



**MINUTES OF A MEETING OF:  
THE CORPORATION'S FINANCE AND RESOURCES COMMITTEE  
5.30PM TUESDAY 12 NOVEMBER 2019, WHATMOOR ROOM**

<b>Members:</b>	*Andy Foot; *Robert Lasseter (Chair); *Annetta Minard; Luke Rake (Principal); *Andrew Robinson; *Elaine Taylor; *Jim Tirrell  *Richard Bourne (Co-opted member)
<b>In attendance:</b>	*Vanessa Gifford (Clerk); *Graham Ledden (Observer – Chair of the Audit & Assurance Committee); *Catriona Wood (Deputy Principal (Finance & Commercial Services) (DPFCS))

*\* Indicates actual presence at this meeting [Quorum = 3 Committee Members]*

ITEM NO.	DETAIL	
1.	<b>DECLARATIONS OF INTEREST</b>  The following declarations of interest were <b>NOTED</b> : <ul style="list-style-type: none"> <li>• Item 5: Elaine Taylor as a Director of KME Ltd</li> </ul>	
2.	<b>APOLOGIES FOR ABSENCE</b>  Apologies for absence were <b>NOTED</b> from Luke Rake.	
3.	<b>MINUTES OF THE MEETING HELD ON 01 OCTOBER 2019</b>  The Committee <b>AGREED</b> the minutes as a true and accurate record, with one slight amendment, and <b>APPROVED</b> the non-confidential minutes for website publication.	
4.	<b>MATTERS ARISING</b>  It was <b>NOTED</b> that the actions from the minutes of 01 October 2019 had been completed, and there were no further matters arising.	
5.	<b>UPDATE ON FINANCIAL POSITION JULY 2019</b>  The following reports were <b>SCRUTINISED</b> , and the following points <b>NOTED</b> :  <b>Reconciliation to final version</b> <ul style="list-style-type: none"> <li>• The DPFCS explained that the reconciliation tracked the journey of the final accounts 2018/19 since the last committee meeting. It had been recognised that the College was close to breaching the Barclays covenant and at the ensuing Corporation meeting journals had been</li> </ul>	

worked through to avoid the Barclays breach, acknowledging at the time, that the Natwest covenant would nevertheless be breached. It then came to the attention of the DPFCS that a substantial insurance claim in excess of £100k had been paid for flood damage to the Residential Annex, and that the claim had been substantially settled directly with the contractor by the insurers. It was considered that the refurbishment of the Residential Annexe was largely capital expenditure and consequently by recognising the insurance proceeds as income there was a significant improvement to the SOCI, moving from the previously reported deficit of £41k (before FRS re LGPS) to a surplus of £61k. It was noted that this adjustment had rectified the bank covenants and improved the financial health assessment of the College.

- The Committee recognised that the final surplus position of £66K had been achieved only with the inclusion of unusual adjustment; KMF funds and insurance income.
- The underlying position was a loss which was significantly different to the expected surplus. It was acknowledged that this had to be addressed in 2019/20, and members be made aware of the underlying situation.
- The DPFCS advised that this was not the way she liked to work, with late adjustments being made during the course of the external audit, however it had achieved the right result. The External Auditor appreciated the effort that had been made.

**Barclays Bank Covenant**

- It was **NOTED** that the conditions of this covenant had just met, and the Bank had confirmed.

**NatWest Bank Covenant**

- It was **NOTED** that this covenant was based on EBITDA.
- The DPFCS advised that the incorrect template had been used in the first instance so she had set out the calculations herself.
- It was noted that confirmation of meeting the covenant had been received.
- One minor amendment was agreed with the LEP Grant being changed to LEP Loan, as the funds had to be repaid.

**Financial Health**

- The DPFCS advised that there were three measures to calculate financial health:
  - \* Financial Performance
  - \* Borrowings
  - \* Current Ratio
- The College had just achieved 'Good' status, but the Committee should be mindful that it had never been a strong assessment.

6.

**EXTERNAL AUDITORS AUDIT COMPLETION REPORT FOR THE YEAR ENDED 31 JULY 2019**

The External Auditors Audit Completion Report was **SCRUTINISED**, noting that the Audit & Assurance had fully reviewed it during its earlier meeting. The following points were **NOTED**:

- It was noted that the report was unqualified at this point in time.
- As a result of the adjustments made by the DPFCS the External Auditor had contacted the insurers to verify that they had paid the insurance claim directly to the contractors and this was confirmed.
- The ESFA statement on Funding Income was awaited but the indications were that there would be no clawback.
- The External Auditor would also be reviewing the assumptions behind the

	<p>Budget but was not expecting any issues. The Committee agreed that 2019/20 would be a challenging year.</p> <ul style="list-style-type: none"> <li>• The External Auditor outlined the changes in Defined benefit pension scheme assumptions following 2 large legal cases; McCloud and GMP. It was noted that the DPFCS had challenged the assumptions of the Actuaries regarding the assumed salary increases, which had been agreed. As a result the impact of the McCloud judgement by the Actuaries had been deemed to be 0% which was unusual. The Committee questioned whether the McCloud was a risk for the Risk Register and suggested that it could be included in the general pension risk.</li> <li>• It was considered that there was exposure on the VAT claim with HMRC, with the debtor increasing annually. The External Auditor had no concept of the extent of the exposure which made it a material risk. The Auditor had considered all of the correspondence with HMRC still challenging the assumptions. It was agreed that this matter required resolution as it was a growing problem and advice was required on settling the methodology. The DPFCS assured members that the only figure reflected in the accounts was the £214K posted in the debtors. It was agreed to provide a report for the Corporation on the current situation, including figures, for further steps to be agreed.</li> <li>• The External Auditor confirmed that they did not identify any instances of irregularity through the course of the engagement.</li> <li>• It was noted that the Draft Management Representation Letter included specific representation points on VAT and the GMP assumptions.</li> <li>• A specific report had been included on Brexit.</li> <li>• The Committee noted that the issue around Purchase Orders was still ongoing. The External Auditor confirmed that the College was not unique with this issue but the DPFCS was adamant that this procedure would be improved and the Agresso system would include real-time goods receipting in due course. The timeline for improvements to the Agresso system was questioned and the DPFCS advised that she had to purchase consultancy work through the supplier.</li> </ul> <p>It was <b>AGREED</b> to <b>RECOMMEND</b> the External Auditors Audit Completion Report for the year ended 31 July 2019 to the Corporation, along with the Management Representation Letter.</p>	<p><b>CW</b></p>
<p><b>7.</b></p>	<p><b>KMC MEMBERS REPORT AND FINANCIAL STATEMENTS FOR 2018/19</b></p> <p>The KMC members Report and Financial Statements for the year ended 31 July 2019 were <b>CONSIDERED</b>, and the following points <b>NOTED</b>:</p> <ul style="list-style-type: none"> <li>• There were still some amendments to be made to the narrative.</li> <li>• It was noted that SMT were comfortable for the description 'fragile' to be applied for the underlying position of Financial Health, as there was fragility around all colleges with the current national financial constraints.</li> <li>• The Committee questioned whether the significant increase in students at the DSS would assist with income for 2019/20 and the DPFCS advised that increased income from the DSS Service Level Agreement was already included in the Budget.</li> <li>• The Committee discussed whether income would ever improve with the current level of funding, knowing the issues within the sector and the wider educational sector. The only way was to improve the following in year income from: <ul style="list-style-type: none"> <li>* Apprenticeships</li> <li>* Adult Programmes</li> <li>* Commercial income</li> </ul> </li> </ul> <p>It was agreed that the College was 'punching above its weight' as the</p>	

	<p>smallest land-based college and so many GFE colleges merging.</p> <ul style="list-style-type: none"> <li>• The Clerk advised that the Members information would be checked for accuracy.</li> <li>• The Committee noted the unbalanced proportion of staff, with 49 teaching staff and 150 support. It was suggested that this was in part due to the commercial side of the College, and members suggested that the profitability of the commercial arm should be better understood, and where there had been capital investment, there was the opportunity to increase revenue.</li> <li>• It was agreed that a lot of good work was occurring and the Corporation had reacted to the expectation of the disposal of assets in the public sector with the house sales.</li> <li>• Members considered there to be 'light at the end of the tunnel' with the promised national increase of £188 per student; an increase in local demographics; and a higher profile of the college due to the Principal's networking. It was also noted that a successful Careers convention had been held to inform the DSS students of the College. The DSS Principal advised that many were completing applications. It was agreed that the future looked promising.</li> <li>• It was agreed that the commercial side of the College had the ability to improve income. It was noted that the Farm crossed both the academic and commercial areas, with the income within the KMC accounts and made a modest contribution after receiving a contribution from the curriculum. The Farm was now being run more efficiently with the support of Velcourt. The contract with Velcourt had a cost but Velcourt ensured the Farm had the right number of cows, which delivered more milk, with the right supplier, alongside other efficiencies of a large organisation.</li> </ul> <p>The Committee <b>AGREED</b> to <b>RECOMMEND</b> the KMC Members Report and Financial Statements for the year ended 31 July 2019 to the Corporation.</p>	<b>VG</b>
<b>8.</b>	<p><b>KME LTD FINANCIAL STATEMENTS FOR 2018/19</b></p> <p>The Committee <b>AGREED</b> to <b>RECOMMEND</b> the KME Financial Statements for the year ended 31 July 2019 to the Corporation, noting the increase in commercial income, with increased profit, therefore moving in the right direction.</p>	
7.05pm	<i>The External Auditor left the meeting</i>	
<b>9.</b>	<p><b>MANAGEMENT ACCOUNTS TO 30 SEPTEMBER 2019</b></p> <p>The Management Accounts to 30 September 2019 were <b>SCRUTINISED</b> and the following points <b>NOTED</b>:</p> <ul style="list-style-type: none"> <li>• The DPFCS advised that the report was still work in progress but Members could see what the DPFCS was attempting to achieve. The DPFCS welcomed any thoughts on additions that were appropriate for the Corporation requirements.</li> <li>• It was suggested that the DPFCS may wish to refer to the ESFA/AoC standard model for Management Accounts to ensure that everything was covered.</li> <li>• It was agreed that there was discussion to be had at SLT on whether the Budget 2019/20 was achievable.</li> <li>• The DPFCS advised that she was working towards a target of monthly management accounts being available by the end of the second week after month end. It was agreed that this would be considered when setting the meeting calendar for 2020/21.</li> </ul>	<b>JT/VG</b>

7.15pm	Andy Foot left the meeting and it remained quorate.	
	<p><b>MANAGEMENT ACCOUNTS TO 30 SEPTEMBER 2019 (Continued)</b></p> <ul style="list-style-type: none"> <li>• Deficits in the first two months of the new year were anticipated with expenditure at £133K and the budget set at £75K. This was due to a negative income variance and staff costs being spread on a monthly flat basis.</li> <li>• It was noted that the cash position was significantly down on the forecast, although the current cash position was acceptable due to the sale of property and the DPFCS agreed to share the tracking of cash-flow in future reports. The DPFCS advised that it was not possible to hold these funds in a separate account as they had to be utilised at times, but a detailed piece of work was required to enable a proportion to be put aside. The Committee requested that the cash-flow graph highlighted the necessity of the house sales.</li> <li>• There was a £163K adverse variance on income which was mainly down to Apprenticeships which was a challenge. SMT had taken action by agreeing the appointment of a Head of Apprentices which was currently being advertised. It was agreed that any new appointment had to understand the system and funding arrangements, to enable any improvements in year. It was agreed that further discussions on Apprenticeships may be necessary, to understand the costs, as there should be opportunities.</li> <li>• The DPFCS reported that the Contribution Report was work in progress. She advised that she had requested further work to be carried out by the Commercial Finance Manager on the commercial side as the figures were not as she expected. It was noted that ongoing meetings with budget holders were being held to better understand the financial position at all times.</li> <li>• Members questioned how T levels would affect the College and it was agreed to pursue this with the Deputy Principal (Learning and Performance) at the imminent Quality &amp; Standards meeting.</li> <li>• It was noted that the high figure for Trade debtors was due to the transport company invoicing its services all at once, future costs were treated as a prepayment and the physical payments were still monthly.</li> <li>• The Committee questioned whether the Play Barn project was within budget. The DPFCS advised that it was tight to budget, but very restricted and the final position would be reported to the next meeting.</li> <li>• It was noted that the management accounts going forward would more closely match the format of the statutory accounts and ESFA reporting requirements.</li> </ul>	<p><b>CW</b></p> <p><b>VG</b></p> <p><b>CW</b></p>
10.	<p><b>FINANCIAL REGULATIONS</b></p> <p>The DPFCS advised that she had reviewed the Financial Regulations but was not seeking approval at the current time but wanted Members to see the work in progress, as there had been inconsistencies between the Regulations and Procedures. The Committee was pleased to note that processes were being strengthened and agreed to submit any comments to the Clerk. The DPFCS advised that the Regulations would be submitted for approval once the Agresso system had been upgraded to enable some of the changes.</p>	<p><b>ALL</b></p>

<p><b>11.</b></p>	<p><b>PROCUREMENT/TENDERS/VALUE FOR MONEY/CONSULTANCIES</b></p> <p>The DPFCS reported the following:</p> <ul style="list-style-type: none"> <li>• The contract for electricity was currently being reviewed by the Estate Manager. The current contract had been rolled forward to allow all options to be investigated.</li> <li>• Printers/Photocopiers: the tender process was currently being investigated and the Consortium would be utilised.</li> <li>• Internal and External Audit: the tender process for these services would commence in the Spring.</li> <li>• College Insurance: brokers were on the Framework and the tender process was being investigated.</li> </ul>	
<p><b>12.</b></p>	<p><b>PROJECTS/CAPITAL BID UPDATE</b></p> <p>It was noted that there was nothing to report on this item.</p>	
<p><b>13.</b></p>	<p><b>RISK MANAGEMENT</b></p> <p>The DPFCS would review the Corporate Risk Register to ensure that the risk relating to Pensions covered any risk relating to the McCloud and GMP legal judgements. She would also consider any risk relating to the VAT issues.</p> <p>The Committee questioned whether Sub-Contracting should be increased on the Risk Register. It was agreed that this would be reviewed once a report had been considered by the Corporation, and monitored by the Q&amp;S Committee.</p>	<p><b>CW</b></p>
<p><b>14.</b></p>	<p><b>ANY OTHER BUSINESS</b></p> <p>The following further business discussed:</p> <ul style="list-style-type: none"> <li>• It was agreed that the DPFCS would review the current bank loans in due course, and explore all options.</li> <li>• The Corporation would review the overall Estate Plan at Strategy Day and SMT would continue to investigate any capital funding that might be available.</li> </ul>	<p><b>CW</b></p>
<p><b>15.</b></p>	<p><b>2019/20 MEETING DATES</b></p> <p>The following dates were <b>NOTED</b>:</p> <ul style="list-style-type: none"> <li>• 4 February 2020</li> <li>• 31 March 2020</li> <li>• 9 June 2020</li> </ul>	
<p><i>Meeting closed at 8.00pm with no further business.</i></p>		

Chair.....Dated.....