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**CONFIRMED MINUTES OF THE CORPORATION BOARD HELD ON FRIDAY 11 OCTOBER 2019 AT 11.00 AM IN THE BOARD ROOM, HARTLEPOOL**

**Present**

Mrs S Fawcett Independent Member

Professor J Rapley Independent Member

Professor R Simmons Independent Member - Acting Chair

Mr I Butchart Independent Member - at 11:30

Mr D Hughes Independent Member

Mr K Goldsborough Independent Member

Mr T Bailey Independent Member – at 12:30

Ms A Norris Independent Member

Mrs E Hardwick Staff Member

Ms R Hare Staff Member

Mr S Ahmed Student Member

Dr M Raby Principal

**In attendance**

Mr S Slorach Vice Principal Resources

Mr P Chapman Vice Principal Employability & External

Relations

Mr J Waddington Vice Principal Student Experience

Mr P Trotter Co-opted Member

Mr J D Banks Clerk & Governance Advisor

Ms L Robson RSM (School External Auditors) – a.m. only.

Mr R Kane Head of Further Education - pm only?

Mr M Wheaton Vice Principal Higher Education – pm only?

**Apologies**

Mr P Smith Chair

Mr I Swain Independent Member

Ms J Havakin Staff Member

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| **19:008** | **WELCOME AND INTRODUCTIONS**  The Chair welcomed members to the meeting and introduced John Banks as replacement interim Clerk until long term replacement could be found for Jackie White, previous Clerk.  As Patrick Smith was not available to Chair the meeting, an Acting Chair was agreed by the meeting.  The Corporation Board AGREED that Robin Simmons should Chair the meeting. | **Action** |
| **19:009** | **APOLOGIES FOR ABSENCE**  Apologies of absence were received from Independent Members Ian Swain and Tim Bailey (for the morning session) and Jane Havakin Staff Member. |  |
| **19:010** | **MEMBERSHIP ISSUES**  The Chair requested candidate Board Members, Rob Kane and Shuayb Ahmed, to leave the room while the Board considered the matter. The Principal set out that the Governance and Search Committee had interviewed two candidates for HE Student Governor and the preferred candidate was Shuayb Ahmed who joined the School following a year at Huddersfield University. Rob Kane was the only candidate for FE Staff Governor and there had been previous calls for an FE Staff Governor. The Board considered the fact that Rob is in a management position in FE but that there were no other candidates and it was important to fill the role.  The Board considered the terms of office, four years for FE Staff Governor and one year for HE Student Governor with an option for the Board to approve a second term.  The Corporation Board AGREED that Shuayb Ahmed be appointed HE Student Governor.  The Corporation Board AGREED that Rob Kane be appointed FE Staff Governor.  The Chair welcomed both new Governors back to the meeting. | Clerk  Clerk |
| **19:011** | **QUORUM**  The meeting was quorate in line with standing order 8.1 “Meetings of the Corporation Board and its committees shall be quorate when 40% of the total membership of the Governing Body or its committee, excluding vacancies, is present, except where otherwise stated within the terms of reference for that committee.” |  |
| **19:012** | **DECLARATION OF INTEREST**  There were no further declarations made in addition to the statement by the Principal that the Clerk’s substantive post was with Bishop Auckland College. |  |
| **19:013** | **FINANCIAL ISSUES**  The Chair welcomed Lucy Robson of the School’s Internal Audit Service and invited her to deliver a session covering Finance Training – Financial Health.  Ms Robson tabled a substantial booklet of over 60 pages and canvassed the Board regarding their understanding of financial matters in order to deliver her training at an appropriate level.  She provided sector wide information about the intention to minimise funds being provided to “bail out” colleges when those monies could be used to benefit students.  **The Insolvency Regime**  The new system is in place to remove this “bail out” option and protect learners and creditors, although there may be some conflict in this area, resolution of this was covered later in her presentation.  There are now rules covering what happens when colleges run out of money. In simple terms, insolvency is when colleges can’t meet their payroll costs at the end of the month. She set out that there is a journey before this point is reached and she reviewed the indicators that suggested a college would be heading for insolvency.  The Board discussed matters relating to pension liabilities and their potential impact on School finances.  The Board requested explanation of the net current asset ratio indicator. Ms Robson explained this in terms of the School’s 2018-19 accounts (which were appended to the booklet) and the Principal set out the School’s approved policy on these matters. Ms Robson referred to the clear explanation of the net current liability position in the Schools in the accounts.  She referred to the requirement for care in looking at cash at bank, particularly in terms of grants received where expenditure related to that grant had not yet been incurred.  She explained that the college insolvency regime now aligns with general commercial practice with the exception of provision for appointing an Educational Administrator whose role is to protect the interests of the learners. A current example included in the booklet.  **Ian Butchart joined the meeting (11:30).**  The Principal referred to the Government provision of millions of pounds in Exceptional Funding Support to colleges based on those colleges’ direction of travel towards insolvency.  Ms Robson referred to the closing page of the section showing a quotation from the FE Bodies: Insolvency Guidance and in this regard the Principal set out how the reports to the Corporation provided the necessary information covering:   1. monitoring and review of both cashflow and loan covenant compliance; 2. adequate risk assessment and sensitising of key cash variables.   **Governor Responsibilities**  Ms Robson reinforced the collective responsibility of the Board regarding financial matters regardless of individual financial skills. She referred to charity law and the obligation under that law.  She referred to delegation of matters and care required in this. The Principal drew the Board’s attention to the Scheme of Delegation reported to the Board each year.  She drew the distinction between fraudulent trading and wrongful trading and that in either case these were at the end of a very long path. She emphasised that the conduct of Governors could be reviewed for three years prior to administration; it is therefore important that not only are sound questions asked but the responses of management are scrutinised and documented.  The Principal referred to the Further Education Commissioner’s (FEC) request for colleges to have Finance Committees. He proposed that there be a short meeting of financially qualified Governors prior to Board meetings with a remit to scrutinise the management accounts in more detail and report to the Board.  She referred to the possible requirement for legal advice regarding shadow and de facto directors and exemptions regarding Student Governors, except for fraudulent trading.  The Clerk referred to the usual exclusion of Student Governor from decisions relating to finance and the Principal confirmed that was the case in terms of pay but not otherwise.  **College oversight regime**  Ms Robson set out that there would now be an end to end case manager where necessary and that ESFA support is now a key element of the regime in order to provide a preventative function.  The regime emphasises independent business reviews as the final stage of intervention; a full copy of the oversight and intervention regime is included in the booklet and this mentions a strengthened role for the FEC to carry forward local area reviews of provision. The Principal referred to this matter being on the agenda for the afternoon.  Ms Robson referred to the School being in the early stages of intervention and that there are others in the North East similarly placed. The Principal stated that the School was expected to exit intervention in the very near future.  **Bank borrowings**  She set out that banks are now less keen to enter the FE market particularly as the new regime places the interests of learners ahead of those of creditors. However, new borrowings are now generally securitised and this is particularly true in the case of re-negotiations in the event of a breach of covenants.  Covenant breaches are a key element, however, these only formally become apparent after the year end. The consequence is that there is substantial pressure on forecasting a breach and making early contact with the bank in order to ensure that a waiver is issued prior to the final accounts, provided that the bank is willing. If no waiver is issued, whether because of non-detection of the likelihood of a breach or bank unwillingness, then the debt is shown as occurring in one year; in which case the college immediately enters inadequate financial health. Banks may be prepared to issue a waiver following a breach but are not required to do so.  Issuance of a waiver will probably be associated with a re-pricing of the loan.  The Board discussed their reliance on experts regarding these matters and that it was a key matter that Audit Committee focussed on in questioning the Finance Director and reporting to Board. The Principal referred to his earlier statement regarding a Finance Committee prior to Board meetings to strengthen the expertise available to advise and scrutinise on these matters.  Ms Robson emphasised that when changes occur in budgets and forecasting then the impact on the covenants should be reviewed to understand what headroom there is. She drew attention to potential differences between the statutory accounts and management accounts and the need to be aware of this and be clear about the impact on the covenants. She indicated that the capital projects are a concern in this regard in terms of how they are monitored, changes in their nature and their funding. The Principal referred to a Special Board meeting at the end of August to review the School’s Middlesbrough relocation and the contingent repayable grant matter. He and the Finance Director consequently had an in-depth discussion with Clare Leece (RSM) regarding how that grant would appear in the accounts to gain comfort that it would not be problematic.  **Financial Statements – key areas**  She set out that cash levels can be influenced by timings and these may be adjusted in terms of the end of year accounts.  She explained that the net current asset and unrestricted reserves are important but the former position provides an indicator of what Governors are writing a cheque for in the next 12 months versus what the School expects to have in the bank for that period.  In terms of the notes to the accounts, the income and expenditure split identifies where money has come from and where has it gone. Care should be taken in identifying “one off” income or costs compared with those elements which are continuing, regular, features. Much of the income and expenditure for the School is fixed, providing little room for manoeuvre. Creditors (and debtors) profiling and aging are areas that she would expect to examine in reviewing the accounts.  Ms Robson drew particular attention to the reconciliation of the year end management accounts and the statutory accounts. The former are routinely used as the basis for decisions by the Corporation but may differ considerably from the latter. As a Governor it is important to identify where those differences are and why.  She linked the topics of ratios (such as pay: nonpay), future financial plans and covenant compliance as they influence each other.  She emphasised that more questions are better than less when Governors receive the accounts.  **Forecasts – assumptions/sensitivities**  Ms Robson referred to examples that would ring alarm bells:   1. a college which is always exactly at the overdraft limit; 2. lack of information about the assumptions in terms of student numbers and funding methodology whether changes have been made to accommodate changes; 3. staff numbers and staff costs; 4. pay rises and pensions contributions; 5. building maintenance as a major variable cost; 6. whether payment of any clawback is factored in and when;   Governors should ask questions about this type of evidence in management accounts. The Principal suggested that these are matters which are regularly discussed by the Corporation.  The Board considered the question of building maintenance and comparisons with poor industry practice.  Ms Robson referred to the management of working capital around the financial year end to ensure compliance with the covenants but that whatever adjustments are made they have an impact in the following financial year and this must be allowed for.  The Finance Director mentioned a pinch point at the month before the Student Loan repayment falls due and care taken in managing the position.  Ms Robson referred to the importance of scenario planning in developing a clear view of potential risks to forecasting assumptions. Perhaps have a set of forecasts, in addition to that which you really expect, which take into account potential serious changes in the financial environment.  She clarified that from the ESFA point of view it is not only important for the Group to be a going concern but that each of the component parts should meet that criteria in their own right.  She identified that variances against budget are an audit focus tempered with an awareness of whether these result from a timing issue or are “real” variances.  The Principal and Ms Robson discussed funding of the capital programme and that it did not require School borrowing as it would be cashflowed by the grant providers. When cash balances are considered they discount the grant funding which is ringfenced for the projects to which they relate.  She encouraged the Board to make sure that minutes of the Board and its committees reflect the consideration, discussion and evidence regarding the types of issues mentioned during the course of this session.  **What to look out for?**  Ms Robson referred to the page in the booklet and the overall scope of the session.  The Board considered the following matters:   1. the need to sit down and review the accounts using the guidance provided in the booklet pre-Board or Audit Committee and also to apply it retrospectively against previous years accounts to test the validity of the scrutiny processes; 2. the longevity of the new insolvency regime against the current political background; 3. Significant differences between this new FE regime and that for HE but that core responsibilities remain the same; 4. That the factors mentioned in the session apply equally to commercial businesses except for the stronger regulatory framework.   The Chair thanks Ms Robson and the meeting adjourned for lunch. |  |
| **19:014** | **The meeting resumed at 12:30 with the attendance as shown at the start of these Minutes. The meeting remained quorate and there were no additions to the Apologies for Absence.**  Following a round of introductions the meeting proceeded in accordance with the agenda. |  |
| **19:015** | **DECLARATIONS OF INTEREST**  The Chair referred to this not being fully up to date and requested the Clerk to circulate the necessary forms in order to bring it up to date. | Clerk |
| **19:016** | **UNCONFIRMED MINUTES OF THE PREVIOUS MEETING**  The minutes of the previous meeting held on 1 July 2019 were agreed as an accurate record subject to changes noted by the Board.  **UNCONFIRMED MINUTES OF THE EXTRAORDINARY MEETING HELD ON 30 AUGUST 2019**  The minutes of the Extraordinary meeting held on 30 August 2019 1 July 2019 were agreed as an accurate record subject to changes noted by the Board. | Clerk  Clerk |
| **19:017** | **MATTERS ARISING**  The Principal tabled a list of Matters Arising and it was noted that:   1. The Health & Safety Policy is now “Complete”; 2. The Governance Review is held back for the Governance & Search Committee in November (and that the Terms of Reference for the Finance Committee and Capital Programme Group will be considered); 3. The Strategic Plan was approved in July subject to minor amendments. | Clerk |
| **19:018** | **MEMBERS UPDATE**   1. Ms Hare referred to a new Learning Technologist; 2. Mr Chapman referred to a new programme of headlining events for the calendar year, including Ken Loach, Patrick Grant and Aardman Animation; 3. Amy Norris, referred to Freshers Week being well received with good support from the Students Union; 4. Mr Trotter, commented that the HR Manager was awaiting the grade for her now completed an MBA, that post restructure people are returning to normal and that a programme on Wellbeing was going well; 5. Mr Waddington highlighted that Wellbeing was an element of the new OFSTED Education Inspection Framework. |  |
| **19:019** | **CONFIDENTIAL ITEM** |  |
| **19:020** | **DRAFT OUTTURN 2018-19**  Mr Slorach presented his report and highlighted the following points:   1. Bank covenants were met during the 2018-19 year; 2. The School’s Education & Skills Funding Agency (ESFA) financial health rating is now Good; 3. He expects the final accounts to report a £323k deficit which technically rises to £2m once the actuarial adjustment is made for the Local Government Pension (LGPS) but this does not impact on the financial health rating; 4. Cash balances are just short of £1m that includes £400k of Middlesbrough Council funds; 5. The School’s credit facility with the bank was reduced by £1m but this has now been drawn back down for working capital; 6. Treatment of grant income and expenditure on the Middlesbrough project requires firming up.   The Board questioned the position regarding grant monies and it was clarified that the effective cash balance, discounting unspent grant, was in the region of £1.5m.  The Board questioned how a £323k deficit can be viewed as a positive. It was explained that the ESFA only considers the cash position. The overall deficit includes non-cash elements, such as depreciation of approximately £4-5k.  The Board questioned whether they are receiving information which can be viewed in two different ways, ESFA and commercial practice. It was explained that the ESFA are concerned with cash generation and liquidity of the School; they are in the process of reviewing how they calculate financial health.  Mr Slorach explained in detail the factors that the ESFA examined in order to arrive at the overall financial health score for colleges.  The Board view was that the discussion generated by the report reinforced the value of a non-financial expert as a member of the Finance Committee.  The Board NOTED the Draft Outturn 2018-19 report. |  |
| **19:021** | **CONFIDENTIAL ITEM** |  |
| **19:022** | **STUDENT RECRUITMENT**  Mr Chapman presented his report and drew particular attention to the following:   1. FE recruitment – the decline in this area had been expected to flatten out but instead moved slowly in the wrong direction, primarily as a result of two factors outside the School’s control:    1. The demographic changes have not arrived as early as expected but should be felt positively in October 2020;    2. The pipeline through schools has not developed as was expected.   Nonetheless, the decline in foundation diplomas has been arrested.   1. Higher Education – has now reached 612 undergraduates, the first time that the School has exceed 600, even though not reaching the target for Level 4 recruitment. It is a very competitive market and Level 4 Acting is recruiting strongly in the 2nd Year.   The Board questioned the impact of the operation of other providers. It was explained that the Costume course was adversely affected by a doubling in the number of competitors offering a Costume course.   1. Student recruitment review – in the previous year the Board had received indications of steps being taken to improve the applicant journey and at this point it is important to assess the impact of those steps before planning actions for the future.   In terms of HE, this year the target not quite met. Taking into account six late deferrals last year and six late deferrals or movement to other providers and/or courses this year, “late swerving” is now a feature. It is difficult to prevent this happening. He examined the longer-term cycle, referring for comparison back to the 2016-17 year, which illustrated that the competition is becoming more intense year on year. Nonetheless, the School is doing well against its UCAS competitor group, which is, Arts University Leeds, Cumbria, Nottingham Trent, Sunderland and Teesside. Applications determine the year end figure and these were down, however, the relationship between applications and enrolments is just about holding up. Withdrawals post interview have reduced but withdrawals before interview have increased. The reason is not clear. The previous year approach of pushing through quickly from application to interview did not deliver the hoped for results.  The Board questioned the sector practice of specialist institutions regarding requiring invitees to interview to bring a portfolio as doing this at the School may put off some candidates. It was explained that not all institutions interview and that there is no fixed point on this topic. Applications can depend on what friends are doing and other factors. There are limited applications for Level 2 but the numbers are boosted by Level 3 learners who step down into Level 2 and then once they have made progress return to Level 3.  Mr Chapman summarised that feedback from students was very positive. The steps taken to improve the process to and post enrolment shows very high contentment; near 100%. Nonetheless the market is still developing as a result of activities by Stockton Riverside College and Redcar & Cleveland College as they have invested considerably in marketing and staffing. Increased activity by Prior Pursglove College at Guisborough has also had an adverse impact on enrolments.  The Board questioned the relationship between these competitive aspects and the FE Commissioners Area Review and whether this competition should be happening. It was explained that the engagement with the TVCA and the politics of these matters is involved and although management tracks these issues, they are out of the School’s control.  The Board questioned whether the name change to Northern School of Art had a negative impact with schools and parents. It was confirmed that no negative feedback was received on this matter from schools or students but there has been no sophisticated test of it. The new name may look better for schools when they report on their own learner destinations.  Mr Chapman drew attention to a significant reduction in the withdrawal rate particularly before but also after interview; although the latter was very small and always has been. However, there is an increase in the overall decline rate to 27%. This reflects applicants holding all their offers and then deciding to go with more prestigious institutions or, more importantly, to base decisions on the location in travel terms and the impression created by the locale.  The Principal referred to the Love Hartlepool Group and the initiation of a 5-year project to shift perceptions of Hartlepool within the town and more widely.  Mr Chapman emphasised that the key factors for those accepting were the content of the courses and the end destinations. The experience of our students can be used to mitigate locational impact in encouraging applications and enrolments.  The Board questioned the impact of the accommodation offer. It was explained that the accommodation is full for this year and that additional Level 4 late applicants were accommodated in approved locations. Rental values and the quality of offer is received well although marketing of it could be improved. The School accommodation is price competitive. The Principal set out that Lime Crescent is mothballed this year but that Level 5 students are being accommodated in conjunction with support from Hartlepool Borough Council.  The Board questioned whether there were any geographical factors related to those declining places. It was explained that no pattern is evident.  The Board discussed the UCAS decline data for the sector and the scale of the School against the sector as a whole.  Mr Slorach set out that the budget impact for FE was not yet clear as the 6-week point had not yet been reached and therefore the data not firm. In any case the impact would not be felt until next year due to the effect of lagged funding. In terms of HE, currently the School student shortfall could amount to £85k and ways were being explored to fill the gap. These may be through the capital project outturn, probably most likely, however there may be scope in other discretionary spend budget or worst case by not making a pay award.  The Board NOTED the Student Recruitment reports. |  |
| **19:023** | **CONFIDENTIAL ITEM** |  |
| **19:024** | **CONFIDENTIAL ITEM** |  |
| **19:025** | **RETENTION AND ACHIEVEMENT**  Mr Waddington presented his report covering Further Education and set out that the report covered headlines, the full position would be reported in November. He referred to the last OFSTED in 2009 and that the SAR’s then indicated 84% success rate increasing into 2010-11 which year probably reported at 88% however, the actual figure was 84%.  In 2018-19 the result was 93%, the fourth year in a row over 90%. He explained that there had been a slight dip in the previous year but 93% was the highest rate the School had experienced. It was based on retention being up 1.4% and the pass rate being up 1.7% on the previous year.  He then referred to the Maths and English grades. Maths had increased by 6% from a rounded 17% making 23%. He explained that the School had moved from just below the national average of 18% to five points above it. English has increased by 13% to 57% against a national average of 30%; this makes the School the highest performing in terms of student progress for an FE college.  In terms of Functional Skills, he set out that in the year before last there were 42 students taking Functional Skills and at the end of that year a decision was taken to move more students into GCSE. This was to facilitate student progression to university and in the current year 15 students are taking Functional Skills.  The Board question the colour scheme in the table and the pink highlighting of 89%. It was explained that this related to target and the numbers transferring from one year into another which meant that achieving a higher percentage was not possible.  Mike Wheaton presented his report relating to Higher Education. He explained the features of the table, particularly the column headings and dates. He stated that with three-year data the tendency is to lose 10% year on year and this has an impact on the maximum possible overall retention rate. Achievement is usually 2% less than retention. However, he set out that considerable effort has been made and the expectation was that at the end of this year will be a lot higher than previously.  He drew attention to Level 4 retention and that it had been thought that this was improving but 20 students were lost mid-year and at the end of the year 12 students who passed their courses did not come back. Nonetheless, the School did pick up 8 students from other institutions. In contrast, at Levels 5 & 6 students appear more settled and movement is much lower. A new Group Leader has been appointed and working focussed on student experience and tracking mechanisms.  The Principal highlighted the significance of students staying through the year, passing, and deciding to go elsewhere for non-academic reasons.  The Board questioned whether there is an opportunity to canvass leavers. It was explained that this was not necessarily done but that following examination of the difference between students receiving an electronic notification of their results and those receiving face to face feedback including discussion of future plans, every effort is being made to take the latter route with all students.  The Board discussed the difficulties of carrying out an exit interview once the summer vacation commenced and when there was no requirement for the student to revisit the School.  There was a short discussion regarding the resignation of the previous Group Leader.  The Principal referred to a project commenced by Mr Waddington and Mr Wheaton looking at transition into HE and Level 4 retention. They set out that it is often possible to identify why student have left by using ProSolution, even if the reason listed may be vague. Analysis of this data is underway; the Principal referred to self-diagnosed mental health problems being apparent in some reasons for leaving which were not declared prior to enrolment.  The Chair emphasised the importance of student issues and the value of the reports on these topics.  The Board NOTED the Retention and Achievement reports. |  |
| **19:026** | **SECTOR TRANSFER UPDATE**  The Principal presented his report and referred to earlier discussion in the meetings and that there is no longer at the moment appetite to move forward with this at the present. He set out as drivers for pausing sector transfer as financial, difficulty in reaching qualifying student numbers in HE, the experience of Hartbury College, changes in the regulatory environment and Local Provision Review factors. He requested support from the Board in taking this approach but also indicated that these factors should be closely monitored with a view to re-considering sector transfer in the 2020-21 academic year.  The Board APPROVED the Principal’s recommendation not to proceed with sector transfer at this time. |  |
| **19:027** | **LOCAL PROVISION REVIEW – TEES VALLEY AND COUNTY DURHAM**  The Principal presented his report and explained that it was expected that the Secretary of State would sign off on the start of this process before Christmas, however, the indications are, particularly from the AoC, that this will not happen. He referred to the powers or otherwise of the Secretary of State and/or the FEC Commissioner to enforce areas of specialisation for colleges. He indicated that the high levels of grant funding provided to the School for specific purposes may mitigate against limiting the scope of the School’s courses. He recommended that while the position is uncertain it is not something to expend too much effort on at the moment.  The Board NOTED the Principal’s Local Provision Review report. |  |
| **19:028** | **CONFIDENTIAL ITEM** |  |
| **19:029** | **SUB COMMITTEE MINUTES**  The Principal explained that, as a result of the loss of the Clerk, the minutes for the Capital Programme Group and the Governance & Search Committee of 20 September were not available and would be brought to the next Board.  Academic Board minutes of 1 May 2019 are silent. |  |
| **19:030** | **CONFIDENTIAL ITEMS**  Item 10 – Principal’s Report  Item 11 – Financial Update  Item 13 – Capital Projects;  Item 18 – Strategic Direction – refinement |  |
| **19:031** | **ANY OTHER COMPETENT BUSINESS**  None |  |
| **19:032** | **REVIEW OF MEETING**  The Board view was that the meeting achieved the objectives. |  |
| **19:033** | **DATE AND TIME OF NEXT MEETING**  Friday 15 November 2018 at 12:00 noon at Green Lane, Middlesbrough. |  |
|  | **Meeting closed at 15:03** |  |

Signed: …………………………………………………………………………………….

Date: ……………………………………………………………………………………………