# Further Education Commissioner assessment summary

# Hull College Group

# December 2016

# Contents

# Assessment

## Background

Hull College operates within the Hull College Group. The Group comprises the College itself, which operates from three main centres in Hull, Goole and Harrogate, and two wholly owned subsidiary companies.

The Skills Funding Agency (SFA) issued a notice of concern to the College on 11 November 2016, in accordance with the Financial Memorandum between the Agency and the College. The notice was issued because the College had been rated inadequate by the SFA for financial health (based on its 2016 to 2018 financial plan) and as a result of the College's request for Exceptional Financial Support, received by the SFA in October 2016. As a result of the notice, the College was referred to the FE Commissioner for assessment.

The FE Commissioner conducted his assessment between 29 November and 8 December 2016. He considered:

- The capacity and capability of the College's leadership and governance to secure a sustained financial recovery within an acceptable timetable;
- Any actions that should be taken to deliver a sustained financial recovery within an agreed timetable (considering the suite of interventions set out in *Rigour and Responsiveness in Skills*); and
- How and when progress should be monitored and reviewed taking into account the Agency's regular monitoring arrangements.

It should be noted that at the time of the intervention, the College was part way through the Area Based Review for York, North Yorkshire, East Riding and Hull.

### Assessment Methodology

The assessment consisted of consideration of briefing documents provided by the SFA and EFA, examination of detailed information provided by the College and interviews with key staff and governors.

### The Role, Composition and Activities of the Board

The College has refreshed its Corporation over recent years, with seven new appointments over the last two years. Education and Finance specialisms are well represented on the Corporation, but general business expertise is limited.

There is a need for the Corporation to receive more focused, data-led and candid dashboard style reporting that goes to the heart of matters needing to be addressed, in order to support Governors in discharging their responsibilities. This would help the Corporation to display greater speed and agility in addressing the substantial issues facing the College. For example, Governors do not appear to have been advised on a timely basis that falling student numbers have not simply caused by adverse demographic trends, but are also the result of loss of market share.

### Leadership and Management

The College's Senior Leadership Team is led by the Chief Executive, supported by an executive team comprising the Chief Operating Officer, the Principal of the Hull Campus, the Managing Director of HCUK Training and the Group Director for Quality and the Student Experience.

The College intends to put in place a different management structure in early 2017. In the new structure, the executive team will comprise the Chief Executive, a new post of Deputy Chief Executive, the Group Director Quality and the Student Experience, Managing Director HCUK Training, a new post of Director of Finance and Corporate Services and the Director of Organisational Development. The college is also in the process of appointing a 'Turnaround Director' to help to deliver financial recovery.

Although the Senior Leadership Team has a range of skills and experience, it has not succeeded in addressing key issues facing the College, including steady decline in financial performance and loss of market share.

There is concern at all levels of the organisation that the College lacks strategic vision and strong, resolute leadership and that this is frustrating and demotivating for staff.

There is also criticism from the Corporation and staff that 'bad news' is not reported to the Corporation with sufficient speed or candour, thus slowing down the ability to take the rigorous actions required to ensure sustainable financial recovery.

## The College's Financial Position

The College's financial health, as assessed by the Skills Funding Agency, has fallen from 'good' in 2012/13 to 'inadequate' in 2015/16. Its operating performance, as measured by 'surplus/deficit after interest, tax, depreciation and amortisation costs' has amounted to a cumulative deficit of around £10m over the past four years, and a further deficit in excess of £1m is forecast for the current year. The College has not achieved its budgeted income for any of the last three years.

The College's operating performance has placed a strain on its cash resources and it has required a significant level of Exceptional Financial Support and a re-phasing of Education Funding Agency income during 2016/17 in order to meet its commitments as they fall due. The College is currently engaging with professional support to develop a comprehensive 36-month cash flow forecast.

The College's financial strategy has largely been to make year-on-year cuts to staffing levels and to secure capital receipts from asset sales. Despite a number of years of staff cuts, on the SFA's definition, the College's staff costs are high, at around 78% of income for 2015/16 and a forecast 72% for 2016/17. (As a comparator, the Area Review benchmark is 60% to 65%). A benchmarking study undertaken for the College demonstrates higher than benchmark staffing costs for both teaching and support areas. This level of cost is unaffordable for the College.

The risks inherent in a reliance on land sales are well known in the sector. The College has recently suffered from a local authority refusing residential planning permission for a plot of vacant land, with a consequential potentially significant reduction in the value of the plot.

The College is currently developing a Financial Recovery Plan in response to its financial difficulties. The plan will focus on:

- Estates rationalisation
- Organisational change
- Increasing class sizes
- Curriculum specialisation

- Income diversification.

The quantum of change required to secure a financially viable and sustainable business model, and to facilitate much-needed investment in the College's estate and information systems is significant and should not be under-estimated. For example, under current arrangement, further education provision at each of the College's three campuses is loss making.

## Quality of Provision

The College offers courses in all 15 sector subject areas leading to qualifications from pre-entry level to Higher Education. In 2015/16, the Group enrolled over 18,000 students through a range of programme types including Classroom Based Learning, Apprenticeships, Workplace Learning, full-cost, contracted work and Higher Education.

The Group had two significant external quality assurance inspections during 2015/16. An Ofsted inspection conducted in November 2015 graded the overall effectiveness of the Group as 'Good', but with 16-19 Study programmes as "Requires Improvement". It was accepted at inspection that 16-19 study programmes represented less than 25% of learners at the College and that outcomes for other learners, in particular Apprenticeships, were good.

For 2015/16 the College has self-assessed as 'Good' again. Apprenticeships are graded as Outstanding and 16-19 study programmes remain as "Requires Improvement" as the College recognises it still has challenges with the outcomes of the programmes, which are below national rates, and with low value added, particularly at Level 3.

Headline achievement rates for classroom based learning for 16-18 year olds and 19+ are below national rates.

A QAA inspection conducted in May 2016 concluded that the College had no recommendations for improvement in relation to Higher Education provision and it was commended on its approach to student enhancement.

## Conclusions

A substantial amount of work needs to be done to secure a sustained financial recovery for the College. The College needs to tackle, amongst other things:

- operating performance deficiencies, in the context of a challenging financial and funding environment
- developing a viable business model
- liquidity issues
- competition from other local providers
- maintaining or improving quality whilst staff morale is poor and in the context of potential future reorganisations
- the need to invest in its estate and information systems;
- improving information flows to the Corporation.

The size of this challenge should not be underestimated and current leadership and governance arrangements need to be improved to meet it. The College's Senior Leadership Team will be substantially new and untested in the near future and will require appropriate levels of challenge and support from the Corporation, as well as strong and effective leadership to focus and energise it.

# Recommendations

It is recommended that:

- the College Corporation is requested to review this report and respond accordingly in relation to leadership and governance;
- the College is requested to conduct, via an independent third party, a formal review of core governance processes and practices to ensure the Corporation fully understands its duties and responsibilities and is able to establish clear processes to discharge them, including holding the College's leadership to account;
- the Corporation engage fully with the current Area Review process and develop appropriate proposals. In particular, the College needs to develop robust proposals relating to the 'Fresh Start' option, recognising fully the radical change this option requires;
- the College is requested to invite a representative of the SFA to attend future Board meetings as an observer, during the period of financial recovery.

About this publication:

enquiries www.education.gov.uk/contactus
download www.gov.uk/government/publications