

# FINANCE & GENERAL PURPOSES COMMITTEE



THURSDAY 28 MARCH 2013

GATESHEAD COLLEGE

**Report:** Minutes of a meeting held on Thursday 28  
February 2013

**Author:** Clerk

**Action:** Approve

**Status:** Open

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

**In attendance:** John Holt  
Judith Doyle  
Emma Moody  
Gwyneth Jones

## **F/1614 Welcome/Apologies**

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

The Chair invited members to declare any interests on any item on the agenda. Robin Mackie declared an interest in relation to Charge Your Car North. No other 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/1615 Minutes of the meeting held on Thursday 31 January 2013**

The minutes of the meeting held on Thursday 31 January 2013 were accepted as a correct record.

## **F/1616 Matters Arising**

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

## **F/1617 Management Accounts: January 2013**

The Director of Finance introduced the Management Accounts for January 2013.

- Revenue totalled £4,940,000 against a target of £3,995,000 taking the year to date total to £22,500,000 over target by £688,000.
- Income in January benefitted from a significant upturn in 19+ Learner Responsiveness Provision through subcontractors which helped to start to address the large shortfall against the full year target.

## **Agenda No: 2**

- The full year target is currently predicted to exceed the full year total by £1.3m taking revenue to £45.7m.
- 16-18 LR funding continued to make good progress reaching £11,676,000 against a full year target of £11,968,000 and an improvement of £305,000 compared to December.
- 19+ Single Adult Budget reached £10,318,000, an increase of £2,552,000 in the month against the full year target.
- Overall shortfall in 19+ reduced down to £335,000 at the end of January from £1,220,000.
- 16-18 Apprenticeships added £75,000 of new activity in January taking the total to £1,237,000 against a full year target of £1,700,000.
- Other SFA funding continued to perform well with strong recruitment to the ESF NEET and Skills Support for the Unemployed programmes resulting in a favourable variance of £383,000 in the month and £790,000 for the year to date.
- HE remains on track to exceed its full year target.
- Education contracts revenue from 14-16 programmes for local schools and from technical certificates for apprentices belonging to other training providers is down against last year and the budget for the year to date. The College needed to achieve £1m a month from apprentices if the College was going to hit its target.
- Revenue from Full Cost programmes picked up slightly in January and is ahead of budget for the month by £6,000 and by £126,000 for the year to date.
- Other Grant Income was down in January at £180,000 compared to £324,000 in December. December benefitted from the quarter end claims for the Plugged in Places Project and the Regional Growth Fund Project.
- FE Tuition Fees are currently £41,000 below the year to date budget; however; the College expects to achieve the full year total of £481,000 with further in year recruitment.
- HE Tuition Fees are significantly below budget in the month and now £83,000 under for the year to date as the College had to credit fees to learners who enrolled but who have not taken up their place.
- Overall expenditure was £1,166,000 over budget in the month; however, if payments to partners are excluded there would have been a favourable variance of £201,000. For the year to date total expenditure is £1,243,000 over budget of which £1,235,000 is accounted for by partner payments linked to increased use of partners to make up for the shortfall in in-house provision.
- Overall Pay expenditure remains under budget but it is still too high in relation to the volume of activity being delivered and, therefore, the College needs to achieve savings through not adding new posts and wherever possible not replacing leavers. Reductions in funding for next year for 19+ learners will necessitate further savings to be made.
- Other operating expenditure was £1,213,000 over budget in January of which partner payments accounted for £1,367,000.
- Examination and Registration fees have been front loaded resulting in a year to date adverse variance of £234,000.
- Premises costs were under budget by £57,000 which reduced the year to date adverse variance to £86,000.
- Student Travel Costs are lower than planned with a year to date favourable variance of £76,000 as the College has met most of the demand From the Learner Support Fund thereby reducing pressure on the Foundation.
- Depreciation charges continue to run high by £9,000 in January and £46,000

## **Agenda No: 2**

for the year to date reflecting expenditure on Barmston Court but should fall back in the second half of the year as assets come to the end of their economic life.

- January saw a surplus of £108,000 up from £1,000 in December and losses of £75,000 and £137,000 in November and October respectively. The year to date deficit has fallen to £164,000 and this hopefully should be cleared by the end of February, if new enrolments to 19+ and unemployed programmes remain strong.
- Currently anticipate achieving a full year surplus of £807,000 against a target of £1,351,000.

The Director of Finance issued members with copies of up-to-date KPIs on Learner Numbers. He indicated that success could be achieved quicker now than it could be in July and the College was ahead in a better position. He advised that he had had a discussion with the SFA on 27 February 2013. They will adjust the College's allocation in year after six months if there was under-performance. The College was consistently achieving target and consistently forecasting. Other colleges have said they will meet their target but will not.

The Chair enquired if the College could perform now why it could not do so two months earlier. The Principal replied that it was related to various reasons - including the College allowing departments to run with their Adult Budget. The College needed to look at next year and expected delivery. If departments say they will deliver and then they do not he would turn to Mick Brophy, Managing Director, Business Innovation and Development. In the coming year provision would need to be delivered differently. The Director of Finance said that partners focused on the end of the year and had little capacity to deliver until later in the year. He indicated that the bulk of activity from June and July would be carried over to the next academic year.

The Deputy Principal Curriculum and Quality commented that risk was attached to arms length provision; 1,000 learners on from month to month. The SFA are looking at the risk attached.

The Director of Finance indicated that the College relied on the contribution from Franchised Partners to support it and without this it would result in significant reductions having to be made. The Principal commented that the big issue with franchise partners was that they were the ones that found the students; the College would not have the wherewithal to acquire students without them. He indicated that there needed to be a paper and discussion on the subject. His view was that the College would need to acquire some partners otherwise SFA will take away top slice funding. A member said that he thought consideration needed to be given to both alternatives. What would be the position if the College made these acquisitions and what would be the position if it did not. What would be the impact on its balance sheet and gross margin.

The Deputy Principal Curriculum and Quality commented that there was an issue with expenditure on examination spend and this would affect the profile for next year. The Director of Finance said that they tended to look at the previous year's activity and there had been a seismic shift in activity.

A member noted that learner responsiveness was still in "red" and needed to be kept under review. A member enquired why the HE Tuition Fees were significantly below budget in the month and under for the year to date. The Director of Finance replied that when students enrolled they applied to the Student Loan Company for a loan but the College had to credit fees to learners who enrolled and some of these students

## **Agenda No: 2**

did not take up their place. This was especially the case with Adult Loans and the Director of Finance said it would get worse with 24+ loans coming in next year. A member enquired whether success rates were adjusted for this and the Director of Finance replied that when students dropped out halfway through courses it hit the success rates. The Director of Finance said he was looking at different models.

In terms of the Balance Sheet, the Director of Finance indicated that it had strengthened in January with net current assets rising by £452,000 to £4,440,000 with the current ratio rising from 1.46 to 1.50. The value of investments fell by £70,000 as the College expects to be able to recover from OLEV a contribution to the cost of the Joint Venture with Elektromotive and this matched the approach previously adopted for the One North contribution earlier in the year. Net Assets rose by £108,000 to £18,324,000 (£38,649,000 when deferred capital grants are added back).

### **The Report was duly noted.**

The Director of Finance provided a monthly update on the financial position for each of the Subsidiary Companies.

#### **Amacus Ltd**

Revenue remained strong in January at £34,000 with a surplus of £6,000 taking year to date revenue to £202,000 and a surplus of £25,000 well ahead of target. Full year revenue is expected to exceed £500,000 with a surplus of around £50,000. The company is developing work with the unemployed focussed on employability and self-employment, better health at work for the NHS and Leadership Programmes for a range of companies.

#### **Charge Your Car (North) Ltd**

The Plugged in Places project remains on track with revenue in line with the budget for the year to date. Expenditure is slightly below budget resulting in a surplus of £57,000 against a target of £16,000 for the year to date. The project is benefitting from an increase in OLEV subsidy to Local Authorities from 50% to 75%. An extension to the existing programme of six months has been secured together with a new one year project starting in April to install more Quick Chargers.

#### **Zero Carbon Future (UK) Ltd**

Revenue for ZCF remains disappointing at £72,000 against a target of £120,000 for the year to date; however, expenditure has been contained at £102,000 resulting in a year to date loss of £30,000 against an expected loss of £27,000. Revenue has been generated from the RGF project rather than commercial business as the company has focused on securing grant funding for the College. A number of projects are currently in the pipeline which should result in improved performance in the future.

#### **Tyneside Training Services Ltd**

Revenue in January improved to £90,000 with strong commercial revenue offsetting lower SFA activity. Revenue for the year to date reached £404,000 against a target of £456,000; however, pay costs continue to run high at £226,000 for the year to date (budget £210,000). Non pay costs are, however, slightly under budget leaving a year to date deficit of £40,000 rather the projected surplus of £17,000. Part of the

## **Agenda No: 2**

increased loss is from £22,000 spent settling an inherited employment tribunal case. There was less business from automotive apprenticeships.

### **North East Apprenticeship Company Ltd**

Revenue at NEAC was down in January following a review of debtors recoverability and, therefore, increasing the bad debt provision. Despite the increased bad debt provision which resulted in a loss in January NEAC is still showing a year to date surplus of £53,000 on turnover of £247,000. Strong overall performance is down to support from the Regional Growth Fund and the SFA. Turnover is in line with expectations.

### **Equality North East**

The Director of Finance explained that the accounts for Equality North East were in a mess so he had been unable to include them in his report. Turnover was showing a deficit for the year to date. In response to a member's enquiry, he advised that the College were propping up the company as they had lent £80,000 plus another £50,000 in loans and free premises.

### **Gateshead College Foundation**

The Foundation has revenue of £221,000 for the year to date with expenditure of £146,000. In January the College was able to transfer £26,000 of awards back to the Learner Support Fund resulting in negative expenditure being shown in the month. This has resulted in a surplus in January of £62,000 and £76,000 for the year to date.

The Chair enquired who had undertaken the due diligence work on Tyneside Training Services Ltd and the Director of Finance replied that it was Deloitte.

### **RESOLVED to note the contents of the report**

## **F/1618 Funding 2013/2014**

The Director of Finance introduced a report which set out the current information received in relation to the College's main funding allocation for 2013/2014 for 16-18 Learner Responsiveness and 19+ Single Budget.

### **16-18 Learner Responsiveness**

The EFA is introducing a new funding methodology based around the concept of programmes of study of typically 540 hours for 16-18 year olds. The College's indicative allocation is based around activity which occurred in 2011/2012 uplifted to expected volumes in 2012/2013. In 2011/2012 the College's yield per learner had fallen which had impacted on its 2013/2014 allocation. In addition many of the learners in 2011/2012 undertook very short programmes which are no longer eligible for funding. The underlying position is a reduction in funding of £500,000 before the application of Formula Protection Funding which aims to maintain the average level of funding per learner. It is anticipated that Formula Protection Funding will reduce the cut by around £318,000; however, at this stage this is speculative.

A member enquired what was meant by 'yield per learner'. The Director of Finance replied that yield was different for learners at each college but would now be 540 hours per year. The Principal explained that the amount of hours of study changed each year; if every programme in the College did 540 hours then they would receive

## **Agenda No: 2**

the same money. The Director of Finance advised that work experience, sports academy coaching and tutorials would count towards 540 hours which they had not been allowed to count before. If every programme achieved 540 hours it would probably result in £1.5m. Currently one third of courses were in the top band of 540 hours; one third in 450 hours and one third were below 450 hours. In 2014/2015 work experience would be counted and this could take you up to the next band. 270 hours of sports academy coaching currently did not count but it would do in the future. A member commented that there seemed to be no incentive for being efficient and effective and the Director of Finance replied that there may be an opportunity to count things the College has previously not counted e.g. sports coaching.

Funding drawn down at the end of November 2012 and the end of the academic year would extrapolate the funding for 2013/2014. The Principal commented that it was the case of having the right target at the right time. The Deputy Principal Curriculum and Quality indicated that Learner Responsiveness Funding for 16-18 year olds was based on hitting the headcount and higher yield too. She said that the College was painting a positive picture at the moment because it was getting both headcount and yield.

### **Skills Funding Agency 19+ Single Budget**

SFA funding is being reduced by two elements, the removal of funding students over 24 studying at Level 3 and above (these students will need to self-fund in the future) and a cut in other activity to reflect the overall reduction in the budget nationally for post 19 learning as part of the overall cut of 25% in the BIS budget. The overall impact is £2,520,000. Learners will be able to access loans and a facility has been allocated to the College of £1,018,000, however, the College does not expect take up to be very high and currently a review of the curriculum offer is underway.

Overall Impact from the SFA and EFA is forecast to be £2,700,000; however, this may change either up or down and the College will not know the final position until April.

In addition to the funding reductions the College needs to take into account movements in costs relating to staff pay increments; full year impact of posts created during 2012/13; any pay awards to staff; inflation on non pay costs and a potential increase in the percentage payable to subcontractors in line with SFA Policy.

The overall level of savings required will be around £5,130,000. Part of the impact of the funding cuts can be passed on to franchise partners leading to a saving of around £1,400,000 with £2,000,000 of activity no longer delivered by them. The SFA expects colleges to pass on around 85% of the funding to franchise partners, Gateshead College currently pass on 70% and 80% and therefore, will come under pressure to increase the percentage paid. The SFA are now requiring all contractual terms to be made available on college websites from the start of the 2013/2014 academic year to help apply this pressure. The College is currently working on its acquisitions strategy to address this issue.

The Director of Finance advised that over the last three years, allocations each year had been way below what the College wanted them to be. A member commented that the outward facing element of Gateshead College was important. The Director of Finance indicated that it would be a different headline post BIS budget as the budget would be dropping by 12-15% each year. The Principal advised that the SFA were taking away some people's money from them. If they delivered less contracts who would be available to teach the students.

## **Agenda No: 2**

A member commented about stripping out back office facilities. The Principal replied that the previous Clerk, Jackie Doxford, had always said that there were too many colleges in the North East. The member indicated that there was a need to sit down and look at the options for how Gateshead College reacted to its reduction of £5m. He suggested that there needed to be a session at the Finance and General Purposes Committee to look at the options. The Principal replied that this would form part of the debate at the Strategic Planning afternoon at the Board meeting on 11 April 2013 as discussions would cover what the College should look like in future years. A member said there would be more colleges thinking about consolidation to cut costs, although the Chair noted that this does not always meet the needs of the market.

The Deputy Principal Curriculum and Quality commented that remodelling the curriculum had provided the ability to analyse 'pinch points'. The Director of Finance indicated that demands for more English and Maths GCSE would require more resource. *She could bring a report to the next meeting.*

A member mentioned having an options analysis to provide clarity on the products that Gateshead College would retain. Another member questioned whether there would be enough time to discuss the situation on 11 April 2013 as there was so much complexity to the issues. The first member suggested bringing an options analysis to the Finance and General Purposes Committee and then taking a shortlist of options to the Board. In response to a suggestion of having an away day, the Principal suggested that a Friday/Saturday session should be held to discuss the situation in more detail once the Board meeting on 11 April 2013 had taken place. The Clerk and Principal would liaise to find dates.

Other options to increase revenue and identify savings are currently being developed and a further paper is being prepared for the next meeting of Finance and General Purposes Committee on 28 March 2013. In the meantime the Committee were asked to approve the re-opening of the Voluntary Severance Scheme in order to identify potential candidates (something that had been done annually over last 5 years).

### **RESOLVED**

- i) to note the contents of the report**
- ii) to approve the opening of the Voluntary Severance Scheme to all staff**

### **F/1619 Rationalisation of Subsidiary Companies and Associated College Provision**

The Principal introduced a report on the Rationalisation of Subsidiary Companies and Associated College Provision. The paper sets out to streamline management arrangements, align facilities with the curriculum and thereby achieve improved efficiency and effectiveness. The aim is to have fewer subsidiary companies operating and to focus each curriculum area on a single site under a single line of accountability.

The College currently has nine subsidiary companies: Amacus Ltd; Tyneside Training Services Ltd; Charge Your Car (North) Ltd; Zero Carbon Futures (UK) Ltd; Equality North East Ltd; North East Apprenticeship Company Ltd; Gateshead College Foundation; The Sustainable Skills Company Ltd (Dormant) and Gateshead Global Skills Ltd (Dormant).

## **Agenda No: 2**

The Principal highlighted the 'final position' section in the report which showed what the results would be if the proposed structural changes were adopted:

- Establishment of a Centre for Automotive & Engineering - Based at Skills Academy (Team Valley) incorporating Logistics and Driver Training based at Kingston Park reporting to MD BID.
- Establishment of a Centre for Sustainable Manufacturing - Based at SASMI and reporting to the MD BID
- Establishment of a Centre for Sustainable Construction - Based at the Skills Academy (Team Valley) and reporting to the MD BID
- Establishment of a Centre for Low Carbon Vehicles - Based at Barmston Court incorporating Zero Carbon Futures (UK) Ltd and reporting to the MD BID
- Charge Your Car (North) Merged into ZCF (UK) Ltd once the current projects are concluded.
- TTS Ltd to be incorporated into the College as part of the Centre for Automotive & Engineering and reporting to the MD BID
- Amacus Ltd either retained as a standalone company, merged into the College or sold
- Equality North East either merged into the HR Department of the College or Amacus.
- Staff from the North East Apprenticeship Company Ltd transferred to the College Apprenticeship Department, but the company retained to employ apprentices on behalf of host employers.
- The Sustainable Skills Company Ltd to remain dormant until required at a later date.
- Gateshead Global Skills to be used once International work take off.

### **Charge Your Car (North) Ltd**

The Chair indicated his agreement that Charge Your Car (North) Ltd should be absorbed into Zero Carbon Futures once the current Plugged in Places project was finished. A member agreed with the principle of having one manager, one location and one theme. It would be a case of looking at what to keep and what not to keep but he thought that Amacus did not sit thematically with any other company (see below).

### **Equality North East Ltd**

The Principal advised that Equality North East Ltd were currently driving through equality and diversity training in the College which had been one of the rationales for purchasing the company. He thought the company could be merged into the HR Department of the College. The Chair commented that there was not a commercial market for it and the timing was right with the MD retiring in October 2013. The Director of Finance suggested leaving the company as dormant to keep the name and transferring the staff into the College. He indicated that he would have conversations with lawyers and auditors about this company.

The Deputy Principal Curriculum & Quality asked if directors of the subsidiary would be protected against future claims. The Clerk advised that the terms of the asset transfer would likely contain an indemnity for the directors.

## **Agenda No: 2**

### Tyneside Training Services Ltd

The Principal advised that all the apprentices from TTS Ltd would be moved down to Team Valley. The Director of Finance indicated that it would be a case of chopping the company into two halves; retaining the driver training operation out of Kingston Park. The Principal said that there would be no need to build another building.

A member commented that the rationalisation of the Organisation Management Structure needed to focus on where Gateshead College should consolidate geographically; which centres to lose and which freestanding companies should be put into dormancy. Another member indicated that the 'construction' theme had multiple locations and the Principal suggested that Autoskills Centre, Team Valley would be closed; Research and Development would be at Barmston Court and all Manufacturing would be based at SASMI in Washington. The aim was to have one theme, one location, one site, and one manager. Consolidation would be continuous.

### *John McElroy left the meeting*

A member commented that there was an assumption by the Board that all areas were doing well when this was not the case. When spread across multiple companies it was difficult to see a clear picture. He said that we needed to see both capital and revenue savings.

### North East Apprenticeship Company Ltd

Employing apprentices on behalf of other organisations through a subsidiary reduced the risk to the College. The Director of Finance commented on the associated risk of having 50-60 apprentices on the payroll. The Principal suggested keeping NEAC and moving all other apprentices. The Director of Finance suggested rebranding the apprenticeship offer just using the "branding". The Principal said that very few people wanted to use NEAC. A member suggested asking people about the brand and the Principal agreed and advised that he wanted to discuss it at the Strategic Planning afternoon on 11 April 2013. The Chair said that when the College withdrew from its partnership with Gateshead Council, it thought that NEAC was well known. The Committee resolved to explore NEAC using it to employ but not the brand.

### Amacus Ltd

The Chair, a Governor/Director of the company, indicated that there were two options for Amacus Ltd. It could either be retained as a standalone company or sold but he thought it could not be merged into the College. The Director of Finance explained that the company provided Leadership and Management training for companies and had won large contracts with the Fire Service, NEXUS and NHS South of Tyne and Wear. He suggested that the company could be offered to the Managing Director and that either he or the Director of Finance could have a private conversation with her to see whether she wanted to purchase it. Otherwise, the College was unlikely to find a willing buyer. The Principal said that, although the College could have a conversation with the owner, the fact that she has a Contract of Employment with Gateshead College and being a member of the Teachers Pension Scheme makes it difficult. The Director of Finance advised that the company would not receive any loans or cash injections from the College. The Chair said that the company was functioning well and any impact on the contracts would lead to redundancies, unhappiness and bad publicity. However, the situation would be monitored on an annual basis.

**Agenda No: 2**

**RESOLVED to bring the recommendations back to the next meeting of the Finance and General Purposes Committee on 28 March 2013 (with diagrams)**

**F/1620 Gifts and Hospitality**

The Director of Finance introduced a report to which was appended the Gifts and Hospitality Guidelines. He explained that these had been approved at the Board meeting on 10 May 2012 but Governors who had not been at that meeting had asked for them to be brought back to the Committee. Members were asked if there was anything which they wanted to change and they were happy with the Guidelines on Gifts and Hospitality.

**RESOLVED to note the contents of the report**

**F/1621 Any Other Business**

**Confidential Item**

*The record of discussion on it is 'closed to public access' until such time as they are considered to be longer commercially sensitive.*

**Confidential Item**

*The report and the record of discussion on it are 'closed to public access' until such time as they are considered to be longer commercially sensitive*

**F/1622 Date of next meeting**

The next meeting will be held on Thursday 28 March 2013.