

**Further Education Commissioner  
assessment summary**

**Stratford-Upon-Avon College**

**March 2017**

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# Assessment

## Context

Following notification by the SFA that Stratford-upon-Avon College had been issued with a financial notice of concern the Minister for Skills and Apprenticeships decided that the FE Commissioner should assess the position of the College in line with the Government's intervention policy set out in *Rigour and Responsiveness in Skills*.

The FE Commissioner's report is intended to advise the Minister and the Chief Executives of the funding agencies on;

- a. The capacity and capability of Stratford-upon-Avon College's leadership and governance to implement financial recovery within an agreed timeframe (in this instance specifically in respect of a structural solution such as merger)
- b. Any action that should be taken by the Minister and/or the Chief Executive of the funding agencies to ensure the delivery of financial recovery and quality improvement (considering the suite of interventions set out in 'Rigour and Responsiveness in Skills') and
- c. How progress should be monitored and reviewed, taking into account the Agency's regular monitoring arrangements.

## Assessment Methodology

A Deputy FE Commissioner, supported by an FE Adviser, carried out an assessment during the period 3 to 7 March 2017. They received in advance briefing information provided by the Skills Funding Agency and the Education Funding Agency and reviewed a wide range of College documentation. They interviewed Board members, managers, staff and students, as well as representatives of the SFA, EFA, and the trade unions. They also had conversations with four local providers regarding the potential for a formal partnership/merger.

## Overview

Stratford-upon-Avon College is a medium-sized General Further Education College located in a relatively affluent and historic area of Warwickshire. The College caters for around 4,500 students from the UK and abroad.

The College had previously been in intervention following assessment by the SFA that the College's financial health was inadequate. The FE Commissioner previously undertook a review of the College, which was completed on 16 May 2014. That assessment identified serious weaknesses in the governance arrangements and raised some concerns as to whether the actions being taken to address the financial issues would be enough to secure the College's long term sustainability. FE Commissioner Intervention ended in October 2015 after a stock take assessment which concluded that the College had fully addressed all the areas of concern that were identified during the

initial intervention visit. The College remained in SFA intervention due to its inadequate financial health grade as a result of its outstanding BIS loan. This was repaid in full in June 2016 and the Financial Notice of Concern was subsequently lifted by the SFA in January 2017.

## **Coventry and Warwickshire Area Based Review (ABR)**

The Coventry and Warwickshire ABR made the following recommendation regarding Stratford-upon-Avon College:

*Stratford-upon-Avon College either to stand-alone or to merge with another college, following a Structure and Prospects Appraisal to be completed by December 2016.*

The College rejected the recommendation, with the Board of Governors stating they were confident that the financial sustainability of the College was secure into the future. The financial position and projections as at February 2017 confirm that many of the concerns and risks identified in the financial assessment undertaken during the ABR have materialised and if anything increased. In light of this, Governors now recognise the need for structural change and have publicly stated their expectation of a merger solution for Stratford-upon-Avon College, at which point they stated to us they would all be prepared to stand down.

As part of the intervention visit we have taken informal soundings from four potential merger partners identified by the College, which has identified strong local interest from local providers in a merger, subject to an open and transparent process and necessary due diligence. There may be other potential partners for consideration.

Feedback from the trade unions and our informal soundings indicate support for an FE Commissioner-led Structure and Prospects Appraisal (SPA), a view which is also supported by the Chair of the Corporation.

## **The Role and Composition of the Board**

The Corporation consists of sixteen members, including the Principal, two student members and two staff members. There are currently four vacancies including one staff member position.

The Chair has been in post since October 2015. The Corporation has one qualified accountant member, (the former Chair of another local College of FE) who chairs the Audit Committee and has been in post since April 2016. The College has been supported for most of the period since November 2015 by an experienced independent Clerk.

Board agendas tend to be busy and demonstrate a proactive Corporation which is supportive of the Executive, but with more limited evidence of a willingness to challenge and test them on issues and concerns. Based on a review of Corporation minutes, consideration of financial reports by the Corporation is not always consistent or sufficiently structured.

In response to the rapid deterioration in the cash flow position, the departure of the former VP Finance and Estates in December 2016 and the subsequent departure of the

former Principal in February 2017, the Chair (assisted by the Vice Chair and Chair of Audit) has taken a central role in working with Lloyds Bank and the Skills Funding Agency to address the College's short term working capital requirements.

## **Executive Team**

For the past two years the make-up of the senior leadership at the College has seen significant and regular change with all current members being in post for under two years.

The former Principal and Chief Executive had been in post since November 2013 having joined the College as Vice Principal in April 2013. She was released from her position in February and has been replaced by an interim Principal with effect from 1 March 2017. The interim Principal had held a position on the executive team of the Warwickshire College Group up until December 2016.

An interim Finance Director has been in post since January 2017. His predecessor resigned in December 2016. The College has had 9 Finance Directors in place in the last four years.

The current senior leadership team consists of the interim Principal and interim FD, both of whom are senior post holders, and four Directors: Curriculum, MIS and IT, Marketing and Student Services, and HR.

This high level of turnover at Executive level is compounded by a relatively small finance team of four staff, including an apprentice. Three members of the finance team have been in post less than a year.

The impact of constant changes in the make-up of the senior leadership with a large proportion of members staying in post for very short periods of time has been detrimental to the efficient operation of the College.

## **The Financial Position**

### **Income and Expenditure Account**

After posting significant operating losses in 2012-13 and 2013-14, the College achieved small operating surpluses in 2014-15 and 2015-16. The 2015-16 financial statements were submitted on time, with an unqualified audit opinion and no matters of emphasis in respect of going concern. Confirmation in December 2016 of the achievement of operating surpluses and satisfactory financial health in both 2014-15 and 2015-16 was one of the main factors which secured the lifting of the Notice of Concern for Financial Health by the SFA in January 2017.

The College anticipated a substantial fall in income in 2016-17 and given the College's tight working capital position throughout the year, the College was highly dependent on achievement of its budget targets to service its short term liabilities.

The original budget plan made provision for payments to sub-contractors which were planned to deliver over 50% of the College's Adult Education Budget (AEB) funding allocation.

The monthly management accounts presented to the Corporation by the former VP Finance and Estates up until December 2016 reported a positive year to date

performance and forecast financial out-turn, whilst noting shortfalls in student and Apprenticeship recruitment.

The latest management accounts for January 2017 prepared by the interim Finance Director indicate a potential “worst case” operating deficit for 2016-17 of £0.9m (i.e. £0.8m worse than budget) due mainly to:

- the in-year impact of a shortfall on 16-18 Apprenticeships
- recognition that key HE and commercial income revenues are likely to fall well short of budget targets
- commitments made to sub-contractors in order to hit the AEB funding allocation which are likely to exceed the original budget provision

There are also potential contingent liabilities that could adversely impact on the year-end financial out-turn which are as yet not fully resolved.

## **The Balance Sheet**

The College’s cash position has been exceptionally weak for most of the past four years, reflected in a current ratio of just 0.09 in 2015-16 (which is likely to be one of the lowest in the FE sector nationally). The College required Exceptional Financial Support of £1m 2013 which was subsequently converted to a BIS loan repayable in phased instalments.

Governors appear to have placed too much focus on achieving a satisfactory financial health grade (necessitating repayment of the BIS loan); removing the College from SFA intervention; and protecting the College’s independent status during the Area Based Review - rather than testing the credibility of income targets and the cash flow forecast, which have since proved to be far too optimistic. The warning signals in the 2016-18 financial plan (financial health borderline inadequate) and the risks to sustainability flagged by Area Based Review financial assessment appear to have been given insufficient weight by both the former Principal and by Governors.

## **Financial Forecasts beyond 2016-17**

Without major corrective action, the College faces a further year of substantial operating losses in 2017-18 which will increase the shortfall in cash further.

## **Quality**

### **Ofsted grades and judgements**

The College was last inspected by Ofsted in March 2015 with overall effectiveness judged as grade 2 (Good), Outcomes for Learners grade 3 (requires improvement), Quality of teaching, learning and assessment grade 2 (good) and Effectiveness of Leadership and Management grade 2 (good).

## **The Curriculum Offer**

The college has extensive good quality provision in the Creative Arts, Media and Performance. This provision is well regarded by students and the wider Creative Arts Community. Students in these areas were strongly engaged in activities and benefitting from good resources and facilities. Classes were averaging 20 students and retention and achievement levels were good.

However, the curriculum offer across the rest of the college is limited and the breadth of provision available, particularly at levels 1 and 2, is small and reducing with the planned removal of construction and engineering courses. Much of the A-level provision is operating with small class sizes and performance in this area in 2015/16 was 12% below national averages. Recent changes to the HE offer, particularly in relation to the international market, have seen further reductions in this area with few plans in place to develop this work.

The main campus, which is attractive and well-resourced is significantly under-utilised. The limited curriculum offer in terms of both the range of vocational provision and the levels of course provision available have restricted recruitment and progression opportunities.

Curriculum planning is limited and largely driven by the requirement to reduce costs and increase efficiencies. This has resulted in the College being unable to drive forward curriculum and course developments and initiatives and to refresh and develop the curriculum offer and structure.

## **Conclusions**

Over-optimistic forecasting in the budget has gone unchallenged by both the Board of Governors and the senior management team. Too much emphasis was placed on the assertions of the former Principal and VP Finance and Estates that the finances were on track and that additional income would be found to mitigate against a potential shortfall. Standard checks and balances, such as challenge by the Board and senior management team were not happening.

The College failed to recognise adequately the inherent risks of its weak working capital position when setting its budget for 2016-17, which was predicated on achieving a breakeven budget despite a 15% fall in income compared with the previous year. The College's financial controls and reports failed to articulate the implications of further in-year shortfalls income during autumn 2016, despite indications of slippage on key recruitment targets. The College was over-reliant on its capacity to increase lending from its bankers and realise proceeds from asset sales as a contingency plan. Cash flow forecasts failed to identify the scale and speed of the decline in working capital, which led to the short notice requirement for significant Exceptional Financial Support from the Skills Funding Agency.

The scale of the likely operating deficit in 2016-17 coupled with the weakness of the College balance sheet are such that a recovery plan on its own is unlikely to restore the College to a financially sustainable position. The College is therefore faced with the need to move quickly to implement structural change.

The restricted and reducing core curriculum FE offer, together with an over-dependency on unsecured HE provision has contributed to the college being in a position where limited actions can be taken to address the financial shortfalls in year.

## Recommendations

- a. The Further Education Commissioner should undertake a Structure and Prospects Appraisal to secure a sustainable future for Stratford-upon-Avon College through the identification of an appropriate merger partner by no later than 31 May 2017, with a target for implementation of no later than 31 December 2017.
- b. The Board of Governors should move quickly to empower the interim Principal (as Accounting Officer) and the interim Finance Director to stabilise the College's financial position and give them full responsibility for day to day operations and communications with lenders and external agencies (including Skills Funding Agency and Transactions Unit).
- c. The Chair and Vice Chair should ensure regular and structured review of the performance of the interim Principal and interim Finance Director to hold them to account for performance and ensure that the College maintains quality and effective day to day operations notwithstanding the financial challenges faced by the College.
- d. The Board of Governors needs to strengthen the effectiveness of its oversight, review and challenge of the College's financial performance, either through the establishment of a Finance Committee or through more structured and formalised review of the management accounts and cash flow forecasts as part of the main Board agenda.
- e. The interim Finance Director needs to continue steps taken since January 2017 to improve the comprehensiveness and timeliness of financial reports to Governors and the Senior Leadership Team to highlight more clearly the financial position regarding the forecast out-turn; working capital; compliance with loan covenants and financial health.
- f. The interim Principal and the Senior Management Team should oversee the finalisation of the curriculum plan for 2017-18 by April 2017 with the aim of supporting an appropriate curriculum offer, whilst increasing staff utilisation rates, removing overcapacity and achieving viable class sizes.
- g. The curriculum plan should form part of a strategic financial recovery plan aimed at minimising the level of operating losses for 2016-17 and 2017-18 in advance of a more fundamental review of the curriculum and cost base once the outcome of the proposed Structure and Prospects Appraisal is confirmed.
- h. The interim Finance Director should work closely with lenders; the Skills Funding Agency and the Transactions Unit to implement strategies to support and contain the College's working capital requirements pending resolution of a longer term sustainable structural option (such as a merger) and of the anticipated breach of loan covenants by year-end.
- i. The College should build on recent initiatives to improve staff communications to ensure that the views and concerns of staff can be articulated and taken into account by Senior Managers and Governors.
- j. The Board of Governors should widen the scope of its risk management policy and monitoring processes to ensure these are fully embedded at both Governor and management levels.



The Further Education Commissioner and the Skills Funding Agency will continue to monitor closely the College's financial performance pending the implementation of structural change arising from the proposed Structure and Prospects Appraisal. In line with this, the Skills Funding Agency should be invited to attend Corporation meetings as an observer.

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