

HNC FURTHER EDUCATION CORPORATION

Finance & Resources Committee Meeting held on 28th November 2022 from 5pm via Teams



Confirmed Open Minutes

Present: Mr J Dawson (Chair), Mr T Hosker, Mr P Cropper, Mr D Watson and Mr M Smith-Connor
(attendance 100%)

In attendance: Ms C Dalrymple (W&B) and Mr J Flynn. (W&B present for agenda items 7, 8 and 9)

Clerk: Mrs C Coupland

1. Apologies for Absence/ Declaration of Interest

There were no apologies recorded.

There were no declarations of interest.

It was noted that agenda items 7, 8 and 9 were to be jointly considered with the Audit Committee.

2. Minutes from meeting held on 17th October 2022

Resolved:

- That the minutes be accepted as a true and accurate account of the meeting.

3. Matters arising

ONS Review:

The Committee was informed that the Office for National Statistics is to publish the outcome of its classification review tomorrow at 9.30am. The Corporation will be informed as to the decision and the Governments response once announced.

Reserves Policy

Mr Flynn explained that he had taken time to formally review the position statement of the College's approach to reserves. The committee was advised that a Reserves Policy (position statement) is needed to secure viability beyond the current accounting period and to provide continuity of service provision in the longer term. The Statement of recommended practice (SORP) issued by the Charities Commission (FRS102) requires a statement from the College to be provided in our Financial Statements.

Mr Flynn advised the committee that SLT consider that it is appropriate and timely to create and maintain a stand-alone reserves policy (position statement) that can be re visited regularly to ensure that it remains fit for purpose and reflects the current financial context within which the College is operating.

Mr Flynn explained that SLT determined that £1.6m (rather than £1.9m as per current reserves policy) represents a more reasonable and justifiable level of reserves which ;

- covers 2 months of payroll costs
- takes into account the pinch points throughout the year predominately created by the uneven monthly payments received from central government.

The committee was of the opinion that £1.6m was a justifiable level of reserves with a clear rationale behind the calculation. This level of reserve also achieves a balance between the maintenance of financial viability with the

College being able to demonstrate that it is (and will remain) a going concern whilst spending sufficient funds for the benefit of students in any given financial year.

It was therefore agreed appropriate for the minimum level of reserves held at any one time to be adjusted to £1.6m. It was agreed however by the committee that this does not prevent the level of reserves being higher than this at any one time, in line with current practice, to secure outstanding financial health rating.

It was also agreed appropriate to annually review the reserves policy for the committee to remain satisfied that the college can continue as a going concern under more stringent conditions as and when some funding streams reduce or become less certain.

Resolved:

- **That the reserves policy be approved for immediate implementation.**

4. Latest Management Accounts : October 2022

Mr Flynn presented the monthly management accounts for October 2022.

The Committee was advised that all current targets are expected to be met by July 2023. It was confirmed to the committee that the overall operating surplus to date is £411k compared to a budgeted surplus of £22k. This reflects a favourable variance overall against income of £42k; there is an underspend against staff costs of £183k compared to budget; an underspend against operating costs of £168k however the committee was advised that staff pay awards have yet to be agreed and implemented. Known changes to the forecast period to 31st July 2023 were raised with the committee. Mr Flynn confirmed that forecasts will be adjusted accordingly as the year progresses.

Members were advised that cash held as at 31st October was £5.136m (Cash as at 30th September was £5.056m). 'Cash' includes cash in hand, the main current account, short-term investments, the foreign currency account and other bank accounts but excludes the School Fund.

Mr Flynn confirmed to the committee that the management accounts for October 2022 have already been provided to the Bank to ensure continued compliance with the loan covenant.

The committee was informed that the Financial Health Score for October 2022 was 240 and remains Outstanding (just).

The committee took time to revisit the sensitivity analysis of cost pressures that informs the balanced budget set for this academic year namely staff pay awards and energy contracts. Members were advised that pay negotiations continue, with teacher strike taking place on 30th November 2022. Mr Flynn advised the committee that R&P are to make a recommendation to the Corporation at its meeting next week to agree to and implement the operational staff national pay award of an average increase of 5.48% (budget assumption was 5%). This uplift, calculated to be an extra £16k has been assessed as being affordable and sustainable. The committee was of the view that it would be beneficial to accrue all pay awards (confirmed and anticipated) to better understand the committed and anticipated changes to budgets and forecasts. Mr Flynn confirmed that financial modelling has informed all decisions made to date regarding pay awards and that it would be sensible to now build the modelling into the management accounts.

Mr Flynn reminded the committee that the cost of both pay awards in 2022-23 will however be off-set by the reduction in the employer NI contribution rate to 13.8% from the current level of 15.05% (reduction 1.25%) from November 2022.

The committee was also reminded that the college's utility contracts will expire September and October 2023. The College continues to work with its broker to assess daily the market so that gas and electricity, can be purchased, for future periods when it is deemed sensible to do so. Mr Flynn confirmed that a balanced budget has been set for 2022/23 and the following cost pressures for 2022/23 which includes allowance for price hikes for Electricity of + 137% (+£209k) and for Gas + 376% (+£111k). In addition Mr Flynn confirmed that an increase in insurance costs of 15% had also been assumed for budgeting purposes and that the level of general price inflation affecting most non-staff costs continue to be monitored.

It was noted that governor approval will more than likely be required to secure the utility contracts as per the corporation's scheme of delegation and financial regulations given that tender prices may exceed the approval limit

of the Principal. Time was therefore spent discussing how best to support senior leaders in making quick operational decisions with regards to contract management given the anticipated timeframes for securing tender prices – which are only guaranteed between 10am and 4pm. The Committee agreed that it may prove difficult to organise quorate meetings with short notice, it perhaps would therefore be sensible to delegate this responsibility to either the Committee Chair or the Chair of Corporation.

The committee asked to record their thanks to Mr Flynn for the continued timeliness of monthly management accounts. The quality of the commentaries was also noted as providing comprehensive assurance to the committee on the financial position of the college by clearly addressing key salient points, especially with regards to actual budget variances.

Resolved:

- **That the management accounts for October 2022 be received**
- **For the Corporation to agree on the approval route to be taken in securing tender prices for Electricity and Gas supplier contracts.**

5. Property Strategy (including significant capital scheme) 2021/22

The Committee was advised by Mr Flynn that the construction costs of the project are unchanged from those reported in June 2022 :

Construction Cost	£1,763,937
Architects & other fees	£ 217,904
VAT (on fees only)	£ 43,581
Planning fee	£ 4,158
Total Cost	£2,029,580
DfE Grant	£1,159,596
To be funded by the College:	£ 869,984

The College have factored in the matched contribution to accounts and financial forecasts. The timing of expenditure remains under review as the project progresses to ensure that there are no adverse cash flow implications (these are not expected however). The new building should be brought into use in February 2023.

The committee was reminded of the Milestones to date and briefed on the current position as at November 2022. Members were advised that the project is proceeding to the revised cost and plan. AHR Architects continue to lead the project on behalf of the College and ground works are well underway and service connections scheduled.

The Committee was reminded that the main contractor are creating the modular building off-site and that the college had secured Vesting certificates given the offsite construction of the frame, certifying ownership of the goods and materials etc. (as confirmed by Ms Thomas at the last Committee meeting in October 2022).

Mr Flynn confirmed that monthly project up-dates are being provided to the DfE in line with the conditions of funding. The last update was submitted on 7th November with the next monitoring return to be submitted on or before 7th December.

The committee was satisfied with the progress being made to date and were asked to be kept informed of any change to the completion date.

Resolved:

- **That the update be received**
- **For the committee to be kept informed of any delays to the completion date of the expansion project.**

6. Any Other Business.

ESFA Letter & Dashboard:

The Committee acknowledged receipt of the letter from Adrian Brook, Deputy Director Assurance for ESFA. The letter confirms that following a review of the college's financial Forecasting Return (CFFR) for 2021/22 to 2023/24 and associated information. The letter confirms that the ESFA concludes that the college's underlying financial health is Outstanding for 2021/22 (the latest outturn forecast year), and for 2022/23 (the current budget year).

The committee also considered the college financial dashboard information compiled by the ESFA which incorporates various key performance indicators and measures. Members asked for the Clerk to share the dashboard to all governors.

Resolved:

- That the letter be received
- For the Dashboard to be shared with all governor.

7. Notice of Financial Irregularity (confidential)

8. Final Audit Findings Report for the year ended 31st July 2022

Ms Dalrymple presented the Final Audit Findings Report which summarises Wylie & Bisset's key findings in connection with the audit of the financial statements of the College and the regularity audit of the College in respect of the year ended 31st July 2022.

Ms Dalrymple confirmed that Wylie & Bissett had acted as External Auditors for the College during the year ended 31st July, 2022. In advance of the audit, the Audit Strategy Memorandum was discussed and agreed by the Audit Committee in conjunction with an Engagement Letter at the meeting in September 2022.

Ms Dalrymple explained that remote auditing had again taken place. It was confirmed that the work papers provided by the college for audit were of a good standard and increased the efficiency of the audit testing. The committee thanked Mr Flynn and his Team for their timely submissions to the audit process.

The committee was informed that section 1.2 – outstanding matters – will be removed from the final version of the report which will be reissued post sign off of the members report and financial statements at the Corporation meeting on 7th December 2022. This is not unusual practice or specific action taken against the college but rather a sector wide approach necessitated to ensure completeness of the audit testing.

It was noted that the external Auditors anticipated to issue an unqualified audit opinion on the College's accounts for the year ended 31-July-2022 for in their opinion the financial statements give a true and fair view of the College's financial position and the income and expenditure and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with the requirements of the Further and Higher Education Act 1992 and directions made thereunder by the Education and Skills Funding Agency.

Ms Dalrymple explained however that a modification was to now be issued in relation to the regularity assurance opinion for the year ended 31 July 2022. For the financial irregularity was deemed to be significant enough to be referred to in their regularity report after having considered the summary findings of the recent internal investigation. This was accepted by the Committee members and senior leaders present. An amended report will therefore be issued for consideration at the forthcoming Corporation meeting. Ms Dalrymple also advised governors that details of the reported financial irregularity had to be included within the members report and financial statements under the Statement of Regularity, Propriety and Compliance.

It was confirmed that the College's forecasts and financial projections indicate that the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. Based on the work performed, Wylie & Bisset have also not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the college's ability to continue as a going concern. Furthermore, W&B have undertaken an overall review of the governance arrangements and process of internal control in place at the College. Based on their findings, it was confirmed that the College has strong systems in place to comply with governance requirements.

Ms Dalrymple explained that the audit procedures were designed and undertaken to ensure greater focus on key risk areas in order that specific conclusions could be made with regard to the identified risks. Details of the risks identified and the proposed audit response were communicated to Governors via the audit planning memorandum. It was noted by the committee that no issues were found with regards to the identified audit risks – revenue recognition, override of internal controls, pension funding and accounting, financial viability regularity – with results from journals testing and testing of accounting estimates not identifying any instances of fraud.

The committee was advised that as part of the final audit work Wylie and Bisset had reviewed expenditure through their expenditure transaction testing, no material irregularities had been identified. Furthermore, no non-

compliance with EFSA terms and conditions had also been identified throughout the course of the audit. Hence the reason for the unqualified audit opinion.

Ms Dalrymple went on to draw members' attention to the one new recommendation (low priority) made for this reporting period which had been accepted by management. It was noted that the recommendations from last year had been satisfactorily concluded.

Members were therefore satisfied that the audit approach adopted had provided them with the required confidence that a thorough and robust audit had been carried out and that no other financial irregularities had been identified.

Time was taken to consider the letters of representation and regularity. The committee asked for the Chair of the Corporation and the Principal to sign the letters at the Corporation meeting to be held on 7th December 2022.

Resolved:

- **To record the Committee's thanks to all staff for the quality of their work, as endorsed by the External Auditors.**
- **That the Audit Findings Report be recommended for approval by the Corporation, subject to the agreed amendments.**
- **That the letter of representations be recommended for approval by the Corporation and signed by the Chair and the Principal (subject to any necessary amendments required in light of modification issued to the regularity audit opinion).**

Ms Dalrymple left the meeting at this point.

9. Financial Statement and Members Report 31st July 2022

Mr Flynn explained that the financial statement and members report had already been considered by the senior leadership team and the external auditors prior to submitting to the committees' for recommendation of approval to the corporation. The deadline for corporations is to submit their financial statements to ESFA by 31 December 2022.

Mr Flynn advised that the members report supporting the accounts, give a description of some of the key highlights in the figures, with a summary of the College achievements in the year- the report follows set guidelines, but also allows for some degree of flexibility.

It was noted that the Financial Statements highlighted the unqualified audit opinions in terms of the Financial Statements, the 'Corporate Governance and Internal Control Statement', and the 'Responsibilities of the Members of the Corporation Statement'. However, further amendments were now required given the auditors notice that they were to issue a modification in relation to the regularity opinion and guidance on how best for the corporation to appropriately address the matter within the detail of the members report.

Based on the discussions had around the Annual Report and the Financial Statements, members agreed that at this stage, subject to findings from the disciplinary proceedings and any further external independent investigations undertaken as deemed necessary, it was fair to state that :

- The Corporation can be assured that the College has an adequate and effective framework for governance, risk management and control and has fulfilled its statutory responsibility for 'the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets'.
- The Corporation is able to identify any material irregular or improper use of its funds by the college, or non-compliance with the Education Funding Agency's terms and conditions of funding under the college's funding agreement.
- The Corporation can consider that the College has adequate resources to continue in operational existence for the foreseeable future.

Resolved:

- **To recommend the Financial Statements and Members' Report for approval by the Corporation, subject to the amendments agreed by the Audit and F&R Chairs.**
- **To forward the Financial Statements and Members' Report to the ESFA following approval by the Corporation.**

10. Learner Impact Reflection

The impact of discussions and scrutiny of the Committee's work in improving the outcomes and experience for all learners was considered and the following agreed:

- Assurance received that the college has an adequate and effective framework for governance, risk management and control and has fulfilled its statutory responsibility for 'the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets'.
- Assurances received that the college remains compliant with regularity and propriety requirements as per the terms and conditions of funding
- Assurances received that the accommodation available is able to support the delivery of all strategic objectives.

11. Determination of confidentiality

The minutes and supporting papers for agenda item 7 are to remain confidential.

It was resolved that all papers relating to agenda items 8 and 9 are to be deemed confidential until approved by the Corporation.

12. Date of next meeting: Monday 20th March 2023 from 5pm via teams.