

HNC FURTHER EDUCATION CORPORATION

Finance & Resources Committee Meeting held on 20th March 2023 from 5pm via Teams



Confirmed Open Minutes

Present: Mr J Dawson (Chair), Mr T Hosker, Mr P Cropper, and Mr M Smith-Connor (attendance 80%)

In attendance: Mr J Flynn.

Clerk: Mrs C Coupland

1. Apologies for Absence/ Declaration of Interest

Apologies were received from Mr D Watson. There were no declarations of interest recorded.

2. Minutes from Meeting held on 28.11.22

Resolved:

- That the minutes be accepted as a correct record.

3. Matters arising

ONS:

It was noted that an ONS update had been provided to governors at the recent strategy day – held on 10th Feb 2023. The reform update paper had been shared separately with co-opted members.

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

The Clerk confirmed that the Audit Findings Report had been received and approved by the Corporation and that the letter of representations had been duly signed by the Chair and the Principal.

Financial Statement and Members Report 31st July 2022

The Clerk confirmed that all required signed documents and financial returns had been submitted to the ESFA by the deadline of 31st December 2022 and that the financial statements and Members report had been published on the colleges website.

Financial irregularity (confidential):

4. Latest Management Accounts : February 2023

Mr Flynn presented the monthly management accounts for February 2023.

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 £481k compared to a budgeted surplus of £52k. The latest forecast surplus for July 2023 is to be £222k compared to a budgeted surplus of £89k; taking into account the reported underspends against i) staff costs to date of £120k and ii) operating costs of £174k and favourable variance against income of £156k.

Members were advised that cash held as at 28th February was £4.027m (Cash as at 31st January 2022 was £3.794m); The forecasted cash position to year end is that a balance of £3.402m will be held as at 31.07.23. Mr Flynn explained that the actual cash position reflects the re-profiling of grant incomes receipts following ONS reclassification in November 2022, a healthy brought forward cash position from 2021/22, capital expenditure taking place later than expected and receipt of ESFA grant income for the modular building and additional DFC (£134K) RECEIVED IN December 2022.

The committee was reminded that 'Cash' includes cash in hand, the main current account, short-term investments, the foreign currency account and other bank accounts.

Mr Flynn confirmed to the committee that the management accounts for January 2023 were provided to the Bank timely to ensure continued compliance with the loan covenant. The next set to be provided will be those prepared for month 9, April 2023.

Members were also advised that the student number target for 2022/23 is 2,675 (estimated funded student number – day 42 2,667). The difference of 85 students for the funding allocation in 2023/24 has been adjusted and built into budget forecasts going forward. Financial forecasts will be presented to the corporation at its meeting in April 2023 as agreed at the strategy planning day held on 10th February 2023.

The committee was advised that based on the current management accounts forecast, financial health is expected to remain as outstanding (just) to July 2023.

Mr Flynn advised the committee that staff costs to the end of February show an underspend of £120k. Mr Flynn asked the committee to note that although the college awaits an outcome of pay negotiations for teaching staff and SLT, the SFCA have recommended that colleges should make an interim pay award. This interim pay award is to be considered by the R&P Committee at its meeting on 28th March. Essentially, the average increase proposed by the SFCA for the interim pay award is 5.25%, HNC has budgeted for 5% for the full year, the additional cost over and above the 5% assumed in the budget (with associated on-costs) would be £46k. The committee was advised that the final cost of the teachers pay award will be higher than this but the final level is not yet known. Mr Flynn explained that the cost of pay awards in 2022-23 is partly off-set by the reduction in the employer NI contribution rate to 13.8% (reduction of 1.25% from the old level of 15.05%) from November 2022.

The actual underspend as at February 2023 of £174k for Non-Pay expenditure was considered. It was explained that the variances observed at the end of February are linked to the timing of expenditure incurred to date will therefore vary as the year progresses but it was noted that some areas are likely to be underspent at year end, including recruitment (forecasted underspend £45k) and contingency (forecasted under spend £42k).

Mr Flynn advised the committee that new contracts are now in place for gas and electricity supply in 2022/23 (as agreed by the Chair of F&R), the invoices received to date are in line with (increase) budgets. The college is benefitting from Government financial support for utilities with reductions being applied to invoice values by the college's new energy broker before HNC is charged.

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. However, the committee asked for future monthly management accounts to make clear the year end forecast position to date (by inserting an additional column after the 'to date' variance column) and to also better identify known accruals (a record of anticipated revenue or expenses) in the income and expenditure account in order to provide the committee with a more realistic position rather than the favourable position as currently presented with regards to actual budget variances.

Resolved:

- **That the management accounts for February 2022 be received**
- **For future monthly management accounts to make clear the year end forecast position to date (by inserting an additional column after the 'to date' variance column) and to also better identify known accruals (a record of anticipated revenue or expenses) in the income and expenditure account.**

5. ESFA – Conditions of Funding 2023/24

Mr Flynn advised the committee that the ESFA Allocation Summary for 2023/24 had been received by the college.

Members were advised that the allocation for 2023/24 is characterised by:

- A fall in funded student numbers of 85 to 2675 students
- An increase in national funding rate [per students of 2.2% to £4642
- A slight reduction in retention factor to 1.02782
- A reduction in allocation for level 3 maths and English of £9,605
- A reduction in disadvantage funding of £80,673
- Taking all the above into account, an overall reduction in funding of £300,849 when compared to 2022/23..

Mr Flynn confirmed that this funding allocation and associated budget assumptions, as shared with the committee, will be used to prepare a balanced budget for 2023/24 for the CFFR due 31st July 2023. Time was spent by the committee deliberating the budget assumptions; it was noted that it was difficult to estimate key budgets going forward in particular staff pay awards and general price inflation but all agreed that the reasoning behind the senior leadership teams current assumptions were fair and realistic to inform initial budget allocations and forecasting.

Resolved:

- **That the report be received**
- **For the allocation summary and budget assumptions to inform revenue budget for 2023/24 and forecasts.**

6. Financial Key Performance Indicators 2023/24

Mr Flynn reminded the committee that Governors and Senior Leaders at the College need to have a set of financial 'Key Performance Indicators' (KPI's) that allow effective oversight of the Colleges financial position through the year.

The College's current KPI's are informed by ESFA metrics, FE Commissioner financial benchmarks as well as longstanding internal financial parameters – all of which are regularly reported in the monthly management accounts and via the corporation's finance dashboard:

ESFA:

- Solvency
 - Adjusted Current Ratio
 - The ratio between current assets and current liabilities on the balance sheet
- Performance
 - Operating Surplus as percentage of income
 - EBITDA: Earnings before Interest, Taxes, Depreciation and Amortisation expressed as a percentage of income
- Borrowing
 - A measure based on a college's level of debt, the ratio of borrowing to income expressed as a percentage
- Financial Health
 - Based on the three measures above

FE Commissioner benchmarks:

- Debt Service Cover Ratio
 - Must be greater than 2
- Staff costs as a % of income
 - Expected to be less than 70%
- Adjusted Operating Surplus as a % of income
 - Must be greater than 1%
- Cash Days in hand
 - Must be greater than 25 (all months)
- Adjusted Current Ratio
 - Must be greater than 1.4

Internal financial parameters:

- Operating surplus/deficit: total income and total expenditure to balance (as a minimum)
- Cash in Bank (minimum £1.88m, 2 months expenditure)
- Covenants (compliance with covenant terms)

The committee was of the view that the current KPIS remain sensible and therefore continue to be suitable measures that enables Governors and senior leaders to oversee and assess the financial status and performance of the College and inform judgements and improvements to be made in terms of financial efficiency.

The committee asked for the updated Finance dashboard to be presented to the corporation at its next meeting on 27th April 2023.

Resolved:

- To recommend to the Corporation that the existing financial KPIS are maintained for the period 2023/24 to form the framework used by the college when setting and managing the revenue budget for the financial year.
- For the finance dashboard to be presented to the Corporation at its meeting on 27th April 2023.

7. Board Assurance Framework review: Poor financial management.

After a full discussion the Committee reported to be satisfied that the actions being taken by the college to mitigate against the risks continue to be robust and effective, as demonstrated by the comprehensive assurance report. Members were also confident in the different levels of assurances identified. The committee therefore agreed that an overall green assurance level shall be re-assigned to the risk.

Resolved:

- To assign Green overall assurance
- For the Clerk to update the Master BAF

8. Significant Capital Schemes,: Update

Mr Flynn provided a comprehensive update to the committee on the Capital Expansion (Modular Build) project.

It was confirmed that Modular build units were delivered to the College site over the weekend of the 21st and 22nd January and all were in place when College opened on the morning of the 23rd January. Despite a lengthy period of preparation, delivery appears to have been a complex operation but was completed with only minor impact to the College site. Minor damage was however caused to the SNHS site by a haulage company driver but this is to be fully rectified over the Easter break.

Mr Flynn explained that regular site visits and monitoring meetings continue to take place with the Contractor and Architect. Although the contractor has asked for more time to complete the project, this has not been granted because of the operational impact this would have on the college's students and because of the revised completion commitment made to the DfE. The committee echoed the senior leaders' views on this matter. All therefore agreed it necessary for the modular build to be ready for handover to the college by 14th April 2023 and that the appointed architects are held to account by the college to deliver the project on time and on budget.

The committee was advised that all invoices have been paid by the college in accordance with the appropriate contract terms and no claims for additional costs are expected given the college's instructions to the architect. All DfE monitoring returns and the scope change request (following the second delay) have been submitted as required and by the deadlines set. Any supplementary information requested has also been provided in a timely fashion.

Mr Flynn confirmed that all DfE grant funding has now been claimed except for that retained by the DfE as retention (£57,980) as this will be paid 12 months after handover (April 2024).

The committee was also informed that furniture for the new building has been ordered. IT equipment (not already included in the contract) is either being sourced or has been ordered in time for an Easter handover. Discussions about classroom IT is also drawing to a close with some refinement of the equipment requirements previously made to ensure that we only purchase what we need.

Resolved:

- That the report be received
- To continue to oversee the property strategy and its associated costs, on behalf of the corporation.

9. Health and Safety Mid-Year Report

Mr Flynn presented the report to the committee. He reminded members that the purpose of the report is to provide Governors with an oversight of Health and Safety activity and the required high level compliance testing in addition to the Standard level compliance testing. The committee welcomed the new section inserted into the report providing details of near misses and the actions taken by the college, this improves equipment safety vigilance and maintenance and also encourages a better safety culture. Furthermore, monitoring of near misses, as noted by the committee, enables the college to undertake proactive action to identify patterns in when and how things go wrong, improve health and safety training based on real scenarios and develop more effective health and safety policies.

Mr Flynn confirmed that there has been no reportable incidents in the period September 2022 to March 2023.

The committee noted that a total of 62 accidents have been reported to date. This is understood to be a decrease compared to last year but was not reflected in the report – the committee asked for the accident log to track, if possible, mid-year totals for each previous year rather than just the current year to allow for accurate comparisons to be made.

The committee also asked for an update to be provided at its next meeting on the evacuation times of any further fire drills, given the reported increase in times for evacuations of all buildings.

Resolved:

- That the mid year H&S report be received
- For mid year data to be included for previous years, if possible to allow for accurate comparisons to be made in future reports.
- For the evacuation times of any further fire drills to be presented to the committee at its next meeting, given the reported increase in times for evacuations of all buildings.

10. Any other Business.

There was no other business to be considered.

11. Learner Impact Reflection

The impact of discussions and scrutiny of the committees work in improving the outcomes and experience of all learners was considered and the following agreed:

- Financial KPIS contribute to the effective oversight of college financial performance by governors and other stakeholders and allow judgements and improvements to be made in terms of financial efficiency.
- Assurance received that the college is able to financially support all elements of the strategic plan for the college, potentially impacting on all areas of student learning, experience and outcome.
- Scrutiny of management accounts and management information systems ensures the sustained financial viability of the college.
- The committee continues to focus, scrutinise, challenge and support the college leadership team in sustaining and improving (where necessary) campus compliance with health and safety requirements.
- The F&R Committee has fulfilled its delegated responsibilities.
- Assurance that revenue budget for 2023/24 is to reduce but that steps are being taken to match costs with income therefore minimizing any impact on the student experience.

12. Determination of confidentiality

It was determined that the supporting papers for agenda items 6 and 7 are to be determined as confidential.

13. Date of next meeting: 26th June 2023 from 5pm via Teams.