

**LUMINATE EDUCATION GROUP
LEEDS CITY COLLEGE CORPORATION**

**MINUTES OF THE MEETING OF THE
BOARD OF GOVERNORS
HELD ON MONDAY 16 DECEMBER 2019**

Present

Aqil Aziz	Student Governor
Colin Booth	CEO
Inder Hunjan	Governor
Asghar Hussain	Staff Governor
Shaid Mahmood (Chair)	Governor
Ken Morton	Governor
Jane Pither	Governor
Richard Shaw	Governor
John Toon	Governor
Ian Watling	Governor
David Yates	Governor

The quorum for the meeting was seven board members

In Attendance

Lydia Devenny	Deputy CEO Services
Gerry Godley	Principal & Managing Director, Leeds College of Music
Melanie Halstead	Director of Governance
Clive Howarth	Education & Skills Funding Agency
Bill Jones	Deputy CEO & Principal, Leeds City College

The meeting was held at the Printworks Campus and started at 5pm

EDUCATION & SKILLS FUNDING AGENCY (ESFA)

At the start of the meeting governors received a presentation from Clive Howarth (Head of FE Directorate Territorial Team, South and West Yorkshire, at the ESFA) on the role of the ESFA and the national context.

MEETING ADMINISTRATION

1. Apologies for Absence

Apologies for absence were received from Adam Beaumont (Governor), Gemma Simmons-Blench (Executive Principal, Curriculum & Quality) and Andrew Whitaker (Executive Principal, White Rose Academies Trust).

2. Determination of Observers/Attendees at the Meeting

The board agreed attendees/observers at the meeting as per the above attendance list.

3. Declaration of Interests in any Agenda Items

Governors were reminded of the requirement to declare their interest in any agenda items. The CEO declared an interest in agenda item 18 (feedback from Remuneration Committee) insofar as it related to him personally. Other standing declarations as per the register of board members' interests were noted.

4. Minutes of the Meeting of the Board held on 30 September 2019 and Rolling List of Actions and Matters Arising

Governors considered the draft minutes of the previous board meeting and the rolling list of actions and matters arising from previous meetings. With regard to the latter, the Deputy CEO Services briefed governors on the new Integrated Financial Model for Colleges (IFMC) to be submitted to the ESFA by the end of February 2020; this would be presented in draft form to the Finance Committee and then presented to the board for approval. All other identified items had been or were on schedule to be completed.

RESOLVED:

That the minutes of the meeting of the board held on 30 September 2019 be approved as a true and accurate record and that these be signed by the Chair.

COMMUNICATIONS

5. Update on Key Statutory Areas

The board received its quarterly update on Health & Safety, Safeguarding & Prevent, Special Education Needs & Disabilities (SEND) and Equality, Diversity & Inclusion (EDI) and took feedback from the nominated link governors. Governors were pleased to note that members of the group and its staff had been nominated for three awards at the National Centre for Diversity Grand Awards 2020. It was reported that there had been no RIDDOR reportable incidents since the previous board meeting. The SEND link governor advised governors that he was currently exploring with relevant staff his line of sight across the group and undertook to report back to the board as appropriate. The Safeguarding & Prevent link governor informed governors of the Prevent review currently underway and confirmed that the FE colleges within the group were represented on the Prevent Silver Group.

6. Written Resolutions and/or Chair's Action

The board received and noted a summary of the two written resolutions circulated and approved since the previous board meeting.

7. Other Communications

Governors had received a copy of a letter from the FE Commissioner in which he provided feedback from his visit in November 2019 and received feedback from those governors that had been involved in the visit.

The CEO informed governors of the appointment of two fractional (0.3 FTE) Vice Principals to join the Executive Leadership Team. These internal appointments would provide capacity to the team with one post focused on the curriculum and the other on services.

RISK, GOVERNANCE AND PERFORMANCE MONITORING

8. Review of Group Strategic Risks

There was a thorough discussion on the group's strategic risk register as at December 2019. Three of the identified risks had a red rating, five amber and one green. Governors considered each of these in turn, with a particular focus on the cause and effect, risk control measures and further action(s) required to reduce the probability or impact of the risk. The red risks remained unchanged from the previous meeting, relating to the delay in the completion of contracts for the sale of the Horsforth site, and it was noted that this would be considered in more detail later in the meeting. The Chair of the Property Strategy Committee advised that the due diligence relating to Horsforth had now been completed and it was therefore suggested that the risk register be updated to reflect that.

RESOLVED:

To approve the strategic risk register as at December 2019 subject to the update requested by governors.

9. Feedback and Recommendations from Audit Committee

Going Concern

The board discussed at length the approach to the assessment of the group as a going concern for the financial years 2019-20 and 2020-21. Board members carefully considered each of the current risks relating to working capital and going concern, those being the receipt of the final grant payment for Quarry Hill, repayment of the WYCA loan and completion of the sale of Horsforth. The awaited VAT rebate had been received on 29 November 2019.

Governors were mindful that the sale of Horsforth needed to complete in order for the £6.5m bridging loan with WYCA to be repaid by the end of January 2020 and therefore sought an update on the current position. The Deputy CEO Services advised that contracts for the sale had been exchanged in August 2019 but completion continued to face delays due to the planning permissions associated with the site. However, the Leeds City Council Site Allocation Plan had now been adopted and planning permission was now expected to be granted in early 2020, enabling the sale to be completed. The Deputy CEO Services confirmed that discussions were continuing with the planners to ensure that all planning requirements were satisfied in a timely manner, with current concerns relating to ecology and environmental issues. At its meeting in November 2019, the Audit Committee had questioned whether the cash flow forecast was realistic in terms of the likely receipt and the Deputy CEO Services advised that there was a small risk that the final receipt would be reduced due to changes required to satisfy the aforementioned planning issues.

Beyond repaying the WYCA loan in January, if the sale were not completed by early March 2020 the group would need to either extend the current overdraft facility with Santander or make other arrangements for short-term credit. It was reported that Santander had agreed to extend the overdraft; a separate paper on the agenda for this meeting sought board approval of this proposed facility. The board noted that the cash flow forecast presented to it showed debts falling due early in the New Year and questioned the current level of risk. The Deputy CEO Services advised that, with regard to the WYCA loan repayment, a request had been made to WYCA for an extension of the bridging loan until July 2020 to ensure that the Corporation is not in default of the loan agreement. The decision of the Combined Authority Board was awaited.

At the Audit Committee meeting in November 2019 KPMG had advised that their audit opinion was likely to refer to material uncertainties to reflect the current risks. However, it was confirmed that this would be an unqualified opinion. KPMG were working with the Deputy CEO Services to remove the material uncertainties but this was unlikely to be achieved prior to the signing of the accounts. In providing their final opinion, KPMG would also be seeking a letter of support from Santander to support the Corporation's going concern position. KPMG had confirmed to the Audit Committee that they remained satisfied that student numbers support strong operating cash flows.

The Chair of the Audit Committee reported that, having considered the cash flow projections, the plans for growth, and the support from Santander and WYCA, the committee was satisfied that the preparation of accounts on a going concern basis was appropriate.

The board noted that Leeds College of Music (LCoM) would be seeking a letter of support from the group to support their going concern position for the financial year ending 31 July 2019.

In conclusion, the board confirmed its support of the preparation of the financial statements for the year ending 31 July 2019 on a going concern basis, as recommended by the Audit Committee.

Audit Committee Annual Report 2018-19

The Chair of the Audit Committee presented the committee's annual report to the Corporation and its Accounting Officer for the year ending 31 July 2019, noting that the committee had benefited from a strengthening of its membership during the year. The report confirmed the committee's opinion that the organisation has adequate and effective assurance arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, the solvency of the institution and the safeguarding of its assets.

External Audit Findings Report 2018-19

The board considered the draft report produced by KPMG following their audit work, noting that they anticipated issuing clean audit opinions on the financial statements and regularity for the year ending 31 July 2019. Governors spent some time discussing the recommendations identified by the auditors and in particular the three categorised as medium priority. These related to (a) removal of system user access rights (b) financial sustainability of Leeds College of Music and (c) appropriate accruing for in year costs. Management had accepted all of the recommendations and the Audit Committee would follow up their implementation. With regard to LCoM's financial sustainability, governors were mindful that this board needed to be assured that LCoM have plans in place to become financially sustainable, thereby reducing their reliance on the group for working capital. The LCoM board had agreed to convene an extraordinary board meeting in January 2020 to discuss this matter in detail.

Whilst the report presented remained in draft form, the Deputy CEO Services advised that no changes were anticipated now that KPMG had completed their audit work.

Report and Financial Statements for the year ending 31 July 2019

The board reviewed the college's draft report and financial statements for the year ending 31 July 2019, including the operating and financial review, statement of corporate governance and internal control, statement of regularity, propriety and compliance and the statement of responsibilities of the members of the Corporation. Members were particularly interested in the detailed disclosures of the group's cash flow and sensitivities in order to explain and support the going concern basis of preparation. The Deputy CEO Services tabled amended wording for the going concern note and auditor's opinion; the amendments were a matter of emphasis and did not change the overall opinion.

RESOLVED:

To approve the report and financial statements for the year ending 31 July 2019 including the amended going concern note tabled at the meeting.

Letter of Representation to Auditors

In considering the external audit letter of representation for the year ending 31 July 2019 governors noted that KPMG were not planning to request any additional representations from the Corporation.

RESOLVED:

To approve the representation letter to KPMG for the year ending 31 July 2019, as recommended by the Audit Committee.

10. Financial Position and Forecasts 2019-20

Board members considered the draft outturn financial position (as at 30 November 2019) for the year ending 31 July 2020. It was noted that whilst total income for the year was

forecast to be £984k below budget, this was offset by a £2,069k forecast reduction in costs and EBITDA was forecast to be £1,085k above budget (6.67% compared to 5.49%).

Under-performance at Leeds College of Music (LCoM) also contributed to the shortfall and members therefore questioned the action(s) being taken to improve performance. The Deputy CEO Services advised that cost control measures were being put in place; whilst LCoM colleagues were confident of improving the position throughout the year, the figures presented in the forecast represented a cautious approach at this stage.

Governors went on to review the cash flow balance as at 30 November 2019 and a 12-month cash flow forecast. The discussion focused on the following key risks:

Final grant payment from the West Yorkshire Combined Authority (WYCA) due on practical completion of the Quarry Hill project

This remained dependent on agreeing the final details with the Combined Authority and therefore the timing of the payment was uncertain at this stage. The cash flow forecast presented to the board showed the payment of £2m in February 2020.

Delayed completion of the sale of Horsforth

As discussed earlier in the meeting, the land sale receipt and repayment of the bridging loan with WYCA had been moved to April 2020 in the cash flow forecast and consent had been sought from WYCA for the loan to be extended accordingly. At this point such consent had not been confirmed.

The delay in the completion of the sale continued to place significant pressure on the group's short term cash flow and therefore an additional overdraft had been negotiated with Santander; a separate paper on the agenda sought board approval of this.

The Deputy CEO Services reported that the college was aiming for a planning decision early in 2020, this having been delayed due to the general election. The CEO added that the risk was around the timing of planning permission rather than a risk of not achieving planning permission. It was also noted that the current sale price for Horsforth might reduce in response to planning requirements.

The Chair of the Finance Committee provided feedback from a meeting of the committee held earlier that day, confirming that committee members had tested the forecast in order to test the cash flow. He highlighted to the board that WYCA's consent would be required for the Corporation to enter into additional indebtedness; the Finance Committee did not anticipate that this consent would be withheld and had requested an update from management following meetings later in the week with WYCA officers and the Managing Director.

RESOLVED:

To note the current financial position of the group and the actions taken and planned to manage cash flow requirements.

11. Proposed Overdraft with Santander

The Deputy CEO Services introduced a paper asking the board to consider and approve a £8.5m overdraft facility with Santander, noting that the proposed facility would replace the £5.5m bridging loan from Santander and the existing overdraft of £7.5m. The revised facility would provide working capital for the period between January and April 2020 pending completion of the sale of the Horsforth site. The Finance Committee had also considered the proposed overdraft earlier in the day, following which the committee had agreed to recommend it to the board for approval.

Board members discussed the terms of the proposed overdraft, whilst noting that the formal offer had not yet been received. The Deputy CEO Services advised that Santander were

likely to issue a letter of variation to the existing overdraft agreement. The Finance Committee had sought and received confirmation that no change in bank covenants was expected as part of the new overdraft and that there was no risk of breaching those covenants based on the current forecast.

It was reported that the overdraft required WYCA approval of the Corporation's "additional indebtedness" as per the loan agreement with the Combined Authority. This consent had been requested but had not yet been received. The CEO advised that the WYCA Investment Committee had met on 4 December 2019, the outcome of which had not yet been communicated to him.

In terms of risk, to proceed in the absence of WYCA consent would trigger an event of default with the loan agreement; however, the Corporation would run out of cash in January 2020 without the revised overdraft. The cash flow presented to the board demonstrated the reliance on the overdraft between January and April 2020. The Deputy CEO Services confirmed that Santander were aware of the issue regarding WYCA consent and had no concerns.

Whilst supporting the proposed overdraft facility, board members expressed concern that the Corporation would be in breach of the loan agreement with WYCA if it proceeded with the overdraft without their consent, particularly as WYCA could demand repayment of the £6.5m bridging loan in the event of such a breach. It was therefore agreed that the CEO would continue to seek to secure the necessary consent in advance of the overdraft being drawn down.

RESOLVED:

- (a) That the Corporation enter into the proposed overdraft facility of £8.5m with Santander, as detailed within the circulated report, subject to WYCA consent being secured in advance of the overdraft being drawn down.
- (b) That authority be delegated to the Chair of the Corporation and the Chair of the Finance Committee to approve the final terms/letter of variation between the Corporation and Santander and to authorise the execution, delivery and performance of the same on behalf of the Corporation.

(Asghar Hussain left the meeting at this point)

12. Mabgate Site – Proposed Lease with an Option to Purchase

The CEO presented to the board a detailed proposal to lease and secure an option to purchase a large site on Mabgate in Leeds. He advised that the site was only a 10-minute walk from the group's new Quarry Hill campus and supported the overall property strategy approved by the board in April 2019.

The board discussed its previous strategic decisions driving the overall property strategy, noting that as well as securing an option to purchase the site within the next two years, leasing Mabgate could also provide temporary space to accommodate student number growth in September 2020 whilst in the longer term providing an additional major city centre site for the group. Governors were aware that student recruitment at Quarry Hill had been significantly higher than anticipated with all but the HE space being full to capacity. The CEO therefore outlined the initial proposals for accommodating students at Mabgate in September 2020 should the lease of the site be progressed.

The Property Strategy Committee was supportive of the proposal, having discussed at its meetings in September and November 2019 and a recent visit to the site by members of the committee. The committee had asked that other options for securing additional land in or near to Leeds city centre be explored prior to the Mabgate proposal being presented to the board. The CEO therefore reported on the options considered and explained to the

board why Mabgate remained the preferred site, the main reason being that Mabgate was the only site near the centre of Leeds where freehold could be secured. The Chair of the Property Strategy Committee advised that the Mabgate proposal had been developed to limit risk as far as possible whilst providing the option for future flexibility.

The draft Heads of Terms for the proposed lease were also presented for consideration and the CEO confirmed that the group's lawyers had reviewed these. It was noted that as a condition of the lease, the group would be required to progress towards securing planning permission to develop the site long term. This would necessitate expenditure of up to £180k for design work in order to apply for outline planning permission, in addition to the lease cost of £120k per annum.

The circulated report also provided the board with early outline ideas of how the site could be used long term. In considering the cost of purchasing the site and the timeline for decisions, governors were mindful that before committing to the cost of temporary fit out works on the site (estimated at £1.5m), the board would need to be certain of its intention and ability to purchase the site and this would only be possible following sale of the Horsforth site. It was noted that entering into a lease for one year, with the option to renew for a further year, would provide time to sell the Horsforth site and explore the possibility of securing a loan to purchase Mabgate during 2020. Governors also considered the additional income that could be generated through temporary use of the Mabgate site to accommodate student growth, thereby offsetting the £1.5m investment. The CEO advised that the decision to invest in temporary use of the site did not need to be taken at this stage, only the decision to progress with the lease (with option to purchase) and the costs of initial design fees.

Governors were mindful that failure to progress to purchase the site would result in £300k of abortive costs and asked whether there was an option to lease the site for three or four years to mitigate this risk. It was reported that the developer had advised that there was much interest in the site and therefore the current proposal was considered a reasonable compromise. Overall, governors felt that the advantage of securing an option to purchase a prime site and the strategic opportunities that provided outweighed the risk of abortive costs.

The board went on to discuss the implications of not being able to secure grants and/or loans to purchase and develop the Mabgate site, primarily the need to limit the growth of student numbers. It was felt that the board needed to return to the strategic decisions driving the overall property strategy alongside the group's growth strategy, and it was therefore agreed to devote significant time to this as part of the strategic seminar in February 2020. In the meantime, and having discussed the potential risks/implications of not proceeding, governors supported the proposal to lease the Mabgate site, thereby securing the option to purchase within the next two years should the necessary funding become available. This was on the basis that no expenditure above £300k (that being the cost of the lease for one year and the costs of initial design work) would be incurred prior to the board debating the strategic decisions driving the overall property strategy and the group's growth strategy in more detail, and pending completion of the sale of the Horsforth site.

Governors also noted that the board had yet to receive an updated financial plan to reflect the property strategy, in response to which the CEO confirmed that the financial forecast and cash flow presented at this meeting included the initial £300k of expenditure associated with the Mabgate proposal.

Governors asked that, in the spirit of openness and transparency, the West Yorkshire Combined Authority (WYCA) be updated on the Mabgate site.

RESOLVED:

- (a) To agree that the Leeds City College Corporation enter into a lease of the Mabgate site (with an option to purchase) as detailed in the circulated report, at a cost of £120k per annum including VAT.
- (b) To approve expenditure of up to £180k for design work for the fit out of space at the Mabgate site and to progress towards applying for outline planning permission for the site, as required as part of the lease.

13. Feedback and Recommendations from Member Boards

The respective chairs and executive members presented feedback and recommendations from recent meetings of the following member boards:

- Harrogate College
- Keighley College
- Leeds City College (LCC)
- Leeds College of Music (LCoM)
- White Rose Academies Trust

The Chair of the Keighley College Board drew governors' attention to an area of concern highlighted by the Keighley College Board relating to the inaccuracy of predicted achievement rates for 2018-19 and subsequent performance against the national rate for programmes at level 3. The Chair of the Keighley College Board assured governors that this would be an area of focus for quality improvement in 2019-20 and undertook to report back on progress.

One of the key risks considered by the LCC Board related to the college being unable to realise all of its accommodation requirements for 2019-20 and beyond, resulting in student recruitment being curtailed. The LCC Board had therefore tasked the Deputy CEO and Principal to produce a paper for its upcoming Away Day to enable the board to discuss broad principles around decision making relating to growth (scenario planning), including how choices would be made if growth had to be restricted.

The Chair of the LCC Board also provided feedback from the board's validation of the 2018-19 self-assessment report, during which board members had challenged the grades and judgements put forward by staff. He advised that whilst Apprenticeship provision had been assessed as grade 3 (requires improvement), the board was confident that this area would improve in 2019-20, with 2018-19 performance negatively impacted by one contract in particular.

The LCoM Board of Directors had discussed and supported a proposed change of name to *Leeds Conservatoire*. The Principal and Managing Director summarised the research and consultation on which this proposal was based and sought approval to progress with this in 2020.

RESOLVED:

To approve the proposed change of name for Leeds College of Music to Leeds Conservatoire, as recommended by the Board of Directors.

14. Modern Slavery Transparency Statement

The Deputy CEO Services briefed governors on the requirements of the Modern Slavery Act 2015 (Transparency in Supply Chains) Regulations 2015. The board was asked to approve a Modern Slavery and Human Trafficking Statement for publication in accordance with the regulations.

RESOLVED:

To approve the Luminate Education Group Modern Slavery and Human Trafficking Statement for the year ending 31 July 2019.

STRATEGY AND POLICY

15. CEO's Report

Student Number Growth

The CEO delivered a presentation on student number growth across the Luminate Education Group from 2017-18 to 2019-20 and governors went on to discuss the demographics, forecast demand for education places for 16 to 18 year olds in Leeds, and the need to engage strategically with Leeds City Council and other partners regarding post 16 provision. It was agreed to return to this debate at the board's strategic seminar in February 2020.

FE Colleges' Staff Pay Award for 2019-20

The CEO outlined proposals for a staff pay award for the FE colleges and confirmed that the cash flow forecast had been updated accordingly. It was proposed to implement the 1% increase in the final offer from the AoC (Association of Colleges) from 1 December 2019 for all staff on the standard FE colleges' contract of employment. Governors sought and received confirmation that the costs detailed in the circulated report were inclusive of NI and pension costs.

Whilst supporting the proposal put forward for 2019-20, governors highlighted the need for a wider debate around reward and remuneration linked to the previously agreed People Strategy and suggested that this be considered by the Finance Committee by way of a deep dive.

RESOLVED:

- (a) To approve a pay rise of 1% with effect from 1 December 2019 for all staff in the FE colleges employed on the current standard contracts of employment.
- (b) That the Finance Committee consider future reward and remuneration linked to the Group People Strategy.

16. White Rose Academies Trust (WRAT) Growth Strategy

The Chair of the WRAT Board of Directors presented the Trust's preferred growth strategy up to 2025 and sought support for the proposed direction of travel. Key areas of questioning and challenge from governors included capacity, staff skills and experience and due diligence. With regard to capacity, the CEO advised that the Trust had been developing relationships with partners and would be supported appropriately by the Luminate Group. He also advised that there was much early years expertise within the wider group.

RESOLVED:

To note the White Rose Academies Trust Growth Strategy up to 2025 and to endorse the direction of travel contained therein subject to the appropriate due diligence.

CONFIDENTIAL BUSINESS

(The CEO and all members of the executive team withdrew from the meeting for the remaining agenda items)

17. Confidential Minutes of the Meeting of the Board held on 30 September 2019

RESOLVED:

That the confidential minutes of the meeting held on 30 September 2019 be approved as a true and accurate record and that these be signed by the Chair.

18. Feedback and Recommendations from the Remuneration Committee

Separate confidential minutes refer.

The meeting closed at 8.50pm

Signed: (Chair)

Date: