Education & Skills Funding Agency

FE Commissioner Intervention Assessment Summary Report: City College Southampton

16 December 2021

Contents

Background

Name of College	City College Southampton
UKPRN	10006020
Name of College Principal /CEO	Sarah Stannard
Name of College Chair	Geraint Davies
Type of provision	General FE
Date of visit	16 December 2021
Type of visit	Intervention
Trigger for formal intervention	Finance measure
Further Education Commissioner (FEC) Team members	FE Commissioner – Shelagh Legrave Deputy FE Commissioner – Steve Hutchinson Deputy FE Commissioner – Martin Sim FE Adviser – Anna Fitch
Location	Southampton
Apprenticeship training provider	Yes
Latest Ofsted inspection grade	Requires improvement (December 2018)
Education and Skills Funding Agency (ESFA) Financial Health Grade	Inadequate
Latest annual financial turnover	£12.4 million - excluding emergency funding (EF)

Conclusion/Executive summary

The City College Southampton (CCS) board has positively accepted and acted upon recommendations from previous FEC diagnostic assessments. In 2021 to 2022 the board moved from a Carver model of governance to a committee structure. The board continues to be strengthened, and further recruitment of members with relevant expertise is planned. The need for a change in pace in bringing forward a plan to reduce the cost base is recognised by the board. The executive team should benefit from 2 recent appointments to the key vice principal roles covering finance & resources and curriculum & quality. This will bring fresh thinking and challenge in the leadership of the college.

Outturn from academic year 2020 to 2021 confirms progress in quality over the past 3 academic years. Self-assessment accurately reflects the college provision, improvement in quality and the community it serves. The improvement journey will benefit from increased scrutiny and challenge by the highly skilled curriculum and quality board sub-committee.

Without the support of ESFA, the college is insolvent. The college is currently financially unsustainable and is unlikely to be able to standalone, even if significant savings are made. However, it should be eminently possible to identify and crystallise savings to put the college into a much stronger position, becoming more attractive to other organisations.

Recommendations

Recommendation 1: The senior team to provide the board with a comprehensive cost reduction plan that has a target of bringing the cost base broadly back in line with the benchmark norms. The plan must clearly set out individual actions, and for each action identify, financial targets, implications of implementing the action and risks. To be completed by 7 February 2022.

This is an update to the single recommendation made in the DA monitoring visit in October 2021.

The following recommendations are the ongoing recommendations made in the original DA visit in June 2021.

Recommendation 2: The board must move to a committee structure. There are clearly areas or aspects of college performance delivery which would benefit from greater scrutiny through ‘deep dives’ that enable board expertise to be fully utilised. A National Leader of Governance (NLG) will be put forward to work with the board on this. This recommendation should be completed by October 2021.

This recommendation is <u>ongoing</u>. The board agreed at its July strategy day to introduce a committee structure during 2021 to 2022 following input from the NLG. However, there is a need to recruit additional members to the board to populate the finance committee. Target is to complete this by January 2022.

Recommendation 3: By August 2021, the senior leadership should restructure the content of the self-assessment report (SAR) to include relevant operating context and evidence of impact on learners' life chances to support grade improvement.

This recommendation is complete. The SAR includes content which provides background and context around the learner community that the college serves. Key performance data and a balanced assessment of strengths and areas for improvement together with improving data confirms the college is making progress.

Recommendation 4: The college must undertake a deep dive on the curriculum plan to ensure that it is being delivered efficiently – in line with good practice in the sector but in a way that continues to meet the needs of the learner profile. The college will be put forward to be a pilot for the Curriculum Efficiency and Financial Sustainability (CEFS) initiative. This will include but not be limited to:

- **review of breadth and depth of provision offer, including a focus on what the college does well and areas that are weaker, and areas where there is a high level of similarity**
- **improving average group sizes**
- **methodology for contribution calculation**
- **actual staff utilisation and remission**
- **the make-up of programmes of study**

This should be completed by October 2021.

This recommendation is ongoing. An action plan has been agreed following the review and is now being monitored by the governors' finance working group (shortly to be formally converted to a finance committee of the board). The timeline for implementation of some actions relate to the completion of the 2022 to 2023 curriculum plan, which is expected to be completed by Easter 2022.

Recommendation 5: A National Leader of Further Education (NLFE) will work with the senior team to implement CEFS and to support on wider leadership issues, including benchmarking of the college income and cost base, by October 2021.

This recommendation is ongoing. The principal/CEO has benefited from working with an NLFE on wider leadership issues.

The FEC team will conduct an intervention assessment stocktake visit to review progress in March 2022.

Governance and leadership

Governance

The board continues to be strengthened, with new members being appointed with relevant skills and experience to complement those already on the board. Since the summer, the board has taken positive steps to form a new curriculum & quality committee, which has recently met for the first time. The board are also moving to a new finance committee once additional board members have been recruited. The formation of these committees will enable deep dives of key issues in these important areas to be undertaken on behalf of the board. There are currently 11 members, with the board looking to expand to 18. The increase will ensure that there will be sufficient members to serve the agreed formation of a finance committee. The board are serviced by a very experienced clerk.

The board have worked in a positive way with an appointed NLG who has provided support and advice, particularly in relation to the move from a Carver model of governance to a committee structure.

The board have access to a wide range of management information, and there is evidence in meeting minutes this is used to provide challenge to the senior team. However, the oversight of the college financial position remains an ongoing issue. Following the FEC recommendation in the October diagnostic assessment (DA) visit, the board have asked for a detailed cost reduction plan to be presented to them at their February 2022 meeting. The board recognise the need for a change of pace in agreeing a plan and the implementation of the changes. Both the board and senior leaders do not underestimate the challenge of delivering this and want to ensure that appropriate resource is in place to prepare and implement the plan. The senior team and the board raised the very valid point that a change management process of this scale will almost certainly require a significant investment of one-off costs to meet any potential restructuring costs. At this stage they should not be constrained in their proposed actions by these potential one-off costs and put forward plans that will bring the best long term prospects for the college.

Leadership

The CEO/principal has been working with an experienced NLFE, who has provided mentoring support following the FEC recommendation in the DA assessment. This work has also included support from the NLFE and her senior team in participating in the recently launched curriculum efficiency and financial sustainability (CEFS) pilots. Following the review, several actions have been identified, some of which have been completed, and others are being progressed.

The senior team are working hard to try and address some very difficult and challenging issues that have been long embedded in the college. More must be done to minimise the financial losses, and the senior team need to bring forward a comprehensive cost reduction plan that will make significant changes to the cost base. As described above, the board have set a clear target for the senior team to present this plan to the full board meeting scheduled for February 2022. The plan should consider all aspects of the cost base. It is apparent from the benchmarking analysis that overhead costs in particular are relatively high when compared to other small general FE colleges. Two of the 3 executive team members are new in post, and this provides an opportunity to bring fresh thinking to management of resources. An experienced FE sector vice principal finance & resources has recently been appointed and will provide valuable insight from her experience elsewhere. The vice principal curriculum & quality has also recently taken up post and will be key to seeing through any curriculum efficiency savings identified in the CEFS work. Below this role there remains a degree of fluidity, which increases risk to quality improvements.

Curriculum and quality improvement

Curriculum and provision overview

The curriculum offer for the current year is unchanged, however remains subject to scrutiny by the senior leadership team to ensure a match with learner needs. The majority of learners opting to join the college enrol to study level 2 provision or below. Retaining a broad level 3 curriculum to meet the needs of progressing learners is challenging, with impact evidenced by low class average size, which currently stands at around 25% lower than sector norms.

Curriculum planning and development

Evidence derived from the work with London South East Colleges Group (LSEC) is being used by senior leaders to ask questions around course viability and to consider changes to the curriculum model to gain further The critical question remains around the breadth of offer and the possibility of course removal. Decisions of this nature cannot be taken lightly and are not without risk as there are no guarantees that a learner will enrol to an alternative. Efficiencies around staff deployment and remission are feasible and under consideration. The learner population is well supported, and this has contributed to good retention. There is a potential issue that these support resource requirements may not be affordable and contribute to overspend. Learner services are reported to be under significant strain, with the college reporting more challenging behaviour, increased mental health issues and higher learning support needs. This is not unique in the sector but contributes to financial pressure.

Quality: self-assessment and effectiveness to manage and improve quality

Enrolment trends at the college have been similar to the experiences of other colleges in the sector, with the availability of local labour opportunities encouraging learners to move into employment as opposed to continuing in education. The college will be short of its required 16 to 18 funding allocation despite work undertaken to minimise attrition. The introduction of a college wide “not too late to change” campaign has minimised early loss (circa 8%) and helped to retain learners. Innovative short courses have helped retain learners. Attendance is mixed but consistent with previous years where final outturn has been improving.

Enrolment of 16 to 18 progressors is lower than expectations, which will impact negatively on lagged funding for 2022 to 2023. However, enrolment from year 11 Southampton schools was 5% higher, which will be potentially positive for enrolment in 2022 to 2023 and for lagged funding the year after. Reduction in 16 to 18 recruitment is mitigated by a buoyant apprenticeship position, with most recent data showing a 20% gain. The overall achievement rate is similar in 2020 to 2021 to the previous year and hovering around national benchmark. Retention is positive and above benchmark. Apprenticeship performance is confirmed at significantly below benchmark. This is attributed to the pandemic and inevitable delays to practical assessments.

Student and staff views

The students met by the FEC team at an earlier visit were content with their learning experience, with a number looking forward to progressing to university. Morale was high amongst students and reflected their appreciation of the opportunities afforded by the college. Staff continue to remain very positive and find work rewarding. They describe the college as a vital asset to the local community. This latest visit did highlight a slightly greater staff turnover and difficulties in staff recruitment given the continued uncertainty surrounding the future of the college.

Finance and audit

Recent financial history and forecasts for coming years

The actual and planned financial performance of the college from 2019 to 2020 to 2022 to 2023 shows worsening education-specific earnings before interest, tax, depreciation and amortisation (EBITDA). The 2020 to 2021 and 2021 to 2022 figures are higher than the 2019 to 2020 figures, partly because both years include expenditure relating to backlog maintenance which was agreed as part of the emergency funding envelope.

Financial performance 2020 to 2021

The college met only one of the FEC benchmarks in 2020 to 2021. Meeting this benchmark was entirely dependent on the provision of emergency funding from ESFA. Staff costs as a percentage of income were too high, and in conjunction with high non-pay costs, led to an adjusted operating deficit of 26%.

Financial forecast 2021 to 2022 and 2022 to 2023

In 2021 to 2022, the college has budgeted the education-specific EBITDA to be negative, with an operating deficit. Income excluding emergency funding is budgeted to be lower than in 2020 to 2021, and costs are budgeted to be higher, leading to an overall worsening of financial performance. The forecast in the October 2021 management accounts suggests that the outturn for the year could be better than budgeted, mainly due to savings on pay costs.

The current 2022 to 2023 plan is based on a small amount of growth, largely flat pay costs and a significant reduction in non-pay costs driven by the lack of backlog maintenance. However, this plan should change once the results of the cost reduction plan are included in the figures, along with the impact of the change in funding rate and the college's under-recruitment of 16 to 19s in 2021 to 2022.

Cashflow/liquidity (including overdraft details and usage if appropriate)

Without the support of ESFA, the college is insolvent. The 2020 to 2021 accounts suggest an operating cash outflow greater than that in 2019 to 2020. Bank loan repayments and capital expenditure are not included in these figures, which means the cash requirement is increased.

Financial liabilities/loans

The college has one bank loan with Santander. Covenants have been breached for a number of years, and the college correctly classifies the loan as being repayable within one year due to the fact that the bank has not issued a debt waiver.

Although the bank has issued reservation of rights letters, and withdrew the college's overdraft facility in July 2019, Santander remains supportive of the college while it seeks the solution to secure its long term future. Santander has taken no action to recall the loan.

The balance sheet also shows a long term creditor to ESFA. This relates to funds received in 2018 to 2019, which ESFA can convert to a loan at a future date at their discretion.

Audit and risk

Due to the position of the college, both the internal and external audit contracts have not been retendered for several years, and therefore have been extended each year. In 2021/22 the external audit will be tendered to comply with the Audit Code of Practice.

The college's external auditors are RSM. They have issued an unqualified opinion on the 2020 to 2021 accounts but have noted a material uncertainty relating to going concern. This reflects the fact that the college is reliant on financial assistance from ESFA. Based on the current emergency funding agreement, senior leaders and governors expect that they could continue to operate until February 2023, after which they would need further financial assistance.

In 2020 to 2021, the college's internal auditors were BDO. BDO withdrew at end of 2020 to 2021 as internal auditors, after over 10 years providing this service and to enable the college to refresh the service. As a result, governors took the opportunity to plan assurance work which will be completed by subject specialists, with each one being procured separately. Current plans include audits of learner numbers, cyber risks, and key financial controls.

Long term sustainability

The college is currently financially unsustainable and is unlikely to be able to stand alone, even if significant savings are made. However, it should be eminently possible to identify and crystallise savings to put the college into a much stronger position, becoming more attractive to other organisations.

Estates and capital plans

Use and maximisation of college estates and assets

The college's estate comprises one main campus on which there are a number of separate buildings, and one satellite building at Woolston (circa 2 miles away from the main campus). The total footprint of the buildings is around 28,000m^2.

A building known as Austen is currently leased to Southampton Solent University. Another building, Hamwic, which is 301m^2, has been largely mothballed by the college. The remainder of the buildings are used by the college, with utilisation of teaching space being 28%.

Property management and investment

A programme of expenditure on backlog maintenance issues is currently underway as agreed with ESFA.

Appendix A – Interviewees

Chair of the corporation

Principal and CEO

Clerk to the corporation

Directors for learning x 2

Learning manager

VP finance and resources

VP curriculum and quality

Director of MIS

Governors x 4

Staff x 4

Appendix B – Documents reviewed

Minutes and papers from Board and Committee meetings since last visit

Update on progress made towards recommendations

Details any outcomes from November Strategy Day

Latest whole college risk register

Latest whole college KPI report to governors

Corporation & Committee membership with CVs and latest skills audit

Board Self-Assessment

Organisation chart

Quality Spreadsheet

College Self-Assessment Report 2020 to 2021

QIP and progress

Staff survey action plan

Student survey (autumn)

Employer and stakeholder feedback

~~Ofsted unpublished feedback~~

Pre-visit Financial Spreadsheet

Student number data for 2021 to 2022 academic year for all main income streams

Costed curriculum plan including contribution by area where available 2021 to 2022

2020 to 2021 draft financial statements

October 2021 management accounts

Any progress on the cost reduction plan

Latest COVID guidelines for external visitors