Further Education Commissioner assessment summary

Redcar and Cleveland College

March 2017

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Assessment

Background

Redcar and Cleveland College is a further education College in the North East of England, located in the Borough of Redcar and Cleveland within the Tees Valley Combined Authority area. The College has around 1,500 students at any one time and has an average of 210 apprenticeship leavers each year. The College provides study programmes and adult learning provision in ten subject areas and apprenticeships in eleven. College provision is strongest in the areas of engineering, construction and health and social care.

The College was issued with a Notice of Concern for Financial Health in March 2015 due to inadequate financial health. The College was referred to the FE Commissioner in May 2015, which resulted in a recommendation for a Structure and Prospects Appraisal (SPA) to be conducted. The SPA was halted due to the inclusion of Tees Valley in wave one of the Area Based Reviews (ABR). The outcome of the Tees Valley ABR was the recommendation of a merger with Middlesbrough College, with the College being removed from FE Commissioner intervention in October 2016 contingent on implementation of the planned merger. Following the breakdown in February 2017 of merger discussions between the two Colleges, Redcar and Cleveland College has been re-referred to the FE Commissioner 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 Executive of the Funding Agencies on:

- a. The capacity and capability of Redcar and Cleveland 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

The FE Commissioner, supported by the Deputy FE Commissioner and a Curriculum Adviser, carried out an assessment during the period 12-14 March 2017. They received in advance briefing information provided by the EFA/SFA Joint Intervention Team and reviewed a range of College documentation. They interviewed Corporation members, managers and staff and met with learners, trade union representatives and the Chief Executives of Redcar and Cleveland and Hartlepool Councils and the Managing Director of Tees Valley Combined Authority. As part of the assessment visit, the FE Commissioner and his team also visited Middlesbrough College and a local training provider.

Area Based Review (ABR)

The final Tees Valley Area Review report was published in November 2016, with seven recommendations including the recommendation that Middlesbrough College and Redcar and Cleveland College merge to form a single College.

During our meetings with both Colleges as part of the assessment visit, it was clear that merger preparations have effectively broken down. Both Colleges recognise the need for structural change at Redcar and Cleveland and the Chairs of both Colleges expressed support for an FE

Commissioner-led SPA to help identify a credible and achievable option that can be agreed and implemented by no later than December 2017. The SPA will allow for further review and testing of the potential for a merger between Middlesbrough College and Redcar and Cleveland College alongside other potential local solutions in the Tees Valley.

Where necessary, the scope of the SPA may be widened to seek interest from a regional and/or national field.

The Role, Composition and Operations of the Board

The Board consists of 14 members, including the Interim Principal, two staff members and a student member. There are currently four vacancies. The Chair joined the Corporation in 2010 and has experience of the private sector, health/NHS and charities. The Vice Chair joined the Corporation in 2008 and has experience in petrochemicals and renewable energy industries. The Corporation is supported by an experienced Clerk who was appointed in January 2017, replacing the previous service provided by the local authority.

The Executive Team

The Executive team currently consists of an interim Principal, a VP Finance who has been in post at the College since 2013 and a VP curriculum who has been in post since December 2016.

The previous Principal, who had been in post for 2 years, was appointed to the post of VP at Middlesbrough College in December 2016 and left the College immediately to take up this post. The College appointed an interim principal at the beginning of January 2017 who at the time of the intervention visit was absent due to ill health.

Curriculum and Quality

Quality

The College has been judged as requires improvement at the three most recent Ofsted visits (October 2015, June 2014, and January 2013). Whilst performance overall has been improving there is still variation between the achievements of the learners compared to other Colleges. Until very recently quality improvements have been too slow. There is now a stronger collective understanding by staff across the College of the need to provide a consistent approach to attendance, in-year performance, target setting and progression.

The loss of a large proportion of lecturers and learning support staff who haven't been replaced has impacted on the pace of quality improvement across the College.

Curriculum Offer

The Curriculum offer at the College is very limited. A previous curriculum strategy to concentrate primarily on level 3 programmes and to present the College as similar to a sixth form centre resulted in the loss of the majority of programmes at entry level, level 1 and level 2. Over a period of time this strategy has contributed to a significant drop in 16-18 student numbers from 1342 in 2010/11 to 540 in 2015/16.

The College needs to launch a new curriculum offer to the local community in order to re-establish confidence that the College is inclusive and well prepared to meet the needs of a much wider range

of learners than is currently the case. In planning the future curriculum offer, account should be taken of the excellent facilities and resources provided by the College estate.

Student Recruitment

Since the opening of the new build at Corporation Road, the main 16-18 student intake has fallen dramatically in 2016-17. Loss of market share is due in part to the narrow curriculum offer. This significant reduction has impacted on funding and the College's sustainability as a standalone institution. Without fundamental change there is a risk that a further decline in student numbers and a further narrowing of the curriculum offer will be inevitable.

The Estate

The College is based in an impressive new-build campus at Corporation Road, Redcar, which opened in September 2009 at a cost of £30m. Due to the decline over many years in the student intake, room utilization is well below sector averages and declining. As such there is significant overcapacity on the site.

Any plans for the Corporation Road site should take account of the security held by Barclays Bank and the 35% interest in the site held by the Sir William Turner Foundation, as well as the investment made by funders towards the £30m new build investment in 2009.

In order to secure sustainable, local FE provision in Redcar, the Combined Authority and the LEP should explore ways to secure capital investment to support the College's merger strategy and to build its capacity to respond to LEP priorities for re-generation and growth in the Redcar and Cleveland area.

Financial Position

Income and Expenditure Account

The College has reported a steady decline in income and a history of annual operating deficits, despite actions to restructure staffing and reduce costs. The January 2017 management accounts forecast a further significant contraction in turnover in 2016-17 and a substantial operating deficit. Prospects for 2017-18 are even more challenging due to the shortfall in 16-18 recruitment in the current year.

The College recognises that this position is not sustainable and that it needs to implement structural change such as merger as quickly as possible. In the meantime, the College needs to take action both in-year and as part of its budget planning for 2017-18 to mitigate the risk of further decline in student recruitment and (as far as possible) align staffing and non-pay costs with income in order to contain the level of operating losses. Without firm action there is a serious risk that the operating deficit for 2017-18 will exceed the operating deficit forecast for this current year.

Balance Sheet

The cash position is likely to erode rapidly in 2016-17, due to a combination of the forecast operating deficit; recovery of funds for underachievement of funding contracts in 2015-16; and ongoing repayments of loan principal. The forecast net cash outflow in 2016-17 is not sustainable and suggests that by the end of 2017 the College will run out of cash without an overdraft facility or Exceptional Financial Support. This underlines the imperative for the College to find and implement a sustainable structural solution such as merger by the end of the calendar year (i.e. December 2017).

In 2015-16, the College confirmed it was in breach of one of its loan covenants with Barclays Bank.

The weakness of the College's balance sheet needs to be taken into account by any merger plan and as such may require dialogue with the SFA and the Transactions Unit regarding a potential requirement for Restructuring Funds.

From a financial perspective, the proposed SPA will therefore need to take account of the relative financial health of potential merger partners; their eligibility (or not) to apply for Restructuring Funds; the merged Colleges' capacity to arrest and where possible to reverse the pattern of declining funding/income; the position regarding loan and pensions liabilities; and constraints on the potential to release funds by asset disposals.

Conclusions

Redcar and Cleveland College has recognised the need for structural change to secure a sustainable future for FE provision in Redcar. The ongoing financial underperformance and rapid erosion of working capital underlines the need for the Corporation to act quickly and decisively to implement structural change before the end of the calendar year 2017.

The breakdown in preparations for merger with Middlesbrough College reflect in part, the challenges faced by both parties in securing a thriving FE presence in Redcar, whilst addressing the risks posed by the challenging financial position as well as ongoing work required to improve quality.

In order to find a credible and sustainable option to maintain an FE presence in Redcar, there is a need to undertake a Structure and Prospects Appraisal as a matter of urgency to confirm a structural solution such as merger, that can be agreed and implemented by no later than December 2017.

Recommendations

- 1. In light of the recent breakdown of merger discussions between Redcar and Cleveland College and Middlesbrough College, the FE Commissioner should undertake a Structure and Prospects Appraisal (SPA) to identify and confirm a sustainable solution which retains local FE provision in Redcar. The SPA will seek to find a credible merger partner from within the Tees Valley area, but will if necessary widen the field to test regional and/or national interest. The merger should be completed by December 2017.
- 2. The Corporation should ensure that the College has effective senior leadership arrangements in place, throughout the period leading up to merger with external support/mentoring as required.
- 3. In light of the current vacancies on its Board, the College should take steps to further strengthen representation on the Corporation from local stakeholders (such as the LEP and Combined Authority).
- 4. The Senior Leadership Team should ensure that curriculum planning and recruitment strategies for September 2017 are prioritised to provide more accessible progression pathways, particularly for those students at foundation level.
- 5. The College should continue to take short term actions to contain its operating losses and align its cost base to reflect anticipated reductions in funding and income in 2017-18.
- 6. The College should continue to monitor closely its cash flow position and maintain regular dialogue with Barclays Bank, the Skills Funding Agency and Transactions Unit leading up to

merger implementation.

7. In order to secure sustainable, local FE provision in Redcar, the Combined Authority and the LEP should explore ways to secure capital investment to support the College's merger strategy and to build its capacity to respond to LEP priorities for regeneration and growth in the Redcar and Cleveland area.

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