

# London South Bank University

	PAPER NO: AC.31(12)	
Board/Committee:	Audit Committee	
Date:	20 June 2012	
Paper title:	Control and Governance of South Bank University Enterprises Limited	
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors	
Executive sponsor:	James Stevenson, University Secretary and Clerk to the Board of Governors	
<b>Recommendation by the Executive:</b>	That the committee notes the proposed control and governance arrangements for the University's trading subsidiary, South Bank University Enterprises Ltd (SBUEL)	
Aspect of the Corporate Plan to which this will help deliver?	London's Enterprising University	
Matter previously considered by:	N/A	On:
Further approval required?		
For University Enterprise Strategy and governance changes to SBUEL	Policy and Resources Committee	2 July 2012
	Board of Governors	19 July 2012
Communications – who should be made aware of the decision?	N/A	

## Executive summary

*Why is the paper coming to the committee?*

The Audit Committee are requested to consider the proposed control and governance arrangements of the University's trading subsidiary, South Bank University Enterprises

Ltd (SBUEL) as set out in the paper. A University Enterprise Strategy and changes to the governance arrangements of SBUEL will be considered for approval by the Policy and Resources Committee and the Board of Governors in July 2012. The Audit Committee is requested to comment on the appropriateness of these arrangements prior to approval.

*What particular issues does the committee need to give its attention?*

It is proposed that SBUEL has considerable autonomy to conduct its own affairs, subject to ultimate control by parent, which will be explicit in the new Articles of Association. The scheme of delegation to the SBUEL Board of Directors and the SBUEL Chief Executive is set out in the Schedule of Matters Reserved in the appendix.

*How does the proposal enable achievement of the corporate plan?*

South Bank University Enterprises Ltd (SBUEL) is a wholly owned subsidiary of London South Bank University and is the vehicle through which the University chooses to account for its commercial activity. Established in 1988, it is a company limited by shares and is a separate legal entity and therefore subject to its own governance arrangements. To date, it has been used solely as a financial vehicle.

As set out in the Corporate Plan, the University seeks to reshape and substantially expand its Enterprise activity to double its commercial income over five years. The Enterprise Strategy, for approval by the Board in July 2012, sets out how University Enterprise is to achieve this objective. Following the example of other successful not-for-profit organisations, a pro-active, flexible and responsive subsidiary company, operating to commercial principles, is required. Therefore, in order to achieve this objective changes to the governance and management of SBUEL are required.

The committee is requested to comment on the appropriateness of the proposed control and governance arrangements of SBUEL.

## **Statement of governance for SBUEL**

South Bank University Enterprises Ltd (SBUEL) is a wholly owned subsidiary of London South Bank University and is the vehicle through which the University chooses to account for its commercial activity. It is a company limited by shares and is a separate legal entity and therefore subject to its own governance arrangements.

As a matter reserved to the board, the LSBU board of governors is responsible for setting the governance processes relating to SBUEL. The proposed governance model is that SBUEL operates at arm's length from the university as a small or medium enterprise (SME).

The plan is to move to the new model of governance from 1<sup>st</sup> August 2012.

### **Powers reserved to the LSBU Board of Governors**

It is expected that the LSBU board of governors delegates considerable autonomy to the SBUEL board of directors, such that SBUEL and its board can operate substantially as an autonomous company. This delegation is subject to such powers reserved to the board of governors as are necessary to retain overall control.

In relation to SBUEL, powers reserved to the LSBU board of governors include:

- the power to appoint the chairman and independent governor director of the SBUEL board;
- the power to amend SBUEL's articles of association;
- the power to change the company's name;
- the power to restrict the issue of additional shares;
- the power to wind up SBUEL;
- an overriding power to restrict activities of SBUEL if it sees fit.

These powers are set out in the SBUEL articles or in legislation and are exercised by LSBU as the sole member of SBUEL.

### **SBUEL Board**

SBUEL will be controlled by its board of directors. The board of directors will be led by a chairman who must also be an independent governor of LSBU. The board is then composed, *ex officio*, of the University's Executive Director of Finance and Pro-Vice Chancellor (External). Additionally, the Director of Enterprise (an SBUEL employee) and two further external non-executive directors will be appointed in due course.

## **Delegated Powers**

Following formal delegation by LSBU, the SBUEL board will set its own financial regulations and HR policies and make decisions within the delegations granted by the LSBU board of governors. Only matters of significant expenditure or risk must be referred upwards.

Where necessary and appropriate, the University regulations will include explicit exceptions where SBUEL will be given delegated powers to establish its own regulations.

The overarching principle informing the delegation to SBUEL is that, subject to the reserved powers, the Board of Governors delegates as fully as possible the operation of SBUEL to its Board of Directors. Key delegations are set out in the Matters Reserved (please see the Appendix).

There is an additional operational line of control underpinning delegated powers. The Director of Enterprise is managed operationally on a day to day basis by the PVC (External), thus ensuring that there is direct oversight and control of SBUEL activity by the University Executive.

## **Audit Arrangements**

As an SME, SBUEL board will not have sub-committees. As a wholly-owned subsidiary of LSBU, it will be subject to LSBU's internal audit arrangements. During 2012/13, SBUEL's governance and internal controls will be reviewed by internal audit and formally reported to the LSBU Audit Committee. In addition, SBUEL's external auditors will continue to be Grant Thornton (LSBU's auditors). Grant Thornton will report to SBUEL board in relation to the annual external audit and to LSBU as part of the consolidation into LSBU's group accounts.

## **Reporting to the University**

There will be a quarterly report of enterprise activity, including activity carried out through SBUEL, presented to the Executive, to ensure that the Executive remains fully informed of progress. Enterprise activity is covered in the Management Accounts which are considered by the Policy and Resources Committee (P&R) at each meeting. P&R will receive an annual report of Enterprise Activity.

## **Financial Control**

Separate financial procedures for SBUEL cover:

1. Statement of Governance for SBUEL
2. Expenditure – set out in the SBUEL expenditure procedure (to be approved by the SBUEL Board)
3. Delegated authorities – set out in the SBUEL letter of delegated authority
4. HR policies (to be approved by the SBUEL Board)

Unless specific provision is made in these procedures, LSBU financial regulations, policies and procedures apply to SBUEL activities. General points regarding SBUEL Financial procedures:

- Changes to these financial procedures relating to SBUEL will be approved by the SBUEL board
- The board of SBUEL will consider an annual budget for the Company, which will be approved by the LSBU board as part of the overall University budget approval process. Performance against budget will be reviewed by P&R and the main board as part of the monthly management accounts
- The Director of Enterprise is responsible for maintaining a risk register and the SBUEL board should consider this at its board meetings. Any Significant risks should be escalated to the LSBU Executive for future consideration and inclusion in the LSBU corporate risk register.

## Schedule of Matters Reserved to the Sole Member, Board of Directors and to Management

The following schedule sets out the matters reserved respectively to the member, board and chief executive of South Bank University Enterprises Ltd (SBUEL).

### Sole Member (London South Bank University)

	<b>Matter</b>	<b>Reference</b>
1.	Power to restrict activities of SBUEL if it sees fit	Art 60.1.3
2.	Appointment of chairman of the SBUEL board	Art. 14.1
3.	[Appointment of directors to SBUEL board – tbc]	[Art. 29.1]
4.	Termination of directors' appointment	Art 30.2
5.	Amendments to the composition of the SBUEL Board	
6.	Amendment of SBUEL's articles of association	s.21 CA <sup>1</sup> 2006
7.	Change of company name	Art. 4
8.	Approval of the issue of additional shares	Art. 60.1.2
9.	Winding up SBUEL	s.84(1)(b) IA <sup>2</sup> 1986
10.	Approval of directors' remuneration	Art. 31.2
11.	Approval of contracts: <ul style="list-style-type: none"> <li>• Budgeted expenditure above £2m</li> <li>• Not in the ordinary course of business or unbudgeted expenditure above £0.5m</li> </ul>	University Matters Reserved 5.2 & 5.3 and University Financial Regulations 9.6

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<sup>1</sup> Companies Act 2006

<sup>2</sup> Insolvency Act 1986

## Board of Directors

	<b>Matter</b>	<b>Reference</b>
12.	Approval of company strategy	
13.	Approval of company budgets, business plans and annual reports	
14.	Levels of delegated financial authority within the University framework	
15.	Procurement regulation	
16.	Contracting for service or product delivery	
17.	Working capital Policy	
18.	External Audit processes	
19.	Recruitment, employment and HR regulations	
20.	Surplus distribution policy / Gift Aid Policy	
21.	Establishing a system of internal control and risk management	
22.	Approval of contracts: <ul style="list-style-type: none"><li>• Budgeted expenditure above £100,000 and below £2m</li><li>• Not in the ordinary course of business or unbudgeted expenditure up to £0.5m</li></ul>	

## Chief Executive

	<b>Matter</b>	<b>Reference</b>
23.	Proposing strategic proposals and budgets	
24.	Executing the strategy agreed by the Board of Directors	
25.	Signing of contracts (within authority)	
26.	Staff recruitment and remuneration	

