Agenda No: 2

FINANCE & GENERAL PURPOSES COMMITTEE

GATESHEAD COLLEGE

THURSDAY 21 JUNE 2012

Report: **Minutes of a meeting held on Thursday 31 May 2012**
Author: **Clerk to the Corporation**
Action: **Approve**
Status: **Open**

Present:
Keith Cann Evans (Chair)
Ivan Jepson
John McElroy
Robin Mackie (via video link)
David Mitchell
Richard Thorold

In attendance:
John Holt
Mick Brophy
Jackie Doxford
Gwyneth Jones

F/1566 Welcome/Apologies

Keith Cann Evans welcomed everyone to the meeting. Apologies for absence were received from Ian Renwick.

The Chair invited members to declare any interests on any item on the agenda. No interests were declared at this stage in the meeting; however, members noted that should the direction of debate on any item result in a potential conflict of interest, this should be indicated during the meeting. Members were also reminded to advise the Clerk of any changes to be made to the declaration of interests.

F/1567 Minutes of the meeting held on Thursday 26 April 2012

The minutes of the meeting held on Thursday 26 April 2012 were accepted as a correct record.

F/1568 Matters Arising

F/1564 Potential Acquisition of Equality North East Ltd – The Director of Finance advised the Committee that the due diligence exercise had not shown any areas of concern and the College should be in a position to proceed with the acquisition of Equality North East Ltd in the very near future.

F/1564 Termination of Contract of Franchise Partner NTQ UK Ltd

The report and the record of discussion on it are 'closed to public access' until such time as they are considered to be no longer commercially sensitive.

F/1569 Management Accounts – April 2012

The Director of Finance introduced the Management Accounts for April 2012.

Income in April was down slightly compared to March, with a fall of £20,000 to £3,899,000, but was substantially over target by £502,000, which halved the year to date shortfall from £1,050,000 to £548,000. Revenue for the year to date totals £29,887,000; the College expects to achieve £41,206,000 for the full year, £451,000 over target.

Overall, the College was £339,000 over budget in April, which turned the earlier year to date adverse variance into a favourable one of £62,000. 16-18 Learner Responsiveness revenue is released in line with the budget; however the actual delivered volume is £11,521,000 against a target of £12,698,000. The College has hit the learner number target, but the yield per learner is down as fewer full time learners have been recruited. The yield from current learners needs to be increased through enhancing programmes and increased recruitment. Close achievement of the target allocation is essential to maximise the allocations for 2013/2014 and beyond. 16-18 apprenticeship revenue increased only slightly in April as recruitment difficulties continued. There are currently 40 vacancies, but a shortage of good candidates. It is hoped that this will ease as young people either leave school or complete FE courses. 19+ single budget revenue continued to grow during the month with the shortfall against the full year target falling from £8.5m at 31 December 2011 to £3.9m at the end of March and £2.9m at the end of April. The remaining gap should be bridged over the next three months if all planned activity is achieved. The decision to cancel the contract with NTQ UK has impacted on revenue for the year to date by £170,000 and has reduced the surplus by this amount. The College has made provision for the fees paid to NTQ UK as the chance of recovery is believed to be low. Eversheds is currently reviewing the position on behalf of the College.

HE Revenue continued to be under budget as a result of lower recruitment on franchised programmes from the University of Sunderland. Education Contract revenue continued to be under budget reflecting fewer apprentices from other managing agents and reduced levels of 14-16 learners from local schools. There was a dip in Full Cost Fees following the strong performance in March, in part this was due to Easter together with March being boosted by organisations spending budget with the College before their year end. In Other Grant Income, revenue from projects, in particular the Plugged in Places project run by CYC(N) Ltd continued to grow, leading to a favourable variance of £243,000 in the month and £34,000 for the year to date. It is expected that the PIP project will lift revenue for the full year to £1,675,000 over target by £154,000. It was noted that all the PIP revenue was included on this line rather than being split with Other Income. Tuition fees revenue for the year to date is £15,000 over budget, with FE over and HE slightly under. Lower recruitment has hit HE whilst FE has benefited from support from the Foundation. In terms of Other Income, this continued to be under budget and this was partly due to all PIP income being allocated to the Other Grant Funding line. The remainder is due to lower levels of rental income than planned from the Test Track and SASMI.

Expenditure was £521,000 over budget compared to £502,000 for income for the month. Expenditure for the year to date is £132,000 over budget, whilst income is £548,000 under. The main causes for this situation are under utilisation of some salaried teaching staff and over use of hourly paid teachers; under utilisation of trainers and assessors in the earlier part of the year, as insufficient work was generated. The College had to subcontract more than it had intended in order to utilise fully its 19+ funding allocation. In effect this has meant paying for the same provision twice. Savings have been achieved in other areas such as accommodation, but have not been sufficient to offset the situation. Turning to Pay Expenditure, it was noted that overall pay was £10,000 over budget in April, reducing the year to date favourable variance to £647,000. In the month, £39,000 of casual pay costs which were wrongly coded as FT Lecturer have been reclassified, thereby offsetting the high FT Lecturer cost in March. The high use of casual staff is linked to the large scale delivery in the West Midlands and on Merseyside for Jaguar Land Rover. The use of casual staff whilst more expensive than salaried staff reflects the potential short term nature of this work. The use of hourly paid teaching staff within the College remains too high, but is being reduced. An attempt to even out the utilisation of salaried teaching staff to move hours from over utilised staff to underutilised lecturers wherever possible is being made, to minimise annual overtime claims. Other operating expenditure was £495,000 over budget in the month of which £233,000 was on partner payments, linked to the favourable variance on 19+ single budget delivery. The College is delivering more provision through partners than was originally planned as a result of failing to generate the planned level of direct delivery. Other non-pay expenditure is over budget by £262,000 in the month, with this being the net position following a fall in college costs offset by a higher increase in CYC(N) Ltd expenditure which is matched by revenue. College costs include professional fees associated with the development of the International Strategy. The expenditure on the International Strategy was not planned in the budget for the year. Overall for the year to date other operating expenses including partner payments were £787,000 over budget with the adverse variance on partner payments £993,000. The in house favourable variance has been achieved despite professional fees which have been high this year as a result of acquisitions and the International Strategy.

Depreciation charges are currently running above budget by £32,000 in the month and £40,000 for the year to date as a result of the writing down of student laptops and new accommodation developments. The full year total is forecast to be £405,000 over budget as the College intends to write off the laptops fully this year rather than spread across two years. This will benefit the budget next year but will impact on this year's surplus by £370,000. Interest payable continues to remain under budget by £8,000 at £41,000 in the month and by £48,000 for the year to date at £372,000, reflecting current low interest rates.

A surplus of £45,000 was achieved in the month against a target of £74,000. The surplus would have been substantially higher had the College not had to provide for the impact of cancelling the contract with NTQ UK. The surplus for the year to date totals £342,000 against a target of £1,021,000. The full year total should reach £756,000. However, these figures do not take into account the FR17 adjustment at the yearend which cannot be predicted as it is based on an actuarial assessment.

In terms of the Balance Sheet, the Current Assets fell in value by £885,000 to £14,756,000, with cash falling by £487,000 to £10,011,000 as a result of increased creditor payments. Net Assets increased by £45,000 to £22,486,000 which increases to £52,936,000 once deferred capital grants are added back.

The Chair enquired whether the Marketing Team was involved in promoting the links the College had with Jaguar Land Rover. The Principal replied that they were not as there were only tenuous links at the present time.

The Chair questioned whether the predicted total outturn was optimistic. The Director of Finance indicated that it was a challenge but the College had put a lot of time and effort into diversifying from franchising to direct delivery.
A member requested more information on the relationship with NTQ UK Ltd. The Director of Finance replied that the College had entered into a franchise partnership with NTQ UK Ltd and had consulted the SFA before doing so but had not received

any adverse comments. At the end of March the SFA had terminated its contract with NTQ UK Ltd. The Executive Team had taken the decision to cancel the contract with NTQ UK Ltd on 25 April 2012 as it did not wish to have the College's reputation damaged by involvement with a training provider with whom SFA did not wish to continue to do business. It is likely that the owners of NTQ UK Ltd will put the company into administration as its turnover is almost totally based on SFA grant.

RESOLVED to note the contents of the report

F/1570 Subsidiary Companies Report

The Director of Finance introduced a report which updated the Committee on the third quarter financial position of the College's subsidiary companies. Overall excluding the Gateshead College Foundation and TTS Ltd in the last three months the subsidiaries generated revenue of £961,000 and a combined surplus of £16,000. TTS Ltd joined the group at the beginning of April 2012 and broke even on turnover of £75,000 in the month.

Amacus Ltd

Amacus saw an improvement in turnover compared to the second quarter increasing from £71,000 to £77,000 but still below the target of £100,000. Following the loss of £3,000 in the second quarter a small profit of £1,476 was generated in April 2012. Revenue for the year to date is £244,000, (target £300,000), whilst the surplus is £14,829, (target £14,996). Over the last six months there has been a significant shift in the market, with far fewer opportunities to tender for contracts in the public sector, with many of those on offer subsequently being internally awarded. The business is now concentrating on commercial clients, whilst still pursuing any available public tender opportunities. There are a few tender submissions awaiting an outcome, which if successful will have a positive outcome going forward.

Charge Your Car (North) Ltd

Charge Your Car (North) Ltd runs the Plugged in Places project to install the Electric Vehicle infrastructure across the north east. The project is currently on track and has generated revenue of £924,000 and a surplus of £61,000 since the beginning of December 2011. Currently the business has cash of £615,000 and net assets of £61,000. Looking forward it was noted that revenue is expected to improve further over the next few months as the project undertakes an upgrade programme to the existing posts to make them compatible with the latest standards. This work has been prepaid through Newcastle City Council, the company's main contractor, the matching ONE NE revenue held on account. Revenue for the period to 31 July 2012 is expected to be at least £1,600,000.

Zero Carbon Futures (UK) Ltd

Zero Carbon Futures (UK) Ltd was set up to support the delivery of the low carbon vehicle strategy including the delivery of the Regional Growth Fund (RGF) project on behalf of the College. The due diligence process is currently being concluded and will be reported to Finance and General Purposes Committee on 21 June 2012. Once the due diligence process is complete, the College should be able to make its first claim and recover eligible expenditure back to October 2011. This initial claim has not been recognised in the accounts as the project has not yet received BIS final sign off, and therefore the financial position is potentially understated. In the three month period to 30 April revenue was £22,847, with a loss of £56,216, which compares to revenue of £11,695, and a loss of £56,674 in the previous period. Expenditure in the current quarter includes £20,000 of HR and H&S support from the College. Zero Carbon Futures (UK) Ltd is currently developing a number of business streams and projects including RGF and ERDF funding; however, there is need for revenue to begin to be generated over the next few months. The College has provided the business with loan funding totalling £100,000 to date which has been fully utilised. It is likely that a further £100,000 of funding will be required from the College over the next few months to support the business before the first RGF funding is received.

North East Apprenticeship Company

The North East Apprenticeship Company has been under full control of the College for three months following its restructuring. Average monthly revenue is down slightly (5%) at £46,000, but costs have been driven down from £66,000 a month to £41,000 leading to a surplus of £14,287 over the three months, which falls to £5,179 once SFA support funding is excluded. The business is generating new apprenticeships, but is struggling to find sufficient suitable candidates to fill them. It is hoped that this will be addressed over the next few weeks with students leaving both school and college. The business should also benefit from the Regional Growth Fund project over the next couple of years which includes funding up to £625,000 to roll out 800 apprenticeships in the low carbon vehicle and manufacturing sectors, using the NEAC model.

Gateshead College Foundation

Over the last three months the Foundation has received revenue of £102,098, including £100,000 from the College. Expenditure over the period was £23,525, bringing the total to date to £145,310, of which £3,470 was spent on administration costs. The College provides the staffing to administer the processing of applications and the payments to beneficiaries at no cost to the Foundation. Net funds in the Foundation stand at £1,163,243, at 30 April 2012. Over the next three months awards for continuing students are likely to reduce this by around £50,000 before taking into account the final £100,000 contribution from the College.

Tyneside Training Services Ltd

In the first month of ownership by the College, TTS Ltd brought in £74,000 and a small surplus of £91. Revenue was lower than in the two previous months as a result of the Easter weekend preventing the running of the 10 day driver training course. Over the next few months the Jubilee weekend and summer holidays are also likely to impact on revenue and therefore the monthly surplus. Forward bookings are strong over the next few months. Integration of back office functions with the College's systems are planned from the start of the new financial year. The SFA contract has been transferred to the College, which means the post of Data Manager will not be required from the end of September, nor will the software used by TTS. This will save around £35,000 a year. The Data Manager is a fixed term appointment until the end of September and so this contract will not be renewed. The payroll and financial management will also be transferred to the College, again saving a post and the cost of the Sage Software currently used by TTS. Other areas for saving include the provision of Health and Safety services from the College rather than TTS maintaining its own resource. Overall the College anticipates stripping out around £60,000 - £70,000 of costs over the next twelve months, which should help put the business on a sustainable footing.

A member enquired whether there was any risk with the Regional Growth Fund bid in terms of Zero Carbon Futures (UK) Ltd. The Director of Finance advised members that the due diligence report would be submitted to the next Finance and General Purposes Committee meeting in June 2012.

A member commented that when he had joined the Board of Governors in March 2011 the situation with Amacus had been challenging. The Director of Finance indicated that monthly Board meetings were taking place and this provided a forum for College appointed Directors to share ideas with the Managing Director. The Chair explained that at the last Board meeting personnel within the College had been identified who could have direct input into Amacus.

Another member enquired whether the subsidiary companies traded under their own brand or whether they had the benefit of using the central marketing expertise within the College. The Director of Finance replied that all subsidiaries have full use of the College’s marketing resources; in addition, the Director of Marketing and Communications is a member of the Board of Amacus and is also currently working with TTS on its website.

A member observed that the subsidiary companies could have a cultural impact on the College by transforming the view of HR, Marketing and Finance as they could become a commercial unit in the future. The Principal commented that in ten years time, colleges would be different from what they are at present. The Chair indicated that there would be all sorts of possibilities further down the line for subsidiary companies.

The Principal advised that Tyneside Training Services Ltd would retain its own name but indicated that it was important to make sure that it becomes known as part of the Gateshead College brand.

RESOLVED

i) to note the contents of the report

ii) to approve the increase in the loan funding to Zero Carbon Futures (UK) Ltd from £100,000 to £200,000

F/1571 Property Strategy Update

The Director of Finance introduced a report which updated the Committee on progress with the bid to acquire Barmston Court.

It was noted that the deadline for sealed bids to be submitted had been extended to 30 May 2012. It is believed that a bid will be submitted by the owner of the adjoining business park which it is expected will be subject to receiving planning consent. The property currently has an overage clause to the benefit of the Home Office if the property is developed and increases in Market Value as a result. A general increase in market value would not trigger an overage project.

The overage is as follows:

2012 to 2015	66%	of any increase in MV
2015 to 2022	50%	of any increase in MV
2022 to 2023	40%	of any increase in MV
2023 to 2024	30%	of any increase in MV

2024 to 2025	20%	of any increase in MV
2025 to 2027	10%	of any increase in MV

The Director of Finance advised that the College had submitted two bids in order to maximise its attractiveness, one for £502,000 with the overage remaining and one for £552,000 with the overage removed. He indicated that the preference was for the latter bid to be the chosen one.

The Chair indicated that it was difficult to understand what was meant by overage. The Director of Finance advised that if the building was developed and increased in value, the Home Office would be entitled to 66% of the Market Value. He illustrated this point by explaining that if some sheds were put alongside the building it would not change the value of the property but if the College developed the actual building itself that would trigger a payment.

RESOLVED to note the contents of the report

F/1572 Any Other Business

OFSTED Inspection

A member requested a briefing on the outcomes of the recent OFSTED Inspection. The Principal explained that the College had received a draft report but this had contained factual inaccuracies which he has challenged. It was noted that the final report is due to be published on 22 June 2012.

F/1573 Date of the next meeting

The next meeting is scheduled for Thursday 21 June 2012.