

**Further Education Commissioner
assessment summary**

Stafford College

April 2016

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Assessment

Background

The FE Commissioner's report is intended to advise the Minister and the chief executive of the funding agencies on the following, as appropriate:

- The capacity and capability of the college's leadership and governance to secure a sustained financial recovery within an acceptable timescale;
- The capacity and capability of the college's leadership and governance to secure a sustained recovery for the quality of provision within an acceptable timescale;
- Any actions that should be taken to deliver a sustained financial recovery within an agreed timetable, considering the range of interventions set out in *Rigour and Responsiveness in Skills*;
- How and when progress should be monitored and reviewed taking into account the regular monitoring arrangements of the funding agencies.

Introduction

Stafford College is a general further education college with its main campus on the edge of Stafford. Much of the college's curriculum is at Level 3 or above, with strong higher education (HE) provision and just under 450 apprentices. Most of these apprentices are trained directly by the college but a number are based with seven subcontractors. Among the college's classroom-based students, nearly 4,000 were aged 16-18, but the large majority of apprentices were over 19.

Most students are local. Unemployment around Stafford is low and there are important industrial centres throughout the region where employers as significant as Toyota, Jaguar Land Rover, JCB and the Army technical regiments are based. The Chair of the College Board is the County Council cabinet member responsible for transport and economic development.

The college has been academically undistinguished for a long time. It was judged to be 'inadequate' in April 2012; as requiring improvement (grade 3) in November 2013; grade 3 once more in October 2014; and 'inadequate' (grade 4) in February 2016. As a result of Ofsted's judgement, the college was issued with a Notice of Concern in March 2016. A new Principal joined the college in 2014, bringing with her a new executive team which began to address the college's academic performance and its worsening financial position in a way which was both vigorous and random in its effects. Some 50 staff left the college during 2014-15, including the leaders of critical functions such as human resources (HR) and management information (MIS). Both reliable data and effective controls diminished and, with only oral presentations from the principal on the state of the college, the Board first defaulted to matters it was familiar with, such as finance, and then largely lost control. The outcome was a sharp fall in student success rates; what staff have described as an "earthquake" of unrest; and votes of no confidence in the new Principal which led to her departure in October 2015. The chair and vice-chair of the Board also stood down during the latter part of 2015 and early 2016 to be replaced by the present incumbents.

This unfortunate but relatively brief interlude was brought to an end by the appointment of a very experienced Interim Principal who has been joined over the course of recent months by a strong team of seven further interim post-holders, covering leadership of the curriculum, MIS, HR, finance and quality assurance. The interim leadership of the college was welcomed by staff and their unions and has quickly won their confidence and trust through reinforcing a sense of order and discipline and being open about difficulties and the means by which they must be addressed.

The college is currently rated 'satisfactory' in terms of its financial health. However, the college significantly under-recruited last year and is therefore benefitting from significant amounts of lagged funding which will have an adverse impact on the financial position in 2016-17.

Stafford College is currently involved in a local area review. On 24 March 2016, the Chairs of the governors of Stafford College and Newcastle-under-Lyme College wrote to the FE Commissioner confirming their intention to merge their institutions. The proposal has been agreed by both Boards on the basis of a type B merger which will lead to the dissolution of the Stafford College corporation and the formation of an entity based on that of Newcastle-under-Lyme, retaining the identities of both the current colleges. Staff and students at Stafford College are fully aware of the proposed merger and appear to welcome it. It is intended that Heads of Terms and Due Diligence inquiries should begin in April-May 2016 and consultants to conduct the latter have been appointed by Newcastle-under-Lyme College. The date of formal merger will depend on the time by which public consultation can be completed but, in any event, a shared services agreement is envisaged as allowing the Newcastle management to replace most of the Stafford interim managers, including the interim Principal, in time for the start of the 2016-17 academic year.

Curriculum

Ofsted inspected the college between 9-12 February 2016. Ofsted found the curriculum to be grade 3, 'requires improvement', with the exception of the two aspects: high-needs and apprenticeships, both of which were awarded a grade 4, together with the effectiveness of leadership and management. The college acknowledges that it would have been difficult for inspectors to reach any other conclusion about leadership and management against the backdrop of events over the past two years.

An outline of the reasons given for the judgement of inadequacy is as follows:

- Failure of the Board to hold managers to account for students' underachievement in 2014-15;
- Failure of managers to act decisively after 2014 to resolve the problems identified then by Ofsted;
- Unsuccessful reduction of differences in performance among different groups of students in 2014-15;
- Lack of sufficient improvement in some aspects of teaching and learning;
- The decline in student success rates; Ineffectiveness of the efforts of the previous leadership team to improve English and maths provision.

Inspectors praised the incoming interim management and noted that they were 'beginning to make a tangible impact which is benefitting students'.

The interim Deputy Principal responsible for the curriculum has prepared a very detailed Post-Inspection Action Plan (PIAP) comprising 101 required changes in 37 main areas of activity. This is well-conceived and is based directly on close analysis of every criticism in the Ofsted report as well as the shortcomings identified by the college in an Interim Self-Assessment Report (SAR) for 2014-15 produced just before the inspection. Delivery of the issues from the PIAP is organised as 11 Improvement Projects, including for example, one centred on Governance which is led by the Deputy Principal. Progress with each of the 11 areas for improvement is documented in detail with the actions required; the planned impact; the date for completion; the person responsible for achieving the result; progress made at each monthly monitoring point; and the date for final completion. Each action is RAG-rated. Reports are considered in detail by the Board, with a standard template added to provide direct access to the key points.

Overall success rates declined abruptly in 2014-15 by some 12 percentage points. In apprenticeships, a rapid decline occurred in the previous year and continued in 2014-15 to the same 12 point low.

The college has made a detailed analysis of the reasons for the decline in success rates in 2014-15 and concluded that they can be attributed mainly to poor organisation and performance in teaching English and maths. At that time and under the new college leadership, English and maths teaching was reorganised as a central unit. It has now been returned to the mainstream curriculum areas, with teams of three people in each area responsible for driving up standards in these key subjects: the Head of the Curriculum Area, a lead English tutor and a lead maths tutor. Every student is RAG-rated separately for main study, English and maths, on a database which is readily accessible to teaching staff and which they are required to update monthly.

The curriculum is organised in five major groupings. These are Engineering and Construction; Sport, Hospitality and Catering, Hair and Beauty, and Public Services; Business, IT and Higher Education; Health, Social Care and Childhood; and the Creative Arts. One of the consequences of falling student enrolments has been that building utilisation is generally low at around 30 per cent and very low indeed in such specialist areas as beauty therapy, where some treatment rooms have only 7 per cent occupancy. The management of accommodation, of high quality though it is, will plainly continue to be difficult going forward unless the planned merger can increase recruitment and open up beauty treatment, for example, to public use including at weekends and college holidays.

Staff utilisation is also too low at 87 per cent. The average class size is under 11, with managers aspiring to raise it to 18, as would be more usual in the sector. The proportion of turnover spent on staffing is high at 73 per cent while remuneration for teaching staff in the college is significantly below that at neighbouring colleges. The data would support a conclusion that the college has more staff than can be sustained by current or foreseeable income, teaching classes which are too small in under-utilised accommodation, with the inefficiencies supported by low pay.

Finance Overview

Up to 2010-11 the college had a strong financial position, with consistently good key performance and solvency indicators. However, over the last four years the financial

performance has been in decline due to the college reporting operating deficits, a high gearing ratio and high interest costs.

Over the past three years, there has been a reduction in total income of over 8% per cent. The decrease is mainly attributed to reductions in allocations from the SFA and a shortfall in enrolment of 16-18's resulting in a reduction of the EFA allocation under the lagged learner mechanism. The percentage of income received from the two main funding agencies remained at 75 per cent-80 per cent over the three year period.

The Board developed a financial recovery plan towards the end of 2014/15 covering the period 2015-2018. The Board and managers acknowledged that the college was likely to be impacted by further cuts and reforms in the FE sector and sought to develop a plan to grow income and develop a more efficient and effective operating model. Underpinning the plan were the following key objectives and critical success factors:

Objectives

1. To have an efficient curriculum delivery model
2. To improve the operating surplus to 1 per cent of turnover and build cash reserves for future investment
3. To grow apprenticeships and higher level apprenticeships
4. To grow new income streams, in particular International
5. To operate in an excellent risk management environment
6. To effectively utilise resources (staff and space)
7. To fund revenue and capital aligned to the strategic plan
8. To comply with banking covenants and reduce the level of borrowing
9. To maintain a strong internal control environment
10. To deliver unqualified audit reports

The current forecast for 15/16 assumes that 6/10 of the targets set in the recovery plan will be achieved in year one. However there will be significant financial implications for 2016-17 under the lagged funding model and the College has been notified by the funding agency that its allocation will be reduced by over 12%.

The pattern of under recruitment of 16-18s has been a trend for the college over the past 3 years, partly as the result of a general demographic decline in 16-18's plus competition from schools and neighbouring college.

Pay costs are forecast to remain high in part due to the number of interim staff that are currently covering key leadership roles and vacancies at an operational level. The current forecast also does not include a provision for restructuring costs – managers have assumed that these costs would be included as part of the planned merger with Newcastle-under-Lyme College.

The current forecast nevertheless assumes that the college will meet all banking covenants and retain a satisfactory health grading with the SFA.

The college's auditors have raised some minor areas of concern. The 2014-15 annual report gives an overall opinion that the college has adequate and effective arrangements

in place for governance, risk management and controls. However they rated the internal controls in two areas as amber following high priority recommendations in respect of:

- Governance – following the findings noted in the Ofsted report and the need to improve leadership and managers
- Subcontracted provision – a lack of evidence available to demonstrate monitoring of quality checks

The external auditors are KPMG. The 2014-15 final audit report was unqualified.

Governance and management

Ofsted's criticism of governance was acknowledged by the Board as fully justified and has resulted in the replacement of the Chair and Vice-Chair; cessation of the Carver model and a return to close scrutiny of the curriculum; maintenance of Task and Finish Groups; removal of the former principal and deputy principal; recruitment of a very able interim management team; greater formality in the conduct of reporting to the Board and decision-making by it; and conclusion of the important first steps towards (in effect) a takeover by Newcastle-under-Lyme College. These are significant achievements.

The merger negotiations will benefit from manifest goodwill and enthusiasm from both sides. Bringing together these two colleges has been an aspiration for a number of years and the circumstances for doing it are now as favourable as they could be.

Sustained strong leadership is accepted by all as an essential for successful merger. The majority of the interim team intend to leave at the end of August 2016, coinciding with the management of Newcastle under Lyme College assuming responsibility for provision.

The strength and direction that the interim managers have brought to the college are fully appreciated and are quickly restoring its effectiveness. Much is made of the gross cost of these interim appointments but the net additional cost in our view represents good value in recovering the college from a bad situation. As is frequently pointed out, in the context of a merger in which managers from the partner college will take on most of the roles now covered by interims, much of the ensuing cost saving will come straight off the bottom line, contributing to the necessary reduction in payroll.

Discussions so far have produced a clear and coherent picture of the new college after merger. The vision agreed by the two governing bodies is as follows:

- Two strong sites in Stafford and Newcastle-under-Lyme provision concentrate at Levels 3-5 but with appropriate progression routes at Levels 1 and 2;
- Each college site to be individually branded, maintaining their own traditions and identity and being responsive to their own communities;
- A shared culture and ethos so that staff and students are equally comfortable on either campus;
- A unified approach to employer training and business development addressing the needs of industry along the M6/A34 commuter belt;
- An effective corporation board representing the best interests of the new college and the totality of the communities it serves;
- A single principal and management team with a presence on both main sites;

- A new strategic plan and delivery plan developed during the first year of the new college;
- A single approach to performance management and improvement;
- Outstanding financial strength;
- A common approach to support systems and services;
- Achievement of an 'outstanding' grade from Ofsted within two years of merger.

The merged college will have turnover in excess of £40 million.

Conclusions

The recent troubles at Stafford College and the resulting industrial action should not obscure the fact that declines in student achievements and financial health began much earlier. The "earthquake" described by staff was a misguided attempt to dislodge complacency and to address those shortcomings; one whose effect is seen in retrospect as largely beneficial. The Board has too many members who have served beyond the desirable maximum of eight years, and it is more heavily biased towards local authority and other public sector membership than would be acceptable in normal circumstances. However, the same forces which shook the rest of the college community also transformed the Board so that it took a renewed grip on leading the college, changed its own leadership and brought in a very good interim management team. Whilst Ofsted's judgement was that the college was inadequate early in 2016, most of the curriculum was judged to be somewhat better, even allowing for the transitory distortion of the 2014-15 year. There is a good chance that success rates will have recovered this year, based on firm and well-considered interventions led by interim managers and fully supported by staff.

Steady reduction in student enrolments over the past few years and consequent reductions in income 2012-13, not fully matched by a fall in staffing costs, have created financial vulnerability which, if not addressed, would lead to a significant deficit next year. The Board and the interim management have committed themselves to resolving that issue, so that the college should enter into the planned merger with Newcastle-under-Lyme College in good heart. The difficulty of achieving that should not be underestimated. Nevertheless, the expertise and experience of the interim Principal, and the respect in which he is held by staff, offer a good chance of doing so without disruption to an otherwise good student experience.

The college has an excellent campus and generally very good facilities. Many staff are judged by the interim management team to be of very high calibre. There are good relationships with employers. These will all make a positive contribution to an enlarged institution which should be sufficiently robust to cope with foreseeable changes and to benefit from new opportunities. There is a strong impetus to complete this merger quickly so that financial problems do not escalate and no permanent solutions need to be sought in governance and management which might inhibit progress later. There is much to commend that point-of-view. A key concern must remain that, even with the continuation of at least three interim managers at Stafford, and the deployment of a Newcastle vice-principal to Stafford, momentum towards improvement may slow. This possibility should be considered very carefully by the governors of both colleges in the Merger Working Group, and their agreed arrangements should be a focus for a Stocktake by the Commissioner in July.

Recommendations

1 That within the parameters of the current area review the college should pursue the agreed Type B merger with Newcastle-under-Lyme College, with a view to passing over effective management control by 1 September 2016;

2 That the Board should review whether it is appropriate to recruit additional members rather than concentrating the effort of current governors on:

- closely monitoring fulfilment of the College Post-Inspection Action Plan;
- using the link-governor arrangements to provide a high level of visibility and reassurance to staff and students during the period leading to merger;

3 That the college should vigorously pursue fulfilment of the agreed prerequisites for merger, that is a break-even financial out-turn for 2015-16 and an improvement of 10 percentage points in overall student success rates in comparison with 2014-15 to restore the long-term trend level;

4 That the Board should avoid setting further conditions for the merger, balancing a proper desire to represent the two communities of Stafford and Newcastle-under-Lyme with the over-riding need to contribute to creation of a strong corporation Board for the merged college;

5 That the Board should consider supplementing its clerking arrangements to add expertise in maintaining regularity and propriety during the merger procedure;

6 That during the period leading up to the planned merger, the Board and the leaders of Newcastle-under-Lyme College should give careful consideration to maintaining the strong leadership of the college that has been provided by the interim team, to ensure that standards and services to students do not decline;

7 That close attention should be paid to addressing inefficiencies in the college, including low average class sizes, low space utilisation, low staff utilisation and relatively low teaching contact hours, taking account of curriculum development for the merged college;

8 That the Commissioner and the Agencies should monitor the college's progress towards merger and the planned improvements in curriculum delivery, including a stocktake visit at an appropriate moment prior to formation of the merged college.

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