

# Minutes



Leading learning and skills

**Date** 28 March 2007  
**Subject** Capital Committee  
**Location** Grosvenor Gardens  
**Time** 10:30  
**LSC office** National Office  
**Publication intent** Internal

**Present** Norman Boyland (Chair)  
John Taylor  
Richard Haynes  
Terry Dabs  
Alan O'Neill  
Lynne Morris

**In attendance** **For Newcastle and Skelmersdale & Ormskirk**  
John Korzeniewski  
Chris Griffin  
John Wayman  
**For West Thames College**  
Thalia Marriott - Principal  
Kulbir Seth - Finance Director  
Raza Raheem  
Clare Arnold  
**For Hertfordshire Regional College**  
Paul Harvey - Principal  
Jane Alford - College Director of Property  
Paul Maguire  
Keith Felgate  
Jeff Friend  
John Glover  
**For Canterbury College**  
Alison Clark  
Lesley Davies  
Raza Raheem  
David Hughes  
Pauline Tiller  
**For Harrow Collegiate**  
David Hughes  
Clare Arnold  
**For Lincolnshire and the Wolds**

**LSC staff**

Nick Rashley  
Chris Harris  
Philip Head  
David Russell  
Alastair Grindlay  
Denis Miles  
Judith Wilson  
Pete Sanders  
Pravin Palmer

**Apologies**

Apologies have been received from:  
John Bull  
George Sweeney

## **Item 1. Welcome and introductions**

1.1 The Chair welcomed the Committee and noted the following declarations of interest:

- Alan O'Neill for Hertfordshire Regional College
- John Taylor for Freeman College and Ruskin Mill
- Norman Boyland for Canterbury College

## **Item 2. Minutes of last meeting**

2.1 The minutes of the last meeting were approved with the following amendments:

- Lynne Morris was not present; John Wayman was in attendance for the discussion about the potential capital implications of the proposed merger of Newcastle College and Skelmersdale & Ormskirk College.
- Item 3.2 should be re-formatted as a heading.

## **Item 3. Matters arising**

3.1 A brief update on the forward capital programme was given. The national Council had noted the position, and 2006-07 financial year expenditure should be within £1million of the budget outturn agreed with the LSC finance team.

3.2 The National Audit Office, during a routine audit, had pointed out a typographical error in the minutes from June 2006. In item 4 Broxtowe College grant support was misquoted as 33.1% not 33.9%, the actual amount funding was correctly stated in the relevant report. The Capital Committee agreed to note the correction.

### **Newcastle and Skelmersdale and Ormskirk College**

- 3.3 Members received a further paper on the capital implications of the proposed merger of Newcastle College and Skelmersdale & Ormskirk College. At the previous meeting the Committee had been asked for its views on whether or not it was reasonable for grant support towards the costs of capital proposals for the Skelmersdale campus to be assessed against the financial position of Skelmersdale & Ormskirk College with a rate of grant support of 90% or more towards project costs of some £30 million. Newcastle College was seeking reassurance that its already strong financial position would be reasonably maintained and that the implementation of its property strategy for other sites would not be prejudiced.
- 3.4 The Capital Committee had responded that in considering such a proposal the Council would need to review the merged college's five year financial forecast to establish its self-funding capability and the likely amount of capital support required and to examine the estimated costs, feasibility and certainty of the other capital works, such as those proposed for Newcastle College's main campus. It had been agreed that the proposal should be brought back to a future meeting of the Committee for further consideration with the additional information requested.
- 3.5 The Chair noted the paper and commented that, in his view, it provided the additional information and context that the Committee had requested when it discussed the proposal at its previous meeting.
- 3.6 It was noted that the Council's mergers guidance was being reviewed and updated and members agreed that the review should address governance and other issues relevant to inter-regional proposals. It was also noted that the governance implications of this merger were outside the Committee's remit. The prospective capital proposal had to be the primary concern and it must be considered against the normal criteria.
- 3.7 In response to concerns raised by members the Capital Programme Manager commented that the Newcastle College Estates Director was very experienced and there was no doubt that his team would be able to handle projects in Skelmersdale as well as continuing to manage the expansion and redevelopment of the Newcastle College campus.
- 3.8 The Committee was informed that Newcastle College will be inheriting £3.7million existing debt from Skelmersdale and Ormskirk, with a current operating loss of between £0.5million and £0.75million per annum. If it had to invest further funds that would effectively mean diverting funding out of the North East and into the North West. Both Newcastle College's governing body and Tyne and Wear LSC had strong concerns about that prospect hence the proposal that the funding for capital investment in Skelmersdale should be assessed on a stand alone basis with reference to the local funding position. Although Newcastle College had not taken advantage of previous borrowing consents it was clear that substantial further development was planned for the Newcastle campus and that the college would be expected to make a substantial contribution through reserves and borrowing to the funding of future projects. Taken over, say, a five year period, the LSC would not be providing any additional funding and the amount of LSC capital

grant funding for the Newcastle campus project proposals would be subject to the LSC's usual affordability rules.

- 3.9 The Committee agreed that in these circumstances it would be reasonable for the merged college to apply for and the LSC to agree a rate of grant support of up to 90% of eligible project costs for the Skelmersdale campus project proposals. But that would be dependent on the college submitting capital proposals that would otherwise meet the LSC's projects criteria. The preparation of an appropriate consolidated estate strategy for the merged college would be required in due course, and certainly before any new capital proposals for the Newcastle campus could be considered.
- 3.10 Members confirmed that they now expected a degree of trust to be established between the colleges and the LSC in relation to future funding and that the merged college would be expected to make an appropriate contribution in due course towards the funding of its overall capital programme.

**Decision:** The Capital Committee agreed that Newcastle College be informed that it would be minded to support a grant support level of 90% of eligible project costs for the proposed Skelmersdale campus project proposal on the basis of the indicative proposals discussed with regional and area team LSC colleagues which indicated developments estimated to cost of the order of £30-£35 million. This would be subject to the college submitting an in principle capital application that would not materially change in scope and would otherwise meet the LSC's capital projects criteria. The college should also develop an appropriate consolidated estates strategy for the merged college to provide the context for further capital applications.

#### **Item 4. Capital Applications for Approval by the Council and the Capital Committee and Determined under Delegated Authority.**

- 4.1 The Chair introduced this item and highlighted that funding levels were increasing with some as high as 90%. This might remove the incentive for providers to seek other sources of funding, and the Council had to be rigorous in ensuring value for money and that applicants properly investigated other sources of funds.
- 4.2 But providers were also expected to take on borrowing which potentially leaves them susceptible to changes in government funding. If areas of provision stop being seen as a priority and funding is withdrawn a college could end up in serious financial difficulty if the funding was needed to service debt. Issues such as demand-led funding and contestability were of great concern to colleges' governing bodies and, in his view, here was a need to segment the market and help institutions generate new funding streams, this goes beyond the remit of the Committee but should be considered by the National Council.

#### **West Thames College**

- 4.3 This was introduced by the Director of infrastructure and Property Services as an ambitious four-phase project for which in principle approval was being

sought at this stage and there would be opportunities to address any detailed concerns as the various phases arise.

- 4.4 Members also noted that part of the proposal was for a 230 seat theatre but these tend to be costly and have limited flexibility for other types of learning. There is also a nearby theatre that the College will be using to decant the performing arts students.
- 4.5 The college's Principal in presenting the proposal to the Committee pointed out that basic skills in the area are very low, this project aims to motivate learners and then encourage them to stay on in education. The college is already a place people aspire to go and inspirational buildings will ensure this remains the case. Predicting learner numbers was not easy, but there is a modest growth forecast in both HE and adult provision, however these assume that the learning environment remains the same. The college has a long history of being responsive to changes in government policy and funding, the broad curriculum helps with this.
- 4.6 In response to questions, it was confirmed that there is currently no in-house expertise to manage this project, but the governing body had already approved proposals to hire in project management expertise.
- 4.7 The college has too much accommodation at present and some of this spare capacity will be used in the decant, however on-site temporary portacabins will also be required.
- 4.8 The London Borough of Hounslow Council already owns part of the skills centre and will continue to use it in future. The college has already secured a cheap, long-term lease deal for the building.
- 4.9 The last OfSTED inspection was in December 2003 where the college was graded satisfactory overall. There will be a re-inspection next year, if this proposal is accepted they will ask for it to take place before the building work starts. There is confidence the grade will improve.
- 4.10 The college had taken a strategic decision to target provision not offered elsewhere and reduce provision in areas of higher competition however the management team need to look at the risks of not hitting the predicted income levels and reassess the affordability in that light.
- 4.11 The Committee noted that some areas of the proposal needed firming up to ensure that the implementation of this project does not lead the college into financial difficulties. The Regional and Area LSC teams had suggested to the college that it should increase its in principle request for indicative grant support which was now proposed at £48.199 million or 82.3% of estimated eligible costs of £58.565 million as opposed to the 76.8% originally approved. The detailed approval needs to show the finances for all four phases.

**Decision:** The Committee agreed to recommend the £58.565 million in principle capital application from West Thames College for approval by the Council at a notional 82.3% level of grant support.

### **Hertfordshire Regional College**

- 4.12 This proposal was introduced by the Capital Programme Manager as an excellent scheme with a management team to match. In principle approval

had previously been sought too early. Although the estimated costs had increased they were considered to be realistic.

- 4.13 The Principal presented the project and highlighted key points. The Ware site had to be architecturally more sensitive to its surroundings than the Broxbourne site; it also has the problem of an 18 metre slope.
- 4.14 The cost increases had been partly a result of larger than expected participation which is likely to continue. Costs had increased in line with the additional accommodation that will be needed and some abnormal development costs had also been identified. The Eastern Region, on the recommendation of the Hertfordshire Area Team is prepared to fund the additional growth as it falls within local and regional funding levels.
- 4.15 The college had made many improvements since the inspection in 2002. It is currently the best performing College in Hertfordshire and has met or exceeded all LSC targets.
- 4.16 The Chair thanked the College team for an exciting and confident presentation.

**Decision:** The Committee agreed to recommend the £62.943 million detailed application from Hertford College to the Council for approval at the requested notional rate of 41% grant support.

#### **Derbyshire College**

- 4.17 The Director of Infrastructure and Property Services introduced the paper and talked through the recommendations. There is a great deal of confidence in this impressive proposal which the Committee had reviewed at the in principle stage last autumn and the detailed proposal was closely in line with the in principle application.
- 4.18 It was noted that the recommendation of the project by Derbyshire LSC highlighted a number of caveats and conditions.

**Decision:** The Committee agreed to recommend the £41.754 million detailed capital application from Derby College for approval by the Council at the rate of 40% grant support subject to the caveats and conditions proposed by Derbyshire LSC.

### **Item 5. Capital Applications for Approval by the Capital Committee and Determined under Delegated Authority.**

#### **Canterbury College**

- 5.1 Members were informed that Canterbury College is part-way through a major three phase capital programme to rebuild its current site. It has become increasingly clear that the original agreement over the balance of payments for the project between the college and the LSC had been based on inaccurate assumptions. The rate of grant support previously agreed for phase 2 was simply too low and the project was now unaffordable. Kent and Medway LSC, supported by the South East regional Finance team now agrees that the college's level of borrowing is too high, with the disproportionate costs of servicing the debt posing a material threat to the

college's future quality, delivery and solvency. For example, under the current requirements, the college is not projected to move out of Financial Health category B, and may decline to category C in the longer term.

- 5.2 Kent and Medway LSC had agreed that an additional capital grant of £8.565 million would bring the college back to where it should be in terms of its financial health and levels of borrowing, setting the levels appropriately and in accordance with current LSC practice and guidance as it is applied even-handedly to all colleges. Without this increase the college would be carrying double the amount of debt recommended under the current affordability guidelines.
- 5.3 The Committee was informed that Phase 1 of this 3 phase project is now complete, phase 2 is nearing completion and phase 3 should be coming before the Committee by the end of the year. Phase 2 borrowing was based on assumptions that have turned out to be inaccurate and servicing this debt is putting the College in jeopardy. Canterbury College was confirmed as being one of the best Colleges in the South East and this project is an integral part of the future plans. Phase 2 is currently running to budget and on time. Funding for FTEs in Kent is much lower than in many other areas and investigating new funding streams is extremely difficult during a major capital project.
- 5.4 The Committee stated that in agreeing these changes to phase 2 then the Phase 3 proposals must be extremely robust and must be based on accurate growth forecasts and an accurate affordability assessment. Implementing the third phase should also be a requirement of the increase in grant for phase two. It must also be made clear that this is not a precedent and the Committee will not agree to fund every project at grant levels of 70% to 80%.
- Decision:** The Committee approved the proposals at the requested grant level of £23.375 million including an additional capital grant of £8.565 million.

### **Carshalton College**

- 5.5 The Regional Director for London introduced the paper and commented that it was one of the most significant projects to come through the 'invest to save' router. This project would promote educational improvements for LLDDs and offered a more economic use of the Council's LLDD funding in line with the Peter Little recommendations. Its implementation would be a key part of the regional LLDD strategy for Greater London and is likely to be replicated in other regions. But the LSC was promoting change and needed to offer an incentive to Carshalton College to participate in what would be a partnership with Orchard Hill College and, therefore, a conventional affordability assessment was inappropriate in these circumstances.
- 5.6 There is a strong commitment from the Carshalton College of £1 million of reserves and provision of the land. Carshalton College will develop and own the new facilities and a condition of the grant should be added which specifies that the facility must continue to be used to benefit LLDDs, given the higher rate of grant support, and not for general college use..

**Decision:** The Committee approved the proposal at the requested £2.43 million grant level. A caveat on should be added specifying that the facility should be dedicated for LLLD provision.

### **Carmel College**

- 5.7 The Area Director introduced the proposal; this is a high performing College with good retention and achievement. The proposed project will allow the college to continue delivering the high quality provision.
- 5.8 The diocese will sign an agreement ensuring the land will remain in use for FE for at least another 40 years.
- 5.9 The project proposal has a negative NPV but the national Director of Finance, Richard Healy, had already signed this off. Growth in learner numbers has highlighted significant under-investment in the past with temporary buildings having been added in a piece-meal fashion as the college has grown. Any significant increase in learner numbers at this college will impact negatively on neighbouring providers.

**Decision:** The Committee approved the £16.929 million in principle application at a 70% notional rate of grant support.

### **Bradford College**

- 5.10 There had been very little capital investment in this college in recent years, and it is massively over-sized. The proposal comprises the first stage of a strategy which, if implemented, will reduce the college's accommodation from 83,000 m<sup>2</sup> to 50,000 m<sup>2</sup>.
- 5.11 The Committee approved the £18 million in-principle application at the requested notional rate of grant support of 10%.

### **Freeman College**

- 5.12 This specialist college LLDD project proposal is for the creation of a specialist learning and residential centre aimed at helping individuals with learning difficulties or disabilities associated with developmental delay or challenging behaviour.
- 5.13 This is regarded as a straightforward proposal that fits all the criteria.
- 5.14 The Committee approved the £2.905 million capital application at the requested grant level of 50%.

## **Item 6. 16-19 Schools Projects**

### **London Borough of Harrow**

- 6.1 The Committee had previously considered this proposal to add new sixth form facilities to all 11-16 schools in Harrow and it had expressed concerns that it might promote an uneconomic fragmented approach to delivery.
- 6.2 The Committee was informed that since the previous meeting the Regional Property Adviser, supported by regional and area team LSC colleagues, had worked with the local authority. Although the number of participating schools and the scope of the works had been reduced to the levels indicated in the report of 19 January 2007 to London West LSC, the grant of putative

“presumption” status to two of the participating schools meant that the £21.5 million estimated costs for the revised collegiate proposals would now increase by a further £6.5 million, giving a total estimate of approximately £28 million as indicated in the supplementary report to London West LSC of 14 March 2007 which supersede the figures given at paragraph 13 to the report at agenda item 6.

- 6.3 The Regional Director confirmed that this innovative approach had caused concerns but came from a borough without school sixth forms and he was satisfied that the proposals could be successfully implemented. The original proposal had been streamlined and should effectively deliver the London Learner Offer in the borough and would involve the establishment of robust governance arrangements.
- 6.4 It should impact positively on neighbouring areas such as Hillingdon, which are already over-stretched in post 16 provision and have a large NEET group. The project fits in with the Building Schools for the Future initiative but will be completed sooner.
- 6.5 It was noted that Harrow College had recently been granted in principle approval for a capital project grant which will compliment this proposal.

**Decision:** The Committee approved the £24.865 million in principle application with 100% grant support and delegated the decision on the detailed proposals to the Regional Director. But if the overall costs rise by more than 10% the proposals should be brought back to this Committee for approval.

#### **Other 16-19 school projects for consideration**

- 6.6 The following projects were all considered:
- Lincolnshire County Council, a £5.8 million project proposal for developments in 8 schools as the successful outcome of a 16-19 Competition with 100% support;
  - Churston Ferrers Grammar School, £0.84 million towards a £1.79 million project proposal;
  - Mirfield Free Grammar School, £1.43 million towards a £1.94 million project proposal; and
  - West Somerset Community College, £4.48 million towards a £4.9 million project proposal.
- 6.7 All were approved at the requested grant levels and it was agreed that the Lincolnshire County Council project should only be brought back to the Committee if costs increase by more than 10%.

#### **Item 7. Any other business**

- 7.1 It was agreed that the Committee’s 5 September 2007 meeting would be held at the site of the new development for Joseph Chamberlain Sixth Form College in Birmingham.
- 7.2 The meeting on 28 June will now be brought forward and held on 19 June.

7.3 It was also agreed that David Russell should bring a short paper to the June Committee meeting discussing the establishment of Regional Boards and the possibility of delegating some of this Committee's work to them in due course.

**Item 8. Date of next meeting**

8.1 The next meeting of the Committee will take place in London on 24 April commencing 10.30.

<b>Meeting chair</b>	Norman Boyland
<b>Minute taker</b>	Pete Sanders
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