Item 1. Welcome and introductions
1.1 The Chair welcomed the members and invited guests. The apologies were noted.

Declarations of interest
1.2 It was acknowledged that all the regional representatives had a declared interest as each region has colleges affected by the current situation. There were no other declarations of interest.

Item 2. Minutes of last meeting
2.1 The minutes of the last meeting were approved without amendment.
2.2 There were no matters arising.

Item 3. Assessment and Prioritisation of Capital Projects
3.1 Since the last meeting there had been many developments including the publication of the Foster Report, the announcement of additional funds in the 2009 Budget and a new Chief Executive of the LSC. Following the Foster Report, Lambert Smith Hampton (LSH) had been appointed to assess the readiness of projects in the pipeline and PricewaterhouseCoopers (PwC) had been appointed to advise on the prioritisation of those projects regarded as “shovel ready”.

3.2 Over £300m of additional funds in 2009-10 and 2010-11 had been made available for the capital programme in the 2009 budget and the Treasury had agreed funding assumptions for continuing LSC support for projects through the next three year spending review period to 2013-14. Conditions were attached, however, which included ensuring that the funded projects should
result in fiscal stimulus and that the projects must be ready to start later this year with spend this year and next.

3.3 Out of 200 returns, some 116 projects were initially deemed potentially “shovel ready” by LSH, however, after further scrutiny this number was reduced to 90 that would be ready to start by September if the go ahead was given in early June. PricewaterhouseCoopers had assessed these 90 and several additional projects which were not finally confirmed as in the “shovel ready” category.

3.4 Members were introduced to the PwC assessment team lead by David Padwick and Kate Rushton who gave a presentation on how the project proposals had been assessed and prioritised and who confirmed that the projects were assessed by PwC against five key criteria which had been previously discussed by the committee and had been the subject of consultation with representative college bodies and at the AoC Reference Group. The criteria were:

- Education and skills impact
- Contribution to local economic regeneration and other priorities
- Co-dependency with 3rd parties
- Condition of estate, and
- Value for money

3.5 Each project received a score up to 5 on each criteria. These scores were added together and multiplied by 4 to give a score out of 100. Examples were given to illustrate how high scores could be achieved in each category.

3.6 Moderation within PwC was undertaken to ensure consistency as to the evaluation of evidence and circumstances across the regions and the preliminary results had been taken to an LSC moderation panel at the end of May. All criteria were given equal weighting initially as a pragmatic approach; a solid argument could be made for each criteria being given higher weighting than the others and after some investigation additional weighting on the criteria did not affect the outcomes significantly.

3.7 Further scoring had taken place In order to support the identification of the most urgent projects and those in exceptional circumstances. PwC had undertaken an exercise to highlight any exceptional issues or circumstances and allocate bonus marks to reflect these.

3.8 Bonus marks had, therefore been allocated sparingly, in the following instances:

- Condition of estate - Where there are extremely urgent estate issues e.g. significant work already underway, buildings demolished, significant and unsatisfactory temporary accommodation, critical health and safety issues;
- Co-dependency - Where there is significant leverage of 3rd party funding or another important project will not proceed if this project doesn’t proceed; and
- Regeneration – Where the area is both highly deprived and the project is integral to a wider regeneration scheme.

3.9 Each project could receive a maximum of 3 bonus points, one bonus point for each of the categories set out above. (This equates to a maximum of 12 additional points when multiplied by the factor of 4, giving a total maximum project evaluation score of 112 instead of 100 as in the base case). The critical issues points allow a college project to achieve a score above the normal maximum of 5 points where urgency can be proven. Any project with exceptional circumstances can receive a bonus mark. It was noted that applying these critical issues points, where deserved, would result in a small number of projects moving higher up the list. This is particularly true of projects which received additional points in more than one of the above 3 categories.

3.10 It was noted that it is impossible to design an ideal process, however the Committee must be satisfied that the process has been robust and consistent.

3.11 It was also noted that value for money referred to individual projects not on a national level and therefore does not take into account that investment in some areas will provide greater fiscal stimulus than in others.

3.12 The original LSC grant support rate for each project was not considered directly but was reflected in the level of external funding.

3.13 Specialist provision is accounted for under ‘Education and Skills Impact’ but members felt that small LLDD providers might be considered separately in any later rounds; these account for only a small amount of the demand for funding. It was suggested that sixth form colleges may not be able to score highly on the co-dependency and economic regeneration criteria, however members accepted that economic regeneration is a requirement imposed by the treasury and must be fulfilled.

3.14 Members noted that the criteria were thorough and the Committee was satisfied that the process appeared robust. The Foster Report called for a needs-based approach and the process described appeared to fulfil the requirements set out in the report.

3.15 The list identifies the colleges in need of a project, but there was concern that asking the colleges to re-examine the projects in order to make them cheaper through the value for money challenge may prevent them from starting quickly, thereby negating their “shovel ready status. Members were reassured that much of the work will have already been done and that this will be an inexpensive exercise taking no more than three to four weeks. External cost managers will also be engaged to help verify that the cost reductions proposed are both reasonable in scope and value and are achievable.

3.16 If projects were prioritised according to these criteria and funded in that order, it was suggested that approximately a dozen projects would be affordable at the current costs. It was recommended that the highest priority projects should be re-scoped and project costs renegotiated down as far as possible. Further savings could allow additional projects to be approved or
the funds saved could go towards helping those colleges that would not be able to proceed with project proposals in their current form.

3.17 The Committee approved the process and the ranked list of projects.

**Item 4. Update on Finance Issues**

**Forward Capital Budget**

4.1 Members noted the tabled paper and were reminded of the 2009 Budget announcement. The money is available but must be spent within the set criteria of timeliness and economic regeneration.

4.2 It may be possible for the LSC to facilitate talks with banks on behalf of the sector in order to broker a more favourable deal on the borrowing requirements of all the projects as a whole.

4.3 Colleges may also be able to re-examine their long-term borrowing strategies which may afford them a more favourable position in the eyes of lenders.

4.4 The Treasury have relaxed their initial stance of wanting all projects to start in July and are now satisfied that any new projects can start in the autumn. They also approve of the approach of trying to maximise the number of projects across the widest possible area.

4.5 The risks going forward must be identified as early as possible and mitigated as far as possible.

4.6 Members agreed with the approach to maximise the number of colleges benefiting from the additional funding but warned that this must not be at the expense of further delaying the projects and incurring additional project development costs and professional fees.

4.7 Colleges will be given the opportunity to shrink their LSC grant support requirements down as far as possible and a meeting would be set up to allow a representative from each college to achieve this. The more the LSC grant support requirements can be reduced the more colleges will ultimately benefit. Additional sources of funding can be used to achieve the required reduction, but it must be stressed that substantial reductions in LSC contributions will be expected one way or another. Members noted however there is a risk that some project costs could not be reduced much further without materially affecting the original project aims.

4.8 Clarity and timeliness of the LSC message to all stakeholders will be crucial. It must be shown that the process has been open and transparent. A letter has been drafted by Geoff Russell to all college principals to explain this situation and the process going forward. It is hoped that the letter can be sent soon.

**Decision:** The Committee agreed the partial restoration of delegated authorities for approving certain categories of transactions, as set out in the paper.
Sunk and Abortive Costs

4.9 The policy on fees is clearly set out and will be adhered to. There is a feeling however that the LSC should go beyond that, particularly in regards to those projects with AiP approval.

4.10 There are still many issues to be sorted out but £20million out of the £28million of costs incurred last year have now been paid, the remainder will go through in the June and July pay runs.

4.11 A contingency fund will be considered for those colleges who find themselves in financial difficulty as a result of these sunk costs. There is a ministerial promise that no college will go into financial difficulty as a result of this situation.

4.12 There are several cases where colleges have gone beyond their remit and spent more than was agreed by the AiP approval. This situation on this is yet to be resolved. There was broad agreement that only legitimate costs should be covered, however more consideration will be necessary before making a decision.

4.13 If projects are now altered then colleges will incur additional sunk costs, however if the resulting project costs are reduced significantly then these costs can easily be covered.

Item 5. Date of next meeting

5.1 Members will be contacted regarding the date of the next meeting.

Meeting chair  Norman Boyland
Minute taker    Pete Sanders
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Annex A: Attendees

Committee Members:
Norman Boyland (Chair)
Edward Libbey
Malcolm Trobe
George Sweeney

LSC Officers:
David Hughes
Philip Head
Alastair Grindlay
Martin Lamb
Denis Miles
Laurence Leader
Pete Sanders

Regional Representatives:
Roger Hoyle
David Butler
John Savage
Ben Reid
Chris Paveley
Richard Brough
Douglas Hands
Roger Begy

Invited Guests:
Geoff Russell

David Padwick (PwC)
Ian Rolland (PwC)
Kate Rushton (PwC)
Kevin Palmer (PwC)
James Page (PwC)
Maja Maricevic (PwC)
Sean Hughes (PwC)
Edward Collett (PwC)