

FINANCE & GENERAL PURPOSES COMMITTEE



WEDNESDAY 31 OCTOBER 2012

GATESHEAD COLLEGE

Report: Minutes of a meeting held on Thursday 27
September 2012

Author: Clerk to the Corporation

Action: Approve

Status: Open

Present: Keith Cann Evans (Chair)
Ivan Jepson
John McElroy
David Mitchell
Ian Renwick

In attendance: John Holt
Mick Brophy
Judith Doyle
Rowan Ferguson
Gwyneth Jones

F/1584 Welcome/Apologies

Keith Cann Evans welcomed everyone to the meeting. Apologies for absence were received from Robin Mackie, John McElroy and Jackie Doxford.

The Chair invited members to declare any interests on any item on the agenda. No interests were declared at this stage in the meeting; however, members noted that should the direction of debate on any item result in a potential conflict of interest, this should be indicated during the meeting. Members were also reminded to advise the Clerk of any changes to be made to the declaration of interests.

F/1585 Minutes of the meeting held on Thursday 21 June 2012

The minutes of the meeting held on Thursday 21 June 2012 were accepted as a correct record.

F/1586 Matters Arising

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

F/1587 Management Accounts: June 2012

The Director of Finance introduced the Management Accounts for June 2012.

RESOLVED to note the contents of the report

F/1588 Management Accounts – July 2012

The Director of Finance took the Committee through the Management Accounts for July 2012. The overall summary of income and expenditure was as follows:

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Income for the year to 31 July totalled £42,545,000 and was £1,590,000 ahead of year (4%). The growth includes the new Subsidiary Companies and when these are stripped out on like for like basis; revenue fell by 1.3% to £40,405,000. New Subsidiary Companies added £2,014,000 to group turnover in the year, most of which was Charge Your Car (North) Ltd. Expenditure for the year totalled £42,143,000 after charging £90,000 to the I & E to increase the provision for unfunded pensions to £700,000 and £270,000 for the deficit in the LGP Scheme, before these adjustments expenditure for the year was £41,783,000 giving a surplus of £763,000 instead of £403,000. The surplus for 2010/2011 was £2,424,000.

This is in line with earlier reports and, in income terms is the College's best year to date. The positive variance against budget is currently showing at £1,800,000. Governors were asked to note:

- That the College achieved the minimum threshold level required to avoid claw back on the 19+ contract so that an extra 3% of revenue can be recognised.
- Adult revenue has also benefited from £1,210,000 carried over from 2010/2011 which the College was allowed to keep rather than repay.
- 16-18 learner responsiveness activity exceeded target for learner numbers but fell short in terms of cash generated; however, it is a fixed allocation so there will not be any claw back. The shortfall is the result of a higher proportion of learners being part time instead of full time so generate less per head.
- Overall revenue from the EFA/SFA was over target by £1,906,000 at £34,422,000 and represents 81% of turnover.
- HE Revenue including fees totalled £2,062,000 down from £2,502,000.
- Revenue from education contracts totalled £560,000, 7% over budget but was down from £1,090,000 last year.
- Funding for projects has greatly reduced; however, the College has been successful in areas such as Regional Growth Fund (RGF).
- Revenue from full cost courses passed £1,000,000 for the first time but this is a difficult market with low margins.
- Overall other grant income totalled £2,208,000 for the year compared to £1,420,000 in the previous year.
- Project income is running to plan.
- Revenue from Tuition Fees is similar to that in earlier years with help from the learner support fund and the Foundation. This is a good result in this climate.
- Interest receivable was similar to last year. There are plans to double this for 2012/2013.
- Average month end cash was £12,187,000 compared to £16,478,000 in the previous year
- Overall expenditure totalled £42,142,000 after FRS17 Pension Charges and provision for unfunded pension costs.
- Pay expenditure for the year totalled £20,494,000 against a budget of £20,341,000 but shows a positive variance against budget, once Tyneside Training Services and NEAC which were not in the original budget are stripped out. This is despite higher than budgeted restructuring costs from offering additional voluntary severance to staff affected by the recent restructuring of £192,000.
- Non pay expenditure for the group was £17,739,000 compared to £16,405,000 in the previous year. Payments to Partners have reduced although less than planned and this has hit the bottom line as subcontracted work is lower in margin. SFA also expect more of the fees to be passed on to Partners so the incentive to work in this way has now disappeared.

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- Depreciation charges have risen by £1,045,000 to £3,330,000 of which £630,000 is accounted for by the full depreciation of the student laptops over one year. These are now at nil cost in the balance sheet on the advice of the auditors.
- Interest payable totalled £576,000 for the year of which £496,000 was on the mortgage and the other £80,000 is on interest charged as a result of the FRS17 LGPS valuation.
- The surplus for the year was £403,000 which compares to a target of £1,645,000 and the surplus in the previous year of £2,424,000.

In response to a question from a member about subsidiary companies, the Director of Finance replied that more revenue needed to be brought into this area. Another member suggested that there should be a review of subsidiary companies. The Principal agreed and indicated that a paper was being prepared on the subject for the October Board Meeting. The Chair advised that he had more experience of working with subsidiary companies than other Committee members and that they were only responsible for a small contribution in terms of overall income but that there may be other reasons for the companies to be continued with. The Director of Finance suggested that there would be savings in administrative overheads if the number of subsidiary companies was reduced. The Principal pointed out that although surpluses were not as much as the previous year there were good reasons for this; that the Board as a whole needs to decide how it wants to work through subsidiaries; and that some changes may be generated by the College's International Strategy.

In terms of the Balance Sheet, the Director of Finance indicated that it continued to remain strong. He summarised his report as follows:

- Fixed assets increased in value by £4,324,000 to £69,457,000 with net additions of £7,674,000 and depreciation of £3,350,000. The main addition is Phase 2 of the Construction Centre £4,831,000.
- Debtors have increased compared with last year but a large element of this is the prepayment on the Plugged-in Project. There is currently around £1,000,000 to be released as the City Council installs the plug in posts.
- Current liabilities decreased by £1,127,000 in July to £8,708,000 with trade creditors increasing by £1,989,000, a result of retaining ash and investing to generate a better return.
- Capital grants form the main element of the Creditors.
- The LGPS Pension Deficit Liability has increased as lower investment returns together with increasing longevity have increased the gap between the fund assets and its liabilities.

A member commented that the College had a strong balance sheet for the year ahead. Another member enquired whether the College had an Investment Policy and the Director of Finance replied that the College did have an approved list of banks and pools the College's investments with those of the Foundation.

The member then referred to the loss at the Greenhouse Brasserie of £60,000 and asked if the College was concerned about this? The Principal replied that the rationale behind the Greenhouse Brasserie depended on the development of the area around the College. The downturn has resulted in different strategies and cutting the staff to a minimum. The aim is to reduce costs as much as possible and for The Greenhouse Brasserie to join with Enfields and the Catering Curriculum. Discussions with Jane Robinson, CEO of Gateshead Council and Leader, Councillor Mick Henry have indicated that plans are beginning to surface for the area surrounding the College. In response to a query from a

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member the principal confirmed that The Greenhouse Brasserie has some links with neighbouring hotels.

RESOLVED to note the contents of the report

F/1589 Property Strategy

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

- **Skills Academy – Sustainable Manufacturing & Innovation** -The overall cost of this project has been reduced by £40,000 as we have recovered funding from Nissan for extras they requested as part of the build process. The overall saving against the budget is now £445,000 with the final cost at £7,990,000.
- **Test Track** – this project is on track.
- **Construction Centre Phase 2** - The College is currently finalising the account with UK Land and believe the worst case scenario to be an underspend of £78,000 and the best case to be an underspend of £93,000.
- **Barmston Court** - At the Finance & General Purposes Committee on the 26 April 2012 the Committee approved the College making a bid to acquire Barmston Court for a price of up to £600,000 and to recommend to the Board of Governors that the Barmston Court acquisition be approved as part of the investment in Low Carbon Technologies.

The College received notification in early August 2012 that it had finally been selected as the preferred bidder subject to a number of conditions including exchange of contracts by the end of October with completion two weeks later. An overage clause was included but would only kick in if the College sold the site for either housing or a hotel. Given that the site is surrounded by industrial use this would be highly unlikely. (Any clawback under this clause would also decrease proportionately over the next 15 years.) The College has agreed the Heads of Terms on this basis.

Members noted that the owners of the Turbine Business Park have approached the College to ascertain whether a land swap would be possible with them providing the College with a new access via the Business Park. This would allow them to acquire the College's access road and any other spare land. The acquisition of Barmston Court will be completed before entering into any negotiations so as not to endanger the deal; however, there is potential to recover part of the original purchase price of £600,000.

Development of the Low Carbon Vehicle Development Centre can be divided into two parts: the Office Building and Development of Test Facilities. The Office Building will be used to relocate the Innovation Centre from SASMI thereby creating more teaching space. Barmston Court will also be let to partners of the College who wish to co-locate as part of the Regional Growth Fund (RGF) bid but do not wish to be at SASMI with its use by Nissan. There has been interest from Smiths, TRL, TADEA and the University of Sunderland. These tenants should provide a rental stream and cover the running costs of the building.

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In terms of development of Test Facilities; the College has secured funds towards the accommodation and equipment as part of the RGF bid. In addition the College has bid £1.2m to ERDF to match its investment of £600,000 and the RGF funding to enlarge the proposed building and thereby improve its viability. The College is now preparing the final submission for the ERDF bid. Expenditure since March 2012 will be eligible to claim against this funding stream.

A member asked how firm the interest was shown by the other businesses who had expressed an interest in co-locating at Barmston Court. The Managing Director of Business, Innovation and Development replied that there had been a definite interest from TRL and TADEA, University of Sunderland were interested and were working with the Local Enterprise Partnership, interest from Smiths was now uncertain. The Director of Finance suggested that some of the College's support functions could be relocated to Barmston Court if the building was not otherwise fully let.

The Chair enquired whether there was any large property expense on the horizon and the Principal replied that it would depend on what came out of the International Strategy as there was interest in having some establishment in the Far East if this were to prove wise financially.

RESOLVED to note the content of the report and (subject to confirmation that the Financial Regulations permitted this level of delegation) to approve the purchase of Barmston Court on the basis of the Heads of Terms summarised in the paper presented to the meeting.

F/1590 Any Other Business

The Principal advised the Committee that both he and Keith Cann Evans had attended a Gazelle Global meeting in July 2012. He indicated that Gazelle Global was continuing discussions with Pearsons and these were nearing conclusion. He advised that any potential agreement with Pearsons would need to be approved by the Gateshead College Board along with the other four college Boards involved. It was noted that the President of Babson College would be coming to the Association of Colleges in November 2012.

The Deputy Principal: Curriculum and Quality provided an update on the Curriculum Modernisation Process advising members that letters had been sent out to all staff offering them a position. Some staff are signing contracts whilst others are not happy with what they have been offered so may take voluntary redundancy. The Principal indicated that the TU were still in trade dispute regionally but not at branch level. He advised that it was unclear whether the union has a mandate to call a strike at the College. A member enquired about the legal position asking whether a member of staff would make them self redundant if they refused a job offered; the Principal confirmed this would indeed be the case.

F/1591 Date of next meeting

Tba for a date in October 2012.