**Part 1 Minutes**
**Extraordinary Meeting of the Audit Committee**
**Tuesday 25 February 2020 at 4.30pm**
**Principal's Office**

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

**1/20 Chair's Agenda Item**
There was no Chair's agenda item at the start of the meeting; this would be taken at the end of the meeting in a confidential Part 3 meeting.

**2/20 Apologies for absence**
There were no apologies; Andrew Try was in attendance by telephone conference. The Chair welcomed Pippa Goodwin to the Audit Committee meeting; her attendance was in order to give the consideration of the Integrated Financial Model for Colleges (IFMC) the required gravitas and the correct delegated authority.

**3/20 Any Other Business**
There was no additional business to be raised.

**4/20 Notification of any interests**
There was none.

**5/20 Minutes of the Audit Committee meeting held on 27 November 2019**
The minutes would be carried forward to the next timetabled Audit Committee meeting.

**FOR DECISION/ APPROVAL**

**6/20 Integrated Financial Model for Colleges (IFMC)**
Members considered the IFMC commentary and the supporting Growth Strategy 2020-24 for the College with the underpinning assumptions.

- ***BCA Growth Strategy***

The Principal (GM) presented the very comprehensive Growth Strategy document and highlighted the accurate learner number forecasting which was suggesting an ongoing growth rate in learner numbers of 2-3.5% compound growth during each year of the plan. The meeting discussed the growth in High Needs income and clarified the College policy on recovering variable costs plus a contribution to overheads from this provision. Apprenticeship provision had been held as static within the life of the plan to reflect the current and forecast lack of growth available for non-levy apprenticeships. The meeting commended the detailed work included within the Estates Strategy and the very clear understanding that the College now had on space utilisation and condition of the campus buildings. Governors were pleased to note the maintenance costs per square foot decreasing over the life of the Growth Strategy. The meeting discussed the staffing provision and the ongoing tension of resourcing within the lagged funding system whilst maintaining the high quality provision. GM highlighted Section 7 of the Growth Strategy where the detailed risks and sensitivity analysis associated with the plan was considered; she assured the meeting that this sensitivity analysis had been applied to the IFMC financial model. Audit Committee members commended the detailed Growth Strategy which clearly outlined and justified the assumptions used in the Colleges IFMC return.

- ***IFMC Model and Commentary***

The Finance Director (RM) reminded the meeting that the IFMC had been introduced by the ESFA to consolidate previous financial returns into a single, annual file that needed to be submitted by 28 February 2020 and then by the end of January in future years. Governors noted that the IFMC replaced the December Finance Record, the July Financial Plan, the CFADs model (for the Transaction Unit funding) and the recently introduced cash-flow template. The new return covers actuals for the prior year (2018-19), the latest forecast for the current year (2019-20) and budgets for the two plan years (2020-21 and 2021-22). 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) would remain at 'Requires Improvement' for the current year and the first plan year and would then increase to 'Good' for the second plan year 2021-22. RM highlighted that the financial health grade points for the current year were lower than originally predicted due to the cash outflows associated with the capital projects and the over-running pay costs. Governors were reminded that the pay costs were higher to accommodate the growth in student numbers and would not be fully funded until 2020-21 under lagged funding.

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 was assured that these were all showing an upward trajectory and improvement over the 4-year period.

***Statement of Comprehensive Income 'SOCI'***:

<u>*Income:*</u> Total income was expected to be: 2019-20 £15.41 million; 2020-21 £16.28 million; and 2021-22 £16.80 million.

Within this, the College core income, for 16-19 year olds, would increase as follows:

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|---|---|
| 2019-20 | £9.66 million (62.7% of total income) |
| 2020-21 | £10.65 million (65.4%) |
| 2021-22 | £10.94 million (65.1%) |

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. RM highlighted that the increase in core funding in 2021-22 related to additional students only, all other funding income was as per the figures in the Growth Strategy document. 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 £11,460,646 (64.5% of income) 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 long-running lease for IT equipment had also now come to an end; the full year cost of this was £216,000. 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 was 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), £52,775 (2019-20), £180,701 (2020-21) and £572,337 (2021-22). EBITDA figures over the same four-years would be: £1,027,581, £1,144,926, £1,322,778 and £1,794,797.

***Balance Sheet***
*Fixed assets:* £0.6 million capital spend had been budgeted in 2020-21 (including £220,000 for a replacement boiler in the Learning Centre), and then £0.5 million in 2021-22. The forecast underlying capital spend 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 £3.07 million; and 2021-22 £2.68 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. RM also highlighted the positive recent triennial valuation of the LGPS which had only identified a need for an increase of 0.7% in the employer contribution rate and no large lump sum contributions.

_Cash:_ The current anticipated year end balances were: 2019-20 £764,000; 2020-21 £839,000; and 2021-22 £1.58 million. The meeting noted the detail within the forecast increases in cash.

_Net Assets:_ The figure would be £3.55m for the current year, rising to £3.79m in 2020-21 and then £4.42m in 2021-22.

The meeting thanked the FD for the considerable time and effort that he had put into the completion of this new and very complicated model to meet the deadline. Governors were aware of the ongoing technical issues with the ESFA model and applauded the management forbearance. Audit Committee members and the Chair of Governors agreed that the IFMC had been completed using sensible prudent assumptions which were well justified. The meeting was happy to approve the IFMC as presented.

***It was AGREED that the IFMC for the College should be APPROVED by the Audit Committee and the Chair of Governors, and submitted to the ESFA to meet the deadline of 28 February 2020.***

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

## FOR INFORMATION

### 7/20 Management Accounts January 2020

The meeting considered the January 2020 Management Accounts which followed on from discussion at the November 2019 Audit Committee and the December 2019 Corporation meeting. The management had previously flagged an over-run on the College salary budget due to the increase in learner numbers and lagged funding. The meeting noted that the forecast end of year surplus 2019-20 was now reduced to £53,000. The Audit Committee Chair (NDG) reminded the meeting of the value of this lagged funding as £420,000 and also the additional costs incurred in year of £300,000 for the temporary classrooms to accommodate learner number growth. NDG highlighted the value of the clear cash-flow information within the new IFMC Report which would enable Governors to have a very clear line of sight to any cash-flow issues. The FD informed the meeting that the Exec Team were proposing that an overdraft facility of £250,000 be taken out with Lloyds for one-month; the actual need was for £60,000 for a three-week period so this proposal would give the College more than sufficient headroom. Lloyds would charge a fee of 1.5%. The Chair of Governors (PG) sought, and was given assurance that there would be no issue with the Transaction Unit if the College secured an overdraft. Governors supported this strategy of obtaining an overdraft and asked the Executive Team to consider whether it should be a longer term facility to give the College some additional comfort around cash-flow. The Principal highlighted one additional operational risk around the Ardmore income of £18,000 per month in light of the current Coronavirus situation in Italy and Japan.

***The January 2020 Management Accounts were NOTED***

***Audit Committee ASKED the Executive Team to consider the longer term need for an overdraft facility.***

### 8/20 Date and Time of Audit Committee meetings 2019/20

The meetings were confirmed as:

- Wednesday 4 March 2020 at 4.30pm
- Wednesday 17 June 2020 at 4.30pm

The Director of Governance (TR) suggested that the meeting timetabled for 4 March should be deferred until the end of April as it would make more sense in terms of the timing of Internal Audit Reports e.g. the cyber security audit.
***It was AGREED that TR would canvas Audit Committee members for an alternative date in the second half of April 2020.***

**9/20 Any Other Business**
There was no other business the meeting closed at 6.15pm.

**The meeting was followed by a governors-only meeting (with the Director of Governance present) to discuss a highly confidential item that is minuted under the Part 3 minutes.**

## SUMMARY ACTION POINTS – Part 1

| Minute Ref | Action | By who | By when |
|---|---|---|---|
| 5/20 | Minutes from 27/11/19 Audit Committee to be taken to April 2020 meeting. | Dir of Governance (TR) | 22 April 2020 |
| 6/20 | BCA IFMC to be submitted to the ESFA to meet the deadline of 28/02/20. | Finance Director (RM) | 28 February 2020 |
| 7/20 | College Management to consider the longer term strategy of having an overdraft facility. | Exec Team | 22 April 2020 |
| 8/20 | Timetabled Audit Committee meeting for 4 March 2020 to be deferred to a date TBA after the Easter break. | Dir of Governance | 22 April 2020 |