the AEB outcome is now lower than predicted but that mitigating circumstances make sense.  Monthly report will be provided moving forward with phasing introduced to the budget forecast to better highlight any variations. Also data will be provided to present a range of possible outcomes.  It was further noted that pay costs remain under close scrutiny and the savings in non-pay costs are a reflection of the lower levels of activity in subcontracting and commercial in particular.  The CFO advised that cashflow projections have been updated to reflect the expected clawback and the SALIX grant capital income and spend profile.  Graham Cook asked about the inclusion of the apprenticeship levy. The CFO said this has been included to keep a real focus on this area. He advised of routine Exec scrutiny. The EDSPE advised that if the College are not able to spend the levy they will look to deploy up to 25% with other SMEs and are exploring this with ESCC, University of Brighton, B&H Albion and others. The Committee were pleased to hear this and supported the initiative.  Tom Sanderson noted the debtors position remains high. He asked if it has come down and what the current status is. The Finance Director advised this has come down and continues to do so and described improvement work with the Director of MIS. Some of the issues relate to the Student Loans Company where the source of fee income is incorrect.  Tom Sanderson asked about write offs. The Finance Director said the debtor level on the balance sheet is now much more realistic and described past issues and conflation with errors, incorrect fee types and artificial write-offs. She said there is still some work to do on the HE part of debt but is not anticipating the same amount of write-offs as in the past. Mark Fisher requested that any remaining corrections required on the debtors ledger be completed before the end of the current year financial audit so that these issues do not substantively carry forward to the next financial year.  David Smith praised the quality of information. He said the ESFA and FEC were taken though the last set of management accounts at the last monitoring visit and appeared to be assured. He urged caution about the perception of the AEB shifting forecast and the national view that the College over promises and under delivers and talked about the need for the College to set out a ‘range of delivery’ in the big incomes streams rather than committing itself. |  |
|  | **Plaza Trading options appraisal**  **Redacted note**  **Action for DoG** | **Mia** |
|  | **Subcontracting Report & 2021/22 Subcontractor and Supply Chain fees policy**  The Committee were advised there are no changes to the Maximum Contract Value (MCV) agreed by the Board and Finance Committee for 2020/21. It was noted that there has been a slight move of AEB from one partner to another following reconciliation. The subcontractor declaration to the ESFA has been updated accordingly.  The indicative Maximum Contract Value (MCV) of subcontracting available to partners in 2021/22 were shared. Sub-contracting levels were noted to have reduced within the 16-19 Study Programmes and AEB funding streams with a slight increase in HE subcontracting (+£676k).  6 partners for new starts were noted. 10 partners are on run down contracts. David Smith asked how partners on run down contracts were scrutinised during the run down process. The EDSPE said that funding can be withheld, which is a risk for a number of the smaller organisations.  The Subcontractor and Supply Chain fees policy has been reviewed by EDSPE and Head of Partnerships to ensure it complies with ESFA Funding Rules for 16-18 Study Programmes, Adult Education Budget (AEB) and Apprenticeship delivery. The EDSPE advised the subcontracting rules for FY22 by the ESFA have not yet been produced. It was confirmed that the Subcontractor and Supply Chain fees policy will move to ARaC but that an annual subcontracting report (joint with C&S) will come to Finance Committee which will include information on the contracts in place for the academic year & subcontractor values.  **Resolution**  The Committee agreed to recommend the 2021/22 Subcontractor and Supply Chain fees policy for approval by Board on 14 July.  **Action for DoG.**  The ESPSE updated the Committee on progress of the current ESFA investigations into three historical subcontractors. The estimated clawback of circa £400k was noted. | **Mia** |
|  | **Financial Risk Management Annual Report**  An extract from the latest register that highlights the current risks of a financial nature and the actions being taken to mitigate those risks was discussed. The CFO said that all risks have been subject to scrutiny of the Finance Committee throughout the year.   * Cashflow * Subcontracting * Resource management * Estates   All of these risks are explored by the Exec and with ESFA and FEC colleagues during monitoring visits.  It was noted that all financial related risks have been mitigated from Red to Amber and all have actions in progress to ensure that these continue to be addressed. Amber is a good place to be. ARaC monitor risk on a regular basis and  management will report again to Finance Committee in June 2022 as per the agreed cycle of business.  Tom Sanderson questioned the deadline of July on the actions. The CFO explained the version of the risk register is the version reviewed by Exec on a monthly basis and there is a risk register with longer completion dates. Mark Fisher agreed that this was a strange way to report to the Finance Committee. The EDROD advised that this model was agreed with the FEC. The CFO agreed to ensure the longer completion dates were included in future. **Action for CFO.**  Mark Fisher said the risk ratings within the management accounts didn’t appear to align with the risk ratings within the risk register, even after mitigation. It was confirmed there are degrees of red and the Executive Team will be looking at potential shifts in probability in the next review. | **Martin** |
|  | **Final Budget including verbal feedback from ESCG Strategic Half-day**  The CFO introduced the draft budget for FY22 which been prepared using the outputs of the business planning process that has been finalised during early June 2021. A resource allocation model has been used to review all areas of delivery to benchmark financial performance, and managers and budget holders have again been engaged in over 140 meetings to help inform and set a realistic budget for FY22.  The Committee were advised the budget has been set against the known impacts of Covid19 during FY21 and the expected changes in the market for skills and training as the country emerges from lockdown. The College expects to see increases in a number of income streams and resources have been allocated to deliver against those targets.  The position of Apprenticeship, AEB, HE and Fee income was noted. David Smith asked for the Committee to ensure it continues its scrutiny on the range of income in these areas. He said the Committee should be informed as a priority should there be any significant under delivery in these areas. The CEO confirmed these areas are featured on the risk register and the Exec Team routinely monitor, individually and collectively, to ensure there is thorough understanding or risk and mitigations. The CFO agreed to consider how this could be best tracked through the management accounts. **Action for CFO**.  Key risks and impacts in terms of income streams were set out, this supports with future proofing as well as setting the budget for FY22.  The CFO said forecasting has been prudent in HE and International (summer impacts).  The College is budgeting to deliver a total income of £49.8m in FY22 compared to a forecast outturn figure of £46.7m in FY21; an increase of £3.1m.  The draft budget shows an EBITDA figure of £4.95m (9.94%) and a total comprehensive income of £0.6m, compared to a forecast EBITDA of £4.95m (10.6%) and total comprehensive income of £0.7m in FY21. Tom Sanderson observed the EBITDA is the same as a last year. The CFO advised of the need to be above 6%. He said a College of this size should be aiming for 10% which will generate cash for reinvestment.  It was noted that internally funded Capital Expenditure has been included in the cash flow as a level of £1,250k for FY22. The detailed CapEx budget is still under review and will be submitted to Governors in due course for approval.  Every income stream will be reviewed each month.  Tom Sanderson noted the pension costs are the same for 2022 as for 2021 and highlighted this as an area that can often blindside organisations. The CFO advised the exact figures are pending the actuary report. As a result the budget may change from the version approved at Board in July 2021.  It was noted that the Finance Committee may need to reconvene should there be any substantial change in the final budget or as a result of the FECTF grant. **Action for CFO & DoG.**  It was confirmed that there is no major re-structuring planned for 2021, but that £200k has been set aside.  Staff pay costs will be closely monitored. The impact of the capital projects on the £3.5m depreciation charge will be reforecast during the year. Also the continuing position of negative reserves was noted.  Non-pay is in line with last year’s budget.  Graham Cooke enquired about the process of reconciling student and staff numbers. The CEO advised of the pro-active approach to filling vacancies and building teams.  Tom Sanderson queried the two lines in the cashflow forecast. **Action for CFO to review (pre-post SALIX profile).**  Mark Fisher asked if there was a means (e.g fan diagram) to show the impacts if the inflows were late on capex. **Action for CFO**.  Tom Sanderson asked if anything had been assumed re Plaza Trading in the budget. The CFO said this was accounted for in the 2021/22 budget but will be reviewed depending on the outcome of the PTHL review.  **Resolution**  The Committee agreed to recommend the budget to the Board for approval on 14 July 2021. *Noting budget may change with unknowns around pension costs* and FECTF grant.  **Action for DoG** | **Martin**  **Martin & Mia**  **Martin**  **Martin**  **Mia** |
|  | **ESCG Five Year Investment Strategy**  The EDROD briefed the co-opted member on the ESCG Five Year Investment Strategy and the financial aspects of The Project and capital related activities.  An FECTF application of £16.8m is awaited – this will address major weaknesses in existing assets. The Board heard proposals on a ‘basic, better, best’ basis on 9 June 2021. The Project will be delivered via the newly formed time-limited Capital Development Board. £4.3m was been awarded via a grant from SALIX (which required Board approved College match funding of £477k. £2.9m has been awarded by a Town Fund grant to create a Green Centre of excellence at Ore Valley, at this stage match funding is to be confirmed.  The Five Year Investment Plan is split into two parts, one to look at improvements to Eastbourne and Lewes campus and the second part looks at wider investment priorities over the next five years, divided into five areas.  Mark Fisher said it will be the purpose of the Committee to support but also challenge the Exec Team to try to improve financial performance to generate the financial reserves to enable this activity and provide challenge around a balance between finances required for operation and capital expenditure.  The key risk was noted to be cashflow if The Project does not go to plan.  It was confirmed that if The Project does not go ahead £2.24m would need to be generated over five years.  David Smith said if The Project were to make a significant surplus the College may wish to pay off the debts owed to the PMO and Barclays. |  |
|  | **Bank Waiver for Negative Reserves Letter**  The CFO advised, as discussed earlier, as a result of the Local Government Pension Scheme (LGPS) deficit the College is reporting negative reserves in the annual financial statements. This constitutes a default of the T&Cs of the facility agreement.  The Committee were advised that Barclays have agreed to waive any rights as a result of this breach and have agreed to amend the facility agreement so that the pension deficit would be excluded from any future calculation of this clause.  The signing of the waiver and variation letters for the two facilities will indicate the College’s acceptance of the revised terms and conditions and ensure that there are no future breaches of this clause caused by the LGPS pension deficit  **Resolution**  The Committee agreed to recommend that the Board to approve the signing of the letters.  **Action for DoG** | **Mia** |
|  | **ESFA Financial Statement and Finance Record**  The College submitted its Financial Statements and associated documents to the ESFA to meet their deadline for submission. As part of that documentation the College assessed its Financial Health as ‘Requires Improvement’.  The ESFA have agreed that the appropriate assessment grades, based on the finance record, are:  • Inadequate for 2019/20 (the outturn year), and  • Requires Improvement for 2020/21 (the current budget year).  The ESFA commented on two financial controls:  • Issues with the accuracy of the sales ledger  • Issues with the accuracy of prepayment calculations  The Committee were advised the Finance Director has carried out a detailed review of the sales ledger and debt control to improve the accuracy of the sales ledger. This has been reviewed as part of the internal audit in FY21 of Key Financial Controls to give assurance that this has been addressed. The Finance Director has also implemented new processes for the calculation and signing off of prepayment journals. These actions will be reviewed by the External Auditors as part of the audit of the financial statements for FY21.  Tom Sanderson asked how frequently the ESFA dashboard is produced. This was confirmed as annually. |  |
|  | **Policies**  **Resolution**  The Committee recommend the following Polices are approved at Board on 14 July.  **Action for DoG.** |
|  | 1. **Tuition Fees** |  |
|  | 1. **Student Support Funds** |  |
|  | 1. **Disposal of College Assets** |  |
|  | 1. **Treasury Management Policy** |  |
| **16)** | **Any urgent matters**  **Bank mandate – paper circulated 7 days in advance of meeting**  The Financial Regulations require changes to the bank mandate to be agreed by the Board. The current mandate with Barclays Bank is out of date and requires to be updated to ensure that the College has sufficient signatories to carry out the day to day business of the College.  **Resolution**  The Committee agreed to recommend the Board approve the updated mandate and Director of Finance to update the Barclays bank mandate.  **Action for DoG** | **Mia** |

**Ends 4.45**

**Forward plan**

* **Libor Transition & Board**