**Finance Committee**

**Notes**

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| Date | 26 June 2020 | Time | 3 pm |
| Venue | Zoom | | |
| Chair | Mark Fisher | | |
| **Membership** Mark Fisher (Chair), David Smith (EO), Rebecca Conroy (EO), Madina Tash, Tom Sanderson, Graham Cooke  In attendance - Martin Penny, Dan Shelley, Tim Hulme (as required), Mia Bryden | | | |

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|  | Item | Action |
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|  | **Apologies**  Apologies were noted from Madina Tash. |  |
|  | **Declarations of Interest**  No new declarations of interest were made. |  |
|  | **Minutes of the previous meeting**  **Amend Rob to Rod.**  THE MINUTES OF THE LAST MEETING WERE APPROVED AS A TRUE AND ACCURATE RECORD. |  |
|  | **Matters Arising**  The PMO is now involved in monthly monitoring meetings with the ESFA and FEC  Matters arising were noted as per the cover paper. |  |
|  | **Governance Matters**   * **Election Vice-Chair**   Graham Cook was nominated as Vice-Chair**.**  **Action: Mia Bryden to table for approval by the Governance Development Committee.**   * **Cycle of Business**   The Cycle of Business was approved, in principle. | Mia Brdyen |
|  | **Response from the Audit and Risk Committee to matters identified at the last Finance Committee**  Mia Bryden advised the response back to the Finance Committee from the Audit and Risk Committee was taken with the additional context of the recent audit on Financial Controls, which provided Reasonable Assurance. She advised the Audit and Risk Committee felt this was a generous judgement given concerns highlighted by the Finance Committee for their attention.   1. Substantive errors in the recently submitted IFMC return concerning repayment of loan capital and interest. This has resulted in a substantial deterioration in cash flow projection as the College catches up with missed repayments.   The Chair of Audit and Risk, the Chair of Finance, the Interim CFO, the Director of Governance and the Acting CEO met to consider the controls and processes concerning IFMC returns. It was felt that the appropriate assurance is provided via:  1. Consistency between the model, forecast outturn and budget  2. PMO feedback on the model  3. PMO/ESFA and robust and triangulated monitoring via the Finance Committee.  4. The College also has the added layer of ESFA/FEC case conferences.  The Finance Committee was advised that the Chair of Audit and Risk Committee plans to ask the Board on 8 July for a sum of money to be made available to Martin Penny to support any further activity he might need to undertake to assure the Board about the quality of financial controls. Mark Fisher said he would be supportive of this request. David Smith said this would be for Board debate and that there would need to be considerate about the sum and where this would be found. The Committee felt invites to members of the College’s Finance Team would be a useful assurance mechanism also.   1. Regarding weak processes and controls on staff costs budgeting leading to a substantive overspend in the year. The Audit and Risk Committee were assured that this area had been covered by an Internal Audit review/included for 20/21 to give reassurance on controls and oversight. 2. Regarding concerns raised that details required for the group to access all areas of HMRC to furlough staff had not been available, Martin Penny assured that this was being resolved as a priority. 3. The Audit and Risk Committee felt issues relating to the recovery of student debt not being reported on for six months were being addressed via follow up on actions raised by internal and external audit. 4. The Audit and Risk Committee have assured the items recorded as capital expenditure are being reviewed.   David Smith said that recent Board self-assessment activity highlighted that the wider Board membership was not assured about the robustness of financial controls.  Mark Fisher talked about the TOR rewrite, in close collaboration with the Audit and Risk Committee, which he felt better aligns the Committees and prevents issues falling through gaps.  It was noted that the Committees would meet jointly in November 2020 to approve the College year-end audited accounts including financial statements and regularity auditor’s management letter.  Overall Board knowledge of the financial structure in the FE sector was discussed and plans to address this in part via a development session on the ESCG Strategy Day on 8 July noted. Mia Bryden advised of training provided by the EFT on financial management for Governors. Graham Cook advised he had been encouraged to complete the course during his induction. | Consider |
|  | **£1m Pledge Position Statement**  Dan Shelley, Executive Director Strategic Partnership and Engagement, advised that the College is committing over £1m of 2020/21 Adult Education Budget to support the economic recovery post lockdown. This was launched with the support of a range of partners including Local Authorities, Chambers of Commerce and the LEP.  The detail on the programme and a draft was presented to the Committee. It was noted that the pledge campaign would also support the Further Education Commissioners recommendation to reduce subcontracting as these programmes will develop into a more extensive AEB offer in future years.  Tom Sanderson asked for further clarification about financial implications relating to the pledge. He was advised it will form part of the AEB. It was noted that not achieving the income target would have an impact on the 2020/21 budget and future AEB allocations. It was proposed that this would be split out from the AEB line for committee review.  **Action: Martin Penny to split out the pledge in AEB line in Management Accounts.**  The Committee asked for assurance that there were enough resources to deliver the programme. They were advised there were, and that the team have been included in the pay budget as substantive posts. Dan Shelley advised new tutors and teachers were being recruited to support delivery, and that these new posts were not in addition to the budget outlined in the papers presented to the Committee. | Martin Penny |
|  | **ESFA response to ESCG submitted financial statements**  Martin Penny reminded the Committee that the College had submitted its Financial Statements and associated documents to the ESFA in December 2020. As part of that documentation the College self-assessed its Financial Health as ‘Requires Improvement’. He said the ESFA have now reviewed the documents and do not support the self-assessed grade. They have confirmed the calculated grade of ‘Inadequate’ as appropriate.  David Smith suggested the response be shared with Barclays.  **Action: Martin Penny to share ESFA response with Barclays.** | Martin Penny |
|  | **May Management accounts**  Martin Penny shared the May 2020 management accounts with the Committee.  It was noted that the accounts cover the ten months 01 August 2019 to 31 May 2020.  The Committee noted that calculated loss of income from Covid-19 measures was estimated at £2.567m through to the end of the financial year.  The Committee was advised that pay costs remain above the budgeted levels, by £2.229m and that non-pay expenditure was forecast to reduce by £3.488m compared to the budgeted level.  Martin Penny described the five areas that had required more detailed work since the April accounts: Student debt, furloughed staff, partnership payments, re-opening costs, and CapEX,  There was discussion about Creditors being very low due to Covid19, with the majority sitting in 61-90 days. Martin Penny advised of work to raise the College’s reputation with suppliers around delays.  **Redacted for publication**  There was discussion about student debt collection and the controls in place, with Martin Penny describing the practice of relying upon non-financial systems to control student debt. Martin Penny advised that the ledger is now showing an updated position of £2.6m debt, but that data cleansing continues. The difficultly re-couping the debt was discussed. The Committee was advised that aged debtors analysis will be included in the June Management Accounts. David Smith urged the Acting CEO and Interim CFO to use AOC Create if the issue around student debt requires technical knowhow. The Chair encouraged the Acting CEO and Interim CFO to alert Audit, Risk and Compliance should the control/ process issues not be resolved.    The Committee was updated that Barclays Bank may grant a covenant ‘holiday’ if the College cannot meet the covenants as at July 2020. The College could also apply for a capital repayment ‘holiday’ if liquidity becomes a problem. Martin Penny urged caution about this.  Martin Penny advised that loan covenants are likely to be breached this year, but that Rod Baker at Barclays has been requested to provideCovid-19 related waiver.  There were queries about the CapEX looking more like maintenance and the need to unpack this.  **Action: Martin Penny and Tim Hulme to review CapEX.** | Martin Penny & Tim Hulme |
|  | **IFMC, Commentary and supporting documents**  Paul Rees and Sooosai Fabian were introduced to the Committee to present the IFMC to the Committee, with Martin Penny.  It was noted that the IFMC had been prepared based on actual performance to date in FY20, including the impact of Covid19 in the forecast to the end of the financial year. The outputs from the College Business Planning process have been used to forecast the position for FY21, and FY22 is an extrapolation of FY21.  Cash flow has been matched back to the actual cash flow of the College as detailed in the daily cash flow reconciliation.  Loans have been updated to present the actual position, and the forecast has been updated to include scheduled changes to repayment profiles.  The outputs were noted as per the cover paper presented to the Committee.  The Committee discussed the unknown amount of ‘unknowns’ post-Covid19 and the difficulty this presents.  The IFMC has been scrutinised by the Executive Team.  The Board on 8 July will be asked to ratify the IFMC and budget 2020-21.  Graham asked if the IFMC was a public document. Martin Penny advised the IMFC does not into the public arena, the budget paper will be shared with the PMO and the end of year Financial Statements will be made available on the ESCG Governance webpages. |  |
|  | **Business Planning and Draft Budget 2020/21**  The Committee was advised that the draft budget for FY21 had been prepared using the outputs of the business planning process that has been finalised during early June 2020. A resource allocation model was used to review all areas of delivery to benchmark financial performance, and managers and budget holders had been engaged in a series of meetings to help inform and set a realistic budget for FY21.    The Committee expressed dissatisfaction with CapEX forecasting. The main concern was around investment not being sufficient for the College of the size of the ESCG. This led to a wider discussion about the need to invest in digital infrastructure as well as the People Strategy, and the interdependencies being fully scoped and understood. Staff costs/ income was noted to be low at 61%.  **Redacted for publication.**  The College’s two-tier strategic plan was discussed – from Recovery to March 2021 to longer-term planning from 2021-2024 and the College not being in a position to be able to fix down longer-term ambitions.  David Smith emphasised the importance of consistent messaging to regulators / external agencies by the Board and the Executive Team.  Mark Fisher urged the Executive Team to ensure prompt communication with all who need to know if it becomes unlikely the College is unable to deliver to the budget.  **Resolution**  The Finance Committee **resolved** to recommend the Draft Budget 2020/21 to Board for approval on 8 July 2020. |  |
|  | **The setting of KPI targets for 2020/21**  Martin Penny advised a range of KPIs had been chosen to support robust oversight to help the College deliver its Requires Improvement status. He advised the Executive Team considered the KPIs to represent achievable and stretching progress in gaining the trust and confidence of the ESFA, FEC, Barclays Bank and broader internal and external stakeholders. |  |
|  | **Estates Strategy**  Tim Hulme updated the Committee on discussions on disposals of non-essential assets. He advised he would circulate further information to the membership of this Committee.  **Action: Tim Hulme to circulate as above.** | Tim Hulme |
|  | **Risk Management Update (following the report to Audit, Risk & Compliance)**  Tim Hulme advised that arising from discussions at the Audit and Risk Committee he was doing further work on the College Risk Register to enable:   1. more visibility on the overall business risks 2. provide further assurance to the Board and FEC/ESFA 3. the business to build and secure liquidity 4. the assumptions in the IFMC and budget to be transposed into a credible recovery plan and long-term strategy   He updated the Committee on plans for RMS to undertake a Maturity Risk review. |  |
|  | **Subcontracting update**  There was no further update as investigations remain halted. |  |
|  | **Policies**  **Resolution**  The Committee **approved** the Tuition and Fees Policy  The Committee **approved** the Student Support Funds Policy  It was noted that the Financial Regulations would be deferred pending an update to the Business, Gifts and Hospitality and Staff Declarations of Interest policies and procedures.The Board will be notified of the delay in signing of theFinancial Regulations and seek an agreement that these will be approvedvia Written Resolution before the ESCG Board Meeting in October 2020. |  |
| 17) | **Update on review of capacity and capability of the finance function**  The Committee was advised that a permanent and sector experienced Finance Director is being sought to strengthen ESCG financial capacity and capability. |  |
| 18) | **Any other business**  David Smith said the ESCG Committee structure between Transformation and Finance requires review and suggested a Finance and Resources Committee approach with a working group looking at Transformation.  **Action: To be discussed further via Short-term Board Focus Group and Governance Development Committee.** | Mia Bryden |