Minutes of the Finance & Estates Committee held on Monday 13th March 2023 at 5pm in Conference Room 2, Broadway

Members Present:	Alison Hodge Valerie Little Paul Noon Liz Sithole (Chair) Jack Stokes Neil Thomas David Whatton (via Teams)
In attendance:	Gill Darwood (Director of Corporate Governance) Steve Johnson (Executive Director Estates & Capital Projects) Louise Jones (Chief Finance Officer) Diana Martin (Vice Principal)

Committee administrative matters

1	**Confirmation of quorum**
1.1	The Director of Corporate Governance confirmed that the meeting was quorate.
2	**Apologies for absence**
2.1	Apologies for absence were received from Jason Parker and Nick Thompson. In the absence of the Chair, the Vice Chair chaired the meeting. The Vice Chair welcomed P Noon to his first Finance & Estates Committee.
3	**Declarations of interest**
3.1	There were no declarations of interest.
4	**Approve minutes of previous meeting held 1st December 2022**
4.1	The minutes of the meeting held on 1st December 2022 were agreed as an accurate record for signature by the Chair.
5	**Matters arising**
5.1	There were no matters arising.

Finance matters

6	**ONS reclassification update**
6.1	The CFO reminded members that at the last finance and estates committee the initial impact of the ONS reclassification of FE colleges into the public sector was reported. She noted that the picture continued to evolve, and was likely to do so for some time. It was clear that DfE continued to work with HM Treasury on policy development which was being released to the sector gradually. There was still much to resolve, for example the VAT position, potential change in year end etc. and there were frequent webinars run by DfE to update colleges on the latest decisions.

6.2 The biggest impact for the college was that being in the public sector meant that the College was required to comply with government financial requirements set out in Managing Public Money (MPM). Since 29 November the College had been unable to access its revolving credit facility (RCF). The CFO advised that the College's partnership manager in the DfE territorial team had worked hard to negotiate on the College's behalf and as a short-term measure, approval had been granted to use £1.25m of the RCF until 31 July 2023. If cash support was needed after this date, the College would need to request short-term borrowing from HMT.

6.3 Within the committee pack were some short briefing papers (also shared with Audit Committee):

– DfE bite size guides for colleges, with key information from MPM. These guides were summarised within this briefing paper with links to the full documents.
– RSM had issued a useful briefing note on the key changes.

6.4 *Financial Position 2023/24*

The CFO advised that the College was in the process of developing budgets for 2023/24 and related cashflows which at present suggested that the College would be able to manage without cash support, but cash balances would be low. The report set out the College's target financial position for 2023/24 and this would be developed further for approval at the Corporation budget meeting in June.

6.5 The College had made a number of assumptions regarding its operating position in 2023/24, including:

– The inclusion of confirmed funding allocation for 16-18 students, with a reduction in respect of T Level funding.
– Lower levels of AEB and apprenticeship income to match the likely forecast for 2022/23.
– Cost savings of £3m which were thought to be achievable. Further details would be provided in a proposal to Corporation.
– Existing funded capital projects proceed with the agreed (but small) contribution from the college.

6.6 *Cashflow*

Based on the 2023/24 analysis, the cashflow model had been developed to assess the cash balance at the end of each month, both excluding and including major capital projects, and also the lowest cash balance within each month. The charts showed that based on current information, the lowest cash balance was ca. £2m from November onwards. This equated to approximately 17 cash days.

6.7 The DfE's borrowing application guidance advised colleges who required borrowing support to make applications through DfE 6 months prior to the need arising. The College was currently considering whether to make an application for DfE borrowing, given the uncertainty and complexities of the cash position and would seek further advice from ESFA colleagues at the forthcoming Strategic Conversation meeting on 17 March.

6.8 The CEP noted that the College's financial strategy had always been based on the intention to remove the RCF support over a number of years ending in two years' time. It was noted that there was no guarantee that DfE consent would be obtained for any application for further use of the RCF and it was not yet clear if there would be any other restrictions triggered as a result of any borrowing requirement.

6.9 In response to a question from V Little relating to creditor payments, the CFO noted that this extension had been a temporary blip and would come back into line.

6.10 This would be an item for further discussion at the full Corporation Meeting on 21st March 2023.

6.11 **It was resolved** To note the ONS reclassification update.

7 **Management accounts to January 2023**

7.1 The CFO presented the management accounts for January 2023 showing the position six months into the new financial year. The accounts and commentary took account of the revised budget. The key points to note from the second operating quarter were:

- The operating position and EBITDA were adverse to budget, £165k and £257k respectively.
- The adverse variance in income had increased by £667k since December, and this was being driven by a worsening of apprenticeship income of £435k.
- There were positive variances in pay and non-pay expenditure which were offsetting the adverse variance in income.
- The College was not at this point using the RCF facility, as it pre-dated approval from DfE. The cash position was comfortable (32 cash days) however this was having an adverse impact on KPIs for cash, current ratio and debt service cover, although borrowing as a proportion of income was much lower.
- Approval had now been received to use £1.25m of the RCF up to 31 July 2023. The impact of this was that, in the absence of any other short term (HMT funded) borrowing, the College expected to have cash days of just 21, against a target of 40. This would affect two of three of the financial health measures:
    - Lower cash reserves and lower current ratio reduced the solvency score by 30 to 10 points.
    - Lower borrowing improved the borrowing score by 10 from 60 to 70 points.
    - The overall financial health grade dropped by a net of 20 points to 150 and remained as 'requires improvement' as a result of the cash position. By keeping costs under control it was hoped that the score could be improved. The CEP explained that this was not a cause for concern at present.

7.2 The CFO explained that the sensitivity analysis tested a variety of scenarios (positive and negative), against a base case which was the revised budget. In the worst case scenario, the College would return an operating deficit and two of the three loan covenants would not be met, however this scenario was highly unlikely. D Whatton noted that the in-year reforecast showed that the covenants would be met with mitigation in place and the CFO agreed to add this reference to the paper when presented to full Corporation.

7.3 **It was resolved** to recommend the management accounts to January 2023 to the Corporation.

8 In year reforecast

8.1 The CFO advised that the College had taken the opportunity to present an updated revised budget at quarter two for approval, following a review of the revised budget undertaken in the first quarter of the financial year.

8.2 The paper provided the key changes from the revised budget at quarter one in the management accounts format. These were summarised as:

- Positive variances on income which had increased by £504k:
  - Local Authority Element 3 had increased by £325k
  - Other delivery income received in year.
- Pay was positive to the quarter one revised budget by £188k.
- Non-pay budgets had increased by a total of £642k to reflect caution on inflationary increases on energy costs.
- An increase in contingency budget to protect any shortfall in income generation.

8.3 EBITDA remained at £3.5m but was slightly lower as a percentage of turnover at 7.05%. The financial health score remained at 170, which meant that the financial health grade stayed at 'requires improvement'.

8.4 The cash position at the revised budget (Q1) had a RCF balance as at 31 July 2023 of £2.25m, against the original budget of £3.5m. Any temporary use of the approved £1.25m RCF was repayable by July 2023.

8.5 The KPIs relating to cash were now showing as red flags, due to the repayment of RCF. All other KPIs were rated at green, matching those at the quarter one revised budget. These KPIs allowed for a higher budget for inflationary energy costs and protected against income under-performance. The College would endeavour to manage the finances such that the original KPIs were met, if possible.

8.6 **It was resolved** to recommend the in year reforecast to the Corporation for approval.

9 **Insurance annual report**

9.1 The CFO presented the Annual Insurance Report which showed the insurance cover in place over College assets and had been prepared to support the College's self-assessment of compliance with regularity and propriety requirements in terms of providing evidence that College assets were adequately safeguarded.

9.2 Insurance cover was renewed annually but was reviewed throughout the year to assess its adequacy and ensure it appropriately reflected any changes to the operational activities of the College and its assets in-year.

9.3 FE Protect were awarded the contract for insurance provision following a tender process in 2022, with a start date of 1st August 2022 to 31st July 2025.

9.4 It was noted that the ONS reclassification of colleges was expected to result in a centralised risk protection arrangement for colleges, similar to that in place for academies. In response to a question from the chair in relation to being able to end the contract if required to do so, the CFO advised that this would need to be further explored should the need arise during the life of the contract.

9.5 **It was resolved** to note the insurance annual report.

10 **Value for Money/public benefit statement**

10.1 The CFO advised that the Office for Students (OfS) had included value for money as one of its four primary regulatory objectives and required that providers regularly published clear information about arrangements for securing value for money including data about the sources of income and the way that its income was used.

10.2 The statement set out how the College ensured that value for money was prioritised and delivered. The report was in the same format as approved in 2022, with any changes highlighted for ease of reference. The changes related to updates reflecting the 2022 financial statements.

10.3 **It was resolved** to recommend the Value for Money/Public Benefit Statement to the Corporation.

Estates and Capital Projects matters

11 **Commercially sensitive - Estates and capital projects update**

This matter is the subject of a separate and confidential minute.

Risk and compliance matters

12 **Partnerships (sub-contracting) plan termly monitoring report**

12.1 The VP presented the paper which provided the committee with an overview of the College's planned subcontracting provision for 2022/23 and the monitoring arrangements in place. It also provided an update on the employer partnership and other managing agent (OMA) activity.

12.2 In summary:

- The total activity relating to subcontracting for 2022/23 was planned to be £1.18m. The College planned to make payments in the region of £0.91m.
- Monitoring arrangements for sub-contracted provision were detailed in section 2.
- Appendix 1 provided a summary of all sub-contractor providers and the value of expected income in 2022/23.
- Appendix 2 provided a summary of all employer partners.
- Appendix 3 provided a summary of all other managing agents.
- It was expected 'niche' high-value contracts may continue to be required as more technical curricula were introduced (including within the Black Country & Marches Institute of Technology).
- New partnerships with Higher Education Institutions were planned to come on board from 2023 onwards.

12.3 The VP noted that there had been a move towards some companies becoming direct apprenticeship providers rather than through sub-contract arrangements with colleges, which supported the College's planned strategy of reduction.

12.4 The VP noted one risk of not delivering the agreed plan which was around use of AEB budget requested by University of Worcester to deliver courses for NHS but those starts had not yet materialised due to winter pressures on the NHS.

12.5 She noted that, where contracts had come to a natural end due to existing learners completing, those relationships would end.

12.6 She further noted that the College Standards and Performance team was delivering Ofsted update training for all partners and that safeguarding updates were issued regularly to all partners.

12.7 The CEP noted that this was now a relatively low risk area for the College due to the planned reductions.

12.8 The VP advised that the partnerships team would become more involved in other strategic partnership contracts in the future, such as for example the contract with Dudley Academies Trust for delivery of ESOL provision.

12.9 **It was resolved** to note the partnerships termly monitoring report.

13 **Risk register review**

13.1 The CFO presented the report which provided committee members with an update on risks relating to finance and estates.

13.2 The senior team undertook a monthly review of the risk register to assess if the risk scores were still accurate, to ensure that all appropriate actions were noted and good progress was being made. There were four risks relevant to the Finance and Estates Committee, with updates at March as follows:

- The net risk score for the delivery of the IoT year 2 business plan had increased to 9 as a result of the continued delay in programmes by the University of Wolverhampton.
- The reclassification of colleges into the public sector was now included in the risk relating to the College's financial stability.

13.3 All actions to mitigate these risks were on track or complete.

13.4 In relation to University of Wolverhampton, the CEP provided further background on why this risk was included and had increased. Alternative HEI partners were under consideration, including potentially Coventry University, acknowledging that this would represent an interest for Paul Noon.

13.5 **It was resolved** to note the risk register review.

14 Any Other Business

14.1 There were no items of other business.

15 Date of next meeting

15.1 22nd May 2023

The meeting closed at 18.15 hrs.

Approved by committee members at the meeting held on 22nd May 2023.