Kirklees College Corporation

FINANCE COMMITTEE

Minutes of a meeting held at 14.00 on 20 November 2020 via Microsoft Teams videoconference

Present:

Mr H Linn	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 J Royle	Independent Member
Mr M Varyani	Independent Member

Attendance: 7/7 = 100% KPI 80% Quorum: 3

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

Item		Action/ Report Item
PRELIMINARY ITEMS		
0.1	**NOTICE AND QUORUM**	
i	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 was quorate.	
0	**APPOINTMENT OF CHAIR, WELCOME AND INTRODUCTIONS**	
i	**RESOLVED:** **(i) To appoint Mr H Linn as Committee Chair with immediate effect.**	
ii	With no introductions needed the Chair welcomed everyone and declared the meeting open.	
iii	The Executive Director of Finance, Mrs R Meara ("RM"), said, as expected, the College had received written confirmation from the Education & Skills Funding Agency ("ESFA") that the College was in Early Intervention[1], which was different from Further Education Commissioner Intervention. She reminded Members that the categorisation was based on the financial return submitted at the end of July, rather than on current data, hence the letter mentioned a financial health score of 130, whereas based on the actual 2019/20 outturn, this was now 140.	

[1] See the ESFA guidance document "College Funding: Early Intervention and Prevention".

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1	**APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST**	
i	Apologies were received from the Financial Controller Ms A Clegg.	
ii	All confirmed that, other than items previously disclosed and placed on record, they had no direct or indirect interest in any way in the business to be transacted at the meeting which they were required to disclose.	
3(i)	**MATTERS ARISING NOT ON THE AGENDA**	
i	No matters were raised.	
3(ii)	**UPDATE ON AGREED ACTIONS**	
i	**Quality Performance & Standards Committee report on the Adult Education and Community Learning offer:** This had been moved onto that committee's actions list and would therefore be closed.	
ii	**Liaison with the Charity Commission re Armytage's Technical School Endowment:** This had been actioned. A meeting of the trustees had taken place immediately before the Committee meeting.	
iii	**Executive Finance Director seek an RF loan covenant waiver from the ESFA:** An application was made but the ESFA had responded that the College would need to apply this year.	
iv	**Update of draft self-assessment report:** This had been actioned.	
BUSINESS OF THE MEETING		
4	**FINANCIAL STATEMENTS AND MEMBERS' REPORT**	
i	The Committee was pleased to hear that Grant Thornton's audit of the accounts was close to completion. RM said things had gone smoothly so far and Grant Thornton intended to issue an unmodified opinion. There would be one minor recommendation around employment contract management: that the College should hold a signed written statement of employment particulars for each employee.	
ii	A Member remarked on the fact that the audit work had been done remotely and asked how Grant Thornton had modified their approach. RM said there had been extensive communication and evidence sharing via Teams – and gave examples of additional steps Grant Thornton had taken such as observing a live download of a bank statement. A Member asked if Grant Thornton would charge any additional fees on account of the additional work and RM said she did not expect them to.	
iii	RM said in terms of the work still outstanding on the final draft financial statements, the final ESFA funding confirmation was expected at the end of November, work was still ongoing in relation to Pioneer, and Grant Thornton would need to look at any post balance sheet events before finalising their advice on going concern.	
iv	As previously stated, on the basis of the Financial Statements, the College's financial health score would be 140, an improvement on where it had been expected to be.	
	<u>Going Concern Assessment</u>	
v	RM reminded Members that, in order to prepare its accounts on the 'going concern' basis, the Corporation must be satisfied that the business could be expected to remain a going concern for 12 months from the date of sign-off of the accounts (i.e.	

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	December 2021). She had prepared an assurance paper to support decision-making on this point. It explained how she had 'stress tested' the financial forecast to identify what the 'worst case scenario' cash position would be absent any mitigations.	
vii	In the first instance, she had adjusted the Corporation-approved July 2020 financial plan to take account of: ➢ the opening cash position; ➢ the Further Education Capital Allocation ("FECA") funding; ➢ the timing of cashflows associated with Pioneer House; and ➢ as the timeline for the Halifax Road disposal had shifted, a re-profiling of the disposal income from receipt of the full purchase price in March 2021 to receipt of the deposit in March 2021 and the balance in July 2022.	
viii	She had then reassessed the operating position for the current year to arrive at a sensitised position. A table on page 2 of the report showed the extent to which the key lines within the budget were deemed to be at risk, with high risk items such as Further Education loans and Higher Education income ragged Red, items with no risk at all such as 16-19 income ragged Green and items with low risk scores ragged Amber. A maximum financial risk exposure against each of the risk lines was presented.	
ix	A graph on page 3 of the report showed that the resulting cash balance outlook in 2020/21 (the yellow dashed line) was an improvement on the July financial plan (the solid yellow line). The dotted yellow line showed the worst-case scenario ("the sensitised position") which RM explained she had arrived at by assuming: ➢ no efficiency savings would be made this year (and expenditure would not exceed budget); ➢ all maximum risk exposure assessments on income lines were crystalled and ➢ this would be allowed to continue into 2022 without mitigating action being taken.	
x	The graph showed that, even in the worst-case scenario - with the College taking no action at all - there would still be some headroom in March 2021 when 2020/21 cash balances were at their lowest and the College would not run out of cash until February 2022.	
xi	RM had identified some further risks events (all deemed unlikely) as follows: ➢ Cash flow would break in November 2021 if the ESFA rejected the entirety of the College's FECA proposals, resulting in the clawback of all funding; ➢ Cash would be impacted in December 2021 if performance against the adult budget fell substantially short and the ESFA did nothing to extend tolerance beyond 97%; or ➢ Numbers of apprentices not meeting the criteria for protection (being in the last 6 months of, or having completed 75% of, their training) being made redundant.	
xii	RM reminded Members that the sensitised position assumed that the College did nothing to mitigate the loss of income, which would not be the case. Several mitigations would be available and they were listed in the report. RM said, on the basis of her analysis, she was satisfied that the business was a going concern.	
xiii	A Member asked where the risk of not being a going concern was reflected in the strategic risk register and how it was monitored. RM indicated the risk of failure to come out of and stay out of financial intervention. She said the key monitoring vehicle was the management accounts, which would show any drift away from budget.	

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	Assessment of Covenant Compliance	
xiv	RM reminded Members that the delays to Pioneer House had caused capital expenditure to be pushed back, making the tighter 2020/21 Restructuring Fund loan performance covenant much harder to meet. She said as a result, the College would almost certainly be in breach of the covenant in 2020/21. This would not impact going concern, as compliance would not be measured until January 2022 (following the submission of the 2020/21 financial statements) and as the final loan payment was due in February 2022, if the loan were called in, the College could settle it in full.	
xv	**Corporation report:** Having discussed with the Executive Director of Finance her best estimate and worst case scenario financial position into 2021/22 as well as the current financial year, together with the key supporting assumptions, qualifications and available mitigating actions, the Committee advises that the Corporation can be satisfied that the management assessment of going concern is appropriate.	Report Item 1
	Accounting Treatment of the Peppercorn Lease of Pioneer	
xvi	At Grant Thornton's request, the College had obtained an independent right-of-use asset valuation for its 125 peppercorn lease of Pioneer House. The valuation, based on the average annual rent for similar properties in the open market, multiplied by 125 years and after deducting refurbishing costs, was just short of £10m. An entry would need to go into the College accounts, inflating assets. RM said the valuation would appear on the balance sheet and it was important to emphasise that it was merely a technical accounting requirement. The Committee's Co-opted Member, Kirklees Council's Finance Director Mr E Croston, acknowledged this and assured RM that the position was well understood by the Council.	
5	**MONTHLY FINANCIAL REPORT TO 30 SEPTEMBER 2020**	
i	Financial Analyst Mr A Oldham ("AO") presented the accounts for the first two months of the year. He said historically, management had not reported on actual funding body income until November (at the point of the third Individualised Learner Record return: R03) but systems upgrades meant better data was available this year to inform decision-making and enable the College to react more quickly.	
ii	AO said while early indications suggested there would be a shortfall in income, pay costs and resource spend were under budget (and the October figures showed this continued to be the case) and this was a positive indicator that the expenditure side of the budget equation was on track. He said conversations were taking place with curriculum managers around how the College could mitigate reductions in learner numbers, or in some cases, resource areas that had over-recruited.	
iii	At the request of the internal audit service, an addition measure had been added to the financial KPIs (Annex 1): creditor days, meaning the average number of days it took the College to pay invoices. Members noted that all targets were on track to be met. In the 'Headlines' sheet, financial health was ragged Green.	
iv	The paper referred to apprenticeships income being below target. AO said with the transfer of business from Kirkdale Industrial Training Services (KITS) and with some Process Manufacturing learners coming on board, the apprenticeship income forecast had improved significantly, although it was still below budget.	
v	A Member asked whether the College continued to furlough staff. AO said since the refectories were now back in operation, the number of catering staff on furlough had reduced. Management was looking at whether Childhood Studies trainer assessors might be eligible, as student recruitment had been badly impacted by childcare setting placements (a condition of the qualification) being unavailable.	

Item		Action/ Report Item
vi	**Corporation Report:** The Committee received a report on the financial position based on the first two months' accounts. COVID-19 continues to dominate the picture and, although 16-19 recruitment has been very positive, elsewhere, numbers are down on plan and recovery of these shortfalls will be challenging However, with pay costs and other expenditure down against budget, financial health is still on track to be as planned at year end.	Report Item 2
6	**CAPITAL AND ESTATES UPDATE** Estates Update - Pioneer House and the sale of Halifax Road	
i	In respect of the Pioneer House project, the Committee noted: ➢ the final forecast project overspend; ➢ that while it was anticipated that the FECA funding would cover a majority of the overspend, the ESFA was yet to respond to the College's proposals; ➢ the amount of the agreed final recharge of costs over to the Council; and ➢ that practical completion having been achieved, Pioneer House would welcome staff and students from Monday 23 November.	
ii	In respect of Halifax Road, the Committee noted: ➢ the main barrier to progression and the various possible ways to approach it; ➢ the College's preferred approach, which had been discussed at length by the Estates Strategic Advisory Group and would need to be further discussed at a Corporation meeting.	
iii	A Member expressed relief that the capital projects that had occupied so much time over the past few years would soon be at an end. There was full agreement, with Members expressing the hope that the Corporation would soon be freed to spend more of its time on things like curriculum intent and the student experience. Further Education Capital Allocation Funding	
iv	Although there had, as yet, been no comprehensive response from the ESFA, it was now apparent that they would not fund items deemed to be IT equipment such as interactive whiteboards and lap safes. With this in mind, management was looking at whether anything else could be done with the money. Capital Update: Dewsbury Learning Quarter ("DLQ") Project	
v	The Financial Controller's report detailed how the DLQ budget had changed since it was initially agreed, identified how the gross additional cost to the College had been offset and explained the reasons for the overspend. Graph on pages 4, 5 and 6 of the report showed the totals of claims submitted to the Leeds City Region Enterprise Partnership; how the planned College spend had been funded; and actual College spend against planned. Capital Update: 2019/20 College funded small equipment capital budget	
vi	Members noted the amount of the unallocated balance in 2019/20 and the position with available funds for 2020/21 and current provisional allocations against it. It was noted that, should the FECA proposals be accepted, some of the planned costs would be met out of that and funds would become available for reallocation.	
7	**FINANCIAL REGULATIONS APPROVALS**	
i	Referring to the appendix to her report, while detailed the three tenders received for	

Item		Action/ Report Item
	the College's insurance services, RM said, while Zurich had not offered the cheapest price, the firm which offered the lower price was unable to provide all the cover the College was looking for. She said the tender exercise had generated savings of £36.5k, some of which would be reinvested in extending the cover to include cyber risk cover.	
ii	**RESOLVED:** **(i) To approve the three requisitions (Orders PO7585 and PO7334 and the reappointment of Zurich as the College insurer) particularised in the Executive Director of Finance's report.**	
iii	**Corporation Report:** The Committee approved three requisitions, one being a retendering of the College's insurance cover, a breakdown of which was provided.	Report Item 3
MATTERS TO NOTE AND ADMINISTRATION		
8	**DATE OF NEXT MEETING**	
i	Friday 12 March 2021	
9	**PUBLICATION OF AGENDA PAPERS**	
i	**RESOLVED:** **(i) All items marked with an asterisk on the meeting Agenda shall not be made public.**	
0	**THANKS AND CLOSE**	
i	The Chair thanked everyone for their contributions and the meeting closed.	

Items of Report for Corporation

Item	Details	Minute
1	Having discussed with the Executive Director of Finance her best estimate and worst case scenario financial position into 2021/22 as well as the current financial year, together with the key supporting assumptions, qualifications and available mitigating actions, the Committee advises that the Corporation can be satisfied that the management assessment of going concern is appropriate.	4xv
2	The Committee received a report on the financial position based on the first two months' accounts. COVID-19 continues to dominate the picture and, although 16-19 recruitment has been very positive, elsewhere, numbers are down on plan and recovery of these shortfalls will be challenging However, with pay costs and other expenditure down against budget, financial health is still on track to be as planned at year end.	5vi
3	The Committee approved three requisitions, one being a retendering of the College's insurance cover, a breakdown of which was provided.	7iii