Minutes of the Finance & Resources Committee Meeting Held Virtually at 5pm on 01 March 2022

Present: Lily Camacho (student governor), Katie Hill (staff governor), Tim Jackson & Paul Quigley (Chair)

Apologies: Paul Walton

In Attendance: Paola Schweitzer — Director of Governance
Maria Vetrone — COO

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M i n u t e s

1 – Standing Items

032 Attendance and Participation
Paul Walton sent his apologies.

033 Declarations of Interest
There were no declarations of interest, other than Tim's standing declaration that he was an advisor for the FE Commissioner's office.

034 Minutes
The Minutes of the Meeting on 25 January 2022 were **Agreed** as a correct record.

035 Matters Arising
Minute 025/014: Management Accounts Period 12: Maria believed the matter was closed as the College was not liable for business capital gains tax.
All other matters were either complete, on schedule or covered on the agenda.

036 Management Accounts January 2022

Maria presented January 2022's management accounts (paper 113/22/F&R), stating that her intention was to move towards year end forecasts (as opposed to year to date) and this would evolve over time.

The annual budget for the year ended 31 July 2022, approved by Corporation in July 2021, generated an operating deficit of £1,777k. The three-year financial plan was originally set to deliver a small operating surplus in 2022/23. The College continued to perform below the Year To Date (YTD) budget profile with a YTD operating deficit of £694k, which was £46k behind YTD budget. The position had deteriorated since 31 December 2021 and was likely to deteriorate further.

Income was short-falling against the YTD budget by £45k, due to clawback and under-enrolment against the Adult Education Budget (AEB) and loss of commercial income due to the impact of Covid-19. 16-18 apprentices were doing well but adult apprenticeships had a negative variance of £42k. This was primarily due to apprentices who were out of funding (OOF) but still in learning. In response to a question, Maria stated that this dated back 18 months when the College should have paused apprenticeship learning. Tim noted that this was a common mistake by providers. Achievement funding was based on 56% of apprentices successfully completing (down from the previous estimate of 65%) but Maria believed this was still optimistic. The recruitment of students accessing the FE Loans Advance Learned Loan facility had started well this year. The College had applied and budgeted for an additional facility of £250k but only £98k was awarded by the ESFA causing income from FE loans to drop behind budget by £42k for the YTD. The College had however been successful in its re-application with an additional £131k awarded for the year meaning it should meet the target. Maria confirmed that the College had a waiting list for these loans. Tim was happy to hear this update, questioning the use of requiring colleges to bid for government funding for adults who were keen to borrow money to invest in improving their skills. There was a brief discussion about the College's catering facilities and Maria noted this area had not previously been budgeted for as result of difficulties concerning contractors and set against the backdrop of the merger and capital bid. A new Funding Group was meeting weekly to monitor College performance.

Pay expenditure was showing cost savings of £247k YTD, mainly from curriculum staffing associated with under-enrolment as some courses not running as planned. There was a slight overspend on support staff which included agency staff and overtime, underlining the importance of an effective recruitment strategy. The pay expenditure forecast excluding restructuring costs remained aligned with the budget. Maria believed pay expenditure would be on or just under budget by the end of the year. She noted that due to incomplete data, it was not yet possible to ascertain the productivity of teaching staff. However next year there would be a fully costed curriculum plan so the College knew if/where it had surplus capacity.

Non-pay expenditure was showing an overspend of £248k YTD, mainly due to additional costs associated with Covid-19 such as higher examination and registration fees and additional premises maintenance and running costs. Maria warned that fees were likely to increase further and that these increases were compounded by the tendency to roll over some budgets year on year, without anticipating increases. Katie noted that fees had been impacted by the cancellation of exams during the pandemic. She believed work could be done to reduce the number of late entries but it was easier to anticipate exam and registration fees at the Tangier Road Campus due to the nature of its provision, whereas Highbury Campus' year-round onboarding of students was more challenging.

Estates maintenance and running costs meant the overall YTD premises expenditure was higher than the budget YTD by £84k. This was mainly due to the higher number of maintenance issues requiring urgent resolution and to ensure regulatory compliance across the College. Rents and leases expenditure was overspent by £88k against the YTD budget due to the Apprenticeship Birmingham building lease costs not having been budgeted.

Bad debt expenses YTD had increased by £33k. A detailed review of debtors showed a higher value of aged debt that was unlikely to be recoverable, including employer incentive payments that were either not previously made to employers for their apprentices or were incorrectly made. The estimated impact of employer incentive payments was approximately £47k based on the total amounts received from the ESFA and owed to employers and covered incentive payments in 2020/21 and 2021/22. These payments would be made to employers by 31 July 2022. The College did not have adequate/complete records to confirm the value of incentive payments received but not paid to employers in 2019/20. Additional provision of £72k had therefore been made and when employers were identified, payments would be made. The £72k would be released back into the budget after three years. The College had debts of over £380k that were over 90 days old and these needed to be followed up more quickly.

Maria stated that cash at 31 January 2022 equated to 68 cash days against budget cash days of 34. At year end, cash at bank was expected to equate to 35 cash days.

Paul thanked Maria and noted the amount of work in the analysis. He asked if she was reasonably confident the actual costs and income identified in the first six months of the year were reliable, to which Maria confirmed she was. She did not however believe the full year forecast to be realistic. She was working to ensure the variances were flushed out but this would take further analysis and the February accounts would therefore still see some underlying assumptions.

Tim asked if the budget was robust enough to support the College's planned capital expenditure, to which Maria stated she was working on a capital programme to identify the costs (including match funding) of all the projects the College had signed up to. At present it was showing an overspend of £250k. Further analysis would be brought to the Committee's next meeting. Paul confirmed that no further capital expenditure would be singed off until the situation was clearer.

The Group Balance Sheet was evolving. Maria noted that the College's pension liabilities were over £30m. She was working on the robustness of the numbers, so decisions could be made with how to reduce these liabilities. The actuarial valuation was due for imminent review. Finally Maria drew governors' attention to the key performance indicators, based on the ESFA's metrics, which evaluated the College's actual, forecast outcome and budget against national GFE benchmarks and FEC benchmarks in areas such as pay expenditure as a percentage of income, cash days, EBITDA and financial grade. The College was not meeting the majority of FEC benchmarks, except for borrowing. Tim thanked Maria for this clear presentation of the College's financial performance. In response to a question, Maria stated that the data would be integrated into the balanced scorecard and the spreadsheets Paul requested would be included in the management accounts report to Corporation.

Governors **Noted** the January 2022 Management Accounts.

037 Financial Regulations (paper 114/22/F&R)

Maria presented the financial regulations which had been redrafted and aligned to current legal requirements and best practice.

She drew governors' attention to two areas: **Banking arrangements:** Approval for expenditure could be authorised by two people from the two groups identified (previously only one member of the finance team could authorise expenditure). **Expenditure including contracts and tenders**: A Head of Procurement and Contracts would start in May 2022. Tim welcomed this new role but noted that procurement was only as good as the employees knowing the rules. Maria confirmed the postholder would be responsible for managing the framework and training staff. Governors discussed the Financial Regulations in detail, raising the following points:

- **Student Fees** (section 3.6.9): Katie advised that under JCQ rules it was not permitted to withhold a certificate for non-payment of fees. It was agreed to amend the wording but retain the right to not progress a student who had fees/items owing to the College.
- **Receiving gifts or hospitality** (section 2.7.4): One governor believed £30 (as opposed to £20) was more appropriate.
- **Budget allocation & preparation** (section 3.1.4): Maria confirmed that she was not keen on the virement system and it was agreed to remove reference to it in this section. Maria would review section 3.2.4.
- **Other major developments** (section 3.1.7): This would confirm approval would be required from Corporation, not just Finance & Resources.
- **Fraud and corruption** (section 3.4.4): Governors agreed to include theft in the title as well as a bullet point that the Chair of Audit would be advised.
- **Private consultancies and other paid work** (section 3.7.1): One governor asked if employees were aware of this rule. Maria confirmed that once the Financial Regulations had been approved, all staff would be trained.
- **Off-site collaborative provision (franchising)** (section 3.7.3): Reference to following College policy on collaboration and contracting.
- **College debit/credit cards** (section 3.9.11): Governors agreed further controls when cards were used for business travel and subsistence outside the College.
- **Password and access control** (section 3.13.5): To be updated to modern practices.
- **Provision of indemnities** (section 3.13.3): Governors suggested amending so that staff were not permitted to make any indemnities.

Maria thanked governors for going through the document in such detail. Paul and Tim noted these were the most through financial regulations they had seen. Governors **Agreed** to recommend the Financial Regulations, with the amendments outlined above, to Corporation for approval.

038 Fees Policy 2022/23

Maria presented paper 115/22/F&R setting out the Fees Policy for 2022/23.

Maria noted that the Committee would usually consider the fees policy in the autumn term for the following academic year, thereby ensuring their inclusion in the prospectus/on the website. There were no changes to the 2022/23 fees policy.

Governors discussed a number of points in the policy:

- **Tuition Fees purpose** (section 1.1): To be amended to include a marginal contribution to overheads.
- **Exam resit fees** (section 7.1): Resit fees for enrolled students were not charged at the Tangier Road Campus on the grounds that it was to the student and College's benefit that they achieve a better grade. Former students had to pay to resit exams. Katie believed there needed to be a consistent policy across the College. This would be reviewed in advance of the 2023/24 fees policy.

Governors **Agreed** the Fees Policy 2022/23.

039 Treasury Management Policy

Maria presented the Treasury Management Policy (paper 116/22/F&R).

The College defined its treasury management activities as '*the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks*.' The Treasury Management Policy comprised a policy statement, treasury management practices, supporting schedules and an overview of operating procedures. Colleges were required to have a treasury management policy.

Maria drew governors' attention to key elements of the policy and stated that the document, underpinned with risk management, should give assurance and comfort for how the College managed its £30m turnover. She believed the document would prove particularly useful when the College had significant surplus cash. In response to a query, Maria agreed to clarify that the COO would recommend to the Finance & Resources Committee refinancing proposals above a certain threshold.

Paul noted that this one of the best treasury management policies he'd seen. Maria stated that the treasury management policy was owned by the Committee and governors suggested it be appended to the Finance & Resources Committee minutes going to Corporation for information on 15 March 2022.

Katie and Lily left the meeting.

Meeting without staff or students present

040 Restricted Confidential Notes from Meeting held on 25 January 2022

Governors **confirmed** the restricted confidential notes of the meeting held on 25 January 2022 were a correct record.

041 Restricted Confidential Matters Arising

Governors **Noted** that the restricted confidential matters arising were either complete or had been covered on the Agenda.

The meeting ended at 6.55pm.