



CAPITAL CITY COLLEGE GROUP BOARD: 12th DECEMBER 2019

MINUTES

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| PRESENT | Alastair Da Costa (Chair), Roy O'Shaughnessy, Amelia Sussman, Lord David Triesman (items 1-4 and 6), Maarten Zuurmond, Amanda Dickens, Mel Brookstone, Chris Hyams, Shane Chowen, Professor Anthony Smith |
| IN ATTENDANCE | Graham Drummond (Clerk), Rachael White, Kim Caplin, Neill Scott (for item 6), Katherine Patel (for items 1-4) |
| APOLOGIES | Keyan O'Donnell, Sarah Ebanja |
| DECLARATIONS OF INTEREST | None |

The partner from Buzzacotts LLP, Katherine Patel was welcomed to the meeting. It was noted that there no accolades or appointments with respect to members of the Board since the last meeting.

- 1. MINUTES OF THE MEETING HELD ON** **Action**

The minutes of the previous meeting were accepted and approved as a correct record.
- 2. MATTERS ARISING**

The following matters arising were noted:

 - With respect to item 6 and the oversight of apprenticeship provision (p.4) the rapid improvement oversight group met on 9th December. The minutes of this meeting provide a good summary of the key aspects of the Group's quality improvement strategy and would be circulated to members;
 - With respect to item 7, the skills matrix of the Board has been circulated to board members. A verbal update with respect to the search process for new members would be provided as part of item 9.

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All other matters arising were included within the agenda.
- 3. ANNUAL AUDIT COMMITTEE REPORT TO THE BOARD**

The chair of the audit committee presented its annual report. The following was noted:

 - Included within the report was a summary of the activities which had been undertaken by the internal audit service during the year. Six reports had taken place during the year, of which five had given an overall assurance of adequate, with one having substantial assurance. Of the three internal audits which had been deferred during the year, one had been in relation to purchasing and procurement controls which in the view of the committee had been unfortunate considering the lack of control in this area. Since the committee's meeting in October it has been decided by the Board to carry out a re-tendering exercise for the internal audit service. Going forward the intention is that the use of the internal audit service will be more focussed in nature;
 - At its meeting in November, concern was expressed by the committee about the number of recommendations which need to be confirmed by the internal audit service as being resolved, which currently stands at 78. Of particular concern are the 49 recommendations which have not yet been addressed by management, of which twelve are in relation to an audit carried out by KPMG on the Group's learner number systems. It was noted that the Chief Financial Officer will be overseeing the resolution of these recommendations. With respect to funding assurance there have been improvements to the Group's learner recording processes, however there is still risk of funding clawback in the event of an ESFA funding audit;

- At the committee's meeting on 18th November the Ernst and Young report which had been commissioned by the Board was considered. The partner of Buzzacotts was present at the meeting and had been asked to comment on the finding within the report that £1.5m worth of invoices with 17/18 dates had been included within the 18/19 financial year. At the time of the committee's meeting this issue was still being looked into and since then it has been agreed to include an additional provision of £500k to account for any risks associated with additional invoices that may come in for 2018/19;
- The audit committee also expressed a strong view with respect to the importance of ensuring that the Group has robust and effective oversight arrangements for its finances, particularly the budget setting process. The committee was of the view that consideration should be given to re-establishing a finance committee for this purpose. Members of the committee noted that financial oversight matters rests with the Board who now meet more regularly and remained of the view that these arrangements were adequate and effective.

The Board discussed the issue of whether its oversight arrangements were sufficiently robust, considering the Group's poor financial performance. It was noted that as well as the regular oversight provided by the Board which meets 9 times per year, a small group of governors meet on a bi-weekly basis to oversee financial matters; the Board was therefore satisfied that the arrangements were sufficiently robust. It was agreed that these arrangements would continue to be monitored but would remain in place until the end of the academic year, at which point a further review would take place.

The Chair asked members whether they had any comments on the report and whilst it was noted that much greater reliance could be placed on the financial controls which have been put in place since September, the Board remained of the view that the management of costs was still a concern and should be stated as one of the Group's top risks on its risk register.

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Notwithstanding the above comments and discussion, the committee were of the view that the Group's risk management, control and governance processes are adequate and effective for the Board to rely on them.

A revised version of the committee's terms of reference were attached to the report, which were approved by the Board.

4. 2018/19 FINANCIAL STATEMENTS

The Board noted that within the last month, two meetings have taken place with the ESFA and due to the financial performance in 2018/19 the Group's financial health status will move from outstanding to requires improvement and therefore the Group will be placed in early intervention status. The ESFA have informed the Chief Executive that they are satisfied with the measures which have been implemented, however the Group will be subject to 'light touch' monitoring until the financial health status improves.

The Buzzacotts partner presented the post external audit management report and the following was noted:

- In the view of the auditors, the financial statements (item 4.1) give a true and fair view of the Group's financial performance for the year and have been prepared in accordance with the UK's generally accepted accounting practice;
- Page 6 of the report provides a breakdown of the financial performance of the Group as a going concern. The following was further noted:
 - Total reserves have decreased by £18m;
 - The operational deficit for the year is £9,831k (excluding pension adjustments)
- As part of the audit, one unadjusted misstatement has been identified which relates to over delivery-delivery against funding allocation of £325k as confirmed in the funding reconciliation recently received. The Board agreed with the recommendation that this is not to impact on the final position due to its lack of significance;
- Included within appendix 1 of the report were details of audit adjustments which had been made as part of the audit, which included £751k for bad debt and £250k for additional expenditure accrual.

The partner highlighted to the Board its responsibility in asking the Chair and the CEO to sign the financial statements that members believe the Group to be a going concern for at least 12 months

from the date of approval. In order to support this, the Board must continue to review the following, on a regular basis:

- Timely and accurate management accounts;
- The current cash flow position and future cash projections;
- Budgets and regularly updated forecasts;
- Individual Learning Records (ILR) systems and controls to ensure they are robust and prior recommendations have been addressed.

With respect to the Board's responsibility of ensuring that the Group continued to be going concern, the partner was asked whether there were additional measures or KPIs that the Board should be monitoring which are not already included within the Group's management accounts. In response to this question the partner highlighted the continued need for the Board to continue to monitor the key financial ratios (as detailed on page 22), particularly payroll as a percentage of total income which has increased to 67.6% as compared to 62.7% in the previous year. She also emphasized the importance of monitoring the management accounts against budget on a regular basis which in turn are reliant on accurate ILR reporting. The Chief Financial Officer provided assurance to the Board that she had established a business partnering approach within the Group in which she held monthly meetings with key budget holders to review costs against expected income so that early intervention could take place if these were out of kilter. The Chief Executive also confirmed that as part of the drive to improve cost controls, an environment of zero tolerance is being implemented for expenditure which does not have a purchase order approved in advance; this may include the use of staff disciplinary processes.

The partner was then questioned by the Board as to whether, in her view, Buzzacotts had fulfilled its role with respect to informing the Board of concerns in relation to the finances of the Group. This challenge was provided in the context of the reporting of a large operating deficit and the fact that the extent of the deficit had only become apparent in September. The partner responded to this challenge by informing members that it was the role of the external audit service to report to the Board as to whether the financial statements reflected a true and fair representation of the financial position of the Group as at the end of July 2019 and that in year monitoring of financial controls was the responsibility of the internal audit service. Whilst the Board accepted that the primary responsibility for in year financial auditing rested with the internal audit service, further challenge was provided with respect to the issues identified by the EY report and that a sizeable amount of invoices had been accounted for in the incorrect financial year (c.700k in 18/19 which should have been included within 17/18). In light of this challenge the Board expressed its concern about some aspects of the service provided by the external audit service.

The audit representation letter was received. The recommendation from the audit committee that it should be signed by the Chair was accepted and approved.

The financial statements for 2018/19 were received. The Board challenged whether the financial statements provided sufficient emphasis that the Group was in a turnaround situation. However, it was noted that at the bottom of page 16 and at the top of page 17 recognition was provided of the need to implement an improvement in the organisation's financial control environment. It was further noted that the format of the document was prescribed and its purpose was to carry a regulatory reporting function. Given these observations, the Board accepted the recommendation of the audit committee to approve the signing of the financial statements by the Chair and the Chief Executive.

5. **QUALITY OVERSIGHT**

A quality update was considered and received. It was noted that:

- As part of the Group's preparations for an Ofsted inspection a series of 'deep dive' curriculum reviews have been carried out of which the key strengths and areas for improvement identified were provided within the report;
- There are three areas of the Group's provision that are subject to rapid improvement plans as follows:
 - Apprenticeships

- A levels
- City and Islington's Centre for Business Arts and Technology (CBAT)
- The improvement within these areas have recently been scrutinised by an oversight group consisting of board members and education board members. It was judged that insufficient progress had been made at CBAT whilst limited progress had been achieved in Apprenticeships and A levels. The oversight group will be meeting in January again to assess progress.

The self-assessment report was considered and received. It was noted that:

- The Education Boards have considered their respective college self-assessment reports at their recent meetings;
- An overall effectiveness judgement of 'requires improvement' has been included within the report, with the quality of most central services judged to be 'requires improvement'.

The Board expressed considerable concern about the outcome of the self-assessment process and challenged the Chief Executive about whether sufficient priority was being placed on addressing the areas of weakness identified within the report. This challenge was placed in the context of the Group reporting a £9.8m deficit in the same year as awarding a 5% pay award to those staff earning below £55k. The Chief Executive accepted the challenge provided by the Board and recognised that there were a number of areas of the Group which need to demonstrate significant improvement, however the pay award had been needed in order to ensure that staff were onside with the turnaround. It was further noted that in real terms staff pay had not increased for a number of years, prior to the award being given.

The Chief Executive made the following broader points with respect to the outcomes of the self-assessment process:

- A validation event had taken place on 1st November at which the grading of 'requires improvement' for the quality of education was debated at length. The conclusion had been to award 'requires improvement'. One of the determinant factors in this decision was the quality of apprenticeship provision within CCCT which was judged to be an area for improvement, however in other areas of the Group e.g. Hospitality, the quality of apprenticeship provision is outstanding;
- There are also a number of fundamental improvements that have been put in place, for example there is an accurate staff establishment list in place, the lack of which in the past has caused significant management problems.

The Chief Executive concluded by stating that despite the challenges facing the Group, the required turnaround was achievable and that the correct improvement strategies were in place.

Lastly, with respect to ensuring that members of the Board remain student focussed in monitoring and overseeing the performance of the Group it was requested that thought is given to how the Board might improve its engagement with the student body, for example members being asked to participate in learning walks may be one way of achieving this.

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The Group's Higher Education self-assessment report was considered, noted and approved.

6. CONFIDENTIAL ITEM

This item was subject to confidential minute.

7. FINANCIAL UPDATE

An update on the Group's financial position as at the end of month 3 was considered and received. It was noted that:

- A deficit of £516k for the month of October versus a forecast deficit of £700k was included within the report. The year to date operating position is a £4.5m operating surplus as at the end of October compared to an operating surplus of £4.3m. It was further noted that at this time of year a deficit for October is expected due to the timing of income payments from the ESFA;

- The year-end forecast remains a £2.5m operating deficit, however it was noted that a savings plan continues to be implemented with the aim of delivering a break even position as at the end of the financial year. It was further noted that whilst considerable progress has been made with respect to achieving non pay savings targets, there was still more work to be done with respect to achieving savings with respect to pay.

A cash flow forecast had been appended to the report and it was noted that the lowest number of cash in hand days for 19/20 would take place in March when it would be 30, which is above the number of days considered by the ESFA to place the organisation at risk (which is 25).

The Board noted that the CEO was not in a position to bring a recommendation with respect to this year's pay award, however a group of senior staff will be meeting to consider all options with a view that a recommendation is considered by the Board in the early part of the new year.

8. STRATEGIC PRIORITIES

The CEO tabled a report to update the Board on developments since the last meeting. The following was noted:

- Kim Caplin will be retiring in April 2020. The Board thanked her for the enormous contribution she has made to the Group and in particular to Westminster Kingsway College;
- The CEO has recently been interviewed by FE Week and an article based on this interview will be published this week.

9. UPDATE FROM SEARCH COMMITTEE

Green Park have agreed to carry out a search on a pro bono basis for appointment of two independent members. The search will commence in the week beginning the 6th January. It was also noted that the Chair will be writing to members of the education boards to ask for expressions of interests.

10. AUDIT COMMITTEE – SUPPORTING REPORTS TO THE ANNUAL REPORT

A report was noted and received.

11. KEY PERFORMANCE INDICATORS

A report was noted and received.

12. COLLEGE EDUCATION BOARD MINUTES

The minutes of the recent education board meetings were noted and received.

The next meeting will be on Monday 20th January 2020 at 4pm.

Signed as a correct record: _____

Alastair Da Costa, Chair of the Board