Minute –Finance Committee

5.30 pm 14th March 2021 via Zoom.

Present: Kenny Anderson, Paula Blackadder, Moira Jarvie, Christopher Moore.

In Attendance: Ann Baxter, Iain Clark, Suzie Graham, Diane McGill, Lucy Nutley, Penny Neish. Ronnie Smith.

SLC Attendees: Liz McIntyre and Keith McAllister

Lucy Nutley and Suzie Graham left the meeting after item 5.1 and Liz McIntyre left after Item 5.

1. Chair's welcome

The Chair welcomed everyone to this special meeting of the Finance Committee and Lucy Nutley and Suzie Graham who were attending to present Mazars Annual Audit Report 2020/21.

2. Apologies for Absence

There were no apologies.

3. Declarations of Interest

The Committee noted re Item 5.3 on the agenda the AMCOL Accounts that Iain Clark and Moira Jarvie are Directors of AMCOL.

SLC Assigned College Business

4. Report SLC Finance Committee and Board

Keith McAllister gave the report that was with the papers and that he had presented to the RSB Finance Committee on the 28th February 2022 as follows:

- **Financial Statements – Year to 31st July 2021:** The SLC finance Committee noted the surplus for the year, the comments made by the external auditors and duly recommended the draft SLC Financial Statements be forwarded to the Board of Management for consideration and approval.
- **Consolidated Financial Statements 2020/21**: The SLC finance Committee noted that the College had supplied the NCL finance team with the financial figures to form part of the consolidation in good time and that the draft narrative of the consolidated accounts had been reviewed by SL College management.
- **Management Forecast – 12 months to July 2022:** It was noted that the Faculties were working with the Depute Principal to close the credits gap for the year. It was also noted that the College had an excess of student enrolments that met EU activity requirements. Any excess enrolments were automatically added to the core activity enrolments. Until the gap was closed, the College would be recognising a potential drop in funding and, consequentially, a potential deficit for the year. SFC has been approached by the sector about the implications of not meeting the activity targets for the year. For the previous year, SFC supported the sector by effectively underwriting any shortfall in activity but their line to date is that this would not be done for 2021/22.

- **Procurement and Estates Reports:** SLC Finance Committee members accepted both reports and recommended these to the Board. The Committee considered and approved the changes to procurement thresholds that brought these up to sector norms.
- **Budget 2022/23 & Scenario Planning:** It was noted that the latest indication from SFC was that the sector would only receive a "flat cash" settlement for 2022/23. The Committee noted that the College had already investigated its scenario planning arrangements.
- The SLC finance committee noted the establishment of a **Strategic Investment Fund** which would be utilised for special projects, backlog maintenance and curriculum development.
- **Overdraft Facility:** Although the overdraft facility had not been utilised during the year, the SLC finance committee agreed to extend the arrangement for another 12 months.

Regional Business

5. RSB Consolidated Accounts

5.1 Annual Audit Report 2020/21 (FR)

5.1.1 Lucy Nutley (LN) spoke to the Draft Annual Audit Report by Mazars. She apologised for the lateness in providing the draft report to members of the committee and accepted that this had not allowed time for them to read it and comment. She acknowledged that there are some typos and a few minor factual errors to be corrected which will be done in a couple of days and a new draft provided in time for the meeting of the Regional Board on 21 March 2022.

5.1.2 LN highlighted key messages in the draft report:

The Executive Summary sets out the 3 opinions the External Auditors provide:

i. On the financial statements: Mazars anticipates issuing an unqualified opinion without modification
ii. On regularity: Mazars anticipates issuing an unqualified regularity opinion, indicating that in all material respects the expenditure and income set out in the financial statements have been applied for the purposes intended
iii. On other requirements: That the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.

Areas of significant risk

- valuation of land and buildings where SLC's revaluation this year showed an increase of £17m at 31 July 2021
- material valuation uncertainty arises through COVID
- management over-ride of controls
- revenue risk
- expenditure recognition

Areas of focus but not necessarily of significant risk:

- Audit focused on pension valuation which is outwith the college's control but is a volatile area and therefore must be considered a risk:

- Group assets: digital funding from SFC. For the first time it was required that this should be treated as capital.
- Valuation of land and buildings at NCL: no valuation in-year, so not a significant risk this year but needs to be kept under review by management.
- Consolidation process

Mazars had nothing to report on any of these areas of focus.

Wider Scope:

The External Auditors are required to make a judgement on the 4 dimensions of wider scope work:

- Financial management – Mazars found no areas of concern
- Financial sustainability
- Governance and transparency
- Value for money – Mazars found no areas of concern

Financial sustainability: when the audit plan was set out in June 2021 there was a risk because the Business Plan had been written and implemented pre-COVID and may not therefore be realistic for the college's needs in the medium and longer term such as the assumption that SFC would fund voluntary severance which they are no longer doing. During the year it had been decided to use the SFC FFR process as a medium-term financial planning tool. Mazars is content with this approach. However, there are a number of risks across the sector, namely annual funding, the requirement for further cost efficiencies, which give Mazars cause for concern over the financial sustainability of the college.

Governance and transparency: risks were raised about dissolution and governance arrangements. However, as dissolution is no longer imminent the risk has changed slightly and relates to consideration of the governance structure in place to give the RSB an oversight of regional governance. Mazars have raised a wider scope recommendation to review the governance structure in place including working to improve the alignment of the respective board and committee meeting timetables. They also support the proposal to have shared committee attendance.

Additional fee: LN advised that Mazars are in discussion with Audit Scotland on the additional work required around the proposed dissolution and the governance issues in the Region. This will be discussed with the Principal and will go the Regional Board.

Ronnie Smith (RS) asked Mazars to note that substantial progress has been made around the alignment of committees. Every effort will be made to achieve this wherever possible.

LN recommended that this should be included in the management response.

IC financial sustainability is a sector issue and not only in relation to credits. There are cost of living increases, inflation, national bargaining pay awards also form part of the context of the financial pressures facing the sector in the coming months and the pressure on college budgets for next year.

IC commented that the audit was strong although in auditor terms 'adequate' is considered as strong.

Management and members of the committee were encouraged to advise any comments amendments to the review within the next 2 days to Suzie Graham at Mazars.

LN thanked the finance teams for their hard work during the audit process.

5.2 RSB Consolidated Accounts 2020/21

IC spoke to the Regional Financial Statements paper and highlighted the following points:

- The achievements in terms of performance made by the Region, over a period of significant challenge, should not be overlooked
- Credits: While SLC achieved their core credit target, NCL did not, although NCL had delivered its ESF credit target. NCL is still waiting to hear from SFC about their decision regarding clawback for ESF.
- Financial performance: 4 different bottom lines, but the underlying operating position on page 22 are the figures required by Audit Scotland. IC pointed out that before the potential clawback, NCL and its direct subsidiary, AMCOL, made a combined Underlying Operating Surplus of £48k. SLC made an operating surplus of £1.6m.
- IC cautioned the days cash figures on page 23. These figures should not be taken out of context. Both colleges have large cash reservices but these are student funds (SSF, ESF, or Erasmus) and do not belong to the colleges.
- In the section on the notes to the financial statements 'Other Income' on page 65, IC said that comparing the 2020 figures with the 2021 figures demonstrated the impact of COVID and the consequent difference in income.

CM highlighted three aspects. First the overburden of ESF on NCL. Second the college did the right thing for staff during the pandemic particularly the lowest paid members of our community. Third in terms of sustainability, the college utilised deferred student funding in the financial year to ensure student success. Committee noted these points.

Decision: It was agreed that the Committee recommended this report to the RSB The Lanarkshire Board.

5.3 AMCOL Financial Statements

5.3.1 Iain Clark informed the Committee that the accounts of the wholly owned subsidiary AMCOL had been to the AMCOL Board and had been approved. There was a £3.8 million turnover with a £300K surplus which had been taken into the consolidated accounts. There was a £1.1 million cash balance. The Committee noted the AMCOL Accounts and thanked Iain Clark and Moira Jarvie for their contribution to the AMCOL Board.

6. NCL Regional College Business

6.1 Modern Slavery Statement

6.1.1 Modern Slavery encompasses slavery, servitude, human trafficking and forced labour. The Lanarkshire Colleges, incorporating New College Lanarkshire (and its subsidiary company Amcol (Scotland) Limited) and South Lanarkshire College, are committed to acting ethically, and with integrity and transparency in all business dealings, and to putting effective systems and controls in place to safeguard against any form of modern slavery taking place within the organisations or our supply chains. The Lanarkshire Colleges are overseen by The Lanarkshire Board which has responsibility for ensuring the delivery of high -quality further education as set out in the Regional Outcome Agreement.

6.1.2 Iain Clark set out that it was a legal requirement for NCL to have a Modern Slavery Statement and a Home Office requirement that this statement was posted onto the website. The statement outlines the policies in the region regarding sustainable procurement ethical contractors, fraud and immigration. There are no significant changes to the statement.

6.2 Annual Procurement Report

6.2.1 Iain Clark informed the Committee that 75% of the total procurement expenditure is through a compliant procurement process. Approximately 29% of the College's contracted spend went through Collaborative Framework Agreements. New College Lanarkshire is subject to a PCIP Lite Assessment. The most recent assessment was carried out in November 2019. The Procurement function successfully raised the score from 54% to 76%. The intention now is to continue to improve upon this score for the next assessment due in 2023.

6.2.2 Paula Blackadder asked about the number of invoices paid on time which were noted as not being recorded. Iain Clark said that the college policy was that invoices would be paid within 30 days. This was an issue of collective recording.

6.2.3 Kenneth Anderson commented on Community Benefits and that they should be in place for larger contracts and as far as possible for all. Annual Report sets out that for every procurement over £4m, New College Lanarkshire will consider how it can improve the economic, social or environmental wellbeing of its area through inclusion of community benefit clauses, to assist with achieving sustainability in contracts activity, including targeted recruitment and training, small business and social enterprise development and community engagement. Where possible, relevant and proportionate, and where they are considered not to have a negative impact on the delivery of value for money, such clauses may be included in regulated procurements valued at below £4m. The College policy on identifying community benefit requirements is to conduct risk and opportunities assessments through stakeholder consultation and engagement. On a case-by-case basis the question is asked, 'could a community benefit clause be usefully included?'. Where relevant and proportionate to the subject matter of the procurement, the requirement is then built into the procurement specification and into the eventual conditions of contract performance.

6.3 Procurement Strategy

6.3.1 The Committee noted that the procurement strategy had been aligned with Strategy 2025.

Decision: The Finance Committee agreed to recommend the Modern Slavery Report, The Annual Procurement Report and the Procurement Strategy to the Board at its meeting on the 21st March 2022.

7. Committee Workplan

7.1 Kenneth Anderson had made some changes to the workplan and it was agreed that these would be sent out to the Committee members for their comment and the plan would then be finalised.

8. AOB: There was no other business.

9. Date of Next Meeting: The date for the next meeting is Monday 23rd May 2022 at 5pm.