Minutes of the Finance & Estates Committee held on Thursday 3rd December 2020 at 4.00 pm via Microsoft Teams

Members Present:	Peter Davies (Chair) Valerie Little Jason Parker Liz Sithole Neil Thomas David Whatton Andrew Woodford
In attendance:	Andy Comyn (Chief Operating Officer) Gill Darwood (Senior Officer Corporate Governance) Steve Johnson (Executive Director Estates & Capital Projects) Sanjeev Ohri (Chief Officer Business Dev & Worldwide) Carl Riding (Vice Principal Curriculum & Performance)

1 Confirmation of quorum and apologies for absence

1.1 There were no apologies for absence. The SOCG confirmed the meeting was quorate.

2 Declarations of Interest

2.1 There were no declarations of interest.

3 Governance Matters

3.1 Election of Chair and Vice Chair for 2020/21

3.1.1 Peter Davies was appointed as Chair up to the end of his term of office and it was agreed that at the next meeting the appointment of a Chair designate and a Vice Chair would be considered. Members were asked to consider their willingness to take on these roles in preparation for the next meeting.

3.1.2 **It was resolved** To appoint Peter Davies as Chair of the Finance & Estates Committee for 2020/21.

3.2 Committee Terms of Reference and Business Plan 2020/21

3.2.1 Members noted that the terms of reference and business plan for 2020/21 were considered and approved at the Corporation meeting held on 10th November 2020.

3.2.2 **It was resolved** To note the terms of reference and business plan for the Finance and Estates Committee for 2020/21.

4 Minutes of Meeting held on 11th May 2020

4.1 The minutes of the meeting held on 11th May 2020 were agreed as an accurate record for signature by the Chair.

5 Matters arising

5.1 There were no matters arising other than those on the agenda.

6 Strategic Matters

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

7 Finance Matters

7.1 Annual Report and Financial Statements 2019/20

7.1.1 The COO presented the management letter and draft consolidated financial statements for the year ended 31st July 2020. He advised that the management letter had been prepared by KPMG the College's statutory and regularity auditors, and provided a summary of the key findings arising from the audit work. The annual accounts were substantially complete, however some of the notes required further updating ahead of approving the accounts at Corporation, although no significant changes were anticipated.

7.1.2 KPMG had completed the majority of their audit work and anticipated issuing an unmodified Auditor's Report on the financial statements subject to satisfactory completion of the small number of outstanding matters, which effectively confirmed that all appropriate accounting practices had been followed and the accounts provided a true and fair view of the financial position at 31 July 2020. Furthermore, in terms of their regularity audit work KPMG intended to report that nothing had come to their attention to suggest that the income and expenditure in the year had not been applied to the purposes intended by Parliament and the relevant authorities. No new control observations or recommendations were identified from the audit this year.

7.1.3 The COO reported that since the management letter was issued, KPMG had confirmed their agreement with the approach taken that at the reporting date of 31 July 2020 the College was in compliance with its covenants and as such they accepted the bank loans being classified as long-term creditors due after more than one year. KPMG would be issuing a revised management letter to reflect this point.

7.1.4 Points of note arising from the financial statements for the year ended 31 July 2020 were noted as:

- Negative total comprehensive income of -£23.464m compared to -£4.321m last year. The significant variance was mainly explained by the FRS102 pension scheme adjustments amounting to £21.992m, comprising the actuarial loss of £18.586m, combined staff and administration expenses of £3.003m and interest costs of £0.403m, all of which were in respect to the Local Government Pension Scheme and not something that the College was able to influence or control.
- No change to the previously reported £2.203m (4.5% of income) education specific EBITDA - this could be seen in the later paper reconciling the statutory accounts to the managements accounts.
- A decrease in net current assets of almost £1.5m to net current liabilities of £1.446m. This was principally due to an increase in the level of grant funded assets in the course construction at year-end. Cash increased in the year by £1.4m to £3.668m.
- Net assets/reserves decreased by £23.464m to net liabilities of £11.834m, due largely to the increase in the net pension obligations and FRS102 charges arising from the pension scheme.

7.1.5 The COO confirmed that the annual report and financial statements and the management letter had been considered at the audit committee on Monday 30th November and the management letter had been recommended by audit committee to the Corporation for approval.

7.1.6 The Chair noted that the Audit Findings Report highlighted the excellent job done by the College finance team in achieving this outcome.

7.1.7 Discussion took place relating to the pension liability which was beyond the control of the College, and J Parker noted that gilts were now 70% higher than the low point which had a big impact on pension liability.

7.1.8 **It was resolved** To recommend the annual report and financial statements for 2019/20 to the Corporation for approval.

7.2 Reconciliation of July 2020 management accounts & year-end accounts 2019/20

7.2.1 The COO presented the reconciliation between the historical cost deficit of £1.472m (EBITDA £2.203m) in the management accounts at 31 July 2020 and the total comprehensive income for the year retained within general reserves of £23.303m in the 2019/20 statutory financial statements.

7.2.2 He reported that there were no non-FRS 102 adjustments this year as all year-end adjustments had been included in the July management accounts in order to provide Corporation members and management with the most up to date and accurate information available when considering options and mitigations post Covid-19. As such, the education specific EBITDA of the College group reported in the July management accounts of £2.203m was unchanged in the statutory accounts seen earlier on the agenda.

7.2.3 There were however £21.992m of FRS102 pension scheme adjustments included in the statutory accounts, which reduced the management accounts historical cost deficit from £1.472m to £23.464m. £161k was also transferred from the revaluation reserve to the Income & Expenditure account, resulting in total comprehensive income for the year retained within general reserves in the 2019/20 statutory financial statements of £23.303m.

7.2.4 The £21.992m of FRS102 pension scheme adjustments were made up the actuarial loss of £18.586m, combined staff and administration expenses of £3.003m and interest costs of £0.403m, all of which were in respect to the Local Government Pension Scheme as noted previously.

7.2.5 **It was resolved** To recommend the reconciliation of July 2020 management accounts & year-end accounts 2019/20 to Corporation for approval.

7.3 ESFA finance record

7.3.1 The COO explained that the ESFA Finance Record was a standard template which captured the statutory annual accounts numbers and monitored these against the ESFA's existing financial health assessment measures.

7.3.2 The COO reminded members that the College's 2019/20 financial health as measured by the ESFA's assessment was 'Requires Improvement' with a score of 130 out of a possible 300.

7.3.3 Normally this report was submitted to the ESFA along with the KPMG audit management letter and annual accounts after approval by Corporation before 31 December. This year however due to Covid-19, the ESFA had extended the submission date to 31 January 2021 but would incorporate the 2020/21 forecast out turn (to include the actual year to date position at either 31 October or 30 November plus the forecast for the remaining months) into this report along with the report on the 2019/20 actual results.

7.3.4 This new report had just been published on 30 November 2020, so at the date of the meeting, the COO advised this was not yet available for consideration. He proposed therefore that members consider and recommend for approval to Corporation the old style finance record, and that the RF1 forecast for 2020/21 agreed by Corporation on 3 November 2020 as part of the College 3 year plan in consideration of the Covid-19 impact mitigations (and included again for member's to discussion at agenda item 7.6), was used to complete the 2020/21 out turn section of the revised finance record report for submission to the ESFA and this would be further considered at the committee meeting scheduled for January. At this point in time the COO confirmed that the College remained on track to achieve the RF1 forecast as planned.

7.3.5 **It was resolved** To recommend the ESFA finance record to Corporation for approval.

7.4 Management Accounts – October 2020

7.4.1 The COO presented the management accounts and accompanying report for the period ended 31st October 2020. The report provided a commentary on the year to date financial performance of the College compared to the recently revised RF1 forecast agreed by Corporation in November. The key points to note were:

- EBITDA was £4.679m, £35k below forecast.
- income was currently £14.905m, £169k below forecast.
- expenditure (excluding interest and depreciation) was £10.080m, which was £134k ahead of forecast.

7.4.2 Historically, it was shown to be too early in the year to be able to draw any real conclusions about full year actual performance compared to forecast, particularly given the difficulties in accurately profiling monthly income and cost budgets in the early months of a new financial year, which was made even harder by the on-going impact of Covid this year. However, there were no suggestions at this time that the full year revised RF1 forecast EBITDA of £2.122m would not be achieved.

7.4.3 The COO provided clarification on a number of points raised by members. He confirmed that the current bank balance was in a positive position at £7m which was due to close management of cash in order to accommodate commitments over the next three months and due to the receipt of cash grants such as the FECA grant.

7.4.4 In response to a query from the Chair the COO explained that pay as a percentage of income had reduced due to the voluntary redundancy exercise already completed in August and it was anticipated that pay would move closer to 65%.

7.4.5 **It was resolved** To recommend the management accounts to October 2020 to Corporation for approval.

7.5 Revised Bank Facility Agreement and Loan Covenant Review

7.5.1 The COO reminded members that, under the loan agreement with Santander signed in September 2015 and as updated when the new Revolving Credit Facilities were put in place in January 2019 and again more recently post year-end in September 2019, the College had financial covenant tests that it was required to meet at each year-end based on the audited financial statements.

7.5.2 At 31 July 2020 the College had 4 covenant tests in place, two covering the level of net assets and two covering the level of EBITDA. The calculations in the paper presented, based on the draft financial statements presented to members earlier on the agenda showed that the College met all 4 covenant tests at 31 July 2020. The net asset covenant test including the pension liability was met after agreement from Santander to the College's proposal to classify £16.7m of the £22m increase in the pension liability as a Covid impact, which enabled the College to add back this amount to the net asset covenant test calculation.

7.5.3 He reported that the College had been in discussions with Santander Bank over the summer with regards to extending the College's finance facilities owing to the impact on financial operations from Covid. As previously advised, he confirmed that Santander remained very supportive of the College and members considered the credit approved heads of terms extending the Revolving Credit Facility (RCF) from £4m to £5.75m (approved by Santander in November 2020). These heads of terms were consistent with levels of borrowing assumed in the revised RF1 forecasts previously presented to Corporation on 3rd November.

7.5.4 The heads of terms set out the removal of the net asset covenant test including pension liability and relaxed two EBITDA covenant tests in 2021 and 2022, as proposed by the College. Under the revised credit approved terms the 3 covenant tests for the next 3 years were all forecast to be met with good levels of headroom as shown in the covenant test calculations based on the latest RF1 forecasts approved by Corporation in November 2020.

7.5.5 Members noted that this agreement evidenced the strength of the relationship with the bank who had understood the College's position and worked positively with management.

7.5.6 **It was resolved** To recommend to Corporation for approval:

- The report on the College's compliance with the 2019/20 covenant tests at 31 July 2020.
- The new covenant tests to be put in place with the new bank facility agreement as set out in the heads of terms.

7.6 Performance against financial KPIs and metrics

7.6.1 The COO advised that Corporation members had previously approved the latest RF1 forecasts for the 3 years ending July 2023 on 3 November 2020. These forecasts were provided again for members' information.

7.6.2 The COO provided further detail on these forecasts and presented the updated financial charts showing historical and forecast trends, which showed that the financial health grade was anticipated to move to good in 2022/23. He advised that at the January meeting the proposal was to look more closely at this forecast and the 'financial strategy on a page'.

7.6.3 **It was resolved** To note the performance against financial KPIs and metrics.

7.7 Enrolment update and financial impact

7.7.1 The COO provided a presentation on the live Power BI dashboard which showed current enrolments:

- 16-18 year old learners – current enrolments showed a growth in learner numbers with 4,837 learners currently.
- Apprenticeships – the current position showed 412 apprentices signed up to date which was higher than had been anticipated at this point in the year.
- Adult education – this was an area of concern for most colleges as adult recruitment was being most impacted due to Covid. Current enrolments were behind last year to date at 1,680 compared to a previous year figure of 1,943. The CE&P noted that the College had a very strong and expanded adult offer which would be heavily promoted in the new year.

7.7.2 The Chair asked if there was a possibility of in year growth funding in respect of increased 16-18 year old learners. The COO confirmed that this was possible, although the conditions for this had not yet been confirmed by ESFA.

7.7.3 **It was resolved** To note the enrolment update.

7.8 Sponsorship payment to Dudley Academies Trust

Declarations of interest were noted from Peter Davies, David Whatton, Valerie Little and Andy Comyn.

7.8.1 The COO reminded members that Dudley College was the approved academy sponsor of Dudley Academies Trust. Since the Trust's formation in August 2017 the College had provided a range of support to the Trust. One aspect of this support was a voluntary financial contribution which took the form of annual sponsorship payments to the Trust. The financial support was never contractual this was never the intention, instead it was a way to help the Trust through the early days of formation when it was known the Trust would be operating at a deficit.

7.8.2 The impact of Covid-19 had caused a much greater financial impact on Further Education providers than schools and academies due to the different commercial income streams that colleges depend on, which had received limited funding support. This had resulted in a significant income decrease for the College, whereas the Trust's financial position was no worse, and probably a little better, due to additional funding support that had been provided to the schools sector throughout the Covid pandemic.

7.8.3 The Trust was now in the position where it was forecasting a broadly break-even budget in 2020/21, compared to the deterioration in the College's financial position previously discussed at Corporation (before any mitigating actions were taken). This had been reported to the Board of Trustees of the Trust at its meeting in October 2020.

7.8.4 Whilst Corporation had approved the latest RF1 forecasts which did not include a financial contribution to the Trust, members were requested to explicitly endorse the College's position and recommend for approval to Corporation that the College made no financial contribution to the Trust in 2020/21 or in any future years, but that it continued to provide support on a non-financial basis.

7.8.5 **It was resolved** To recommend the proposal to the Corporation for approval.

7.9 ESFA Financial Health Proposal

7.9.1 The COO reported that the ESFA had been undertaking a review of the framework over college financial health. The objective of the review and any changes made was to help prevent financial failure by:

- introducing a new financial health framework which more effectively identified those colleges with weak financial health;
- evaluating the best set of ratios which most effectively exposed weak financial health, and reduced the risks of poor performance being masked by other ratios or scores; and
- identifying improvements in scoring, scale & financial health grades.

7.9.2 The COO reported that he had attended a recent Association of Colleges Midlands Finance Directors forum, at which the ESFA discussed the proposal and he provided members with a copy of the ESFA's presentation, however at this stage the impact this may have on Dudley College was not known, as the actual metrics, grades and measurement were still to be finalised. He confirmed that he would bring back a further update on this topic for further discussion when more details were known. The Chair noted that the review of the framework was welcomed.

7.9.3 **It was resolved** To note the update on the ESFA financial health proposal.

8 Development and capital projects update

8.1 Commercially sensitive - Capital projects update

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

8.2 FECA grant

8.2.1 S Johnson reported that the College had received confirmation of a Further Education Capital Allocation (FECA) grant based on a formulated allowance, this grant total was £2.024 million and had to be spent on improving the estate condition or suitability, which could include IT infrastructure, but did not include PCs, software or any other equipment.

8.2.2 A list of proposals had been prepared and the list of works was appended to the report. The grant had to be committed by March 31st 2021, however the College had asked for a dispensation for the works to Evolve atrium glass until August 2021. If this was not forthcoming, other works identified, but not on the final list would be substituted to ensure maximum draw down of the grant.

8.2.3 In response to a question from D Whatton, S Johnson explained that the Evolve atrium glass was being closely monitored and the film which had been retrofitted to the glass was working effectively at present. He did not therefore consider this to be a health and safety risk at the present time.

8.2.4 D Whatton asked if there were any implications for the College with regard to the certification of building cladding and S Johnson reminded members that at the time of the Grenfell incident this had been independently investigated and did not present the College with any issues.

8.2.5 **It was resolved** To note the FECA grant award.

9 Partnerships and sub-contracting

9.1 Confidential - Partnerships (sub-contracting) review 2019/20
This matter is the subject of a separate and confidential minute.

9.2 Confidential - Partnerships (sub-contracting) plan for 2020/21 and termly monitoring report
This matter is the subject of a separate and confidential minute.

10 Policies for approval

10.1 Treasury Management Policy

10.1.1 The COO noted that following a review of the existing Treasury Management Policy and executive summary, the College was seeking to make only minor amendments to these documents which related to changes to the College's management structure, job titles and minor changes to wording.

10.1.2 **It was resolved** To recommend the policy to Corporation for approval.

10.2 Value for Money Policy

10.2.1 The COO noted that it was a requirement of the College's financial memorandum with the Education and Skills Funding Agency that the College Governing Body was responsible for delivering value for money from public funds. This policy set out how the College would go about securing the efficient, economical and effective management of all College resources, expenditure, capital assets, equipment and staff so that value for money was achieved.

10.2.2 He explained that the output from this policy was seen in a number of ways, but principally through the College's management accounts and annual financial statements, through which the Corporation could conclude that the relatively strong operating performance and continued close management and reduction of non-pay costs during a challenging time for the UK economy reflected an efficient use of College resources. The only change to the policy reflected the change of job titles in the College structure.

10.2.3 **It was resolved** To recommend the policy to Corporation for approval.

11 Date of Next Meeting

11.1 The next meeting was scheduled to take place 19th January 2021 via Microsoft Teams.

12 Any Other Business

12.1 There were no other items of business.

The meeting closed at 17.51 hrs.

Peter Davies 19th January 2021