East Coast College Finance and General Purposes Meeting

22 June 2021 4pm Video Conference

Present:	Chair - David Hill (DH) Mike Dowdall (MD) David Blake (DB) Paul Nisbett (PN) Stuart Rimmer (Principal)
In attendance:	Wendy Stanger (Director of Governance) Urmila Rasan (Deputy Chief Executive and for item 3 Trudy Hughes (Lloyds Bank Relationship Director) and Robin Daines (Lloyds Bank)

F/21/6/1	**Apologies and membership**	**Action**
The Bank were welcomed to the meeting. Apologies from Alan Debenham		
F/21/6/2	**Declarations of Interest**	
MD declared an interest due to being an employee of the LEP. It was agreed that this declaration did not preclude his full participation in the meeting.		
F/21/6/3	**Meeting with the Bank**	
F/21/6/3.1	**LIBOR**	
F/21/6/3.2	**Bank Covenants**	
The Committee discussed the changes to LIBOR. The Bank advised that LIBOR was being removed as a reference rate by the regulator as from 31/12/21. The Bank were suggesting that this be replaced by the Bank of England Base Rate. As the College's loans are fixed interest rates they would be unaffected unless the College chose to break the loan and move to a variable rate. The Bank advised that LIBOR was also used in contracts for interest penalties and that it might be advisable for the College to check any relevant contracts. Governors noted that this change was a standard one that was also being implemented in the commercial sector. The Bank advised that the College's covenants had been reviewed as part of the process of handing the College back to Local Network Control and away from Business Support. These will be monitored quarterly and assessed annually. The changes meant that capital expenditure covered by capital grants was taken out of the calculation. Leverage and gearing tests have been amended as they had not been updated since the first merger. These changes had been set out in a Deed of Amendment for Corporation approval. The Deputy Chief Executive advised that the new levels support the College and increase its ability to invest. The Director of Governance advised that the resolution for Corporation's approval of the Deed of Amendment had to be approved by the Bank's lawyers and was currently being reviewed. The Board thanked the Relationship Director for the positive relationship whilst the College had been in Business Support.		

The Committee resolved to

- **recommend to the Board for approval the amended Covenant calculations:**

The New levels are:

- **Amend the definition of the Cashflow cover covenant so that appropriate adjustments are able to be made in relation to capex spend funded by capital grants received being in differing financial years**
- **Amend the Leverage and Income Gearing tests in line with the below table:**

Covenant	*FY21*	*FY22*	*FY23+*
Maximum Leverage	*5.5x*	*4.75x*	*4.25x*
Maximum Income Gearing	*35%*	*30%*	*25%*

The Bank left the meeting.

F/21/6/4	**To approve the Minutes of the meeting of the 26 January 2021 and any other matters raised previously not otherwise included in the Agenda**	

The minutes were agreed as a true record.

F/21/6/5	**To review the post-meeting action log**	

The action log was reviewed.

17 11 20 F/20/11/10 – The quarterly partnership reports would commence from 21/22. The manager for this area was retiring at the end of the academic year and the College was currently recruiting.

26 1 21 F/21/1/5.3 – The waterfall chart had been added to the financial dashboard.

F/21/6/6	**ESFA Finance Dashboard May 2021**	

The ESFA Finance dashboard was noted.

F/21/6/7	**Changes to the Financial Health Categories**	

The Deputy Chief Executive presented the report and advised that the report was based on the current revised financial health category proposal which were out to consultation. These will be effective for 2022/23 with shadow calculation throughout 2021/22. There are a number of issues with the existing ratios which have been known for a number of years:

- Indirect view of cash which does not reflect cash volatility. Cash generation and short-term cash needs are not measured.
- Borrowing to revenue income ratio counts debt, does not assess affordability.
- Colleges with low or zero debt are disproportionately rewarded, despite having little prospect of securing new loan facilities in many cases.

ESFA are planning to introduce calculations where a lower of two figures are used. They are also introducing the concept of earning pints which will make it akin to a covenant.

The Deputy Chief Executive advised that the College required a good financial health grading in order to bid for certain funds, including T Levels and IOT. The impact of the

proposals for the College over the 10 year financial forecast was that instead of being good across the full 10 year forecast, the College would be requires improvement up to 2026/27 and then good after the loan had been paid off. Governors commented that as the College would be assessed, under the current methodology as good for 21/22, it gave the Corporation time to consider further if it wanted to remain good and if so determine what action was required to achieve this. Governors agreed that it would be useful to see an analysis of how much recruitment would be required for the College to retain its good financial rating under the proposed methodology. Governors noted that as a Committee they needed to assess what they required measuring to assess the financial health of the College. It needed to be determined what KPIs were required to monitor solvency and cover business costs and these KPIs needed to be smarter, iterative and considered in a more granular way. We need to be clear what we are measuring and why we are measuring it. **Governors agreed the following action:** • **Financial workshop to be held in September 21. This would consider in detail the financial position, financial health categories, KPIs and the College's financial strategy.** • **Analysis to be produced of how much recruitment would be required for the College to retain its good financial rating under the proposed methodology.**		UR UR
F/21/6/8	**Financial Plan 2021 - 2031**	
F/21/6/8.1	**Financial Forecast**	
F/21/6/8.2	**Contribution Rates**	
F/21/6/8.3	**Capital Budget**	
The Deputy Chief Executive presented the 10 year forecast and took the committee page by page through the commentary. The forecast outturn is now predicted to be £1.9m EBITDA and "Good" financial health, with all KPIs met. The commentary was written in the format required by ESFA. Governors commented that there was a need to ensure that there were the right KPIs in place to strategically manage the College and that this needed to be reviewed at the financial workshop. Governors challenged why the net cashflow from operating activity was not showing an increase over the 10 year forecast and showing instead a reduced net cashflow on a higher income. The Deputy Chief Executive advised that the additional income was mainly from projects, such as IOT and T Levels that would initially have a marginal return and in some cases need investment prior to income, such as EDF. The forecast had also assumed no increase in the funding rate with any increases in expenditure therefore having to be found through efficiencies. These projects were all taking place over the next 3 to 4 years and a cautious approach has been taken. The position would need reviewing from 25/26 to see if the College could grow more efficiently once all the projects were in place. Governors agreed that projected returns needed to be reviewed to get a more accurate position so that it could be ascertained if net cashflow could be improved.		

Governors challenged how the IOT bid fed into the forecast. The Deputy Chief Executive advised that the figures included were those included in the IOT bid. The IOT head office costs are not yet known and will need adjusting for. The average class sizes at commencement will be very small with a low contribution level. In year 5 (2025/26) onwards it is expected contribution will be 25% Governors commented that the College needed to only take on projects that were deliverable, added contribution and met the College's strategic aims. Governors challenged what the current position on maritime was. The Deputy Chief Executive advised that due to the continuing covid restrictions recruitment was reduced. The department was therefore to go through a redundancy consultation and the maritime budget would need adjusting. This would be updated in the report to Corporation. Governors challenged if the student numbers included were realistic. The Deputy Chief Executive advised that a prudent approach had been taken with the assumption made that the College would meet allocation. If the College, as expected, exceeded allocation funding for these additional students would not be received in year 1 due to the lagged funding model. To offset this the College tried to allocate the additional students to existing groups so that group sizes were increased and costs maintained. Governors challenged what assumption for pay reviews had been included in the 10 year forecast. The Deputy Chief Executive advised that a pay award allowance of circa £300k had been included, this would need to be funded through growth and efficiency. A 1% award was at a cost of circa £180k and 2% circa £360k. Governors commented that this may not be consistent with the Strategic Plan pay aims which included an annual cost of living increase and lecturers to be paid in the national upper quartile. Governors discussed the financial health categories. The Deputy Chief Executive advised that the Bank were content with a debt service cover of 1.2, whereas under the proposed new methodology ESFA were looking for cover of 2. Governors commented that they were still remained concerned about the commercial income and their control over it. The Director of Governance advised that the commercial income was the responsibility of the ECETA subsidiary board. Their income target had been reduced but they were meeting this reduced income target. Governors challenged the assumption that once debt was paid off that additional borrowing would not be made. The Deputy Chief Executive advised that the financial forecast was based on the current knowns but if the strategic decision was to borrow more to develop the College then the forecast would be updated. Governors discussed the estate development. The Deputy Chief Executive advised that all was to built by 2024. It was expected that the new development, including the GY re-development would increase student numbers by circa 5%. This increase had not been included in the budget as a prudent approach has been taken. Governors challenged how the redevelopment and investment required would be funded if the College's bids were not successful. The Deputy Chief Executive advised that the assumptions in the financial forecast would need to be reviewed and this may include taking on additional debt when the debt is paid off to fund estate development. Governors commented that the College would also need to invest in the equipment needed for the GY redevelopment. The Deputy Chief Executive advised that the College had appointed a project manager to liaise with the DFE on the GY redevelopment to	

ensure that funding was maximised. Once the feasibility was complete the DFE would manage and complete the build. Governors discussed the changes that would be required for the College to retain its financial health rating of good if the proposed financial health category changes were implemented by ESFA. All of these options could have a detrimental effect on the College. Governors welcomed the more strategic financial discussions that the proposed 10 year financial forecast had instigated. It was important that the long term was considered so that planning and development were fully considered with planning for the long term rather than the immediate. **Governors agreed the following action:** • **Committee to review the financial position of the projects, such as IOT, EDF, T Levels and GY HE Centre. This to include a review of the project's income, expenditure including management costs, contribution and net cashflow from operating activities.** **The Committee resolved that, subject to the maritime amendments, to** • **recommend to the Board the 10 Year Financial Forecast Return with the 2021/22 as the budget, Commentary and the Capital Plan.**		UR
F/21/6/9	**Insurance Tender**	
The Deputy Chief Executive presented the report. She advised that given that the insurance market has shown increases in premiums in recent years, and in particular for cyber insurance as a result of a number of significant claims made by FE colleges, the tender process has ensured that the College has achieved value for money for its insurance for the next three years. The Committee agreed that the tender represented value for money and raised no queries. **The Committee resolved to:** • **recommend to Corporation that the tender recommendations detailed in the Insurance Assessment Report be approved:**		

Class of Insurance	Recommended Insurer	Premiums
Commercial Combined	Aviva	£ 66,344
Professional Indemnity	Aviva	£ 2,000
Motor Trade	Aviva	£ 1,000
Group Personal Accident & Travel	Aviva	£ 3,986
Motor Fleet & Motor Breakdown	QBE	£ 7,615
Engineering Inspection	BES	£ 8,428
Engineering Insurance	Aviva	£ 796
Terrorism	CFC	£ 11,092
Cyber Liability	CFC	£ 6,600
Sub Total		**£ 107,861**
Insurance Premium Tax (12%)		**£ 11,932**
VAT (20%)		**£ 1,686**
Insurer Fee (Cyber and Terrorism)		**£ 500**
Broker Fee		**£ 4,500**
Total Premium (inc IPT)		**£ 126,479**

F/21/6/10	**Management Accounts April 21 and Finance Dashboard**	

The Management accounts were noted and no queries were raised.

The Director of Governance advised that the Finance Dashboard, available through the Finance and General Purposes Committee Team had been updated to reflect April's management accounts.

F/21/6/11	**Finance Risk Register**	

The committee reviewed the risk register.

1. Has the risk register been reviewed

The risk register had been reviewed and updated to reflect the improved financial position.

2. Is the Committee content that the risks are relevant and are being updated

The Committee was content risks were relevant

3. Is the Committee content that the risks are being mitigated

The Committee noted the mitigation, agreed that this was appropriate, and considered through the papers on the agenda, including the 10 year financial forecast.

4. Where a red risk is the Committee assured that appropriate action is being taken

The Committee noted that there were currently no red risks

5. Where does the Committee have significant concerns

The Committee is concerned that the maritime provision will not recover due to Covid and the financial effect that this was have on the overall income. It was noted that mitigation was being taken to minimise this risk.

The Committee were concerned with the risk to the College of the proposed new ESFA Financial Health Categories calculations and the effect that a requires improvement rating could have on the College's development. The proposed changes, implications for the College and the resultant mitigation had been considered in a detailed report and discussion.		
F/21/6/12	**Health and Safety Report**	
F/21/6/12.1	**Health, Safety and Wellbeing Policy - No material changes**	
The Committee reviewed the health and safety report and asked that the CEO/Principal pass the Committees thanks to the Health and Safety Officer and Estates Manager for their hard work during what has been an exceptional year for health and safety. The Committee noted that there had been no material changes to the Health, Safety and Wellbeing Policy. **The Committee resolved to:** • **recommend Health, Safety & Wellbeing Policy for adoption by Corporation**		
F/21/6/13	**Fee Policy, Bursary Policy, Sub Contracting Policy and Supply Chain Fees and Charges Policy - No material changes**	
The Committee noted that there were no material changes to the: • Fee Policy • Bursary Policy • Sub-Contracting Policy • Supply Chain Fees and Charges Policy **The Committee resolved to:** • **Recommend to the Corporation to approve the Fee, Bursary, Sub Contracting and Supply Chain Fees and Charges policies for 21/22**		
F/21/6/14	**Data Protection Policy, Data Breach Policy, Data Breach Procedure, Rights of Individuals Policy & Rights of Individuals Procedure - no material change**	
The Committee noted that there were no material changes to the: • Data Protection Policy • Data Breach Policy • Data Breach Procedure • Rights of Individuals Policy • Rights of Individuals Procedure **The Committee resolved to:** • **Recommend the Data Breach Policy, Data Breach Procedure, Rights of Individuals Policy and Rights of Individuals Procedure to Corporation for adoption.**		

F/21/6/15	**Agenda Planning**	
Finance Workshop to be booked in for onsite late September. To be arranged as a Committee meeting so that decisions could be made if required.		
F/21/6/16	**Review of Meeting**	
1. Confidential Items: Maritime until consultation concluded 2. Risk Management: No additional 3. Health and Safety: None 4. Equality and Diversity: None 5. Media: None 6. How did the meeting go: Good detailed strategic discussions. .		