Agenda No: 2

FINANCE & GENERAL PURPOSES COMMITTEE

GATESHEAD COLLEGE

THURSDAY 27 FEBRUARY 2014

Report: **Minutes of a meeting held on 14 November 2013**
Author: **Clerk**
Action: **Approve**
Status: **Open**

Present: Keith Cann Evans (Chair)
Judith Doyle
Robin Mackie
Ian Renwick

In attendance: John Holt
Mick Brophy
Samantha Pritchard (Clerk)
Gwyneth Jones (Minutes)

F/1671 Welcome/Apologies

Keith Cann Evans welcomed everyone to the meeting including Samantha Pritchard who would be acting as Clerk in place of Emma Moody. Apologies for absence were received from Ivan Jepson, John McElroy and David Mitchell.

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/1672 Minutes of the meeting held on Thursday 10 October 2013

The minutes of the meeting held on Thursday 10 October 2013 were accepted as a correct record.

F/1673 Matters Arising

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

F/1674 Management Accounts: September 2013

The Director of Finance introduced the Management Accounts for September 2013 and advised that the Management Accounts for October 2013, without commentary, were now available so these would be item 4a on the agenda.

He advised that at the end of September the recognition of income was difficult because the SFA had yet to publish workable software so the College has had to rely on its own calculations.

- Revenue for September was slightly over budget, with favourable variances on

19+ adult provision, grant income (Business Incubator Project) and FE tuition fees where the take up of 24+ loans has been better than expected. The main areas of underperformance have been full cost fees and HE tuition fees. For FE it reflects a slow start following the summer holidays, whilst for HE it is under recruitment, particularly in Leadership and Management and in Creative and Cultural. Leadership and Management will not affect HEFCE funding but it will be affected by the shortfall in Creative and Cultural.

- Revenue for the year to date is £154,000 under budget reflecting a cautious approach to recognising revenue, as the College has had to rely on its own forecasting as the SFA software is still not working.
- Expenditure in September was high reflecting the start-up of the new academic year and the impact of carrying the cost of staff leavers; most of them leave at the end of October.
- Pay expenditure is high reflecting increased use of hourly paid lecturers to cover vacancies, carrying the cost of leavers £40,000, additional voluntary severances £30,000, additional provision for FRS 17 pension costs £30,000, strain on fund payments of £19,000 and additional staff to support the switch from franchised to direct delivery. Overall, pay costs are running high and there is a need to avoid replacing leavers whenever possible.
- Non-pay expenditure in the month was high reflecting start-up costs, the summer advertising campaign, start recruitment and project costs which are matched to grant funding.
- Payments to partners have been accrued based on provisional enrolment data; however, a degree of caution is needed, with a better picture emerging at the end of October.
- September saw a deficit of £34,000 which took the full year deficit to £718,000; however, much of this was due to carrying salary costs of leavers as they serve notice and voluntary severance payments. It is anticipated that the deficit will fall further in October as the College bears down on costs and there is a clearer picture as to how to split between direct and subcontracted provision, with the College moving back into the black in November or December.

The Balance Sheet remains strong, however net current assets fell to £4,045,000 with a ratio of 1.31, which is a decrease over the previous month which was at 1.33 as a result of the large increase in income held on account from SFA funding and tuition fees. Cash fell in the month as a result of start-up costs and payments to partners.

Cash Flow

Cash will fall over the next few months with payments being made to Brims Construction on the Barmston Court project, but will pick up again in the new year and the College is expected to finish the year at around £10.8m compared to £9.7m at the end of September.

Subsidiary Companies

Improved performance in September was shown by Amacus, NEAC, Equality North East, which invoiced £100,000 for a project to be delivered over the period to Christmas and TTS. The key areas of concern remain generating margin at ZCF and improving the underlying performance of TTS, which will in the future focus solely on driver training and forklift, having transferred automotive apprenticeships to the College and discontinued plant training, with the leased premises at Sleekburn being handed back to the landlord.

The Director of Finance advised that he would bring a paper on Payments to Partners to the next Finance and General Purposes Committee meeting on 30 January 2014.

RESOLVED to note the contents of the report

Management Accounts – October 2013

The Director of Finance introduced the Management Accounts for October 2013 and distributed copies to members of the Committee. He gave an overview of the figures contained in the accounts and confirmed that in general we are in line with budget.

- Apprenticeships 16-18: The target for this year is £1.75m. We achieved £1.492m last year. So far this year we have already achieved £1.05m so this is a good start towards meeting our full year target.
- Apprenticeships 19+: The target for this year is £4.47m. We have achieved £3.2m to date which is the equivalent of our total budget last year. We have had good recruitment numbers from Nissan totalling 700 learners.
- Overall Adult Single Budget: This area is doing less well, but this is not a matter of concern. We are on target to achieve the full year allocation. (The budget does not include £750,000 additional funding which has been secured).
- Adult Single Budget Excluding Apprenticeships – Split of Activity between Direct Delivery and Franchised Provision; split target between 80% on programme and 20% achievement.
- Direct Delivery by Mick Brophy's Team: Target £2.4m; it is £600,000 now which is 25% of the way there.
- Partner Delivery: £7m – on track to stay within that overall budget; the chart helps to monitor this more effectively.
- 16 -18 Learner Responsiveness: we are always slightly behind target at this stage in the year. We have a £10.7m target; we are £400,000 to £500,000 short however this is not a cause for concern at this stage.
- Analysis of 16-18 Learner Profile: The yield per learner is vital for the College. The aim is to get more learners having more than 540 contact hours to be able to increase funding for future years. This needs to happen before December 2013.
- Apprenticeship and other SFA revenue such as Skills Support for the Unemployed and Train to Gain are strong, however grant funding is down due to timing issues.
- Expenditure: pay costs continue to be high because of the impact of the costs associated with staff leavers but as most leavers left at the end of October there should be a drop in expenditure in November 2013.
- Other Operating Expenses: the College has carried more Direct Delivery and therefore has spent less on payments to partners through franchise provision. This is going in the right direction.
- There has been some overspend on recruitment, overseas travel, and central support.
- We have a surplus of £67,000 against a target of £27,000 which reduced the Year to Date deficit slightly however there is still a long way to go. This has been caused by start-up costs, pensions and voluntary severance scheme costs.

Balance Sheet

The Director of Finance advised that there was nothing particular to report on the Balance Sheet. It was noted that expenditure on Barmston Court has had an impact on cashflow.

The Chair said it was nice to see the promised improvement in October.

The Principal confirmed that the figures were encouraging, particularly as previously the College has had to do a reactive change in February. The College was less likely to have to do it this year. They had taken account of realistic targets and had good budget setting and strong performance in the enrolment of learners.

The Chair referred to the Executive Summary in the September Management Accounts and the reference to a small deficit of £34,000 in October, but a prediction that the College would be “back into the black” in November or December. He said that whilst he was pleased to hear this, he was rather surprised that the Director of Finance could be so bullish. He challenged the Director of Finance as to why there was not a more positive budget.

The Director of Finance replied whilst we had got back to a surplus in October that there was a lot of work to do and that he did not want to underplay the need to keep the College’s costs under control and achieve maximum revenue. A target had been set and he was determined that the College was going to get there. He indicated that there would be an Ofsted inspection in the next six months so it was necessary to strip out what were the one-offs.

A Member commented that it was great that things were looking positive but that it was still relatively early.

Subsidiary Companies

The Chair of the Corporation commented about the risks associated with the subsidiary companies. He acknowledged that the risks were small in the overall mix but that they came with liability. He queried where the College should be bringing down costs.

The Director of Finance replied that:

- Amacus was not a concern and was on track to generate a surplus for the year.

- Charge Your Car – this is dormant. 5 members of staff have been recharged to Zero Carbon Futures. This was not a concern.

- Zero Carbon Futures – has three or four staff plus those from Charge Your Car. They are a delivery agent for a number of key projects such as the Business Incubator. There is a charge of £6k per month management fees. The Ten-T European project is which 50% European funded, 50% Nissan, VW and BMW. The staff will be covered within that project fee.

- Electric Avenue Project – it has run for six months and is self-supporting. It covers one member of staff.

- Zero Carbon Futures still has 3 salaries that are not yet covered by project revenue. It needs to generate significant revenue from other projects or consultancy to cover the costs of staff going forward.

- Tyneside Training Services are in deficit for the Year to Date because of a low August/September. They were better in October as the costs of vehicle apprentices were moved to the core College. At a later date the programme will be hived up to the College and the subsidiary wound up.

- NEAC – It has two staff who will eventually TUPE over to the College. The Company was carrying the costs of apprenticeships – it will make a small loss this year and will probably continue to do so as it was previously supported by the Regional Growth Fund.

- Equality North East - This has not performed since it was acquired by the College. It has only done £11,000 of non-College business so far this year. It will be hived up into the College.

- Gateshead College Foundation had raised £3,000 from fundraising action and had spent £33,000. The Foundation had reserves of £1.1m. It will not receive any contribution from the College this year. The Chair enquired whether this fundraising included the recent event held at an Indian restaurant [Angeethi restaurant in Low Fell, Gateshead on 6 November 2013] and the Director of Finance replied that the money had not come in yet. He thought there was a need to get some momentum with fundraising for the Foundation.

The Chair of the Corporation said that it was important to understand where the subsidiaries fit in the context of quadrant reporting. He thought that whilst there appeared to be some plan, he would like to see a statement of objectives for the subsidiaries, and that if they did not fit within the aims of the College, that we should 'use or lose'. He wanted further detail upon audit, financial and qualitative risks.

The Director of Finance replied that subsidiaries had added to the cost, complexity and time taken by the Auditors, Baker Tilly to complete their audit. The audit had been completed and they had found just £5,000 of bad debt on NEAC across the entire Group; this was good.

The Chair thought it was time to do something about the subsidiary companies and make decisions. Mick Brophy, the Managing Director of Business, Innovation and Development commented that some of the same questions had occurred to him. He thought that TTS should be aligned with the College instead of it being a subsidiary company. Over the last six months they had looked at right sizing it, keeping an eye on a key piece of business and aligning staff to College cultures. The Chair of the Corporation thought this was something for the Executive Team to look at.

The Principal indicated that if the subsidiaries were closed down, they would need to look at alternatives as they might not be able to bring everyone into the College. The Director of Finance explained about the pensions liability and said that if TTS were part of the College they would be eligible to join the Local Government Pension Scheme. This would result in the College paying higher costs in the future if staff were made redundant. It would be a lot more expensive rather than the Teaching Scheme. A Member suggested that the Executive Team needed to get together to discuss this further. If a subsidiary company was no longer useful, they would need to decide whether to wind it up.

The Chair agreed that the whole area needed scrutiny again. The College has acquired a number of subsidiaries and not all of them have been a success.

A Member said the Committee had been talking about it for a while but just had not got around to doing anything about it.

Gazelle – confidential

The record of discussion is 'closed to public access' until such time as it is considered to be no longer sensitive.

RESOLVED to note the contents of the report

F/1675 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/1676 Any Other Business

Gazelle

The record of discussion is 'closed to public access' until such time as it is considered to be no longer sensitive.

HMI – Ruth James

The Principal advised that the College would be receiving a Support and Challenge visit by Ofsted on Tuesday 19 November (pm) and Wednesday 20 November (am). This would involve looking at the progress made by the College since the last inspection. They had outlined the programme looking at Teaching and Learning observations. Robin Mackie, Ivan Jepson and David Mitchell would be meeting with the inspectors on the afternoon of Tuesday 19 November. The College had data for 2012/2013 which was unquestionably excellent. The first hour of the meeting would be spent with the Principal on her own to go through the data.

The overall conclusion was that the College was probably unlikely to get a full Ofsted inspection this side of Christmas but it would take place before 14 May 2014. A lot will depend on what they see next week. If Ofsted see the College as 'low risk' this will bode well.

The Principal indicated that as part of her comprehensive review, she was looking at a number of aspects which included subsidiary companies, Gazelle and generally how things worked in the College. She aimed to clarify what the College does and how it does it; the process there and reporting everything in an appropriate way. She would bring a report giving an overview to the full Board at the December 2013 meeting.

Governors Appraisals

The Chair of the Corporation advised that as part of the Governor Appraisal process he had had a constructive conversation with governors so far which had provided good feedback. This had proved a useful process.

Mick Brophy, Managing Director of Business, Innovation and Development thanked the Chair of the Corporation for his time on Monday 11 November 2013. The College was restructuring and sustaining the business at Team Valley and it was worth going to have a look down there.

The Chair suggested bringing a paper to the next Finance and General Purposes Committee in January 2014 to sort out the Subsidiary Companies. Mick Brophy mentioned that at the September Finance and General Purposes Committee meeting, David Mitchell had wanted to know something around the Direction of Travel relating to subsidiary companies.

The Chair suggested travelling to other sites for future Committee meetings and this was agreed to be a good suggestion. The Clerk will look in to this.

F/1677 Date of next meeting

The next meeting will be held on Thursday 30 January 2014 at 12.30pm.
[This meeting had to be postponed so the next meeting will be held on Thursday 27 February 2014 at 12.30pm]