Agenda No: 2

FINANCE & GENERAL PURPOSES COMMITTEE

GATESHEAD COLLEGE

THURSDAY 27 SEPTEMBER 2012

Report: **Minutes of a meeting held on Thursday 21 June 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
Ian Renwick

In attendance: John Holt
Mick Brophy
Jackie Doxford
Judith Doyle
Gwyneth Jones

F/1574 Welcome/Apologies

Keith Cann Evans welcomed everyone to the meeting. Apologies for absence were received from Richard Thorold.

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/1575 Minutes of the meeting held on Thursday 31 May 2012

The minutes of the meeting held on Thursday 31 May 2012 were accepted as a correct record.

F/1577 Matters Arising

There were no matters arising which were not substantive items on the agenda.

F/1578 Regional Growth Fund Due Diligence Report

The Director of Finance introduced a report which updated the Committee on the Due Diligence work undertaken on the RGF Project for Low Emission Vehicles.

The College appointed RSM Tenon following a competitive tender exercise to undertake due diligence of the project on behalf of BIS and the College. The draft report has now been received from RSM Tenon and sent to BIS for comments and feedback and this is expected very soon. This should then enable a final offer letter to be issued by BIS with any conditions which need to be fulfilled enclosed.

A summary of the report was included in the document and this showed that whilst there are a few areas where additional work is required, the College has a strong governance and financial control environment and has the necessary processes and structures to manage the project and to mitigate the main risks. BIS is likely to make it a condition of funding that any outstanding items identified by the report are cleared before funds are released. It is anticipated that the final funding letter with any conditions will be received by the end of June 2012 and on the basis of the assurance given by the Due Diligence report it is proposed that the College proceeds with the project.

RESOLVED

i) to note the contents of the report

ii) to approve the commencement of the project subject to the clearance of items outstanding in the report and the commitment of no more than £0.5million.

F/1579 Management Accounts – May 2012

The Director of Finance introduced the Management Accounts for May 2012. Income was up slightly compared to April, with an increase of £49,000 to £3,948,000 and was substantially over target by £499,000 which has almost wiped out the year to date shortfall reducing it from £548,000 to £49,000. Revenue for the year to date totals £33,835,000; the College expects to achieve £41,579,000 for the full year, £834,000 over target if all planned recruitment comes in.

Overall EFA/SFA revenue was £498,000 over budget in May, which increased the year to date favourable variance to £561,000. 16-18 Learner Responsiveness revenue is released in line with the budget; however the actual delivered volume is £11,632,000, an increase of £110,000 in month, but still well short of the allocation of £12,698,000. The College has exceeded 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; however the College will not now make up the shortfall. Close achievement of the target allocation is essential to maximise the allocations for 2013/2014 and beyond. 16-18 apprenticeship revenue increased in May with new starts and achievements. Currently they are vacancies, but a shortage of good candidates. It is hoped that this will ease as young people either leave school or complete FE courses and therefore become available. 19+ single budget revenue continued to grow with the shortfall against the full year target falling from £8.5m at 31 December 2011 to £2.9m at the end of April and £2.4m at the end of May. The recent OFSTED Inspection temporarily diverted attention from recruitment; however plans are in place which should see most if not all of the shortfall made up.

HE Revenue continued to be under budget as a result of lower recruitment to programmes franchised 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. Full Cost Fees picked up in May at £111,000 following a disappointing April at £95,000 and the strong performance in March at £148,000. In part this reflected the Easter break and the effect of March performance being boosted by organisations spending budget with the College before their financial year end. Revenue in the month benefited from a stronger performance by Amacus. Revenue for the year to date is £942,000 against a budget of £1,025,000, and the full year total is expected to be around £1,150,000. In Other Grant Income, revenue from projects, in particular the Plugged in Places project run by CYC(N) Ltd decreased in May, but there was still a favourable variance of £36,000 in the month and £70,000 for the year to date. It is expected that the PIP project will lift revenue for the full year to £1,725,000 over target by £204,000. 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 £47,000 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 £316,000 over budget compared to £499,000 for income for the month. Expenditure for the year to date is £447,000 over budget, whilst income is £49,000 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, especially for the Productivity Team. 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 in facilities, but have not been sufficient to fully offset the above. Turning to Pay Expenditure, it was noted that overall pay was £66,000 over budget in May, reducing the year to date favourable variance to £581,000. 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 also remains too high, but is slowly being reduced. An attempt to even out the utilisation of salaried teaching staff to move hours from over utilised to underutilised lecturers wherever possible is being made, to minimise annual overtime claims. Other operating expenditure was £220,000 over budget in the month of which £209,000 was from partner payments, linked to the favourable variance on 19+ single budget delivery of £479,000. 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 £11,000 in the month, compared to £252,000 in April. In the month there was a reduction in expenditure by both the College and the subsidiaries. In the previous month there was significant expenditure on 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 £1,008,000 over budget with the adverse variance on partner payments £1,202,000. The favourable variance on non-partner payments 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 £33,000 in the month and £73,000 for the year to date as a result of the student laptops and new accommodation developments. The full year total is forecast to be £510,000 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. Interest payable continues to remain under budget by £4,000 at £42,000 in the month and by £52,000 for the year to date at £414,000.

A surplus of £311,000 was achieved in the month up from £45,000 in April and against a target of £128,000. The surplus for the year to date now totals £653,000 against a target of £1,149,000 and the outturn is expected to be a surplus of £916,000 on turnover of £41,579,000.

A member commented that the flexibility of using casual staff in the West Midlands and on Merseyside for Jaguar Land Rover was good and asked if this system was working. The Managing Director of Business, Innovation and Development replied that the College did not want to commit to long-term staff until they knew the work was sustainable.

Another member enquired how much money had been spent on the costs and fees relating to the International Strategy. The Director of Finance replied that £70,000 - £80,000 had been spent to date.

In terms of the Balance Sheet, the Director of Finance indicated that it continued to remain strong. It was noted that the acquisitions of Tyneside Training Services Ltd and North East Apprenticeship Company were not included and would be added in the Management Accounts for June 2012. Fixed Assets fell in value by £113,000 in May with additions of just £157,000 and depreciation of £270,000. Current Assets fell in value by £326,000 to £14,430,000, with cash falling by £352,000 to £9,659,000 as a result of increased creditor payments. Net Assets increased by £311,000 to £22,797,000 which increases to £53,160,000 once deferred capital grants are added back.

It was noted that Fixed Assets will increase by £500,000 to reflect the completion of the Construction Centre Phase 2. It was also noted that the impact of FRS17 on the Balance Sheet is not yet known; it is possible that the effect may be significant but this is entirely outside the control of the College.

RESOLVED to note the contents of the report

F/1580 Budget and Three Year Forecast

The Director of Finance introduced a report which set out the draft budget for 2012/2013 and the three year forecast to 31 July 2015. The report builds on those previously presented on 26 April 2012 and 8 March 2012. The forecast takes account of new activities such as Tyneside Training Services Ltd, Regional Growth Fund and International Work.

Overall revenue is forecast to be £44,407,000 in 2012/2013 up from £41,380,000 in 2011/2012. Revenue will drop in 2013/2014 to £40,617,000 before picking up again in 2014/2015 to £41,006,000. Figures showing the split between the College, RGF, International and subsidiaries were included in the report. Key movements in funding were set out in the report and the Committee noted that 16-18 Learner Responsiveness was falling from £12,696,000 to £11,968,000 in 2012/2013 a decrease of £728,000 which is accounted for by a drop in the average yield for learner together with reduced achievement and widening participation factors. A 3% growth in subsequent years has been allowed for and it is hoped that this will be achieved either from increasing average yield by recruiting a higher proportion of full time learners or more learners overall. Combined 19+ will fall from £17,524,000 to £15,853,000 in 2012/2013 a reduction of £1,671,000, this fall is made up of £500,000 of additional in year 19-24 Apprenticeship funding given in 2011/2012 and £1,200,000 of funding received 2010/2011 which the College did not have to return to the SFA for the shortfall in activity that year and was therefore released to the I&E in 2011/2012. 16-18 Apprenticeship Funding is forecast to grow from £1,500,000 in 2011/2012 to £2,056,000 in 2012/2013 of which £356,000 is from Tyneside Training Services leaving the core college to grow by £200,000 to £1,700,000. The overall volume of activity is expected to grow to £2,400,000 by 2014/2015. SFA ESF Project

Revenue should contribute £2,369,000 in 2012/2013 for unemployed training and in each of the following two years.

Turning to HE, it was noted that it will move from £2,094,000 to £2,044,000 in 2012/2013 with the mix and balance between HEFCE, franchised provision and fees substantially changing. At this stage the figure of £2,044,000 is believed to be cautious, but it will depend on the level of recruitment of new first years.

Contracts will increase because of the inclusion of NEAC revenue, International and RGF related income.

14-16 provision is forecast to decline as schools send fewer learners to the College. Full cost fees will increase from £1,050,000 to £1,770,000 in 2012/2013 an increase of £720,000 with in-house activity growing from £500,000 to £750,000 and TTS contributing £450,000 from Driver Training. The College has assumed modest growth in the next two years. Other grant income will increase next year with increased activity through Charge Your Car (North) Ltd, most of which has already been received from either Office of Low Emission Vehicles or One North East. The Plugged in Places Project ends in March 2013, hence the drop of £2,400,000 in 2013/2014. This line also includes revenue from the Regional Growth Fund of £515,000 in 2012/2013 and £525,000 in 2013/2014.

In terms of FE Tuition Fees, a lower level of tuition fees is forecast for next year as the arrangement with Premier International Ltd which used to collect fees and pass them on to the College has been revised; the provider will retain the fees and will receive a lower partner payment. In subsequent years, the introduction of student loans for level 3 courses is expected to impact significantly on the number of learners recruited and therefore fees collected. HE Tuition Fees will increase over the next couple of years reflecting the introduction of fees to replace HEFCE teaching funding from September 2012. Fees will be introduced for new students with existing students continuing on the current regime. New students enrolled through the franchise with the University of Sunderland will pay the University directly and the College will receive a higher franchise payment. The College is aiming to increase the amount of interest receivable through placing funds with other banks such as Lloyds TSB instead of Barclays.

The forecast included details of expenditure. Overall expenditure will grow from £40,466,000 in 2011/2012 to £42,957,000 in 2012/2013, an increase of 4%. The main cause of increase is the inclusion of subsidiary companies (NEAC £532,000, TTS £879,000 and the ESF Unemployed Project £210,000). Offsetting against these increases are savings from voluntary severance, efficiencies and reduced depreciation charges as a result of depreciating the student laptops over one year instead of over two years. Pay Expenditure is expected to grow by £2,339,000 in 2012/2013 of which NEAC accounts for £480,000, TTS £420,000, International £200,000 and RGF £216,000. In addition, the College expects to switch provision from franchise partners which will increase pay by £1,528,000, making savings from Voluntary Severance of £921,000 and savings from improved staff utilisation of £700,000. Allowance has been made for the full year impact of new posts created this year, contractual increments and a 1½% pay award to staff. In future years allowance has been included for 5% for increments and pay award savings from voluntary severance of £800,000 in each year and a switch of £1m of activity from franchised in 2013/2014 and a further £500,000 in 2014/2015 at a cost of £500,000 and £750,000 in 2013/2014 and 2014/2015 respectively. The pay expenditure related to the Plugged in Places Project has also been removed from 2013/2014 onwards.

Non-Pay Expenditure, excluding payments to partners, will increase by £1,897,000 from £9,284,000 to £11,181,000 this reflects the inclusion of NEAC (£52,000), TTS (£443,000), RGF (£285,000), International (£200,000) and growth in the Plugged in Places Project (£600,000). The remainder of the increase comes from higher examination fees, the running costs of new buildings which have come on stream and increased expenditure through the Gateshead College Foundation on learners coming to the College. It was noted that partner payments reflect new subcontracting on the ESF unemployed programme and the on-going switch from in-house provision, which is reflected in increased wage costs.

Depreciation will fall with the full write down of student laptops this year together with depreciation from new assets being less than the saving from those which become fully written down. The College has allowed for general capital expenditure of £500,000 a year together with £319,000 and £2,275,000 in 2012/2013 and 2013/2014 related to the RGF Project which will be fully grant funded.

The surplus is forecast to increase when compared to 2011/2012, to over 3% for 2012/2013 once 1% is earmarked for the Foundation. In subsequent years the surplus will fall below the threshold and therefore further action will be required to bring it back up to at least 3%. Key factors driving down the surplus are: reductions in the volume of funding; declining rates per qualification, with no inflationary increase; non-pay inflation; contractual pay increments and pay awards.

A member expressed the view that credit should go to the Director of Finance and his team for being able to plan for a 3% surplus for 2012/2013 and this was supported by the Chair of the Corporation. The Director of Finance explained that the College was required not to go into deficit; 1% of the 3% surplus goes into the Foundation and a smaller surplus meant this could not happen.

RESOLVED

i) to note contents of the report

ii) to recommend the Draft Budget and three year Financial Forecast to the Board of Governors for approval

F/1581 Property Strategy Update

The Director of Finance introduced a report which updated the Committee on progress with the Phase 2 Property Strategy.

Construction Centre – Phase 2

Phase 4 fit out of the workshops commenced at the end of March and will continue to late June 2012, in time for the new academic year. The project is on track and on budget. The account with UK Land is currently being finalised, for Phases 1-3 with discussions over a small extension of time claim. The College is on track to bring this part of the project in under budget by £72,000. A table summarising the current financial position of the project was included in the report and it showed that expenditure is in line with the budget.

Acquisition of Barmston Court

The College submitted two bids for Barmston Court: £552,000 with the overage clause removed and £502,000 with the overage clause retained. Following the deadline, it was learnt that a revised bid had been received from a previous bidder and therefore the bidding process has been re-opened to all bidders. The College has been invited to revise its bid by close of play on 22 June 2012. Consideration is being given to whether the College will do so and advice has been sought from Eversheds. The ERDF bid which would fund 50% of the purchase price has been successful at the first stage so a 2nd stage bid will be put forward by the end of August. If the College is unsuccessful with Barmston Court, this bid will need to be revised.

The Chair questioned the point of 'closed' bids if the 'small print' allowed the agents to reopen the process. The Director of Finance indicated that this would be the last time the College would be bidding as the process appeared to be turning into an auction. It was noted that advice has been sought from Eversheds on challenging the agent's actions and about the possibility of seeking a judicial review.

RESOLVED to note the contents of the report

F/1582 Any Other Business

Specialist Equipment for Apprentice Training

The Chair commented on a recent meeting with the MD of a company on Team Valley which apparently has a large requirement for apprenticeship training which the College is unable to match. The Managing Director, Business, Innovation and Development indicated that he was aware of the issues which related to CNC capability and the fact that the College could not afford to invest in expensive specialist equipment to be used by only one or two apprentices. The Chair of the Corporation commented that the College should avoid investing £80-£100,000 in an item of equipment solely for the benefit of one employer's training requirements. He suggested that employers should be encouraged to form a consortium to guarantee sufficient apprentices requiring similar training facilities before the College invested in new equipment.

OFSTED Inspection

A member enquired whether there had been any developments following the recent OFSTED Inspection. The Deputy Principal Curriculum and Quality replied that the draft report received was factually incorrect and so the College had challenged this and were awaiting a response. It was noted that the final report is due to be published on 22 June 2012.

F/1583 Date of the next meeting

The next meeting will be held on Thursday 27 September 2012.