JOINT MEETING OF THE AUDIT AND FINANCE AND GENERAL PURPOSES COMMITTEES

GATESHEAD COLLEGE

WEDNESDAY 5 DECEMBER 2012

Report: **Minutes of the joint meeting of Finance and General Purposes Committee and Audit Committee held on Thursday 1 December 2011**
Author: **Clerk to the Corporation**
Action: **Approve**
Status: **Open**

Present:

Audit Committee
Chris Macklin (Chair)
Susan Bickerton
Allan Steele
F & GP Committee
Keith Cann Evans (Chair)
Ivan Jepson
Robin Mackie
David Mitchell
Ian Renwick
Richard Thorold

In attendance:

Peter Gray (Baker Tilly)
Claire Leece (Baker Tilly)
Mick Brophy
Jackie Doxford
Judith Doyle
John Holt
Gwyneth Jones

JFA/49 Welcome/Apologies

Keith Cann Evans and Chris Macklin welcomed everyone to the meeting. Members agreed that Keith Cann Evans and Chris Macklin should chair those parts of the meeting which reflected the responsibilities of the Committee of which each is Chair. Apologies for absence were received from Anthony Garnett and John McElroy and from Karen Finlayson, Wayne Brown and Katie Reeves of PWC, the College's Internal Audit Service.

Members were invited 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 declaration of interests.

Chris Macklin in the Chair

JFA/50 Minutes of the meeting held on 9 December 2010

The minutes of the meeting held on 9 December 2010 were accepted as a correct record.

JFA/51 Matters Arising

There were no matters arising.

JFA/52 Revised Internal Audit Strategy and Annual Plan 2011/2012

The Director of Finance introduced a revised Internal Audit Strategy and Annual Plan 2011/2012 to the Audit Committee. The revised plan had been prepared by PWC, the College's Internal Audit Service, taking into account the discussions at the meeting of Audit Committee held on 5 October 2011. Members of Audit Committee were in agreement that the revised plan incorporated the right balance of innovation and strong robust basics and was appropriate to provide the new IAS with an overview of the College's core systems.

Audit Committee RESOLVED to recommend to the Board that the Revised Internal Audit Strategy and Annual Plan 2011/2012 should be approved

JFA/53 Revised Financial Management and Control Evaluation

The Director of Finance introduced a report which requested that Audit Committee should review the content of the revised Financial Management and Control Evaluation document completed by the College and confirm its agreement to the proposed grades before submission to the SFA. The document covers the following areas: strategic oversight; operational oversight; subcontracting arrangements; long-term financial planning; short-term financial planning; risk management; internal control; and financial monitoring.

The Director of Finance explained that the draft FMCE had been considered by Audit Committee on 5 October 2011. The proposed grading was approved but additional detail was requested in the evidence sections on pages 9, 10 and 11. This additional information has been incorporated.

Audit Committee RESOLVED to approve the revisions to the Financial Management and Control Evaluation Document and for submission to SFA

JFA/54 Audit Findings and Financial Statements Management Letter for the year ended 31 July 2011

Clare Leece and Peter Gray of Baker Tilly presented the Audit Findings report, covering the Financial Statements Audit and the Regularity Audit and including management letter points and the letters of representation, to the Audit Committee.

The auditors concluded that an unqualified audit opinion will be issued for the Financial Statements for the year ended 31 July 2011 and for the Regularity Audit. The year end audit was completed in the timescales agreed with auditors with the process going smoothly.

The audit had focused on the key business and audit risks identified in the audit plan considered by Audit Committee on 8 June 2011: Main Funding Allocations; Other Income; Fixed Assets: Capital Developments including Skills Academy for

Sustainable Manufacturing and Innovation (SASMI), Test Track, Skills Academy for Construction, Academy for Sport; FRS 17; Regularity Review; Financial Health/Going Concern; Amacus Ltd; North East Apprenticeship Company Ltd; and Gateshead College Foundation. As part of the regularity audit work the Financial Statements Auditors sought to minimise duplication of work by placing reliance on the work carried out by the College's internal auditors. The Corporate Governance review was conducted giving consideration to work already undertaken by the IAS.

In the course of the review of the Main Funding Allocation it was noted that the College did not deliver all of the outputs under the SFA 'Single Budget' and as a result the net difference of £1.3m has been correctly reflected as an amount due to SFA at the year end. Correspondence from SFA and YPLA was reviewed to ensure that releases of funding meet the conditions set by both bodies. Based on period 13 ILRs an adjustment has been processed to reflect overperformance of £88,000 less related partner costs of £32,000 in relation to Single Budget funding.

During the review of Fixed Assets: Capital Developments: SASMI it was noted that the financial statements include grants receivable from SFA of £450,000 (with corresponding entry to deferred capital grants) representing 50% of the value in kind of equipment provided by Nissan. Following receipt of verbal assurances direct to the College from SFA that this is consistent with the terms of the SFA funding agreement, Baker Tilly conclude that this treatment appears reasonable.

Following the review of Fixed Assets: Capital Developments: Test Track which included confirmation that consent for the purchase has been obtained in line with SFA requirements, Baker Tilly's conclusion is that the accounting treatment in respect of test track expenditure and grant funding appears reasonable.

After detailed consideration of the substance of the transaction relating to the revised lease with Gateshead Council in respect of the second 50% lease of the Gateshead Stadium building Baker Tilly agreed adjustments to recognise the value of the revised lease within fixed assets. The revision led to an increase in the fixed assets balance of £725,000 with corresponding credit to deferred capital grants. The £725,000 is the value placed on the additional accommodation by independent valuers following the year end.

The Final Audit Findings Report indicated that during the audit the information available regarding the inclusion within the fixed assets in the draft financial statements of an amount of £500,000 paid in advance to Gateshead Council regarding facilities at the Sports Academy had been considered. Following the review and further discussions with management, it was agreed that for statutory purposes the amount related to a prepayment. An adjustment was agreed and processed to reallocate this balance from fixed assets to prepayments.

The Financial Statements Auditors also highlighted updated financial reporting developments and emerging issues for the learning and skills sector.

Under the Audit Code of Practice, the Financial Statements Auditors are required to report to the Audit Committee any services performed for the College in addition to the external audit of the financial statements. For the year to 31 July 2011, Baker Tilly provided additional services on: VAT and Corporation Tax advice £10,500; Grant Income Reviews £7,950, Teachers Pension Scheme TR17 Return review £500, Accounting Advice re Gateshead College Foundation and Social Security £660. The cumulative value of the additional services is £19,610 (net of VAT).

Members of Audit Committee noted the comments made by the Financial Statements Auditors with regard to the Regularity Audit and their reliance on the work and co-operation of KPMG, the College's former IAS providers in conducting the review. Audit Committee requested that a letter of thanks should be sent to Stephen Reid, Partner, KPMG thanking him and his team for their services to the College.

Audit Committee RESOLVED

i) to note the content of the Audit Findings Report for 2010/2011

ii) to recommend the signing of the letters of representation

JFA/55 Annual Report of Audit Committee 2010/2011

The Clerk introduced a draft of the annual report of the Audit Committee for the period 1 August 2010 to 31 July 2011. The draft report had been prepared in accordance with the requirements of the Joint Audit Code of Practice and was addressed both to the Board of the Corporation and to the Principal in his role as Accounting Officer for the College. The report provided advice on the adequacy and effectiveness of the College's systems of internal control and its arrangements for risk management, control and governance processes and securing economy, efficiency and effectiveness (value for money).

The Chair indicated that he found the report to be a useful summary of the work of the Committee during the year and a document which should be helpful to the Board in consideration of the College's financial statements.

Considering the common themes emerging from the work of the College's auditors, members were of the view that the key common theme is that the College's auditors continue to regard the systems in place for the proper conduct of the College's business to be sound in principle and practice and that the College has a satisfactory framework of internal control. Specific recommendations for improvement were described in the report.

The Chair commented on the number of areas of good practice which had been identified in the internal audit reports during the year and the low number of recommendations, most of which had been rated as being of low risk. He requested that the congratulations of Audit Committee to John Holt, Director of Finance, and his team should be recorded. The Chair also thanked the members of Audit Committee for their proactive work in ensuring that the College manages financial and non-financial risk effectively.

The Audit Committee concluded that on the basis of the work undertaken by KPMG and Baker Tilly, Gateshead College has an adequate and effective system of internal control. In reaching this conclusion, the Committee recognises that the system of financial controls can provide only reasonable, and not absolute assurance, that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

Some additional comments were added to the draft to indicate the delays in the receipt of the final funding reconciliation for 2010/2011 from SFA and the possible impact on the final audit sign off.

Audit Committee RESOLVED to approve the annual report of the Audit Committee for the year ended 31 July 2011 for submission to the Board

Keith Cann Evans in the Chair

JFA/56 Report and Financial Statements for the year ended 31 July 2011

The Director of Finance introduced a report which presented the final audited financial statements for the year to 31 July 2011 for Gateshead College and Amacus Ltd before submission to the Board. The financial statements which had been audited by Baker Tilly, consolidate the subsidiary companies. Amacus Ltd continued to trade normally throughout the financial year to 31 July 2011.

Gateshead College entered into a joint venture with Gateshead Council in 2010 to form the North East Apprenticeship Company Limited (NEAC). The company was registered on 12 February 2010. NEAC is undergoing a full statutory audit for the trading period 12 February 2010 to 31 July 2011 and the results of NEAC, in which Gateshead College is a 50% investor, were not included in the Gateshead College group consolidation on the grounds that they were immaterial.

Gateshead College Foundation was incorporated on 18 April 2011. This charitable organisation was established to provide financial support to students to ensure that their studies are not impacted by personal hardship. The College has provided £1m of start-up capital and has pledged to donate a further percentage of its surplus each year above a minimum threshold, to ensure donations from the Foundation remain unaffected. The Foundation committed to £48,601 2011/2012 tuition fee awards prior to 31 July 2011.

Tangible fixed asset additions during the year totalled £12,347,000 which represented the ongoing updating of facilities and equipment at the Baltic Campus, Stadium Building, both Skills Academies at the Team Valley and the Auto Skills Centre. The College also continued to expand its accommodation portfolio with the Skills Academy for Sustainable Manufacturing and Innovation at Washington, the acquisition and development of the Nissan Test Track, the purchase of new accommodation at Gateshead Stadium and the Phase 2 development at the Skills Academy for Construction.

The College has significant reliance on YPLA and SFA for its principal funding sources, largely from recurrent grants. In 2010/2011 YPLA/SFA provided 81.5% of the College's total income.

It was noted that the operating surplus for the year was £4,955,000 compared with £3,494,000 in 2010) prior to the consolidation of its subsidiaries. The final outturn surplus for 2010/2011 was £2,424,000 (2009/2010 £5,000,000). During the year, £445,000 of restructuring costs were incurred (2009/2010 £340,000), and interest charges and other finance costs of £586,000 were also incurred (2009/2010 £892,000). The College has accumulated consolidated reserves of £29,021,000 excluding pension reserve (2009/2010 £26,417,000 excluding pension reserve) and consolidated cash balances of £15,217,000 (2009/2010 £12,763,000). The College wishes to continue to accumulate reserves to fund further capital developments and to reduce long-term loans.

Pay expenditure excluding restructuring costs for the year was £18,811,000 (2009/2010 £17,993,000) Non Pay expenditure totalled £16,404,000 (2009/2010 £15,845,000). Depreciation charges were £2,285,000 (2009/2010 £2,485,000). At £6,108,000 (2009/2010 £2,878,000) operating cash flow is strong. During the year the College secured no additional short term borrowing but has repaid £415,000. The College has borrowings of £13,330,000. The size of the College's total borrowings and its approach to interest rates have been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cash flow. The margin was comfortably exceeded during 2010/2011.

The College continues to be classified as SFA Financial Category A and Outstanding for Financial Management under the Framework for Excellence. The Chair of Finance and General Purposes Committee commented on the excellent financial results. He expressed thanks to the management team for achieving excellent results and in particular to John Holt, Director of Finance.

The joint meeting RESOLVED

i) to approve the College and subsidiary Financial Statements for the year ended 31 July 2011

ii) to recommend to the Board that the Financial Statements for the year ended 31 July 2011 should be formally adopted

Claire Leece, Peter Gray and Gwyneth Jones left the meeting

Ian Renwick joined the meeting

Members of Audit Committee: Susan Bickerton, Allan Steele and Chris Macklin left the meeting which became a meeting solely of members of Finance and General Purposes Committee

Keith Cann Evans in the Chair

JFA/57 Management Accounts: October 2011

The Director of Finance introduced the management accounts for October 2011. Overall the College generated revenue of £3,138,000 and a surplus of £112,000 in October, bringing the year to date total to £8,584,000 and a surplus of £121,000. Revenue and surplus were under budget because of lower levels of employer responsiveness activity than planned as the new direct delivery to replace franchise activity had not kicked in, together with the delayed transfer of the Plugged in Places project. It was noted that it was expected that the shortfall would be recovered over the coming months and that the College would achieve its financial targets.

It was noted that YPLA/SFA revenue was £1,008,000 under budget for the year to date at £7,004,000, which was mainly from employer responsiveness activity where franchise provision has been discontinued but has not yet been fully replaced with directly delivered activity. Recruitment of all of the Business Growth Managers necessary to generate the new business had taken longer than desirable. It was noted that it is anticipated that activity will pick up over the coming months once the new appointments generate new business. In the event that directly delivered work fails to materialise in sufficient volume there is a fall back of increasing franchised activity in the second half of the year. Members noted that 16-18 Learner Responsiveness activity was roughly 2% down on the same point in 2010/2011 but the College expects to exceed the full year target if the same pattern of recruitment occurs. The 19+ Learner Responsiveness element of the combined Adult Budget was up on the same point in 2010/2011 by 2% and this is down to growth in programmes dedicated to the unemployed, partially offset by the anticipated decline in traditional programmes. This decline has been lower than expected because of the impact of the Foundation and the late relaxation in the fee remission eligibility rules.

It was noted that revenue from Education contracts was down on the same point in 2010/2011 with a reduction in 14-16 activity. This is in line with expectations. The report indicated that Pay Expenditure was under budget for October by £188,000 and by £490,000 for the year to date, of which the delayed transfer of Plugged in Places accounted for £21,000 and £73,000 respectively. It was noted that the remainder of the variance was made up from the restructuring line (£71,000) together with vacancies held open until the business is generated (£146,000). The College had also delayed the recruitment of additional Learning Support Officers until students had been recruited and this had also contributed to the favourable variance.

Members noted that there was a favourable variance of £23,000 in Non Pay Expenditure in October which increased the favourable variance for the year to date to £667,000. Excluding Payments to Partners the year to date favourable variance was £499,000 of which Plugged in Places accounts for £320,000, the balance being mainly from savings on premises costs and examination fees. The Director of Finance explained that Payments to Partners were slightly below budget but high in relation to the overall level of post 19 SFA income, reflecting the time it take for direct delivery to replace franchised activity.

It was noted that the Balance Sheet remains strong with cash at £14.9m. Net current assets dropped to £7.2m as a consequence of expenditure on fixed assets.

Considering the key risks members noted that timing of student enrolments is a significant factor as every student enrolled at the start of the academic year generates more funding than students enrolled later in the year.

Finance and General Purposes Committee RESOLVED to note the contents of the report

JFA/58 Property Strategy

The Director of Finance introduced a report which provided an update for Finance and General Purposes Committee on the Phase 2 Property Strategy. It was noted that work on the Construction Centre Phase 2 continues to go well. The project remains on budget and practical completion of the hub building is expected before Christmas 2011 enabling a College fit out in January 2012 and relocation mid February at half term.

Finance and General Purposes Committee RESOLVED to note the contents of the report

JFA/59 Acquisition of Tyneside Training Services Ltd (TTS)

The Director of Finance introduced a report which sought consent to acquire Tyneside Training Services Ltd (TTS), a long established training company based at Kingston Park specialising in heavy goods vehicles and plant. The College had begun a process to acquire TTS following approval by the Board on 10 November 2010 but had decided not to pursue the opportunity because an alternative merger opportunity presented itself. That decision was not a reflection on TTS.

The report included a financial appraisal, commentary on rationale and business fit and a range of issues which needed to be taken into consideration in the decision making process. Progress to date is that a number of meetings have been held between the College and TTS involving the Principal, the Vice Chair of the

Corporation and the Director of Finance. The meetings have been productive and led to the commencement of the acquisition process. Deloittes have been engaged to undertake financial due diligence and Eversheds to undertake the legal side. Both firms acted for the College during the previous attempt to acquire TTS. The College has reviewed the latest statutory and management accounts and had the business premises valued by Lambert Smith Hampton in order to form an opinion over the value of the business. TTS has also had the premises valued. A supplementary report provided additional information on the structure of the proposed acquisition of TTS which is a company limited by guarantee.

The Director of Finance explained that the College would be buying assets as well as goodwill. The fit of the business against the College activities should enable the College to move into areas where it currently has no facilities. Whilst the most recent Ofsted report on TTS was only 'satisfactory' the College expects to be able to turn this around quickly. The valuation of TTS has been agreed with the current owners at £770,000. TTS is a company limited by guarantee and a process has been agreed by the College to enable a distribution to be made to the current owners.

In response to a question on whether staff would be subject to TUPE the Principal explained that TTS is a standalone company and the staff would be retained within it. In discussion on the need to avoid any loss of revenue following acquisition it was noted that as part of the agreement the current owners would commit to sending their apprentices to TTS for training. The Chair of the Corporation commented that he was happier about the proposed acquisition on learning that TTS is not owner managed and includes assets. He enquired where TTS would sit within the 'group' with regard to Amacus Ltd. The Principal indicated that there is a need to look at all of the subsidiary companies separately and determine the reporting structure. The Chair of the Corporation commented on the need for theme and synergy and a consolidated structure.

A member enquired about training plans and projections for the future. The Director of Finance indicated that plans had been put together and confirmed that the College intends to use its own facilities and staff rather than franchising activity. Taking on TTS would enable the College to cease franchising in the areas covered by TTS. However, the transition will require a lot of work in terms of bringing TTS staff to the levels expected of staff employed by the College.

There was discussion on the differences between the acquisition of TTS and the earlier acquisition of Amacus. The Principal commented that buying TTS was buying an asset whereas in buying Amacus the College had acquired a person/lifestyle business. TTS is a business currently operated at arm's length by a group of business men and is not run by an owner MD. The Managing Director Business, Innovation and Development commented that the current value of training offered by TTS is not enough to meet current SFA contract requirements as a standalone operation but would fit well within the College. The Chair expressed the view that TTS is solid bricks and mortar with equipment providing training in an area with which the College is familiar and it owns a piece of land which has value. Comparing the acquisition of TTS with the acquisition of Amacus was not comparing like with like. There is danger that if the College procrastinates the current owners of TTS will walk away from the discussions.

The consensus view was that Finance and General Purposes Committee should hold a Special Meeting to consider the proposed acquisition of TTS in depth before providing advice to the Board on the proposal. The meeting should take place before the Board meeting on 8 December 2011 to enable the College to make the current owners of TTS a firm offer before the Christmas break.

Finance and General Purposes Committee RESOLVED to note the contents of the report and to hold a further meeting before making a recommendation to the Board on the acquisition of Tyneside Training Services Ltd

JFA/60 Plugged in Places

The Director of Finance introduced a report which updated Finance and General Purposes Committee on the transfer of Plugged in Places which was approved by the Board on 17 February 2011. It was noted that originally it was intended that the transfer should be effected on 1 August 2011; however, the due diligence process has taken longer than expected and completion was now planned for 1 December 2011. The due diligence process covered the legal, financial and personnel issues arising from the proposed TUPE transfer of four staff which threw up two main issues related to the inherited right from One North East.

The key issues surrounding the transfer of staff are in relation to potential redundancy costs and pensions issues. Redundancy costs at the end of the project have been calculated at £65,000. In addition, in the event of redundancy, there would be a potential strain on the fund payment to the LGPS. It was noted that it is not possible to estimate the strain on the fund costs but they are not expected to be excessive. Redundancy would only occur in the event that the College was unable to develop the project commercially or find re-deployment opportunities.

The Director of Finance outlined the issues surrounding the pensions arrangements for the four staff who are in two different Civil Service Pensions Schemes: Nuvos and Premium. The Government Actuary has calculated pay increases for each person to compensate for the higher contribution rate in the LGPS. Transfer of pension to LGPS for staff in the Nuvos scheme is relatively simple and any adjustment in funding will be absorbed into future employer pension contribution rates. Transfer from the Premium scheme to LGPS is more complex and is likely to require an additional contribution from the College of approximately £45,000. The transferring staff can elect not to transfer their existing benefits from the Civil Service Scheme in which case there is no additional liability for the College.

The report included a financial evaluation of proceeding with the project which will require further expenditure of £2,230,153 which will be funded from the cash unspent at the point of transfer of £891,622 together with OLEV funding of £1,206,568 and Host contributions of £418,750 leaving a surplus of £286,787. Overall the revenue for the entire project is £7,287,498 whilst expenditure is £7,000,711 and the surplus £286,787. It was noted that the expenditure includes salary uplifts for the transferring staff to cover the increased costs of membership of LGPS and higher employer contributions to reflect the risk LGPS associates with the project. Members also noted the potential liabilities outlined earlier in the report associated with the transfer of staff.

It was noted that due diligence undertaken by Eversheds on behalf of the College has not raised any major concerns or reasons for the College not to take on the project. Articles of Association required by One North East for the Charge Your Car Company have been agreed as acceptable and transfer documentation is being finalised.

Considering potential risks it was noted that the project includes £603,704 to develop a new back office system which would enable the posts to be connected to a national system. Currently One North East is seeking to set up a joint venture with a commercial organisation through an OJEU process. If this goes ahead it would result in the College being involved in a joint venture with an unknown organisation. An alternative is that the project could develop its own system or purchase a system if required. Other potential risks are the College's liability for any clawback from OLEV of previous claims for funding made by One North East and the possibility of reputational damage to the College with both BIS and OLEV endangering RGF funding and future funding on other projects if the PIP project, which is a key part of the low carbon vehicle strategy, did not go ahead.

Members noted that the project is key to the College's low carbon vehicle strategy and the financial appraisal indicates that it should be possible to deliver it within the funding available even after allowing for extra pension costs and redundancy costs.

Finance and General Purposes Committee RESOLVED to note the contents of the report

JFA/61 Pay Award 2011/2012

The Principal introduced a report which sought formal approval for a pay award of 1.5% for all staff backdated to 1 August 2011. The budget for 2011/2012 approved by the Board on 7 July 2011 included a 3% increase per annum to cover increments and pay awards but did not specifically indicate the level of the pay award to be made to staff for 2011/2012. Finance and General Purposes Committee, which sets the framework for the pay and conditions of staff other than senior postholders on behalf of the Board, debated the possibility of a pay award and what it might mean for the College going forward at a meeting on 26 June 2011 but did not set a pay award at that time.

Finance and General Purposes Committee RESOLVED to approve a pay award of 1.5% to all staff backdated to 1 August 2011

JFA/62 North East Apprenticeship Company

The contents of the report and the record of discussion are 'closed to public access'

JFA/63 Any other business

Amacus Ltd

The Chair of the Corporation commented on the need for a formal review of Amacus Ltd in order for the College to determine its place within the 'Group' structure going forward.

JFA/64 Dates of Next Meetings

The next scheduled meeting of Audit Committee is on Wednesday 14 March 2012. The next scheduled meeting of Finance and General Purposes Committee is on Thursday 12 January 2012