

**Minutes of a Meeting of the Finance & Capital Projects Advisory Group held on
Wednesday 28 June 2017**

Present Mr T White (Chair)
Mr M Michaelides
Mr S Wilcox
Ms T Aust (Principal)

Also present Mr M Cooper
Mr M Patel
Mr J Allen

The meeting commenced at 18.00.

APOLOGIES & DECLARATION OF INTERESTS

63. There were no apologies. There were no declared interests against any of the agenda items. It was confirmed that the meeting was quorate.

MINUTES

64 It was **RESOLVED** that the minutes of the meeting held 22 February 2017 (Paper 1) be confirmed as a correct record and signed by the Chair.

SUMMARY ACTION LIST & MATTERS ARISING

65. The 'Summary Action List' was received (paper 2) and the following updates were provided:

| MIN REF | DETAILS OF RESOLUTION/ACTION POINT | COMMENTARY / UPDATE FOR MEETING 28 JUNE 2017 |
|----------------|---|---|
| 33 | Update on the Skills Centre Lease | Still being progressed with the London Borough Hounslow. |
| 51 | (i) Seek Corporation approval at the March meeting to approve a capital budget of £1m, for 2017-18; and (ii) For the Finance Committee to meet in May to discuss as a single agenda item the proposed capital and maintenance programme for 2017-18. | Approved at the Corporation meeting held in March Details shared in an email to Committee members 05 May 2017 and the final agreed capital and maintenance programme for 2017-18 is an agenda item at this meeting for information purposes, |
| 58 | Risk register to be updated to include the date of the mock funding audit | Agenda item at this meeting |
| 60 | It was confirmed that KPMG have yet to respond with a date to meet with the Committee to discuss their financial due diligence report on the College. It was confirmed that this action point would be followed up by the Executive. | Still not resolved to the satisfaction of the Executive and Committee but it was AGREED not to progress this matter any further. |

MANAGEMENT ACCOUNTS UP TO 30 APRIL 2017 & LATEST OUTTURN

66. The Management Accounts up to 30 April 2017 with the latest year-end forecast outturn was received (Paper3).

67. It was reported to the Committee that the paper for this agenda item, and the papers for the College Budget 2017-18, have to be subject to further amendment as there have been late changes to the Management Accounts, the College Budget 2017-18, and the 2-year financial plans.

68. The Executive reported that there is now recognition of area costs adjustment relating to the uptake of Advanced Learner Loans and this has resulted in additional income of £194k for 2016-17 (based on the adjustment over the last 3 years). There is additional Learning Support of £15k and reduced pay costs of £111k. This increase in income has been offset by a small increase of £45k in non-pay contingency.

69. The net impact of these late changes has resulted in positive movement of £275k for 2016-17, resulting in the reported surplus of £80k in the Management Accounts now being reported at £355k.

70. The ratios have also been updated and were reported as follows for 2016/17:

| | |
|--|-------|
| Surplus/income% | 1.7% |
| Pay costs/income ratio | 64.7% |
| Impact on ESFA Financial Health Category | Good |

71. It was **RESOLVED** to note the Management Accounts and for revised Management Accounts, taking into account the late changes reported to the Committee, to be made available in the financial papers for the July Corporation meeting.

COLLEGE BUDGET 2017/18 AND 2 YEAR FINANCIAL PLAN 2017 TO 2019

72. The 'College Budget 2017/18' (Paper 4a), the 'Commentary of the 2-Year financial Forecast' (Paper 4b), the '2-Year Financial Forecast' (Paper 4c), and the '3-year Financial Plan' (Paper 4d) were received.

73. The budget is prepared within the context of the ongoing difficult economic climate where public services, including FE colleges, face continued challenging cuts to spending.

74. The commentary to support the College budget outlined the changes in income streams for 2017/18 and provided a detailed analysis on forecast expenditures. In addition, a detailed analysis was made available on forecast capital expenditure, cashflow, financial targets for 2017/18, and a risk and sensitivity analysis.

75. The Two Year Financial Forecasts for 2017/18 and 2018/19 have been completed using the required framework prescribed by the funding agency. The assumptions used to inform the 2017/18 budget have been carried forward into the second year of the financial plan.

76. The late changes reported under the previous agenda item have also impacted positively on the College Budget 2017/18 and 2-year Financial Forecasts. The recognition of Area Costs adjustment relating to the uptake of Advanced Learner Loans will result in additional income of £50k for each year, and an additional £15k each year will occur due to the recognition in income

from Learning Support. There is an increase of £15k for non-pay contingency for 2017/18. The net result of these changes were reported as follows:

| | 2017-18 | 2018-19 | 2019-20 |
|---------------------------------------|--------------|--------------|--------------|
| Operating Surplus before late changes | £400K | £525K | £625k |
| Revised Operating Surplus | £450k | £590k | £690K |

77. The ratios have also been amended and are now as follows:

| | 2017/18 | 2018/19 | 2019/20 |
|--|---------|-------------|-------------|
| Surplus/income% | 2.1% | 2.7% | 3.1% |
| Pay costs/income ratio | 64.8% | 64.9% | 65.3% |
| Impact on ESFA Financial Health Category | Good | Outstanding | Outstanding |

78. Following a thorough review, and subject to the late changes being incorporated into the College Budget 2017-18 and in the 2-year financial forecasts, it was **RESOLVED**:

- (i) To recommend that the Corporation, at its meeting on 12 July 2017, approves the College Budget 2017/18; and
- (ii) To recommend that the Corporation approves the Two Year Financial Plan 2017 to 2019.

LETTER FROM THE CHIEF EXECUTIVE OF THE ESFA

79. The letter addressed to all College Chief Accounting Officers from the Chief Executive of the Education Skills Funding Agency was received. The letter provided guidance on financial management and governance.

80. The Committee **NOTED** the letter but were disappointed that the letter made no reference to the funding cuts that the sector has had to deal with over the last 3 years.

CAPITAL AND MAINTENANCE PROGRAMME FOR 2017-18

81. As reported under the agenda item '*Summary Action List*', details of the proposed Capital and Maintenance Programme 2017-18 were shared with Committee members via email. Changes proposed by Committee members have been incorporated and the final agreed capital and maintenance programme for 2017-18 was made available for formal approval in the minutes

82. It was **RESOLVED** to approve the 'Capital & Maintenance Programme 2017-18'

DEVELOPMENT PLAN 2017/18

83. The Committee was invited to provide a steer to the Executive on what they would want to see included in the development objectives under Goal 3 for 2017/18. The following steers were noted:

- Need to work within benchmarks set
- Utilisation benchmarks to be included in Goal 3
- More robust data dashboard reporting on all objectives in the Development Plan

BANK LOAN FINANCE

84. There are two covenants currently in place regarding the College's long term loan agreement with Barclays Bank plc. Due to the significant reporting and accounting changes following the adoption of FRS102 from last year, the covenants have had to be revised whilst at the same time ensuring that none of the parties is disadvantaged by the impact of the revised accounting treatment.

85. Following the Corporation's approval last December to proceed to finalise the two new proposed covenants, agreement with Barclays was confirmed in March for which formal approval is now sought.

86. To this end, Barclays have drafted a Letter of Variation that must be signed by the College to confirm agreement. This letter does not impact on anything else in the agreement and has been reviewed by the College's solicitors, Mills & Reeve, in conjunction with the original agreement and subsequent variations.

87. The two covenants proposed are:

- Debt Service Cover – a choice between two variants; and
- Operational Leverage

88. Spreadsheet templates to model implications of the covenants were made available for the Committee to review. To give an extended view of the impact of the proposed covenants the templates have been completed using figures taken from the College's *Two-year Financial Plan* as compiled in June 2016 and submitted to the Skills Funding Agency.

89. The Committee were satisfied with the model implications made available on the debt service covenant but sought more clarification on the model implications made available on operational leverage. The Committee requested an extended forecast and wanted to know at what point would the College be in breach of this covenant, i.e., by how much does the surplus have to drop by before we would be in breach of the covenant.

90. Subject to a revised model implication on operational leverage being made available for the Corporation meeting, it was **RESOLVED** to recommend that the Corporation:

- (i) Accepts the amendments set out in the attached Letter of Variation;
- (ii) The letter from Barclays Bank plc now produced is approved and Tracy Aust (Principal) and Mark Cooper (Executive Director – Funding and Finance) be and are hereby authorised to sign the acceptance of the said facility letter on behalf of the College and to bind the College to the terms and conditions stated therein;
- (iii) The College authorises the Bank to accept instructions and confirmations in connection with the facility signed in accordance with the Bank's signing mandate, current from time to time.

INTERNAL AUDIT REPORT BUDGET SETTING & CONTROL AND COMMERCIAL INCOME & DIVERSIFICATION

91. The internal audit recommendations relating to budget control and commercial strategy were presented, along with confirmed management responses, to the Audit Committee when it met on 22 June. The Audit Committee requested that the internal audit report be made available to the Finance Committee for information purposes.

92. It was **RESOLVED** to note the Internal Audit Report.

RISK MANAGEMENT/RISK REGISTER

93. The College report '*Risk Register*' was received, highlighting the areas of focus relevant to the Committee (Paper 8). The Audit Committee has requested that each Committee be asked to review as to whether there are sufficient and robust sources of 'Independent Assurances' against each risk that falls under the terms of reference of the Committee and, if identified, that 'Governor Oversight' arrangements are adequate and fit for purpose. The Clerk advised that the Committee could also add to the Risk Register any new risks that had been identified through discussions during the meeting.

94. Following review, the Committee was satisfied with the robustness of the range of 'Independent Assurances' identified against each risk that falls under the terms of reference of the Committee. .

95. It was **RESOLVED** to note the Risk Register.

ANY OTHER BUSINESS

96. There was no other business

DATE OF NEXT MEETING

97. The next scheduled meeting is Wednesday 22 November 2017 @ 1800.

The meeting closed at 19.30

Signed: _____ Date: _____
(Chair)