



# New College Nottingham

## Enterprising governance: Gazelle Global Ltd.

New College Nottingham (ncn) is a large general college of further education with five main campuses located in the city of Nottingham. The College enrolled 20,000 learners in 2010/11, of which:

- 350 were aged 14-16;
- 5,200 were aged 16-18; and
- 14,500 were adult learners.

In addition, 700 learners were enrolled in higher education provision. The College employs approximately 1,000 staff and has a total budget of £50m.

In 2010/11, ncn recruited 87 % of its full time and 90 % of its part time FE learners from the Greater Nottingham area. 61 % of the College's Skills Funding Agency learner responsive funded students in 2010/11 attracted a disadvantaged uplift, with 31 % living in the 10 % most educationally disadvantaged super output areas<sup>1</sup> in England.

This case study has been written by New College Nottingham in association with LSIS as part of the Emerging Governance Models project.

### Our strategic review

In September 2010 ncn's governing body recognised that the mission the College had operated under for ten years had been aspirational and not deliverable. The College had failed to achieve its stated mission which started the governors on a journey to redefine the core purpose of the College, develop a new, deliverable mission and position the College as a powerful voice in the local community.

The governing body worked hard over the next 12 months to define the College's core purpose. The governing body engaged with staff, students and the wider stakeholder community to ask for help in shaping the future direction of the College. The governors believed that the College had a moral duty to mobilise its learners, communities and partnerships to ensure that they fulfilled their potential, secured high quality sustainable employment and gave rise to a new generation of businesses to support future prosperity across the College localities.

The governors built up the new mission by listening and understanding why the College was important to its stakeholders. The mission that was brought forward articulated promises that were deliverable which allowed the

organisation and the governing body to be held to account by its users.

New College Nottingham's new mission is: "Excellence, employability and enterprise: our promise to the present and future generations."

The touchstones of excellence, employability and enterprise are fundamental to the College mission and shape its purpose, values, behaviours, structures, systems and governance. However, such an ambitious vision could not be achieved alone and the College has sought like-minded individuals and organisations to work alongside to deliver its mission.

## **Our enterprise touchstone**

The College's enterprise strategy focuses around the city key prosperity clusters which will enable the College to take centre ground in supporting economic growth, business formation and wealth creation. It is recognised that delivering the enterprise touchstone will require whole college transformational change.

A fundamental strategic alliance has been formed with four like-minded further education colleges, (North Hertfordshire College, Gateshead College, City College Norwich and Warwickshire College), which have all agreed to invest in a joint innovation fund totalling £2.5m over two years to accelerate the transformation of all the partner colleges into Entrepreneurial Colleges. An Entrepreneurial College is defined by the group as a college "where the ethos, values and culture of learning are distinctly geared towards the task of business formation and growth, wealth creation and employment outcomes."

The joint innovation fund has been created through the legal vehicle of a joint venture company. The new legal form requires

collaborative working between the five colleges at Board and Executive level. The mechanisms to oversee these developments have led to a review of governance in the college corporations in order to establish a robust framework to link the requirements of commercial corporate governance with FE corporate governance.

## **Gazelle Global Ltd**

The joint venture company, Gazelle Global Ltd., is a company limited by shares. The shareholders are the college corporations and the directors, the principals. The joint innovation fund created by the purchase of shares by the partner colleges will be used to develop a product base to deliver transformational change within the five colleges. The products and services will be developed through the colleges using thought leadership, peer review and sharing and developing best practice. Gazelle Global Ltd. will seek to turn these products and services into commercial opportunities to be sold and delivered to other interested parties. The creation of the Gazelle Principal Group demonstrates the interest in entrepreneurship which is developing within the sector.

The capital structure of the company needed to be developed to ensure flexibility for the colleges' initial investment and so two forms of share capital were created: ordinary shares and preference shares. In summary, ordinary shares form the basis of the company's share capital and are non-redeemable with a complicated buy-back procedure to return capital to members. Preference shares can be issued with specific redemption clauses built into the company's Articles allowing the company to repay this element of capital at any time (subject to having the reserves to do so). Due to the exempt charitable status of the colleges, loans made by a charity are required to be on a secured and interest bearing basis which meant "loaning" money to create the

investment fund for Gazelle Global Ltd. was not appropriate.

The Articles of Association for Gazelle Global Ltd. are of a standard nature for a company limited by shares and these are supported by a formal Members Agreement. The development of a Members Agreement to accompany the formal company structure was considered essential to overcome some of the practical issues raised by bringing multiple organisations together in a project. It sets out the relationship between members and is enforceable by each of the parties against the other parties. Although a confidential document to the parties themselves, it provides a basic contractual agreement to support the partnership.

## Governance challenges

The role of governor at each of the five colleges is challenged in this arrangement as the board moves into the role of shareholder. Typically governors on a corporation play an important role in scrutiny, setting strategic direction and monitoring organisational performance against the strategy. They also provide an important stewardship role to safeguard the college's assets for the benefit of the community, standing accountable to the community for the public funds received.

In their role as shareholders in this joint venture company, they are required to step back from the strategy and monitoring roles and develop the appropriate structures to transfer, as owners of the business, these powers to the board of directors retaining limited powers themselves as defined by the Companies Act 2006.

Except for certain fundamental transactions or changes, shareholders normally do not participate directly in corporate decision-making and while the board of directors might want to know the views of the shareholders, strictly speaking, directors are

not normally required to solicit or comply with the wishes of shareholders. The main duty of shareholders is to pass resolutions at general meetings by voting through their shareholder capacity, this mechanism allows the shareholders to exercise their ultimate control over the company and how it is managed. The main focus of a shareholder is often the rate of return on their investment.

So how do we create a framework where governors can play the role of stewardship for college funds whilst acting as a shareholder for the same funds in a commercial framework?

There are some fundamental foundations which have been agreed by the five corporations:

- The decision-making process within Gazelle Global Ltd should be responsive and proactive.
- The five governing bodies may operate different reporting routes for Gazelle decision-making i.e. to full board, via standing committee with delegated powers, or delegated powers to an individual, but all will operate under a consistent set of values.
- Consistent and timely financial information from Gazelle will be provided to each senior finance post in the five colleges for independent scrutiny.
- Non-executive directors who can offer relevant commercial and entrepreneurial expertise and who are independent of the five colleges, should be recruited to the Gazelle Board of Directors to act as scrutineers on the Gazelle Global Ltd. Board.

The Members Agreement has been developed to provide an outline framework of financial control. A list of 'reserved matters' has

been included to identify the parameters above which the directors must refer to the shareholders for unanimous agreement. This has provided the five corporations as shareholders with initial assurance about the levels of delegated responsibility given to the principals as directors. Further developments are needed, such as guidance for governors to explore the dichotomy and provide clarity on the shift in focus between the two roles of governor and shareholder; a mechanism is required to quantify the value for money received from the Gazelle Global product base. It is hoped that a consistent formula can be applied to Gazelle activities to measure the value received by the colleges through their initial investment, for scrutiny by each independent corporation. The procedure for general meetings of the shareholders needs to be considered at each of the independent corporations to define the appropriate scheme of delegation to be adopted for attending and voting at Gazelle Global Ltd. general meetings.

These are the governance challenges currently identified for development. It is highly likely that others will become apparent as the practicalities of this strategic alliance progresses.

## **Entrepreneurial governance**

As a result of the joint ambition to transform the five colleges into Entrepreneurial Colleges, work has also commenced on looking at how governance and governors within the colleges can be more entrepreneurial. The conclusions reached in the recent Gazelle publication *Enterprising Futures*<sup>3</sup> advocates a new model of business operation, based on social enterprise: “sustainable viable business operations which also serve as vehicles for learning”. Although many people within the FE sector would see the purpose of further education<sup>4</sup> as having a clear ‘social mission’<sup>4</sup> very few FE colleges could currently define themselves as social enterprises due to their

overwhelming dependency on public funding.

Each of the Gazelle colleges is working hard to diversify its income stream to become less dependent on publicly funded allocations. They are engaging with commercial sponsors for academic provision to promote industry standards and enterprise in subject specialisms and they are all developing learning companies to provide commercial experiences for learners embedded into curriculum delivery. With all these changes ongoing within their organisation it is not surprising that the governing bodies are looking to fundamentally review the skills sets of the governors whose responsibility it is to drive forward a social enterprise agenda.

The ability to think creatively, take, mitigate and manage risks, as well as being permissive and encouraging have been identified as key skills for governing an Entrepreneurial College. This necessitates a transition from the current governance framework, predominantly predicated on the scrutiny function of governors, to one of strategic, focused and emotional engagement.

We need to look outside of the sector to think differently. Corporate governance practices from entrepreneurial companies should be investigated to compare decision making practices and learn different ways of working. Search techniques used by entrepreneurial companies to recruit to non-executive director positions should be examined and compared to current practices in FE. We are good at sharing best practice within our sector but less good at searching it out from elsewhere.

The themes of strategic governance and global FE expressed in ‘New Challenges, New Chances’ require flexible, responsive and independent governing bodies. The recent changes to the status of FE and the perceived freedoms and flexibilities as a result simply

allow a reframing of the measure of success of our emerging governance model i.e. our measure of success will be to establish a framework which can allow the corporations to have their mission and vision grounded in the community they serve whilst retaining the flexibility to work proactively with partners who have differing community needs or business motives.

## Our lessons learned

1. Challenging the culture within your organisation does not have to be uncomfortable; being certain you understand the 'social mission' you are striving for will lead to clear strategic direction and good decision-making.
2. Use the professional expertise within your governing body to develop the business. Many governors are not educationalists but they are specialists in their own fields.
3. When it comes to collaboration, be brave! Collaboration does not have to result in loss of 'sovereignty'. We often describe a governing body as more effective than the sum of its constituent parts; we have to view collaboration in this way.

## For further information please contact:

**Claire Kay**  
Corporation Secretary

claire.kay@ncn.ac.uk

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1 Super output areas (SOAs) are the smallest geographic unit for which the Office for National Statistics publish data on disadvantage, with three or four SOAs typically making up an electoral ward.

2 Defined as developing a deep understanding of our business and customers, their needs and the market they function in by stretching minds and thinking.

3 Enterprising Futures: The changing landscape and new possibilities for further education found at <http://www.thegazellegroup.com/gazelle-publication.php>

4 Social Enterprise UK's publication Social Enterprise Explained states "A social enterprise will have a clear sense of its 'social mission' which means it will know what difference it is trying to make, who it aims to help, and how it's going to go about it."