

Kirklees College Corporation

FINANCE COMMITTEE

Minutes of a meeting held at 14.00 on 19 June 2020 via Microsoft Teams videoconference

Present:

Mr J Williams	Independent Member (Chair)
Mr E Croston	Co-Opted Member
Ms C George	Independent Member
Ms M Gilluley	Principal & Chief Executive
Mr G Hetherington	Independent Member
Mr H Linn	Independent Member
Mr J Royle	Independent Member
Mr M Varyani	Independent Member

Attendance: 8/8 = 100% KPI 80% Quorum: 3

In attendance:	Mr M Bennington	Vice Principal Corporate Operations
	Ms A Clegg	Financial Controller
	Ms J Green	Clerk to the Corporation
	Ms B Meara	Executive Finance Director
	Mr A Oldham	Financial Analyst

Item	Action/ Report Item
PRELIMINARY ITEMS	
0	WELCOME AND INTRODUCTIONS
i	The Chair welcomed everyone, observing that it was some time since the Committee had last met, as the previous meeting had been rolled into the Corporation meeting as part of the pandemic lockdown.
ii	The Clerk confirmed that due notice of the meeting had been given; the requirement for all persons participating to be able to communicate with one another was satisfied; and the meeting, which had been initiated from the home address of Committee Chair Mr J Williams, was quorate.
1	APOLOGIES FOR ABSENCE
i	There were no apologies.
2	DECLARATIONS OF INTEREST
i	All confirmed that they had no direct or indirect interest in any way in the business to be transacted at the meeting, which they were required by the Instrument of Government or otherwise to disclose, other than those matters that had previously been disclosed.

Item		Action/ Report Item
3	<p>APPROVAL OF MINUTES OF THE PREVIOUS MEETING</p> <p>i It was agreed that, at minute 8(iii) in Annex 5, the cash days figure should not have a percentage sign against it. This would be removed.</p> <p>ii <u>RESOLVED:</u> Subject to an agreed amendment, as minuted, to approve the minutes of 22 November 2019 as an accurate record.</p>	
3(i)	<p>MATTERS ARISING NOT ON THE AGENDA</p> <p>i An update was given on progress on the Waterfront cooling system and the drainage issue at Brunel Construction Centre. Vice Principal Corporate Operations Mr M Bennington (“MB”) said the latter appeared to have been resolved.</p>	
3(ii)	<p>UPDATE ON AGREED ACTIONS</p> <p><u>QPS Committee briefing: Redesign of the AEB and Community Learning Offer</u></p> <p>i Action (rolled over): Clerk to add a report on the redesign of the AEB and Community Learning offer to an appropriate Quality, Performance & Standards Committee agenda.</p> <p>ii <u>Armytage's Technical School Endowment:</u> The Clerk said a search of the College archives had uncovered no historical documents relating to the Huddersfield Technical College Special Fund (the “Fund”) or the Armytage’s Technical School Endowment (the “charity”). She had since taken legal advice, which confirmed her concern that, as the Fund had been wound up, the charity’s original purposes could no longer be achieved and its object was too narrow to permit the sort of activities the Committee wished it to pursue. Before a bank account could be opened and more prizes approved, a new scheme must be sought from the Charity Commission, amending the charity’s object and confirming the Committee members as its trustees, as there had been a break in the formal succession. The Clerk said if the Committee wished, an application could be made at the same time to release the charity’s permanent endowment.</p> <p>iii Action (rolled over): The Clerk to draft a letter to the Charity Commission in relation to the Armytage’s Technical School Endowment for Committee approval.</p>	<p>JG</p> <p>JG</p>
BUSINESS OF THE MEETING		
4	<p>MONTHLY FINANCIAL REPORT TO 31 MAY 2020</p> <p>i Financial Analyst Mr A Oldham (“AO”) presented the report. As Members had anticipated, the impact of the pandemic lockdown was beginning to be felt and the report highlighted several changes to the risk profile. As a result of concerns over the EBITDA¹ position, financial health was ragged Red, having previously been Amber.</p> <p>ii The current assessment was that the ‘Requires Improvement’ status would be sustained, albeit at a lower level. AO drew attention to Annex1 to his report. He said as EBITDA had dipped below 7%, the College would lose points on the ‘performance’ indicator. It would also lose points on the ‘solvency’ indicator, as current assets were reducing at a greater degree than current liabilities. It would gain points on the ‘borrowing as a percentage of income’ indicator, as an instalment of the restructuring</p>	

¹ Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) is a measure of a business’s operating performance which is used by the College in its financial planning and reporting.

Item	Action/ Report Item
<p>iii</p> <p>iv</p> <p>v</p> <p>vi</p> <p>vii</p> <p>viii</p>	<p>fund loan had been repaid in May (the Education & Skills Funding Agency (“ESFA”) having decided not to take a payment in April).</p> <p>Annex 2 showed significant variances in income and expenditure. Apprenticeships income was ragged Red as the budget line was no longer expected to be achieved. College staff were working hard to estimate the number and subsequent financial impact of apprentices placed on a break in learning as it was the only grant funding stream the ESFA had not guaranteed. The tuition fee budget was not expected to be achieved as the opportunity for further activity was severely limited. £700k had been removed from the fees budget as part of the mid-year review and an assumption of a further £161k shortfall had been made in the forecast outturn. Catering and retail had taken a hit, which had to some extent been mitigated through furloughing and savings on stock.</p> <p><u>Overage Agreement over Process Manufacturing Centre</u></p> <p>The Process Manufacturing Centre (“PMC”) overage remained a risk and an adjustment had been made in the 2018/19 accounts to recognise the liability.</p> <p><u>Forecast Comprehensive Income Outturn Position</u></p> <p>A table on page 7 of the report set out the forecast outcomes and key variances against the College’s revised 2019/20 budget. While some cost savings had been made as a result of lockdown, all income lines were showing a negative variance.</p> <p><u>Key Performance Indicators</u></p> <p>All targets were on track but would be at risk for the rest of the year due to the pandemic. AO said both the April and May figures indicated the revised budget for pay was adequate and the forecast outturn had been adjusted favourably by £100k.</p> <p>AO commented that the 65% staff-costs-to-income ratio measure was calculated prior to the ESFA deciding that bursary income should be excluded from the calculation and prior to the large increase in the Teacher Pension contribution rates. He said as these were 100% cost to income, they impacted the ratio by about 0.8%. Members reflected that the staff-costs-to-income ratio must not drive behaviour to the extent that it harmed the College; BM reminded Members that it was premised on the idea of an ‘average college’ and there was no such thing. She reiterated that the key measure was EBITDA and this was agreed.</p> <p>Corporation Report: The Committee received a report on the financial position and was briefed on the financial impact of the pandemic to date. As expected, COVID-19 has hit the College hard and, while some savings will be made and performance this year will be within the margins of the revised expectations, in aggregate, early indications are for an adverse impact on income of at least £1.29m. The financial health score is still in the ‘Requires Improvement’ band but the College has lost ground in terms of points, as the EBITDA position has dipped below 7% (resulting in a loss of 10 points) and current assets have reduced at a greater degree than current liabilities (resulting in a loss of a further 10 points). As a consequence, the financial health risk score has been raised to Amber. The Operating Performance risk score has been raised to Red since there is now more certainty in terms of the loss of income on apprenticeships and our chances of reducing the initial assessment.</p>
<p>5</p> <p>i</p>	<p>THREE YEAR FINANCIAL PLAN AND BUDGET 2020/21</p> <p>BM presented her paper, summarising as follows:</p> <ul style="list-style-type: none"> ➤ The first section of the paper provided background and context to the 2020/21
	<p>Report Item 1</p>

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	<p>budget, explaining that adjustments had been made in-year with a view to maintaining the original 2019/20 budget of £2.8m, but due to the pandemic and despite management's efforts to mitigate the losses flowing from it, the forecast EBITDA outturn was £2.251m;</p> <ul style="list-style-type: none"> ➤ Despite the setback of the pandemic, the 2020/21 budget aimed to bring the College back in line with the 2020/21 position in the Restructuring Facility approved plan ("RF plan"); ➤ A table on page four showed performance against the financial targets in the RF plan in successive years: EBITDA performance had been £32k better than forecast in 2017/18 and £160k better than forecast in 2018/19 but was expected to be £0.5m down on forecast this year; and ➤ When the paper went to Corporation, more detail would be included on sensitivities and risk, particularly for apprenticeships. A typo would be corrected on page 12 (March 20 for March 19). 	
ii	<p>A Member asked if there was scope to revisit the RF plan targets in light of the pandemic. BM reminded Members that the pandemic was just one of three material changes since the RF plan targets were agreed; the others were the change in ESFA reporting requiring bursary funding to be excluded from income figures (impacting on three of the five RF plan financial targets) and the classification of the PMC overage as a loan rather than a long term creditor (worsening the debt to income position). It was agreed that BM should write to the ESFA, seeking a covenant waiver by 31 July.</p>	
iii	<p>Action: The Executive Finance Director to write to the ESFA, seeking an RF loan covenant waiver by 31 July 2020.</p>	BM
iv	<p>The Committee welcomed the new approach to assembling the budget. BM said the new integrated planning model, designed by the College's Finance and Management Information teams, represented a significant change. It had worked well and was well-received by curriculum managers, as it brought together curriculum planning and resourcing. Members agreed that it should encourage ownership and accountability.</p>	
v	<p>The Committee discussed the high level detail of the proposed 2020/21 budget and the key underlying assumptions, noting that apprenticeships was considered the largest risk and biggest uncertainty. It was pleasing to hear in this regard that the College had secured a contract with a major household name, creating a small number of starts, increasing to 100 in 2021/22. The full cost fee budget was another key sensitivity, student recruitment being difficult to predict in the present climate.</p>	
vi	<p>Referring to the key assumptions, a Member asked whether the assumption that the additional employer contributions to the teachers' pension scheme would not be funded beyond March 2021 would be noted in the commentary. BM said it would – and in the 'sensitivities' section of the paper it was highlighted as an upside sensitivity.</p>	
vii	<p>Committee Member Mr J Royle ("JR"), who was supporting management on the Halifax Road sale, referred to the assumption that this would complete by March 2021. He cautioned that this was on the optimistic side. There was discussion about the implications for 'going concern' and the financial health score should there be a delay. BM said with the budget as presented, a delay should not impact on 'going concern' as long as there was visibility of completion. While a delay would impact on the solvency ratio, the College would maintain its 'Requires Improvement' position, as long as everything else happened in line with the plan. The risk of two or more sensitivities crystallising at once was noted.</p> <p><u>Budget Implications for Financial Health and Covenants</u></p>	
viii	<p>BM drew attention to a table in section 4 of the paper (p21), which showed the likely</p>	

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ix	<p>financial health outcome as result of the proposed budget. She said:</p> <ul style="list-style-type: none"> - the forecast 2019/20 outturn was 130 points (in line with the RF plan); and - the proposed 2020/21 budget would take the College to 150 points (10 points lower than forecast in the RF plan). <p>Due to lost apprenticeships income, EBITDA had gone from 7.6% of income to 7.3% and, while this was not sufficient to reduce the EBITDA indicator score, the loss of cash would impact on the adjusted current ratio score.</p> <p><u>Budget Implications for Solvency</u></p> <p>Page 22 showed the cashflow forecast for 2019/20 (illustrated by a green line), for 2020/21 (an orange line) and for 2021/22 (a red line). BM emphasised that the 2021/22 figures were based on a continuation of 2020/21 and no detailed work had yet been done. The solid orange line showed what the budget proposal would do and BM highlighted that, in the four-month period from February to May, cash levels were expected to fall below the 30 days envisaged by the RF plan. March was a particular concern, hence the timing of the sale of Halifax Road was quite critical from a cash perspective. She said to provide a buffer, in case any of the modelled sensitivities crystallised, she was recommending that a cap be put on capital expenditure.</p>	
x	<p>A Member asked whether anything had been provided in the nature of guarantees or underwriting by the government to support the Further Education sector. The Principal Marie Gilluley (“MG”) said so far almost nothing had been provided by way of support; there had been a short window to apply to a ‘provider relief scheme’ – but that was only open to providers carrying less than 45 cash days in hand. She said bodies like the Association of Colleges were petitioning government on colleges’ behalf but in the meantime, the sector had no choice but to prepare for the worst.</p>	
xi	<p>Members were happy with the covenants and sensitivities in the budget paper and agreed to recommend the budget to the Corporation for approval. BM and her team were commended on a very good budget paper and the quality of the notes.</p>	
xii	<p>Corporation Report: The Committee discussed the proposed 2020/21 budget and explored the various assumptions underpinning it, the methodology used to compile it, and its relevance to the financial targets set on the application for Restructuring Fund Support. The proposed budget has the Committee’s support and is recommended for approval and adoption by the Corporation.</p>	Report Item 2
6	<p>ESTATES REPORT</p> <p>i</p> <p>Heads of Terms in respect of Halifax Road had been requested by 3 July so that the Corporation could approve them on 10 July.</p> <p>ii</p> <p>Members were updated on the progress of the Pioneer House fit-out, as well as the position vis-à-vis the project budget. BM referred to the detailed figures and information within her report and said the College expected to complete the project with a small overspend relative to the initial budgeted cost. A key thing was the assumption around the Council recovery for defect works. The Committee agreed that this would be an excellent outturn given the challenges that had arisen, including COVID-19. Committee Member Mr G Hetherington had undertaken a site visit recently and said things were really taking shape and the Head of Estates, Facilities & Security was doing a fantastic job.</p> <p>iii</p> <p>No further progress had been made in respect of the LEP overage since the last report to Corporation. BM said this was not off the agenda but there had been other priorities over the last couple of weeks.</p>	

Item		Action/ Report Item
iv	Corporation report: The Committee is satisfied that the Pioneer House project is progressing well towards completion and expects to see only a small overspend relative to the initial budgeted cost. Heads of Terms are being drawn up for the Halifax Road sale and will hopefully be ready for Corporation approval on 10 July.	Report Item 3
7	FINANCIAL REGULATIONS APPROVALS	
i	<u>RESOLVED:</u> (i) To approve the three requisitions (Orders 7334, 7232 and 7093) particularised in the Executive Director of Finance's report.	
ii	Corporation Report: The Committee approved three requisitions, the total value of which was £432,551.88. The Committee has no concerns to report.	Report Item 4
COMMITTEE SELF-ASSESSMENT		
8	COMMITTEE SELF-EVALUATION	
	<u>Performance Report</u>	
i	<p>The Clerk had prepared a draft performance report based on Member responses to an anonymous survey on the Teams site. In discussion, it was agreed as follows:</p> <ul style="list-style-type: none"> ➤ The membership accorded with requirements; ➤ The role and responsibilities of the Committee were well understood and no action was needed in that regard; ➤ The Committee met adequately frequently; ➤ Appointment criteria for the Chair did not need to be formalised; the convention was to appoint a longstanding experienced Governor with good knowledge of the business and this was felt to be robust; ➤ Members had adequate relevant knowledge and experience but more could be done to support co-opted members, for example sharing Corporation minutes; ➤ The Committee was able to procure its own specialist advice; ➤ Chair/Clerk pre-meets should take place via Teams; ➤ There was no need for a formal process to solicit Member inputs to agendas; ➤ Members agreed that while discussions may occasionally and quite properly touch on operational matters, agendas focused on the strategic; ➤ Members were largely satisfied with report quality and felt able to offer guidance in that regard; ➤ It was felt that formal appraisals for Members or the Chair would not be appropriate, given that they were unremunerated roles and Corporation Governor appraisals took place; ➤ Members who missed meetings were briefed via minutes, which were typically circulated for Corporation within two weeks (co-optees should receive these); 	
ii	Areas for development were identified around additional support for Co-opted Members and Clerk/Chair online pre-meets, if meetings were still online next year.	
iii	Action: The Clerk will update the draft performance report based on discussions at the meeting and Committee members' further input if any. The report will go to Search Committee in September.	JG
	<u>Review of Terms of Reference and 2020/21 Schedule of Business</u>	
iv	Corporation report: Amended Terms of Reference and the 2020/21 Schedule of Business are recommended for approval.	Report Item 5

Item

Action/
Report Item

MATTERS TO NOTE AND ADMINISTRATION		
9	DATE OF NEXT MEETING	
i	Provisionally Friday 20 November 2020, subject to Corporation approval.	
13	PUBLICATION OF AGENDA PAPERS	
i	All items marked with an asterisk on the meeting Agenda, together with the confidential minutes of the previous meeting, shall not be made public.	
0	THANKS AND CLOSE	
i	The Chair thanked everyone for their contributions and the meeting closed at 16.10.	

Items of Report for Corporation

Item	Details	Minute
1	The Committee received a report on the financial position and was briefed on the financial impact of the pandemic to date. As expected, COVID-19 has hit the College hard and, while some savings will be made and performance this year will be within the margins of the revised expectations, in aggregate, early indications are for an adverse impact on income of at least £1.29m. The financial health score is still in the 'Requires Improvement' band but the College has lost ground in terms of points, as the EBITDA position has dipped below 7% (resulting in a loss of 10 points) and current assets have reduced at a greater degree than current liabilities (resulting in a loss of a further 10 points). As a consequence, the financial health risk score has been raised to Amber. The Operating Performance risk score has been raised to Red since there is now more certainty in terms of the loss of income on apprenticeships and our chances of reducing the initial assessment.	4(viii)
2	The Committee discussed the proposed 2020/21 budget and explored the various assumptions underpinning it, the methodology used to compile it, and its relevance to the financial targets set on the application for Restructuring Fund Support. The proposed budget has the Committee's support and is recommended for approval and adoption by the Corporation.	5(xii)
3	The Committee is satisfied that the Pioneer House project is progressing well towards completion and expects to see only a small overspend relative to the initial budgeted cost. Heads of Terms are being drawn up for the Halifax Road sale and will hopefully be ready for Corporation approval on 10 July.	6(iv)
4	The Committee approved three requisitions, the total value of which was £432,551.88. The Committee has no concerns to report.	7(ii)
5	Amended Terms of Reference and the 2020/21 Schedule of Business are recommended for approval.	8(iv)