Agenda No: 2

FINANCE & GENERAL PURPOSES COMMITTEE

GATESHEAD COLLEGE

THURSDAY 14 NOVEMBER 2013

Report: **Minutes of a meeting held on 10 October 2013**
Author: **Clerk**
Action: **Approve**
Status: **Open**

Present: Keith Cann Evans (Chair)
Judith Doyle
Ivan Jepson
John McElroy
David Mitchell

In attendance: John Holt
Mick Brophy
Emma Moody
Gwyneth Jones

F/1662 Welcome/Apologies

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

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 Interest.

F/1663 Minutes of the meeting held on Thursday 27 June 2013

The minutes of the meeting held on Thursday 27 June 2013 were accepted as a correct record.

F/1664 Matters Arising

The Chair advised that updates on ***Joint Venture with Elektromotive (F/1657), Acquisition of Group Horizon (F/1658)*** *and* ***Gazelle Update*** **(F/1659)** which had been discussed at the June meeting would be given under Any Other Business.

F/1665 Management Accounts: June 2013

The Chair said that he did not propose to go through the Management Accounts for June 2013 as the accounts for July and August 2013 both featured on today's agenda.

RESOLVED to note the contents of the report

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F/1666   Management Accounts: July 2013

The Director of Finance introduced the Management Accounts for July 2013. He explained that the provisional outturn for 2013 had been impacted up by the following adverse events:

- The charge to the P & L for unfunded Pensions and the FRS17 have come in from the actuary at twice the expected level namely, £600,000, instead of the £300,000 despite the overall LGPS deficit shrinking by £950,000 to £10,230,000.

  He explained that £600,000 had been set aside seven years ago to pay pensions and thought this would mean £350,000 paid and £250,000 to use but the pot was now bigger and the College was paying an extra £50k out per year so was having to replenish the pot. Life expectancy keeps increasing which means the size of the provision that was put in was too small. The provision made in the early 90's was nowhere near enough. The LGS changes limited the amount of lump sum people take on retirement and extended the annual payments. The changes mean that the liability is much greater.

- Payments to partners are higher than planned (despite reductions) as the College used them more than they had hoped in order to hit targets. Direct delivery has grown with the College achieving £1,260,000 of the £250,000 target set in February. In actual fact, partner delivery had helped the College to meet target. A member said this was a continuing underlying problem that needed to be resolved.

Despite this the College has managed to generate a slightly higher surplus than forecast previously of £45,000 which will increase slightly when the 50% share of the Charge Your Car Joint Venture is included. It was noted that the figures were unaudited and so were subject to change. The Director of Finance advised that the College had missed out on Elektromotive disposal money because the deal with Chargemaster had fallen through. Decisions on whether people taking voluntary severance at year end had also impacted on the August 2013 figures.

- Income in July 2013 was £5,551,000 taking the year to date total to £47,699,000 ahead of target by £3,092,000.
- SFA/EFA activity was £790,000 over target in the month as a result of 19+ activity exceeding target by £182,000 and SSU also continuing to outperform expectations. Most of the extra activity was through partners which resulted in payments being higher than planned.
- Revenue from HE was down in July as a result of providing for clawback following the reconciliation of learner numbers with HEFCE for the year.
- Full cost revenue was down in the month following reclassification of income and the exclusion of intercompany transactions.
- Other Grant Income revenue from projects such as RGF and Plugged in Places was higher than in previous months as the College has been able to recognise additional RGF revenue for curriculum development and the final installations on the Plugged in Places Project have been mopped up which has meant the College has been able to release more ONE funding held on account and claim more from OLEV.
- FE tuition fees finished the year at £443,000 against a target of £481,000 which was slightly up on previous forecasts, reflecting late enrolments. HE tuition fees are lower than previously expected at £766,000 reflecting write offs from bad debtors.

- Expenditure in July 2013 was £5,444,000 bringing the year to date total to £47,654,000.
- Pay costs in July 2013 totalled £2,161,000 against a budget of £1,869,000 which reduced the full year favourable variance to £16,000. Pay was high in July as a result of having to provide an additional £300,000 of unfunded pension and FRS17 charges which was double the expected charge for the year. The number of voluntary severances was low as the decision on these did not go through until August 2013.
- Overall other operating expenditure was £3,289,000 in July, over budget by £1,847,000 of which £1,100,000 was on partner payments. Expenditure was high for a number of reasons which included costs associated with the recruitment of a new Principal and HR Director; the Plugged in Places Project; the RGF project; the Nissan Business Incubator Quick Charge Project; legal fees associated with the Confederation and Gazelle; additional examination fees associated with increased direct delivery and higher than planned partner payments which reflect increased use of partners to exceed funding targets for both 19+ and SSU.
- Depreciation charges totalled £2,468,000 for the year which is lower than planned as a result of a review of estimated asset lives.
- Amortisation costs totalled £84,000 in the month as the College wrote off the remaining goodwill on the acquisition of Equality North East Ltd.
- The College generated a surplus of £106,000 in July resulting in a full year surplus of £45,000 despite the impact of FRS17 and unfunded pension liabilities together with the higher than hoped for use of partners.

In terms of the Balance Sheet, the Director of Finance indicated that it remained strong with net assets of £19,538,000 (£49,147,000 with deferred capital grants added back). Fixed assets totalled £68,938,000 at the year end and have decreased in value across the year by £1,121,000 following depreciation of £2,468,000, additions of £1,356,000 and disposals with a net book value of £9,000.

At the start of the year the College held investments to the value of £338,000 which consisted of Gazelle Global (£126,000) and Charge Your Car (North) (£212,500). The holding in Gazelle Global of 20% was exchanged together with a further £80,000 for 11% of Enterprise Through Innovating Ltd and the investment in Charge Your Car Ltd has been reimbursed to the value of £211,736 by OLEV leaving a net investment of £764. The overall investments at the year-end are Enterprise Through Innovation Ltd (£206,000) and Charge Your Car Ltd (£764).

At the start of the year the College held goodwill of £54,000 consisting of the North East Apprenticeship Company (£5,337), Tyneside Training Services Ltd (£30,708) and Amacus Ltd (£17,909). During the year the acquisition of Equality North East Ltd generated new goodwill of £101,619 which was fully amortised.

Current assets ended the year at £13,944,000 following a fall of £823,000 in July with cash held of £9,223,000 and debtors of £4,708,000. Cash fell in the month despite a £1m receipt from Nissan for the Business Incubator Project due to a very low receipt from the SFA/EFA and higher payments to trade creditors. Debtors fell by £170,000 in July to £4,708,000.

Current liabilities totalled £9,641,000 and fell by £951,000 in the month despite the receipt of £1,010,000 from Nissan for the Incubator Project which is held on account. The main cause of the reduction was the release of other income held on account for projects such as Plugged in Places and Regional Growth Fund. Net current assets increased in July by £128,000 to £4,303,000 taking the current ratio up to 1.45. Long term liabilities excluding deferred capital grants have fallen from £14,920,000 to £14,133,000 over the year. Net assets at the end of the year stood at £19,538,000 (£49,147,000 with deferred capital grants added back).

A member enquired about Total Reserves which had gone up and the Director of Finance replied that the pension deficit had dropped by £950,000 to £10,230,000 which explained this. Another member said he was glad the College had avoided having one year of negative income which was helpful in terms of the bank covenant. The Principal explained that decisions on voluntary severance had been carried forward so making the first set of accounts for 2013/2014 look worse.

RESOLVED to note the contents of the report

F/1667 Management Accounts: August 2013

The Director of Finance introduced the Management Accounts for August 2013. He explained that they were based on provisional enrolment data and therefore needed to be treated with a degree of caution.

- Income in August totalled £3,438,000 against a target of £3,704,000.
- SFA 16-18 income has been released in line with the budget because initial recruitment data indicates that the College is ahead of the same point last year with a greater proportion of full time learners which means that the College should exceed its allocation over the year.
- SFA 19+ revenue has got off to a good start with a greater proportion delivered in-house by the BID department than in previous years, and strong carry over volumes from last year in particular for apprentices.
- Other SFA funding for the NEET project and Skills Support for the Unemployed has been released in line with the budget.
- Other grants income is below budget for the month reflecting the ending of the Plugged In Places Project, together with the Business Incubator Project being in the initial build up phase.
- FE tuition fees are better than expected with a higher than expected take up of 24+ loans, in particular on the Access to Health Programme.
- HE tuition fees are down significantly against the budget with shortfalls in Leadership and Management, Construction and Creatively & Cultural offset particularly by better than planned revenue in Engineering and IT.
- Expenditure in August was high, reflecting Summer projects and start-up of the new academic year, together with the cost of voluntary severance payments where the decisions were made in August. The budget has been phased to reflect the high cost of voluntary severance in August. Overall expenditure was £4,109,000 against a budget of £4,193,000.
- Pay Expenditure was high in August due to a number of reasons including the costs of voluntary severance payments; salary costs of leavers whilst they served out their notice; higher than anticipated accrual for FRS17 and unfunded pensions which have been increased from £25,000 per month to £50,000; cost of a senior post holder remaining on the budget for an additional month as there were two Principals in August 2013.
- Pay costs should fall in September and again in October before rising again as new joiners come in to deliver key priorities such as English and Maths GCSE and areas of growth such as Games Design.
- Non-Pay Expenditure, excluding payments to partners, was £161,000 under budget in the month with adverse variance on teaching and learning resources and the summer marketing campaign to attract students for the

new academic year, together with professional fees associated with the Nissan Business Incubator Project. However, there are favourable variances on premises reflecting the build-up of activity on Business Incubator and examination fees from the lower level of activity in August. This favourable variance on both premises and fees is likely to be eliminated over the coming years.

- Partner payments have been accrued on the basis of the level of income recognised and the expected split between in-house and partner delivery.
- Depreciation is below budget as a result of timing of new additions, in particular the Barmston Court development.
- The phasing of the budget in relation to voluntary severance, together with start-up costs meant that a deficit in the month of £490,000 was expected. However, higher pay costs and caution over the recognition of income means the actual deficit was higher by £181,000 at £671,000. By September 2013, any deficit is expected to be much lower.

The Principal explained that it was difficult to be precise around SFA Funding. Funding methodology had changed and there was uncertainty around how numbers translate into funding. The College had recruited very healthily to 19+ but there was a need to appreciate where resource sits.

A member enquired about the ‘cost of a senior post holder remaining on the budget for an additional month’ which was listed under pay expenditure. The Director of Finance replied that Richard Thorold was retained in post as Principal because of Judith Doyle’s late appointment. The Clerk said that a monthly retainer had been agreed with Richard as Judith Doyle was appointed at the end of July 2013 hence there had been an overlap of one month for August 2013 until Richard’s monthly retainer was terminated.

Another member wanted to know if the voluntary severance was going to hit the budget this year. The Director of Finance replied that £600,000 would be needed instead of the £300,000 which had been budgeted for.

In response to a question about how quickly the College could react to address this, the Director of Finance replied that the action to hit a surplus had started and the deficit should be lower next month. The Principal advised that a comprehensive review of the work done in Gateshead College was taking place looking at expenditure. The Director of Finance indicated that they were looking to make savings wherever they could.

The Chair said that the College was well over budget on sales on some areas and well under on others. He suggested that the pressure should be kept on to keep sales up in month one and that the College must start pushing early. The Principal replied that the College were now looking at costs at a much earlier stage than it had done previously.

A member asked about ‘actuary evaluation’ and the Director of Finance replied that this was done every year looking at each participant of the scheme. In terms of the longevity of the scheme the member asked if the cost was expected to continue to grow. He enquired how the Director of Finance would budget for that and he replied that a number of assumptions would be used to produce a figure. The problem was that the pensions were index linked and therefore difficult to predict. The Chair commented that if there was ‘double digit inflation’, the future budget would need a far bigger surplus just in case.

John McElroy left the meeting at 1.35pm

In terms of the Balance Sheet, the Director of Finance indicated that it remained strong as it had done in July 2013. Fixed assets increased in value by £185,000 in August following additions of £387,000 and depreciation of £202,000. Additions were mainly small scale summer works and £372,000 spent on the Construction work at Barmston Court.

In terms of Current Assets, cash held and debtors both increased in the month by £1,421,000 and £1,496,000 respectively. The increase in cash represents the combined effect of high SFA/EFA monthly payments matched by lower payments to trade creditors. Current liabilities have increased by £3,576,000 of which £2,192,000 is SFA/EFA and tuition fees income held on account for the full year. Grant funding for Barmston Court added a further £372,000. Net current assets have fallen by £658,000 to £4,154,000 and this represents the impact of the Voluntary Severance payments due and the cautious approach adopted to the recognition of income. Net assets fell by £671,000 in August to £19,376,000 mainly as a result of the deficit incurred during the month. Cash held in August to £10,645,000 mainly as a result of the deficit incurred during the month.

The Director of Finance reminded members that the Management Accounts for August 2013 were very provisional.

RESOLVED to note the contents of the report

F/1668 Property Strategy – Barmston Court

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/1669 Any Other Business

THESE DISCUSSIONS ARE CONFIDENTIAL AND NOT FOR PUBLICATION

OPEN DISCUSSIONS

Federation

The Chair asked for an update on the Federation. The Principal explained that outside the College was aware of the Federation with Middlesbrough College and it was business as usual inside. She advised that Middlesbrough College had appointed Zoe Lewis as its Principal last week. The Clerk was in the process of drawing up meetings for the next 12 months.

Management Accounts: July 2013

A member enquired about the plans for the Subsidiary Companies listed in the Management Accounts: July 2013. The Director of Finance replied that Tyneside Training Services Ltd and Equality North East Ltd had both been absorbed into the College. The Chair commented that it would be useful to have a brief resume on each company and a member agreed that it would be good to have a watching brief of each one of them.

F/1670 Date of next meeting

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The next meeting will be held on Thursday 14 November 2013 at 12.30pm.