# BOARD OF GOVERNORS: AUDIT COMMITTEE

Minutes
Wednesday 20 September 2023 at 5pm
Online via Zoom

| | | | Meeting Attendance |
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| PRESENT: | Jo Croft *(Committee Chair)* | | (1 out of 1) |
| | Tony Haines | | (1 out of 1) |
| | Rob Lewis | | (1 out of 1) |
| | Ian Thomson | | (1 out of 1) |
| APOLOGIES | Nathan Garat | | |
| IN ATTENDANCE | Gillian May | Group Principal & CEO | |
| | Richard Munday | Deputy CEO | |
| | Tracy Reeve | Director of Governance | |
| | Lucy Gill | Director of Finance | |
| | Waye Gellion | Mazars, TWFCG funding auditors | *(part)* |
| | Dan Fairbairn | Group Director Digital, Marketing and Admissions | |

## PART I

**MINUTE No** | **ACTION**

1. **Chair's Agenda Item**

The Chair and auditors confirmed that there was nothing specific to raise under this item.

2. **Apologies for Absence**

Apologies had been received from Rob Lewis.

3. **Notification of any other urgent business**

No other business was notified.

4. **Declarations of Interest**

No Member declared a conflict of interest with the agenda.

5. **Minutes of the Previous Meeting held on 28 June 2023**

The meeting considered the minutes of the TWFCG Audit & Resources Committee meeting of 28 June 2023 which had previously been circulated to all members and **were agreed as a true record. They would be taken as signed by the Chair.**

**All Members were agreed.**

6. **Matters Arising of the Previous Meeting held on 28 June 2023**

The Director of Governance (TR) presented a report which confirmed that all matters arising had been actioned or were included on the agenda for the meeting.

- *Risk Register format*

The CEO confirmed that she had not received any alternative templates from governors or suggested changes to the Risk Register. GM reminded the meeting of the positive feedback from the ESFA and colleagues at DfE on the format of TWFCG Risk Register so she would prefer not to significantly change the current format. It had also been used by other colleges as an example of good risk management practice.

- *Election of sub-committee Vice-Chair*

TR reminded the meeting that the Strategy Search and Governance Committee had asked all

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| | sub-committees to formally elect a Vice-Chair at the first meeting that was held in 2023/24. The meeting suggested that in his absence NG should be nominated as Vice-Chair of the Audit Committee. | |
| | **The Director of Governance to contact NG to ascertain whether he would be willing to act as Audit Committee Vice-Chair.** | **TR** |
| | **ITEMS FOR DECISION/ APPROVAL** | |
| 7. | **Internal Audit Reports** | |

- *Learner numbers and funding*

The meeting noted the formal report from Mazars which had not been available for the previous meeting. The specialist funding auditor from Mazars (WG) joined the meeting to present the formal report and answer any questions from governors. The meeting was reminded that the outline findings of this audit had been discussed at the previous Audit Committee meeting in June 2023 when the Head of MIS and Exams for the college had attended to provide assurance for Audit Committee members.

WG informed the meeting that the sample size for this audit was smaller than any 'usual' ESFA funding audit. However, Mazars had undertaken a lot more testing than in the past as it reflected the number of high-risk issues. The meeting was reminded that if this was a formal ESFA audit it could lead to funding clawback – the ESFA would undertake a 100% review and then further testing. WG confirmed that although Mazars had not examined any additional evidence in detail the management responses suggested that most of the recommendations had been addressed.

WG confirmed that the major area of concern had centred on apprenticeships funding. This was consistent with most funding audits undertaken in colleges and in part reflected the complicated funding regime for apprenticeships and the frequently changing rules. Governors sought, and were given, confirmation that the issues would be resolved by the way learners were recorded on the ILR. WG confirmed this but highlighted the concern that there could be more errors in the wider population. The CEO (GM) commended this timely audit which had allowed MIS to focus on areas of concern and correct any procedural errors in advance of the ESFA funding audit that the college had been selected for in autumn 2023. GM asked the Audit Committee to remember that the college had been exposed to some significant challenges around the Digital Apprenticeship Service (DAS) account at merger. The BCA data did not transfer over to TWFCG at merger but had to be manually resubmitted. GM confirmed that the ESFA had worked with the college to resolve these issues and were fully aware of all the implications. The legacy apprenticeship system at BCA pre-merger where timeliness had been an issue had also contributed to the complications. GM assured the meeting that SLT were fully aware that this was an area of risk, but staff were now working hard to correct the ILR. The Deputy CEO concurred with this view and agreed that although some of the recommendations were due to the legacy of merger issues Mazars had made some useful points for learning within MIS. RM confirmed that all of the recommendations would be added onto the Register of Outstanding Audit Recommendations when presented to the next Audit Committee meetings so governors would be able to clearly track progress.

Governors (RL) highlighted that in some cases the management responses were to the issues identified rather than the recommendations. RL gave the example of the numerous recommendations in relation to a need to review the PDSAT reports and ILR data. The management response had not confirmed the implementation and ongoing frequency.

***ACTION: RM to check with Head of MIS and Exams to clarify the plans, timescale, and frequency for checking of the PDSAT and ILR data.*** — **RM/ DB**

Governors (AH) sought confirmation on how many of the identified issues would be rectified before the external ESFA funding audit – undertaken by PWC - started in autumn 2023. The CEO confirmed that in a lot of cases the MIS team believed the errors were isolated incidents and would not be increased in a larger sample. GM assured the meeting that the MIS team did not believe that the sample sent to PWC contained errors, but she did remind the meeting of the complexity and frequent changes to Apprenticeship funding rules.

***The meeting NOTED and RECEIVED the report from Mazars on the audit of Funding and Learner numbers.***

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***ACTION: The CEO would work with other members of SLT to quantify the risk around this issue and whether there needed to more frequent audits within a risk mitigation strategy.*** **GM/ RM/ DB**

- ***The risk score on the Risk Register would be increased as the college went into the ESFA funding audit.*** **GM**

*[WG left the meeting.]*

8. **Audit of Teachers' Pension Scheme contributions**

The meeting received a report from RSM UK Audit LLP which gave the Audit Committee Members independent assurance in connection with the Teachers' Pension Scheme contributions which the College had been required to make during the year ended 31 March 2023. A copy of the certificate (the 'EOYC') which detailed the Teachers' Pension Contributions for the year ended 31 March 2023 was noted. The Deputy CEO highlighted that this was a very timely and clean assurance from the auditors in this area where tolerances on the detail were extremely low. The meeting commended the ongoing attention to detail from the College Payroll Manager (IP).

***The assurance report from RSM UK Audit LLP and the EOYC certificate 2022/23 was NOTED and RECEIVED.***

9. **Internal Audit Strategy (IAS) 2023/24**

RM presented a paper which outlined the first draft of the internal audit plan for 2023/24. The meeting noted that although considered by the CEO and Deputy CEO, this had yet to be agreed with Mazars. RM confirmed that the proposals had considered a number of factors, including the College's latest strategic plan and risk register 2023/24, the previous internal audits carried out in the College and the experience of the range of audits and their findings at other Colleges. The planned programme of work for 2023/24 being suggested by the Executive Team was as follows:

- Student Funding and Learner Numbers (ILR), to be completed in spring/ early summer 2024
- Bursary and financial support for learners, to be completed in March 2024
- Financial Management and Reporting Systems, based on January Management Accounts, to be completed in April 2024
- Key financial controls (purchasing and procurement) to be completed by April 2024
- Safeguarding practice (assessed through Leaders in Safeguarding), to be completed in January/ February 2024
- Review of cyber security processes and procedures

RM confirmed that the proposed plan would involve 40 days of Mazars' time, which was in line with the initial plan for 2022/23. Audit Committee members noted that the actual number of days last year was less than this because staff were involved with post-merger work that took longer than originally expected. Governors were given assurance around the college's Internal Audit Assurance Framework which had been developed over several years and the format had evolved in discussion with the Audit Committee; the main purpose was to provide additional external assurance on all key potential areas of risk. RM confirmed that he would work with the CEO to finalise this Internal Audit Strategy and would present it at the next Audit Committee meeting (November 2023), having agreed the programme with Mazars.

***Members NOTED the report and APPROVED the proposed internal audit coverage 2023/24.***

**ACTION: The final IAS Strategy 2023/24 to be finalised by Mazars and the Executive Team and taken to the Board (via Audit Committee) for approval in December 2023.** **RM**

10. **Draft Audit Committee Annual Report 2022/23**

TR presented this annual report which outlined the work of the Audit Committee for the Financial Year to 31 July 2023. This would be presented to the Corporation in December

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2023 to provide assurance around the Audit Committee's work during the 2022/23 year. Members were reminded that this document had to be submitted to the ESFA with the College financial statements. It was noted that this initial draft would be re-presented for final approval at the November 2023 Audit Committee meeting when the auditor's performance indicators would be agreed and appended to the report. The auditors would be asked to self-assess against the performance indicators in advance of this meeting. Governors did not have anything to add to this draft report and the Chair summarised it as being very comprehensive. The CEO asked for clarification from the Deputy CEO that all the recommendations from the procurement & purchasing internal audit report (June 2022) had now been fully implemented. RM confirmed that they had so there was no need to include this item on the Risk Register; Mazars would be reviewing the recommendations from the purchasing audit in their follow-up review which would be undertaken in spring 2024. The CEO suggested that this review should be brought forward to the autumn term to provide assurance for governors. TR confirmed that the wording currently highlighted would be confirmed or amended once the annual internal audit report and the Financial Statements 2022/23 were finalised.

***It was AGREED that:***

***i) The draft Audit Committee Annual Report 2022/23 to be APPROVED in draft; final version to be considered in November 2023 .***

***ii) The external auditors should self-assess against the annual performance indicators in advance of the November 2023 meeting.*** — **TR/ RM**

***iii) The follow-up review of Purchasing & Procurement audit recommendations to be undertaken once the financial statements audit was finished. Report to come to November 2023 Audit Committee if possible.*** — **LG/ RM**

- ***Audit Committee Review of Effectiveness***

The meeting considered an extract from the self-assessment template which had been developed by the Director of Governance (TR) to review the Corporation's compliance against its adopted code of good governance, 'The Code of Good Governance for English FE Colleges'. The governance self-assessment had been completed for all ten elements of the code but only the section in relation to Financial Strategy and Audit was considered by the meeting. Audit Committee members noted that all elements of this self-assessment were RAG rated as green, TWFCG was fully compliant. The meeting also agreed that the mandatory Annual Audit Committee Report to the Corporation 2022/23, as discussed earlier in the meeting provided a comprehensive overview of the work undertaken by the Audit Committee on an annual basis.

***Audit Committee NOTED the assurance provided and AGREED that it was fully meeting its stated purpose.***

- ***Bourneville Checklist***

The Director of Governance presented the Bourneville Checklist for annual review. Governors were reminded that this had first been circulated in July 2019, when the then CEO of the ESFA, wrote a letter to all college chairs of governors to draw attention to some lessons from a 2016 investigation into Bourneville College. The investigation report had catalogued a series of misdemeanours at the college which resulted in the replacement of its governing body and senior leadership team and its subsequent merger with South and City College Birmingham. The Bourneville Checklist had arisen from this example of poor management and governance and included the 15 separate actions that ESFA either required or expected governing bodies, chairs, or accounting officers to undertake in order to review their ongoing compliance. TR informed the meeting that BCA's Audit Committee had first reviewed the completed Bourneville Checklist in September 2019 and had asked for it to be standing item on the autumn Audit Committee agenda moving forward. TR was bringing this checklist to TWFCG Audit Committee as an additional element of good practice. The meeting considered the checklist which had been completed in relation to TWFCG by the Director of Governance and reviewed by the Executive Team. Audit Committee members were reassured that all suggested actions on the checklist were already in place.

***The meeting NOTED and RECEIVED the annual Bourneville Checklist completed for TWFCG for 2022/23.***

***It was AGREED that the BCA Bourneville Checklist should be reported to Corporation in December 2023 as part of the Governance Self-assessment paperwork.*** — **TR**

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11. **Tender for Internal and External audit provision from 1 August 2024**

The Deputy CEO (RM) reminded the meeting that it had previously been agreed that the college group should go out to tender for external and internal auditors in the current financial year. Audit Committee members noted that senior management had been in touch with procurement specialist Tenet, who would oversee the process. The meeting noted the draft timetable provided by Tenet which was working to the expectation that recommendations would be taken to the Audit Committee on 6 March 2024, with final approval to be sought at the Corporation meeting two weeks later. RM highlighted the proposed date of week commencing 11 December 2023 when interviews for shortlisted companies would take place; Governor input to this selection process would be beneficial. The meeting was assured that this proposed timetable would allow sufficient time for appointments to be made in advance of planning the external audit process for year-end July 2024 and the internal audit strategy for 2024/25.

***The process and timetable for the tender for internal and external audit services for TWFCG from 1 August 2024 was NOTED and APPROVED.***

**FOR INFORMATION**

12. **Register of Outstanding Audit Recommendations**

Finance Director (LG) highlighted that the current list was as follows:

- *External audits (2021-22)*
  - BCA (auditors are RSM) - all matters had been resolved, as advised at the last Audit Committee meeting
  - Legacy TWFCG (Buzzacott) – no recommendations

- *Internal audits*
  - BCA – no outstanding matters
  - Legacy TWFCG (Mazars)
    - Payroll audit – one recommendation, which had been dealt with
    - Learner numbers and funding – numerous recommendations (see separate report for the meeting – discussed at agenda item 7). Update on progress to be provided at next meeting.
    - Historical follow-up review – updates to be provided at the next meeting in conjunction with Mazars' annual report

***The Outstanding Audit Recommendations Report was NOTED.***

13. **Fraud, Irregularity and Whistleblowing Report**

The Deputy CEO (RM) presented the report which confirmed that there had been no incidences of fraud, corruption of irregularity perpetrated against the College during the year-to-date 2023/24. The meeting noted that the Whistleblowing report was also a nil return for the period 1 August 2023 to date.

***Members NOTED the Fraud Report (nil return).***

**JOINT MEETING WITH MEMBERS OF RESOURCES COMMITTEE** *(starting at 6.00pm)*

***[DF joined the meeting]***

14. **Risk Register**

The Group Principal (GM) presented the Risk Register for 2023/24 which continued to be reviewed and updated by the Senior Leadership Team. Audit Committee members noted the risks and their ratings, in detail and additional verbal assurance was provided for the key 'red' and 'amber' risks.

*Risk 1 Failure to meet budget forecast (risk score remains at 16 'amber'*: As well as upwards pressure on pay, there was also inflationary pressure on utility and energy costs. The inflation pressures and the likely COL pay awards were now reflected on the Risk Register.

However, SLT were still committed to keeping pay costs to a level which was below 70% of income. The mitigation of the FE Commissioner curriculum planning work was also now reflected. The CEO asserted the need for the College to maintain a positive EBITDA and Good financial health grade. The CEO confirmed that an additional risk in relation to the ILR Funding Audit (the college was in the random sample selected by the ESFA for 2022/23) had been included in the Risk Register report.

*Risk 2 Uncertainty and risks associated with emerging national curriculum reforms (risk score remains at 12 'amber')*: This key risk was being well managed and senior staff were fully engaged in advisory groups linked to reform but it did not appear that government were listening to FE college concerns. This sector-wide change posed an enormous threat to learner outcomes and college finances in all FE colleges. However, T Level plans were now in place for TWFCG from September 2024 with a strong marketing campaign which was providing more confidence around the T Level proposal.

*Risk 3 External Safeguarding Risks (risk score remains at 12 'amber')*: The meeting was assured that the Executive Team continued to work with all relevant agencies in relation to any safeguarding incidents. Additional Safeguarding and Prevent Training would take place for all staff and governors for 2023/24. GM highlighted the specialist Safeguarding audit that would take place early in 2024 and would provide valuable external assurance. The meeting noted the changes to the Keeping Children safe in Education (KCSIE) guidance for 2023; a summary of the new guidance had been circulated to all governors. GM highlighted the new duties associated with filtering and monitoring and the use of the software system CPOMs; detailed briefing on this would be considered at the Quality & Curriculum Committee on 26 September 2023. Audit Committee members were assured that a college working group had been established to ensure TWFCG was fully compliant with the new guidance across all four sites.

*Risk 4 Poor student outcome data at Langley results in a challenge to the Good Ofsted rating (risk score remains at 16 'amber')*: The meeting was informed that early indications were that the Langley data had improved for 2022/23. The detailed Quality Improvement Plan for Langley continued to be overseen by Vice-Chair of the Board (Rob Lewis). This was also discussed in detail at every Quality & Curriculum Committee meeting. Enrolment at Langley College for September 2023 was very strong and indicated a stronger reputation and a more appropriate curriculum offer.

*Risk 5 Changes to external funding risks future financial sustainability (risk score remains at 12 'green')*: The meeting was assured that the College was responding to future curriculum developments and the extraordinary strategy meeting for the Corporation (10 July 2023) had considered this in detail.

*Risk 6 IT failure worth loss of data for staff and students (risk score remains at 12 'green')*: GM confirmed that this needed to be kept under careful review to determine whether the risk profile should be increased. The meeting went on to consider IT in more detail.

***Members NOTED and RECEIVED the updated College Risk Register.***

- **College IT Security & Infrastructure Update**

The Director Digital, Marketing and Admissions (DF) presented a paper which updated Audit Committee members on IT security and infrastructure at the College within the context of the Risk Register. This was a brought forward action requested by Audit Committee members in summer 2023.

*IT and Infrastructure update*
The meeting noted the progress that had been made in this area which included the following:

i. Cyber Essentials certification had been renewed for the Group on 21/7/23
ii. Cyber Essentials Plus (CE+) accreditation was planned for Summer 2024. JISC would be helping the college to achieve this next level of assurance.
iii. The college was planning a Cyber Audit to be undertaken by JISC. This would take place before the CE+ assessment but JISC currently had a long backlog; the Education Sector was currently experiencing a great deal of risk related to cyber.
iv. An internal cross-College 'Safeguarding; Digital and Technology Standards Compliance' meeting was held every two weeks to review compliance with the new Keeping Children

Safe (KCSIE) Guidance around technology. This focussed on filtering and monitoring and the CPOMs filtering software. DF assured Audit Committee members that TWFCG was compliant with the new requirements of KCSIE 2023.

v. The IT Team was currently working with an external consultant from Xiria (NS) who was advising on project work and recommendations for infrastructure

vi. A new Group Head of IT had been appointed with a starting date of 1/12/23. The appointee had strong education sector experience and contacts.

*IT Estate*

The meeting noted an outline of the current IT estate and equipment which had a lot of devices at, or nearing, the end of their life (6-10 years old). DF informed the meeting that students at Langley, Strode's and Windsor colleges were primarily using desktop computers with access to laptops; assets were mostly 6-8+ years old and there was no consistent manufacturer or vendor. Students at BCA had access to desktop computers and majority Google Chromebooks (laptops); whilst the desktop computers were end of life, the BCA estate was manufacturer and vendor consistent. DF highlighted that TWFCG had primarily purchased refurbished equipment that had a limited lifecycle, at a cost that would see greater value placed against the leasing or hire purchase of new and more relevant devices. The meeting discussed the unfortunate position of TWFCG having almost all of its end-user IT estate needing to be refreshed at the same time. The significant strain this would place on capital expenditure meant that the IT Team were also looking at a leasing option as a way forward. The leasing option would also eliminate the risk of reverting to a position across the estate of having assets that were outdated. DF informed the meeting that further consideration would also be given to both the specification and longer-term support of the hardware.

The meeting agreed that there would be considerable benefits of moving the infrastructure to the Cloud. These included: energy demands for powering and cooling physical servers; the reliance on maintaining internal server rooms; advancements in cloud technologies; and business continuity. DF confirmed that moving key infrastructure to the Cloud would provide robust 24-hour support and would enable internal teams to focus on end-user support as opposed to server maintenance. The current thinking was that only the infrastructure required for network services and internal applications would remain within an environment that the college maintained in a dedicated facility.

DF highlighted that the Group would have several options available to move the infrastructure to the Cloud. The meeting noted the costs as well as benefits and disadvantages of taking forward the existing infrastructure using three different delivery models: colocation, private cloud, or public cloud. DF confirmed that the indicative costings did not account for efficiencies and consolidation of services, or options around moving key software to SAAS models (Software as a Service). However, DF highlighted that the costings did not factor in the efficiencies alluded to in his paper. This new approach would require considerable training across the organisation.

The CEO/ Group Principal (GM) asked DF to highlight where the key operational risks were in relation to the IT Estate and Infrastructure at TWFCG. DF confirmed that the biggest risks were where the business was dependent on key individuals. There were also external factors - power supply issues etc. - which had considerable risk attached. DF confirmed that the move to a commercial data centre/ cloud infrastructure would offer reliability and reduce risk..

The meeting discussed the costs of the options and noted the high capital cost (£350-£400,000) for the purchase of replacement servers and storage. Co-location and leasing would cost circa £302,000 over a 36-month period. DF highlighted that although the costings made the Cloud options look expensive, the key benefit was reliability and resilience i.e. lower operational risk. Governors sought confirmation on whether a move to the Cloud would also generate savings in manpower, but the meeting noted that the Group was already very lean in resources and relied on one person maintaining the servers. However, a move to the Cloud would allow IT staff to focus more on the end-user experience and support.

The Chair of Audit Committee sought confirmation on the likely timing for this change and noted that it was circa three years. However, Audit Committee members were concerned that this timeline was too slow especially as the IT equipment was already verging towards end-of-life. DF suggested that a better way forward would be to move software systems to SAAS as they came up for renewal e.g. the Human Resources system (iTrent). There would be a need to plan changes outside term time to minimise the impact on teaching, learning and assessment.

***Governors suggested that the difficulty of recruiting technically experienced staff should be reflected in future papers as a key risk.*** This risk would be mitigated by a move to the Cloud. DF confirmed that it was getting harder to recruit IT staff with the necessary technical ability especially as the education sector paid less than many commercial sectors. **DF**

***The update report on IT security and infrastructure at TWFCG was NOTED***

***ACTION: An update report with recommendations for moving forward on the IT Estate upgrade would be brought back to Resources Committee once accurate costings were available.*** **DF/ RM/ LG**

*[DF left the meeting.]*

15. **Budget 2023/24 Update**

- ***Letter from Minister in relation to additional funding***

The meeting noted a letter from Robert Halfon MP (Minister for Skills, Apprenticeships and HE) dated 12 July 2023 which had been sent to all FE College principals. This letter highlighted the additional £185 million funding (2023-24) and £285 million (2024-25) which had been ring fenced by the Government for FE colleges. This additional funding was to address key priorities including the recruitment and retention of staff. The meeting commended the additional funding of circa £1.52m for TWFCG 2023-24 which would enable the college to award a Cost of Living Pay award to staff.

***The letter from Robert Halfon MP was NOTED***

- ***Budget reforecast 2023/24***

The meeting noted a paper from the Deputy CEO (RM) which advised governors of the updated reforecasts for the current year (FY24) and next plan year (FY25). The meeting was reminded that the budget 2023/24 and financial plan 2024/25 had been approved by the Board on 5 July 2023. RM outlined the changes to the budget which were proposed:

**FY24**

***Income***

- Additional £1.52 million for pay review purposes (central government allocation notified in late July 2023 as per above).
- Apprenticeships income now expected to be £150K higher in each year

***Pay costs***

- Suggested 3% across-the-board pay award with effect from 1 September 2023. Total cost will be more than £0.9 million and this together, with harmonisation costs of £560K, would mean that the college will use the entire additional income of £1.52 million for pay-related purposes (as recommended by the Association of Colleges).

***Non-pay costs***

- Following a review of the final costs for FY23 and further reclassifications following the merger, individual category budgets had been revised but the net effect was limited to an increase in total non-pay costs of only 1.5% (£174K)

***Outcomes***

- Total income £45.0 million (£43.7 million)
- EBITDA £713K (£531K)
- Cash at year end £5.55 million (£5.36 million)
- Financial health Good – 200 points (Good, 200 points)
- Pay costs ratio 69.85% (70.02%)

**FY25**

***Income***

- Additional £1.52 million for pay review purposes as mentioned above
- A further increase of £1.3 million to reflect increased student enrolment August 2023

***Pay costs***

- For FY24, an additional consolidated 3% pay increase for all staff (RM confirmed that this was not 'non-consolidated' as shown in the paper; ***this was an error and would be corrected for the October Board paperwork).*** RM

***Non-pay costs***

- 8% increases in non-pay costs to allow for inflation and higher student numbers (this was noted as being on the high side and could be amended).

***Outcomes***

- Total income £47.9 million (£45.0 million)
- EBITDA £1.37 million (£612K) – the £1.37 million is 2.9% of income compared to the ESFA's target minimum of 3%
- Cash at year end £5.16 million (£5.09 million)
- Financial health Good – 200 points (Good, 190 points)
- Pay costs ratio 67.59% (69.47%)

The meeting noted all of the options for pay awards in 2023 and 2024 in the Deputy CEO's paper and their impact on the College's EBITDA and other key financial key performance indicators. RM highlighted that the position would be less tight in 2024-25 as additional lagged funding would allow EBITDA to significantly increase. The importance of maintaining a positive EBITDA and Good financial health across both the current budget year (FY24) and the plan year (FY25) was discussed and agreed by the meeting. RM reminded the meeting that any drop in financial health to Requires Improvement would trigger intervention from the ESFA and potentially the FE Commissioner.

***The meeting agreed that once approved by the Board (4 October 2023) the reforecast for 2023/24 should be adopted for monthly variance reporting purposes from 1 August 2023 onwards.*** RM

- ***Cost of Living (COL) Pay award 2023***

The meeting considered the proposal contained in the revised budget for a starting point of 3% consolidated pay award for 2023 (going to a maximum of 4% during any union negotiation). The additional funding secured for 2023-24 and 2024-25 would fund this pay award.

The CEO updated the meeting on the likely risks around the discussions with Trade Unions who were looking for any pay award to be backdated to 1 September 2023; GM confirmed that the proposal and revised budget paper allowed for this. However, in recent days it had been become apparent that anecdotal evidence from the FE sector was that staff and unions had an expectation that the recent government pay award to schoolteachers – 6.5% - should be met for FE staff. Very recent briefing from the Association of Colleges (AoC) had suggested that colleges should be using all of the additional 2023/24 funding received from DfE for a COL pay award. However, GM reminded the meeting of the college commitment and action to bring in pay harmonisation for BCA staff post-merger. The cost of this was circa £560,000 which would have to be funded on top of any COL increase. The meeting was reminded that the Trade Unions were officially in dispute with the college and were seeking a 17% COL increase. The meeting was informed that the number of union members across TWFCG was relatively low (maximum 121 members of staff) so the impact of any strike action could be mitigated. GM also reminded the meeting that the strong enrolment in September 2023 would provide additional lagged funding of circa £1.7m in 2024-25. The Deputy CEO confirmed that every additional 1% on pay costs took circa £300,000 straight off the bottom line.

Governors sought confirmation on anecdotal feedback from other colleges whether a 6.5% increase was a fact or an aspiration; GM confirmed that at a recent AOC Principals meeting the majority of colleges were aiming to award 6.5% in autumn 2023. After discussion, the meeting agreed that the additional £1.5m secured in 2023-24 should all be used for a COL pay award (harmonisation costs to be funded separately); this would allow full transparency with the unions and made the college offer as good as it could possibly be.

Governors discussed the curriculum planning work that was currently taking place across TWFCG with the support of the FE Commissioner (FEC) Team (see agenda item 17). At this early point in the work, this was suggesting that any future cost-efficiencies would need to come out of support and back office. However, this would possibly provide a tension in the face of any impending Ofsted inspection as the College was looking to maintain its Good rating. GM also highlighted that the Leadership and Management structure at a middle management level was still generous post-merger and would need further review.

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The Deputy CEO (RM) confirmed that in his current financial model, if the totality of the £1.52m was used for a COL pay award then this would result in a negative EBITDA for FY24. This would risk an 'inadequate' financial health grade and FEC intervention. Although the college was hopeful of securing additional in-year funding for the extra students 2023-24 this was not guaranteed. RM highlighted that if all of the £1.5m was ring fenced for COL then the offer could be 5.5% this year and then 6% next to maintain a positive EBITDA. The meeting supported the concept of offering the TUs a two-year deal as work could be undertaken to secure additional back-office savings for next year. The CEO confirmed that she agreed with that strategy. Governors suggested that the college had merged successfully – in alignment with ESFA guidelines – and might approach the agency for additional funding. Management confirmed that this was not an option. One of the issues for the new WFCG was that provision was delivered across four separate college campuses which was relatively more expensive than running across fewer sites. The meeting agreed that it would be key for the Trade Unions to understand the implications around potential restructuring if the pay award was higher than currently affordable.

***The meeting AGREED that a proposal should be taken to the Board on 4 October which was based on the following:*** **Exec**

- *i.* ***All of the £1.5m additional government funding for 2023-24 to be ring-fenced for a COL pay award (harmonisation costs to be funded separately).***
- *ii.* ***Options to be sought which would allow the college to maintain a positive EBITDA for 2023-24 and 2024-25.***
- *iii.* ***The WFCG pay award to be as close to the AoC 'recommendation' of 6.5% for 2023-24 as possible (subject to 'ii' above).***

➢ ***Capital Expenditure Update***

The meeting noted an update schedule which outlined the utilisation and planned capital expenditure for the next two financial years for the monies received via the Reclassification Fund (£0.99 million), Energy Efficiency (£0.38 million) and the Transformation Fund (£1.34 million). The Deputy CEO reminded the meeting that this report would be a standing agenda item at the Resources Committee until all of the funds were fully utilised.

***The Capital Expenditure update report was NOTED.***

16. **Enrolment Update 2023/24**

The meeting noted the current enrolment against ESFA allocation by college. GM reminded the meeting that the number of funded students for 2023/24 was 4,150. At the time of reporting, 16-19 ESFA learner headcount across the College Group was 4,508, 385 ahead of the prior year enrolment (4,123). Full time adult learners who would join these programmes numbered 145, growth of 25 on prior year (120). Against current retention rates (circa 80%) management estimated that this would equate to between £1.7m and £1.8m of lagged funding to be received in 2024/25. Members were reminded that this report was an early indicator of enrolment performance: for 16–19-year-olds but numbers could fluctuate until the census date in November when the final funded number was confirmed. For adults and apprentices, enrolment would continue through the year and updates would be reported for these and the Higher Education enrolments at the October Board meeting.

GM highlighted the very pleasing figures at Langley College which had exceeded its enrolment target of 1,050 by 20% (1,262). This level of recruitment at Langley had been in the post-merger plan with a target completion date of enrolment 2024/25. The fact that it had been achieved a year ahead of this demonstrated the benefits of the BCA and TWFCG merger. The meeting noted that the successful enrolment at Langley College was due to several factors: an improved demographic; the impact of higher GCSE grade boundaries for the first time since 2019; attracting students from West London and better progression for existing students especially for ESOL learners. GM informed the meeting that there was a great atmosphere on site at Langley with a busy, purposeful energy. Learners were engaged and had been very well behaved since the start of the term.

Governors commended the very strong enrolment across the whole college group. GM confirmed that the college would be submitting a request for in-year growth funding 2023/24 if it became a possibility. This would not be known until later in the academic year and

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| | anecdotal evidence suggested quite a number of colleges had exceeded targets due to the return to pre-Covid grade boundaries which was likely to limit any additional funding available to individual colleges.<br>***The enrolment update was NOTED*** | |
| 17. | **FE Commissioner Curriculum Planning work (CEFSS)**<br>The meeting noted that as part of the post-merger review process the College had requested the support of the FEC team to undertake a review of the four colleges and their curriculum planning process. The CEO (GM) reminded the meeting that this had been suggested by Audit Committee Governors (AH) at a previous meeting. GM asserted the value of this suggestion from AH which was going to be really helpful and would provide the catalyst for the college to make the right improvements. GM confirmed that the initial meeting to scope the FE Commissioner 'Curriculum Efficiency And Financial Sustainability Support' (CEFSS) work had taken place and the detailed work was scheduled to commence on site on 6 November 2023. GM highlighted that payroll costs at TWFCG were currently running ahead of the benchmark (71% v 68% for the mix of FE, specialist land based and Sixth Form). In order to secure the future financial viability of the college group the Executive and Governors were mindful that there was a need to ensure that curriculum delivery was optimised to deliver a positive EBITDA and associated payroll costs in line with the sector benchmark. The presentation from the initial meeting with the FEC Team and the detailed action plan were taken as read. GM highlighted the initial feedback from the FEC Team that as Industry Placement (IP) work was no longer funded the comprehensive offer at TWFCG for IP work with all learners was too expensive for the group to maintain. This work was now only funded in relation to T Level provision, but TWFCG had secured circa £300,000 for Industry Placement work under the Capacity Delivery Fund during 2022/23. GM reminded the meeting of the value of strong industry placements with regard to successful destinations and outcomes for students and strong IP work was regarded highly by Ofsted.<br>***The report on the CEFSS work 2023 was NOTED and RECEIVED.***<br>***A further update to be brought to Resources Committee in November 2023.*** | **TR/ SLT** |
| 18. | **TWFCG Management Accounts July 2023**<br>The Deputy CEO (RM) presented the management accounts for July 2023 which had previously been circulated to all governors by email. Although these were largely taken as read as they had been considered earlier in the meeting, RM made the following observations. The final position at 31 July 2023 was a negative EBITDA of £157,000 but this included in-year merger costs of circa £800,000. Although the negative EBITDA would ordinarily generate a financial health grade of Requires Improvement, RM asserted his belief that this would not be the case after moderation by the ESFA once exceptional merger costs were excluded. The meeting noted that the SLT had already spoken to the ESFA to this effect but a change to a 'good' grade would not be confirmed until early 2024 after the financial statements 2022/23 were submitted. Governors sought, and were given, confirmation that the ESFA would not contribute towards college merger costs. RM reminded the meeting that the total cost of the merger had included £300,000 in 2021/22 as well as £800,000 in 2022/23.<br>The final key financial indicators for the period to July 2023 were noted as follows:<br>• The operating deficit for the year amounted to £2.52 million compared to the reforecast of £1.99 million i.e., £537,000 adverse. (The meeting noted the differences between the EBITDA and operating deficit variances.)<br>• For the full year, there were variances against forecast in income (£455K favourable), pay costs (£553K adverse) and non-pay costs (£493K adverse).<br>• The reforecast indicated that pay costs for the full year would be 70.0% of adjusted income. The actual percentage was 70.7% and reflected the constant upward pressure on staffing costs that the group continued to face; this was partially mitigated by the higher-than-expected income.<br>• The cash balance at the end of July was £6.91 million in credit, which was £173,000 above the reforecast.<br>The Deputy CEO read a section from the Financial Handbook which highlighted the financial | |

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| | short-term impact of merger and the fact that the ESFA would take a 'lenient view' for 18 months post-merger. The Chair of Audit Committee agreed that looking outside the education sector 18 months would be considered a short timeframe for full financial recovery after a complex merger. RM reminded the meeting that the College now had a new full-time management accountant who was providing closer scrutiny of all financial metrics moving into the second-year post-merger.<br><br>This item was largely taken as read with no further questions arising from governors as it had been discussed during the budget agenda item earlier in the meeting.<br><br>***The Management Accounts for July 2023 were NOTED and RECEIVED*.** | |
| 19. | **<u>Dates and Times of Future Meetings</u>**<br><br>The dates and times for the Audit Committee meetings in 2023/24 were noted as:<br><br>• Wednesday 29 November 2023, 5.00pm<br>• Wednesday 6 March 2024, 5.00pm<br>• Wednesday 26 June 2024, 5.00pm<br><br>TR confirmed that all of these meeting would be held online via Zoom. The meeting agreed that the joint element with Resources Committee would not be used as a model for future meetings. There would be separate Audit Committee and Resource Committee meetings. However, the Director of Governance highlighted the need for a short joint meeting in November when the external auditors – RSM Audit UK LLP – would report their findings and the Financial Statements to both committees.<br><br>***Members NOTED the Audit Committee dates for 2023/24.*** | |
| 20. | <u>Any Urgent Business</u><br>There were no urgent items of business raised. | |

**The Audit Committee meeting closed at 7.05 pm.**

Chair.......................................................... Date................................................