

MEETING MINUTES

MEETING

Audit Committee

DATE: Friday 23 June 2017 TIME: 10.00 – 12.00
VENUE: NCHSR, Faraday Wharf CHAIRED BY: Naomi Connell
(Meeting Room 1)
MINUTE/ACTION Sally Brook Shanahan
TAKER:

ATTENDEES

1. Naomi Connell (NC)	2. Colin Stewart (AC) – dialled in	3. Alex Stephenson (AS)
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APOLOGIES: None

IN ATTENDANCE: Martin Owen (MO), Clair Mowbray (CM) and Sally Brook Shanahan

TOPIC	WHO	WHEN
1. Declarations of Interests None beyond those already recorded in the Register of Interests.		
2. Minutes of the last meeting and matters arising The minutes of the meeting held on 24 th March 2017 were agreed and signed by the Committee Chair as a true record.		
3. Actions Log from the Meeting held on 24th March 2017 The Committee was pleased to note that all outstanding actions had either been completed or closed, except as follows:		

<p>ACT62: Develop proposals for subsidiary company and present draft articles of association and management agreement to next meeting of Audit Committee.</p>	SBS	30.6.2017
<p>The Articles of Association and Management Agreement are being developed. It was agreed the drafts will be circulated to members of the Committee for review and comment (ACT71).</p>		
<p>ACT67: Recommend to Board that the Statement of Corporate Governance and Internal Control and the self-assessment questionnaire be reviewed by the Search and Governance Committee.</p>	SBS	31.12.2017
<p>Following discussion it was agreed this action will be transferred to the Search & Governance Committee for consideration later in the year and that the Action for the Audit Committee will be closed (ACT72).</p>		
<p>4. Committee Terms of Reference</p>		
<p>It was agreed that the draft Terms of Reference the amendments discussed at the Committee's previous meeting and that they should be recommended to the Board for approval at its next meeting (ACT73).</p>	SBS	24.7.2017
<p>5. Budget process</p>		
<p>MO tabled the Budget 2017/18 and Forecast 2018/19 and 2019/20 and outlined the series of activities that had been carried out in order to put the budget together in which all of the College team have contributed. Procurement activity, of which IT was a large part, was proceeding well with a preferred provider selected and actual costs quoted. He confirmed all staff with budgetary responsibilities were clear about the requirements for them to deliver within budget.</p>		
<p>Professional advice had been taken in relation to accounting for land and buildings which will have consequences on the presentation of the accounts. Other items, including staff costs, will also look different from other FE colleges as the College was using a significant number of interims. MO said the College will benchmark where it can but even when fully operational this will not be straightforward as, for example, it will make significant use of visiting lecturers rather than employed staff.</p>		
<p>MO emphasised that Learner numbers will have the biggest impact on the budget. This resulted in an analysis of the best and worst case learner number scenarios being carried out and a review of cash flow on the worst case scenario. He conceded this looked dire down the line particularly due to the 20% deferred payments in respect of apprenticeships. As these payments did not appear until 3 years and 3 months from the apprenticeship start date none were shown in the current 3 year projections even for learners enrolled on Day 1.</p>		

A discussion followed about what could be done to mitigate the negative cashflow in which NC suggested running the cash flow in order to see the impact of the 20% payments. CM said by Year 4 it would show a more steady state and would be useful information.

In response to a question from NC about the worst case in terms of Learner numbers, CM confirmed this would be 129 apprentices and 20 Higher Technical Certificate (“HTC”) learners enrolled. MO referred to the cash flow statement drawing attention to the cash receipts in August 2018 from the Department for Education (“DfE”). Against a worst case scenario of £3m negative and turnover of £10m, MO outlined the actions being taken to mitigate that position. These included:

- Making changes to Learner recruitment
- Bringing forward the HTC programme to September 2017. This was a notable achievement for an HE programme and a team effort with Sheffield Hallam University.
- Reducing the cost of industry specialists due to firms offering their services free of charge.
- Bringing forward the access to Higher Education (“HE”) courses.

In addition he confirmed the significant costs associated with End Point Assessments (“EPA”) had been factored in and drew attention to the “Revisions” slide that showed that the cost of buying special kit and equipment had been included at the end of the three year cycle.

Turning to the Revised cash flow graph, MO pointed out the opportunity for income from sponsorship and other income lines, including potential rental income from sub-letting not yet shown. He acknowledged pressure points remained but there would be advantages for the College once it started to admit learners as that would encourage others to enrol.

A discussion followed about the difficulties FE Colleges faced in obtaining commercial loans. Members noted the potential for the College to seek a further loan from HS2 Limited and the fact that the company had agreed not to push for repayment of the existing loan in the event that could push the College into negative cash flow.

In reply to a question from NC, MO clarified the position about the roles of the Audit and the Finance & Resources Committees in relation to the budget process. NC referred to the current challenge of low membership numbers on the Finance & Resources Committees and the impact this had in relation to the provision of Board assurance. In order to be able to give assurance the composition of the Finance & Resources Committee was adequate NC suggested the remaining Board members should be given the opportunity to dial into its meeting at the point when the budget was to be discussed. NC confirmed she had raised the idea with the Committee Chair and she was content. On that basis it was

<p>agreed to invite all Board members to participate in the discussion about the budget when the Finance & Resources Committee meets on 28th June 2017(ACT74).</p>	<p>SBS</p>	<p>28.6.2017</p>
<p>6. Re-appointment of External Auditors and External Audit Plan</p> <p>Paul Oxtoby of RSM was welcomed to the meeting and CS dialled in. PO introduced his firm's Plan and said it included a number of variables due to the current state of flux. He observed that in 2016 the College's accounts were produced in accordance with the FE SORP but noted that if there is no funding agreement in place with the College by the end of July 2017 then it will not have to comply. Similarly, if the College subsidiary company does not start trading until after 31st July 2017 then that will not need to have accounts prepared. PO confirmed the advice given to the College assumed that these accounts would need to be prepared.</p> <p>PO went on to outline the key risks. In relation to the Local Government Pension Scheme he explained the potential issues around taking on past service deficit. He also referred to the risks associated with property acquisition and IT equipment and the impact on the balance sheet. Further, in respect of other assets that were donated to the College he outlined the particular challenge in valuing the more unusual or unique ones and said the College should adopt a policy about the basis of valuation.</p> <p>In the discussion that followed members noted the significance of pre/post 31st July 2017 to the accounting process. In view of the numbers of variables the consensus was that it would be preferable to defer as much as possible to the next accounting year. A suggestion from CS that the College could loan rather than acquire the assets prompted a discussion which concluded with the PO confirming the value of the asset would still have to be brought into the accounts.</p> <p>NC thanked PO for his contribution and he left the meeting at 09.45.</p> <p>Following a short discussion the Committee approved the External Audit Plan and agreed to recommend the re-appointment of RSM as the College's External Auditors (ACT75).</p>		<p>24.7.2017</p>
<p>7. Subsidiary Company</p> <p>CM reminded members that the subsidiary company had been established to enable it to employ certain staff and that, to date, it had not carried out any other activities. Recognising the need for the company to go forward as a commercial entity, work was now required to appoint a board of directors and for a Management Agreement to be entered into between the company and the College. The Clerk outlined the action required in order for the company to be fully operational. NC said her main concern was for the Committee to be able to give the Corporation Board assurance</p>		

<p>that they are not at risk of losing control and so the action to appoint additional directors, beyond the current sole director, would help address this point.</p> <p>NC said that in particular she wanted to ensure specific matters were covered in the company's Articles including the safeguards in place to ensure there could be no random issue of share capital. In the discussion that followed further matters were raised including the need to be mindful of issues that have arisen in the FE sector around college subsidiary companies and the need to for the additional directors to be appointed as a priority, even if only as a holding position to support the sole director. Accordingly it was agreed:</p> <ul style="list-style-type: none"> • To circulate the draft Articles and Management Agreement to Committee members for review and comment (ACT76). • To include a discussion about appointments to the Board of the subsidiary company at the next meeting of the Search & Governance Committee (ACT77). 	<p>SBS</p> <p>SBS</p>	<p>23.6.2017</p> <p>11.10.2017</p>
<p>8. Pension arrangements – Update</p> <p>MO outlined the work that had been undertaken to find a pension provider that included a review of the benchmarks across the industry/sector. The aim was to find a competitive package to put forward for staff employed by the subsidiary company. The package recommended was provided by Scottish Widows and provided for like for like contributions of 4-8% of salary with auto enrolment in to the scheme. Employees would have flexibility to choose their level of contribution which the company would match up to a maximum of 8% which represented an attractive benefit. In addition life insurance cover of three times salary would be offered in order to make the position of company employees comparable with College employees in that respect.</p> <p>In the context of recruitment CS asked how these arrangements compared with those at other Colleges. MO said if they were teaching staff they would be eligible to join the Teachers' Pension Scheme ("TPS") and that the College would be able to accommodate that expectation. MO confirmed TPS membership would be more expensive for the College. With regard to other recruits from the industry and the FE sector it will be necessary to balance the various elements to achieve the package needed to attract the chosen candidate. Overall NC said she felt the proposal was well balanced, being attractive without being excessive and bearing in mind the College needed arrangements that will attract people in. MO confirmed the arrangements were flexible and could be changed if problems were encountered.</p> <p>The Committee agreed unanimously to approve the level of contributions as discussed. It was noted that in future matters about pensions would be considered by the Finance & Resources Committee as during the College's transitional phase they had</p>		

<p>previously been brought to the Audit Committee where the current business was now concluded.</p>		
<p>9. Appointment of Internal auditors</p> <p>MO outlined the process that had been used to procure an Internal Audit service that had involved use of a purchasing framework through which invitations to tender had been sent to the twelve suppliers on it. Responses had been received from six of which three were being interviewed later that day. He explained that normally he would have brought a recommendation to the Committee but in view of the timing issue he sought delegated authority from the Committee to make a recommendation for an appointment directly to the Board. MO confirmed NC will be a member of the interview panel and sought the views of other members. AS said he was content provided that the cost of the services are within budget. CS indicated he was comfortable provided each supplier was asked the same questions and the process was auditable. On that basis the Committee agreed unanimously to delegate authority to the interview panel comprising NC, MO and MC to make a recommendation for an appointment to the Board at its next meeting (ACT78).</p> <p>NC asked for a summary of the process to be provided to Committee members after the interview had taken place (ACT79).</p>	<p>MO</p> <p>MO</p>	<p>24.7.2017</p> <p>30.6.2017</p>
<p>10. Insurance arrangements</p> <p>MC updated members on the insurance arrangements that were currently arranged via Birmingham City Council for six months' cover via Zurich. The College was now moving to proper FE cover to include the rail equipment piece by piece. This arrangement became operational a fortnight previously and as new kit and equipment is acquired it will be added to the policy. MC confirmed that Employer's Liability and Public Liability cover is included in the arrangement. The need to check about terrorism cover and other substantive issues for when the College goes live was identified. NC emphasised that insurance is an important areas about which the Committee needs to be well informed. Following discussion about an appropriate time to for the Committee to review the risks being covered and to consider whether there is a requirement for further cover, it was agreed Insurance arrangements will be included as an agenda item at the first meeting in the new academic year with an accompanying paper that sets out the current arrangements (ACT80).</p> <p>MO asked NC whether her company had cover in place for cyber security risk. NC said she would check whether they took it on but recalled it was very expensive and needed to be assessed in the context of what could be lost. AS said he felt there were a number of housekeeping actions that could mitigate such risks in any</p>	<p>MO</p>	<p>First Audit C'ttee of 2017/18</p>

<p>event. The potential for personal data to be compromised also needed to be considered, noting the serious legal consequences around that area. NC also observed that insurance can only ever cover financial loss, never loss of reputation.</p> <p>With the benefit of the discussion MO confirmed he would pick up the points made in the paper he presents to the Committee's next meeting.</p>		
<p>11. Risk Register</p> <p>MO introduced the paper and said he felt the appetite for risk has to be higher as a new entity. He explained the new approach to risk that has seen risk pushed back to risk owners from the Finance Department and so the Register included in the papers for the meeting would be the last version in that format.</p> <p>Members scrutinised individual risks and noted the issues being encountered around recruitment. It was confirmed the College advertises on websites that are relevant to the post plus more active ways including via agencies and education partners including HE. CM said this had resulted in the recruitment of two of the four permanent teaching staff the College requires, one to teach Leadership & Management and the other a civil engineer. The recruitment of an engineer with a track bias was challenging as it was challenging to recruit engineers in any event and the rail specialisms made it more so. The use of subject matter specialists to maximise effectiveness and contribute to the mitigation of this risk was noted.</p> <p>AS commented that with the downsizing of the engineering sector the consequences the College was experiencing were to be expected. CM outlined the active steps being taken to recruit including via HS2 Ltd to see whether they have potential contacts that can be used and via Board Members' networks. NC suggested that as an industry member there was potential for industry members to provide a person with the skills required say once per week and thought discussions about this could be continued off line.</p> <p>An in depth discussion followed about the need for flexibility when recruiting engineers including the need to be clear about what candidates would be required to do before the College opens and that rail experience could be a preferable rather than essential requirement. Further, now that slab track is the choice of HS2 Ltd., conversations are on-going about getting its support.</p> <p>As a result of the discussion NC said she concluded the College will need to go back to the market with the broader role noting it was critical for September whilst rolling stock specialisms can be recruited later as they were not required until September 2018. NC asked CM what the College needed to do given where it was in</p>		

terms of timescales. CM said the universities will support the College and work was in hand to formalise the arrangements that have been offered. Members expressed relief at the breathing space this offered.

Returning to risk more generally, members were supportive of the changes to the format of future risk reporting and also suggested that the “Board Champion” concept ended as this had only been introduced as an interim measure. It was agreed the new format Risk Register will be brought to the next Board Away Day (ACT81).

In terms of other risks it was noted three were increasing:

- In relation to the volume of diverse learner numbers it was noted the person to close the “sale” had now been recruited. Members discussed the challenges of recruiting a diverse intake of learners and noted the potential for bursaries to encourage applications to achieve this. CM pointed out that as apprenticeships are driven by employers the College is less able to influence this. She informed members that of the 1,000 potential recruits for September 2018, one third are female. Business TV presenter Steph McGovern has been recruited as an ambassador for the College to help drive this forward. NC asked whether the College was providing an apprentice matching service for employers. CM confirmed it was although some delays have been encountered pending HS2 Ltd procurement decisions. Moving forward CM said the College will have both learners and companies in its Client Relationship Management System which has exiting potential.
- Government policy –since the last meeting there has been the purdah period in the run up to the general election and subsequently no mention of apprenticeships in the Queen’s Speech although in the Conservative manifesto there was mention that some of the levy would be used for apprentices wages. Currently no proposals for this to happen have come forward.
- Impact of changes to the Apprenticeship Levy – Members noted that non-apprenticeship Levy paying employers and the ESFA contract for those employers also fed into this risk. It was pointed out that if the College cannot be an apprenticeship provider then it would be able to be a sub-contractor. In reply to a question MO confirmed the College will not be a Levy payer but will include apprenticeships into its corporate structure.

Finally, against the background of the recent tragic fire at Grenfell Tower in North Kensington, AS asked for the specification of the insulation used in the new College building to be checked and added to the Risk Register, if necessary (ACT82).

CM

11.10.2017

MO

11.10.2017

MO

ASAP

<p>12. CONSENT ITEMS</p> <p>Accounting treatment of land and buildings</p> <p>(i) The Committee received the advice and noted that no decision was being taken in relation to it for the time being.</p> <p>Policy approvals</p> <p>(ii) Anti-bribery and anti-corruption Policy It was agreed the Policy will be recommended to the Corporation for approval at its next meeting.</p> <p>(iii) Gifts and Hospitality Policy CS asked for the “definitions” in the Policy to be defined more clearly. It was agreed the revised Policy will be recirculated and thereafter recommended to the Corporation for approval at its next meeting.</p>	<p>SBS</p> <p>MC/ SBS</p>	<p>24.7.2017</p> <p>24.7.2017</p>
<p>13. Any other business</p> <p>(i) <u>Membership of the Audit Committee</u> – It was agreed that the need for the Committee to increase its membership will be referred to the Search & Governance Committee at its next meeting.</p>	<p>SBS</p>	<p>4.12.2017</p>
<p>14. Date and time of the next meeting</p> <p>It was agreed to leave the provisional date of Wednesday 20th September 2017 in the diary for the time being, noting this was likely to change owing to its proximity to the College opening date.</p>		

