

MEETING OF THE CORPORATION

Minutes of the meeting held on 3 October 2018 8:30am

Present: Chris Brown - Chair
Nigel Leigh
Brian Beggan
Carleen Osborne
Mark Walker
Marina Duckmanton
Jenny Shackleton
Lorraine Smalley
Ray Hulse
Ben Thornber Minutes 1 – 3 by phone

In attendance: Sylvia Royle Director of Resources
Vanessa Scales Director of Human Resources
Simon Kibble Director of Quality and Development
Catherine Duro Clerk to the Corporation

APOLOGIES FOR ABSENCE

1 Apologies for absence were received from Gordon Tacey and Rob Chadwick.

DECLARATION OF INTEREST

2 There were no declarations of interest made.

CONFIDENTIAL ITEM

Ben Thornber left the meeting. Mark Thornton (BDO), Tim Winn (Mills and Reeve) and Craig Bentley joined the meeting

STRATEGY

Proposed Merger Update

3 The Principal introduced the Mark Thornton, Tim Winn and Craig Bentley to the meeting, detailing their involvement in phase 1 of the due diligence and merger exploration process.

Case for Merger

4 Craig explained his role as an independent consultant to review the case for merger. His report was received by the Board.

5 A governor **asked** Craig if the timetable leading to a vesting date of 1 August 2019 was realistic. The Board was **assured** that it was achievable providing each college resourced the merger work appropriately, additional administrative support may be needed around the 'pinch points' when a heavy workload was necessary to achieve a milestone gateway.

- 6 The Board discussed the importance of differentiating what was needed to achieve a legal merger and the importance of recognising that much of the necessary work would follow vesting date in what should be viewed as a 2 -3 year process.
- 7 A governor **asked** what tone the public consultation should take and was reassured by Craig's advice that its purpose was to seek comment on and endorsement for the proposal.
- 8 It was **recommended** to the Board that it considers setting up a joint working party with Loughborough governors to steer the merger process, with terms of reference and delegated authorities, as the two Boards consider appropriate, to oversee the progress of the project plan and work streams.
- 9 The Board was **reassured** to hear that whilst today's due diligence reports were of significance and needed to consider whether the merger exploration should continue the process would need to pass through many gateways before July 2019, at each of these it was within the Boards control to state that the merger was not in the corporations best interest and withdraw from the process. All agreed that the board should work with confidence and positivity but remain objective. The Board was advised that the purpose of today was to seek to resolve acceptance of the due diligence reports and if accepted commit to commencing the establishment of a Joint Working Group.
- 10 The draft project risk register was considered and commented upon. The impact on existing students was raised as a risk to manage. **(Action)**

Financial Due Diligence

- 11 Mark Thornton introduced the Financial Due Diligence report on Loughborough which had been received by all governors in advance of the meeting. Mark detailed the process which had been undertaken for phase 1 Due Diligence and gave thanks to Sylvia Royle and the finance team for their hard work in providing the necessary information.
- 12 The key findings were presented to the Board with each being explained in detail. The Board was assured by BDO that the forecast was prudent, based on sound assumptions and that the sensitivity analysis didn't show any cause for concern.
- 13 The key risk was around the cash reserves as they do not mirror the cash position Stephenson College had. BDO shared their opinion that this did not raise concerns about the organisations liquidity; the reasons for the low cash reserve were explained. It was **recommended** that this be listed as a significant matter to consider but in itself should not be seen as blocking further exploration of merger. **(Action SR)** The Board was advised that phase 2 due diligence will forecast the financial plan of a merged organisation when the impact of the cash position can be fully illustrated and understood.
- 14 The Board was **advised to assure** itself that conversations were happening with the banks as any merger could change the lending regime. **(Action SR)** It was to be expected that the banks would look to take some security against the loans, but this was normal commercial activity and not a reason not to progress. The Board was **reassured** that it would be unprecedented for the banks to ask for repayment solely due to a merger taking place.

- 15 Both colleges were reported to have good financial controls and good governance.
- 16 The Board was **advised** to consider the impact of the pensions coming together.
(Action SR)
- 17 A governor **asked** if all figures excluded the merger costs and savings. It was confirmed that at this stage they are simply an aggregation of the two sets of accounts and don't account for merger costs or savings, these would be modelled in the phase two due diligence.
- 18 The detail of the forecasted income was **robustly challenged**, each element being discussed. BDO were able to provide **some assurance** that they were based upon sound assumptions but due to the timing of the reports it was too early in the academic year to confirm these exactly. It was **recommended** that these be monitored. **(Action SR)** The complex funding arrangements were also **outlined** providing some reassurance of income levels for year 2018/19.
- 19 The risk to the quality of provision from needing to secure income from learners was raised. It was agreed that this was a risk to monitor but not uncommon across the sector.
- 20 A governor **asked** what investment there had been in capital teaching resources. The Board was **advised** that whilst this was out of scope the process being reported on there was evidence of expenditure on replacement resources if not enhancement of resources. This could be scoped into a full review.
- 21 The **recommendations were discussed**. The importance of the management activity delivering detailed strategic work stream actions was agreed to be essential to the successful delivery of the project. It was **recommended** that a cash flow to 2020 be requested, logic suggests an improvement should be seen but this needed scrutiny. **(Action SR)**
- 22 The importance of the nontangible elements was discussed as an important aspect of the merger exploration process. There is a need to understand and agree the vision for the new entity, achieve a sense of parity and belief in a move towards a better product having identified any business failure points which may lead to a decision not to continue. All **agreed** a perception of synergy and equality would bring buy in and ownership.
- 23 It was concluded that whilst recognising that Stephenson College is a strong college with an enviable financial position the few issues reported against Loughborough College were manageable. As such it was **recommended** that the Board accept the due diligence position and move through this gateway to explore the merged financial position with the expectation that a stronger merged college will be the result.

Legal Due Diligence

- 24 Tim detailed the legal due diligence process which had been undertaken by Mills and Reeves and introduced the legal Due Diligence report on Loughborough which had been received by all governors in advance of the meeting.
- 25 Tim **advised** the Board that it should assure itself that the corporation for which it was responsible was considering appropriate and sustainable options, consistent with its charitable objectives, the assets and the business of the organisation.

- 26 The governors were **assured** that the legal DD process had identified a very typical spread of red, amber and green alerts, in similar proportion across both colleges and nothing had been highlighted which could not be resolved. The board was **advised** that it should assure itself that all elements had been satisfactorily addressed, much of this would be covered by the pre-merger work stream activity, to be confident that all issues were being managed or manageable. **(Action SMT)**
- 27 The Board was **advised** that whilst Mills and Reeve would never consider themselves in a position to say go ahead they do look at the legal obstacles and would say if they were significant and the merger should not go ahead. On this occasion they were not saying it should not go ahead.
- 28 A query was raised about the status and purpose of Leicestershire College Ltd. This needed further investigation. **(Action SMT)**

RESOLVED

1. That the two due diligence reports be accepted and the college continue to explore merger with Loughborough College.
2. That the College works to establish a joint Working Group with governors from Loughborough College.

MINUTES

- 29 **Resolved** that the minutes of the meeting held on 4 July 2018 be approved as a true record and signed by the chair
- 30 The action tracker was reviewed. The Board was **reassured** that all actions were progressing as required.

GOVERNANCE AND RISK

- 31 The Minutes of the Governance and Search Committee meeting held on 12 September 2018 were received.

Risk Register

- 32 The Risk Register for 2018/19 was received. The red risks and new risks for 2018/19 were discussed.
- 33 **RESOLVED** that the risk register be approved as an accurate register of the risks currently facing the College.

Governor Training Plan

- 34 **RESOLVED** that the governor training plan 2018/19, recommended by the Governance and Search Committee be approved.

Business Plan

- 35 The business plan was received and discussed all agreed that the exploration of merger with Loughborough College should be added. (Action)

36 **RESOLVED** that the business plan be approved

Freedom of Information Annual Report

37 The Annual Freedom of information report was received

Sponsors Update

38 The link governor gave an update on the position of Stephenson Studio School. The governors were pleased to hear of its progress and assured of its stable position with increasing student numbers, improved Ofsted grading and no going concern issues.

39 Governors were informed of the conversations taking place regarding the school seeking to be part of a MAT, in line with policy from the DFE, who had a meeting planned with the school in the coming weeks.

Policies

40 Following discussion of the changes and reasons for bringing the policies to the Board it was **resolved** that:

- 1 the LGPS Discretionary Policy be approved and that due to the significant capital costs the discretions would not be applied
- 2 the whistle blowing procedure be approved
- 3 the Supply Chain Fees and Charges Policy be approved
- 4 the amendment to the Financial Regulations be approved

41 The Child protection update was received. The safeguarding link governor confirmed that he was satisfied that the college was covering the new issues raised in the guidance and had good procedures in place. The link governor would work with the safeguarding team to scrutinise the changes to the fully revised document in advance of the December meeting.

PERFORMANCE AND EFFECTIVENESS

Minutes

42 The minutes of the Quality and Standards committee meeting held on 17 September 2018 were received. The Chair brought the Board's attention to the inspection risk if study programmes don't improve the self-assessment grade from a grade 3.

College Performance Report

43 The College performance report was received.

44 The need to improve study programmes and the actions in place were shared with the Board

45 Governors commented on the importance of retaining the priority on the day job whilst considering merger, continually improving the quality of provision and communicating a sense of business as usual to learners.

- 46 The financial indicators were discussed. The Board was informed that the College was off-target this year for 16-18 recruitment but had reasonable expectation of growth next year, based on curriculum and marketing activity being scheduled.
- 47 The human resources indicators were discussed and the Board received positively the news that sickness absence rates had decreased compared to the same period last year.

FINANCE AND ASSURANCE

Minutes

- 48 The minutes of Finance and Resources Committee held on 24 September 2018 were received with noted appendices for the Board's information.

Regularity Audit Self Assurance

- 49 The regularity audit self-assurance questionnaire was received.

Subcontracting

- 50 The subcontractor audit report was received. The audit was necessary due to the level of subcontracting. The audit report recommendations had been accepted and implemented.
- 51 The subcontracting activity report was received and it was explained to the Board that the lower than contracted delivery had not impacted on the financial position as the budget had been refined to reflect the under delivery.

52 DATE OF NEXT MEETING

The next meeting of the Corporation is on Wednesday 12 December 2018 at 8:30am

Meeting closed 12:45

Chair

Date