Part 1 Minutes
Extraordinary Meeting of the Audit Committee
Thursday 21 May 2020 at 3.30pm
Remote access only via Google Meet

Present:	Neil Dew-Gosling	(NDG)	Governor *(Chair)*
	Ian Thomson	(IT)	Governor
	Andrew Try	(AT)	Governor *(via telephone conference)*
	Frank Pitkin	(FP)	Governor
In attendance:	Gillian May	(GM)	Principal
	Richard Munday	(RM)	Finance Director
	Tracy Reeve	(TR)	Director of Governance

28/20 Chair's Agenda Item
There was no Chair's agenda item at this meeting.

29/20 Apologies for absence
There were no apologies.

30/20 Any Other Business
The FD had included a paper in the Board Intelligence pack which briefed Governors on a recent meeting with the College bankers Lloyds.

The Principal had an update on BCA's heritage assets to bring to the meeting.

There was no additional business to be raised.

31/20 Notification of any interests
There was none.

32/20 Minutes of the Audit Committee meeting held on 22 April 2020
The minutes would be carried forward to the next timetabled Audit Committee meeting (17 June 2020).

FOR DECISION/ APPROVAL

33/20 Integrated Financial Model for Colleges (IFMC)
Members considered the updated IFMC commentary which was required for submission to the ESFA and the Transaction Unit. This model had also been updated to reflect the impact of the Covid-19 pandemic in the current year and in the financial plan for 2020/21. The Finance Director (RM) confirmed that this update did not strictly require formal Corporation approval but the Exec Team were keen for Governors to consider and approve the update as it demonstrated good governance and would provide additional challenge for the SLT.

- ***IFMC Model and Commentary***

RM presented an update to the IFMC budget commentary that had previously been approved by BCA Governors and submitted to the ESFA. He reminded the meeting that this update was required to comply with the monitoring requirements associate with the Restructuring Facility grant received from the DfE in July 2018. RM highlighted that the IFMC return included actuals for 2018/19, the latest forecast for the current year and budgets for 2020/21 and 2021/22.

Audit Committee members were reminded that the first submission of the IFMC had been sent to the ESFA at the end of February 2020, just before the Covid-19 pandemic struck and the College switched to remote on-line learning for students. The meeting went on to consider changes since the previous submission. It was noted that the pandemic had already had a significant impact on the finances of the College in the current year and would continue to impact cash flow during 2020/21. The main effects of Covid-19 in the current year were noted as:

- £492,000 reduction in commercial and transport related income, offset by a £239,000 reduction in costs. This would lead to the College reporting an operating deficit of £0.2 million for the year against a pre Covid-19 forecast of a £53,000 surplus.
- Reduced cash at the year end 2020. In February the forecast was to report a £764,000 credit balance, this had now been reduced by £409,000 to £357,000.
- A change to the anticipated Financial Health grade for the current year, to the extent that it was now highly likely that the College would report an Inadequate grade for the 2019/20 year (110 points), rather than the Requires Improvement (140 points) forecast in February 2020.
- The likelihood that the College would fail the annual cash cover test set by the bank in July 2018. RM highlighted that the College was in touch with the relationship manager at Lloyds about this; see minute of discussion under Any Other Business (minute 37/20) below.

Governors noted that the effects of the pandemic would continue to be felt throughout 2020/21 but the College anticipated that it would be able to report the same operating surplus as that reported in the forecast in February (£181,000) even though income would be £225,000 lower than previously advised. However, RM highlighted that most of this reduction related to the lack of provision of student transport in the first term due to the uncertainties associated with the physical attendance of students. The paper suggested that this reduction in income would be mitigated in its entirety by not having to pay the coach providers, but the change would have a significant impact on cash flow in autumn 2020, as a result of the College not receiving cash for annual and term one passes in August and September. The month-end balances from September to December will be at least £0.5 million less than previously suggested but the effect would be neutralised by the end of March 2021, by which time the College would have received payments for terms two and three. However, RM informed the meeting that if current plans went ahead to ask students to attend on a ‘one week in, one week online’ basis throughout the first term 2020/21 there would be a further significant adverse impact on transport and catering costs from September to December 2020. The meeting was assured that this model of attendance would enable the College to adhere to social-distancing guidelines on the coaches and in College. The autumn term would also be reduced from 36 to 34 weeks; starting a week later on 7th September until 18th December with a two-week half-term break. However, this decision would mean that the costs of the transport provision would be the same as planned for term 1 but the income would reduce by half as learners were only accessing College for half the weeks. Governors sought, and were given, clarification that the SLT intended to reduce the cost of the ticket by half to every student. The net effect of this would be the College paying a ‘subsidy’ of £132,000 for the first terms transport. In addition, due to lower learner numbers on site, the likely impact on the catering contract would be for BCA to end up paying a subsidy of £30,000 to Baxter Storey for term 1. The net adverse impact of £162,000 for Term 1 alone was challenged by Audit Committee members. Governors asked the College management to revisit the transport and catering contracts to look at ways of reducing the 'subsidy' that the College would be paying. They suggested that the transport and catering providers should shoulder some of the loss of income and that the College needed to negotiate in order to protect the impact on the bottom line.

Other than the pandemic RM highlighted the two other material changes to the budgets:

- When the College received its allocation for 16 to 19 funding for 2020/21 in March 2020, the amount notified was just over £0.3 million higher than forecast (£10.96 million compared to £10.65 million). RM highlighted that this additional income was included in the latest figures and calculations for 2020/21, but had not been carried forward to 2021/22 due to current uncertainty around student numbers in 2020/21. The 16-19 income for 2021/22 remained largely unchanged at £10.96 million.
- Audit Committee was reminded that the Corporation had taken the decision, in April 2020, to withdraw from all non-franchised HE provision and would commence an HE 'teach-out' from September 2020. HE income levels were now expected to be £593,000 in the current year, £518,000 in 2020/21 and £129,000 in 2021/22. RM confirmed that this would not have a material effect on the College's surplus 2020/21, given that HE had historically operated at very low contribution levels (less than 3%).

The meeting noted the detail of the overall financial performance, the ratios and the calculation of the College's financial health within the IFMC model for the 4 year-period 2018-2022. The College's Financial Health Grade (as assessed by the ESFA) was now showing as 'Inadequate' rather than as 'Requires Improvement' for the current year. This would improve to 'Requires Improvement ' for the first plan year and would then increase to 'Good' for the second plan year 2021-22. The Chair sought confirmation on what the impact of this reduction in financial health in 2019/20 would be. The Principal reminded the meeting that a grade of 'Inadequate' could trigger a Financial Notice of Concern being issued and intervention by the FE Commissioner's team. However, the SLT would work to show that the decline was due to the Covid-19 pandemic not ongoing poor financial management and that action was planned in 2020/21 to mitigate the ongoing impact. This could result in the financial health grade being moderated upwards by the ESFA to RI.

The meeting noted the forecast performance against the following Key Performance Indicators and Transaction Unit requirements over the 4-year period:

- Surplus as a % of income
- EBITDA as a % of income
- Pay costs as % of income
- Cash days at year end
- Adjusted current ratio

The meeting considered the cash position and the low levels of cash days showing in 2020/21; a drop to 8 which was below the target of 17. However, RM highlighted that this cash position was yet to be confirmed.

Statement of Comprehensive Income 'SOCI':
Income: Total income was expected to be: 2019-20 £14.89 million; 2020-21 £16.05 million; and 2021-22 £16.24 million.

Within this, the College core income, for 16-19 year olds, would increase as follows:
2019-20 £9.66 million
2020-21 £10.96 million
2021-22 £10.96 million

The 10% increase in core income for 2020-21 was explained by: lagged funding for 72 additional students in the current financial year; the confirmed 4.7% uplift in the basic 16-18 funding rate (to £4,188 per student); and High Needs income totalling £204,000 transferring from local authorities to the ESFA. All other funding income was as per the figures in the Growth Strategy document as considered by Audit Committee and the Corporation in February 2020. Most non-funding income had been uplifted by either 1% or 2% in each year unless it was not appropriate to do this e.g. income from Ardmore under the new arrangement.

Expenditure:
The meeting considered a detailed breakdown of pay costs which would rise to £10.27m by 2021-22. Governors noted that the pay costs included an assumed 1% uplift to salaries for all staff in September 2020 and 2021.

Most non-pay costs had been uplifted by either 1% or 2% in each year unless it was not appropriate to do this e.g. additional investment in maintenance, the sports pitches and staff CPD. The meeting was reminded that the long-running lease for IT equipment had also now come to an end; the full year cost of this was £216,000. RM confirmed that Non-pay costs also included fees associated with obtaining planning permission for the sale of land for development, to the extent that these were not funded under the Restructuring Fund facility. For budgeting purposes, it has been assumed that the planning application would not only be called in but would also go to Judicial Review. The total costs if this happened were estimated at £366,000, of which £244,000 was not funded. Nearly all of the non-funded costs were reflected in 2020-21 but they would impact on the College's performance in both that year and 2021-22. RM highlighted that prior to including these costs, the points total in the table on page one had been 190 for next year and 220 in the following year (as opposed to 170 and 210 respectively).

Operating surpluses and EBITDA
The meeting noted the detail of these over the four-year period with the operating surplus ranging from £170,262 (2018-19), deficit of £196,337 (2019-20), then back to surpluses of £180,816 (2020-21) and £572,519 (2021-22). EBITDA figures over the same four-years would be: £1,027,581, £919,672, £1,312,568 and £1,785,377.

Balance Sheet
Fixed assets: £0.5 million capital spend had been budgeted in 2020-21 and in 2021-22. This was lower than the College had seen in recent years; this was noted as a deliberate action to help improve cash balances. In addition, £850,000 for the Health Sciences Project had been included, of which £84,000 would be paid in the current year and then £766,000 next year (this would be fully funded).

Current assets and liabilities: These had generally been held at actual and forecast levels in the current year and in both plan years.

Loans: The year end balances would be as follows: 2019-20 £3.42 million; 2020-21 £3.08 million; and 2021-22 £2.69 million. These figures included both the Restructuring Fund (RF) loan (£1.3 million) and Salix (£153K).

Capital grants: Income includes that part of the DfE grant that the College would be taking in the years in question (note that grant amortisation income from the Jacob Bancks Room and pipe-works projects would be spread over the next 50 years). The £850,000 grant for the Health Sciences Project had also been factored in.

Pension liability and charge: The charge for the current year (£770,000) was based on the anticipated figure provided by the actuaries. RM confirmed that 5% uplifts had been applied in both 2020-21 and 2021-22. These charges have been negated in arriving at movements in the deficit, given that this is an unknown i.e. the sum of the other elements that impact on the movement in the deficit (being the return on assets and changes in demographic and financial assumptions) are equal and opposite to the charges, and so that the deficit remained at £10.82 million throughout.

Cash: The current anticipated year end balances were: 2019-20 £357,000; 2020-21 £647,000; and 2021-22 £901,000. The same figures in the February version of the IFMC had been £764,000, £839,000 and £1.58m. The meeting noted the detail of the forecast month-end balances to July 2022. RM highlighted the pinch-point for cash that would arise in spring 2021; cash would fall to £75,000 in March 2021. Governors were assured that the college management had already talked to Lloyds bank about this issue and a solution would be put in place in the form of a short-term overdraft (see minute 37/20 below). ***The Chair asked that future cash-flow be shown in graph format within the report as well as actual numbers.***

Audit Committee members and the Chair of Governors agreed that the IFMC had been completed using sensible prudent assumptions which were well justified and was a realistic reflection of the Covid-19 impact. The meeting was happy to approve the IFMC as presented, which did not yet include the additional negative impact of transport and catering costs in 2020/21. RM confirmed that the ESFA had informed College Finance Directors that a simplified version of the IFMC would be required in July 2020 to reflect the final budget 2020/21 and plan year 2021/22. This would be brought to the Corporation for approval in July 2020. Governors questioned on whether there would be government support for the additional costs that Colleges would bear due to Covid-19. It was noted that Landex were lobbying on behalf of Landbased Colleges to try and secure some additional funding for these costs.

The meeting spent some time considering alternative operating models including opening student residences, offering no transport, providing all delivery online, providing all delivery face-to-face. The pros and cons of each of these were discussed in detail by the meeting. It was agreed that the likely scenario to meet government guidelines and provide the best solution for learners was the 50% in college one-week, 50% in college the second week with remote delivery on alternate weeks. This was workable for term 1 of 2020/21 but would provide a significant business risk if it had to continue after the Christmas break 2020. The Chair commended the full and open discussion and the ongoing challenge to the SLT to be creative and clever in order to minimise the impact of Covid-19 on BCA and its learners.

It was AGREED that the updated IFMC for the College should be APPROVED by the Audit Committee and submitted to the ESFA.

The IFMC May 2020 would be taken to the full Corporation for subsequent ratification.

FOR INFORMATION

34/20 Risk Assessment for phased staff return to campus

H&S Risk Assessment: The meeting spent time considering the Health & Safety Risk Assessment document RA.HAS.120 which had been drafted by the College's Health and Safety Manager to monitor site operations at BCA during the Covid-19 'lockdown'. The nature of BCA meant that the site could not close and staff would have to be on site to manage the animals and horses. Governors were assured that the SLT would be using this H&S Risk Assessment to develop an action plan for any plans of a phased return to campus when DfE guidance suggested that this was feasible. The Principal confirmed that she was working closely with the College Trade Union representative; there were only 22 UCU members at BCA. A comprehensive set of measures was being put in

place to make the campus safe for a phased return. These included: one-way systems; hand sanitizers; all buildings being deep cleaned; screens in Reception; and additional cleaning. The meeting noted that Level 3 Year 1 learners were engaging very well with online delivery so they would probably not be invited to attend face-to-face in advance of September 2020. Although the current government advice of 'work remotely if possible' was still being followed, more staff would be required to attend campus to implement the new online enrolment process during late June and July 2020. SLT were working to ensure that they could give staff confidence to return to the campus. Anyone returning to campus was required to fill in a self-declaration form. The H&S Committee was also meeting on a fortnightly basis to take the H&S Action Plan for Campus opening forward. ***AT asked to be invited to the next H&S Committee video meeting.*** The Principal informed the meeting that she had shared the staff briefing and the H&S Risk Assessment with the ESFA who were impressed with the progress made on working towards a phased return. TR highlighted that this Phased Return to Campus Action Plan would require Corporation approval once it was finalised.
The H&S Risk Assessment for a phased return to campus was NOTED.

35/20 Furlough of BCA Staff
The Principal informed the meeting that there were currently 10 BCA staff who were furloughed; 8 minibus drivers and 2 of the Reception Staff (out of 4). The minibus drivers would be furloughed to the end of August as they would definitely not be required to do any work. The Reception Staff would be furloughed to the end of June and then this would be reviewed as online enrolment would commence and they would probably be needed. It was noted that some external auditors required evidence of Governors being informed about any furlough of College staff.
NOTED

36/20 Date and Time of Audit Committee meetings 2019/20
The final meeting of the academic year was confirmed as: Wednesday 17 June 2020 at 4.30pm

37/20 Any Other Business

- **Notes from meeting with Lloyds Bank**

The FD presented a paper which gave the meeting an update on a recent meeting between College management and the relationship manager at Lloyds Bank. Audit Committee members that Audit Committee member, Ian Thomson, had also attended this video meeting on Friday 15 May. The aim of the meeting was to update the bank on the forecast financial impact of the Covid-19 pandemic and to discuss how the bank could assist the College during this crisis.

The meeting noted that – as suggested at the last Audit Committee meeting - the College had requested that a year round overdraft facility be put in place but Lloyds would not agree to this. The bank believed that the need for an ongoing overdraft facility suggested that a business was not structured correctly. However, they were keen to help BCA with the level of overdraft that would be needed at pinch points in future e.g. March 2021.

The meeting also discussed the covenant tests. Governors were reminded that the College had failed the cash flow cover test over the last couple of months and was expected to fail it again at the year-end 2019/20 as a result of the pandemic. The Lloyds relationship manager (CC) recognised the impact of the pandemic on all the colleges that he dealt with but would prefer to amend the parameters within the tests rather than agree to waivers. This would be contingent on the Corporation and the bank continuing to have confidence in the current financial forecasts to be able to agree changes over the next few weeks. It was noted that if the College had to move to requesting a covenant waiver then this would have to be agreed by the bank in writing before 31 July 2020.

The meeting noted that Lloyds were of the view that the College would not qualify for Coronavirus Business Interruption Scheme ('CBILS') support because it was in receipt of Restructuring Funds in 2018. ***The meeting noted that RM and IT would continue to pursue this to check that was indeed the case.***

The Audit Committee noted the actions that had come out of this meeting for RM to complete:

- Provide an updated weekly cash flow forecast through to mid-August for Lloyds. This had been completed and the meeting noted this cash-flow summary.
- Perform stress tests on the current budget for 2020/21.
- Send Lloyds the updated IFMC after submission to the ESFA and supplement this with a detailed analysis of cash movements in 2019/20, separating out the Covid-19 effect from everything else (in order to agree changes to the cash flow cover test in particular).
- Suggest the timing and amount of BCA's short term overdraft facility requirements over the next two years.

The meeting noted this positive feedback and commended the SLT for their ongoing strong relationship with staff at Lloyds.
NOTED

- **BCA's Heritage Assets**

The Principal informed the meeting that she had now received notification from the Royal Borough of Windsor and Maidenhead (RBWM) that Hall Place was now on the RBWM Register for listed buildings at risk. This would be a positive factor for any planning permission application to support the heritage assets.
NOTED

There was no other business the meeting closed at 5.20pm.

SUMMARY ACTION POINTS – Part 1

Minute Ref	Action	By who	By when
32/20	Minutes from 22/04/20 Audit Committee to be taken to June 2020 meeting.	Dir of Governance (TR)	17 June 2020
33/20	BCA update IFMC approved for submission to the ESFA.	Finance Director (RM)	22 May 2020
	Future cash-flow figures to be shown in graph format as well as tabular	Finance Director	17 June 2020
	College Management to continue to negotiate with transport and catering suppliers in order to minimise subsidy for term 1 2020/21.	Exec Team	Update 17 June 2020
34/20	AT to be sent an invitation to next H&S Committee video meeting.	H&S Manager	June 2020
37/20	CBILs support to be further investigated	FD with input from Governor (IT)	June 2020
	Actions required by Lloyds Bank to be completed: i) Provide an updated weekly cash flow forecast through to mid-August for Lloyds. ii) Perform stress tests on the current budget for 2020/21. iii) Send Lloyds the updated IFMC when submitted to the ESFA and supplement this with a detailed analysis of cash movements in 2019/20, separating out the Covid-19 effect from everything else. iv) Suggest the timing and amount of BCA's short term overdraft facility requirements over the next two years.	Finance Director	Completed 8 July 2020 (for Corporation) 30 May 2020 30 May 2020