Further Education Commissioner assessment summary

The Cornwall College Group

July 2017

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Assessment

Context

In April 2016, the Cornwall College Group (TCCG) was placed under a Notice of Concern due to an inadequate financial health rating for the financial year 2014/15. The Notice was triggered following the Group's submission of its three-year financial forecast to the Skills Funding Agency in February 2016. A recovery plan has been prepared and progress is reviewed at monthly meetings with the Education & Skills Funding Agency (ESFA).

During 2016/17, TCCG has required Exceptional Financial Support (EFS) to underpin its working capital position, pending receipts from planned asset sales. The final tranche is scheduled for repayment in July 2017.

The referral to the FE Commissioner was triggered by the Notice of Concern and the requirement for Exceptional Financial Support. The ESFA also sought assurance about the College's capacity to recover in the context of its Fresh Start status and its proposed application to the Transactions Unit for support from the Restructuring Facility.

Background

TCCG is a large general further education College with an annual turnover of c£60m and around 1,600 employees. It is important educationally and economically to the region. The Group operates from seven campuses in Cornwall and a campus in East Devon (Bicton College). Additional facilities such as Plymouth Skills Centre, dBs Bristol, the Centre for Housing and Support (Worcester) have also been created in response to specific needs in further locations.

TCCG's offer is extensive, with courses offered in all sector subject areas. It is the sixth largest FE College provider of Apprenticeships in England and the largest in the South West, delivering Apprenticeships in 42 vocational areas. TCCG also encompasses income-generating subsidiaries, such as Concorde Group - a recruitment and teaching supply agency. TCCG has four main customer-facing brands (Cornwall College, Duchy College, Falmouth Marine School and Bicton College) and a specialist brand for business working across the Group.

Quality is consistent - *good* overall in its previous two Ofsted inspections, including *good* across all areas and aspects in December 2015.

TCCG plays a very significant role in shaping the regional educational landscape e.g. as a founding partner of the Combined Universities in Cornwall (CUC) initiative, creating of university-level provision in Cornwall. Latest Quality Assurance Agency (QAA) summative review of HE expressed confidence in all aspects and reported eight items of good practice.

The recent Somerset, Devon Cornwall and Isles of Scilly Area Review recommended that TCCG remain as a standalone College under a Fresh Start approach to deliver financial stability.

Assessment Methodology

An FEC team comprising a Deputy FE Commissioner, and two FE Advisers visited the college for three days in July 2017. During the visit, the FEC team met with senior managers and governors. The team also reviewed written material provided by the ESFA and by the College.

The scope of the assessment was as follows:

To advise the Minister and Chief Executive of the funding agency on:

- 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 Agencies' regular monitoring arrangements.

Leadership and Management

The current Executive Leadership Team (ELT) comprises four senior post holders:

- Principal and Chief Executive (previously Deputy Chief Executive, appointed as Acting Principal and Chief Executive in August 2016 and permanent post holder in early 2017)
- Director of Finance & Resources (appointed February 2017)
- Group Director, Development (appointed in 2015)
- Group Director, Curriculum and Quality (appointed 2014). This post holder is retiring in 2017 and the College is currently recruiting to the post.

Six Cluster Directors join this team and the ten posts collectively form the College's ELT. An experienced turnaround specialist who is acting as Fresh Start Director is supporting the team on a consultancy basis. We had a number of meetings with members of the ELT during our visit, and we were impressed by their quality, experience and commitment.

In the first half of 2016/17, the ELT focused heavily on generating cash through asset sales, reducing staff costs, tightening expenditure controls, implementing effective group-wide management information systems and driving down responsibility for curriculum savings and efficiency to curriculum heads. This focus has started to tackle the significant short-term problems the College was facing and now the focus is moving to creating a sustainable future over the medium term.

During our visit, we noted the following:

- the new Principal and Chief Executive has the confidence of staff and Governors, and has undertaken a number of key changes, which in turn have increased the stability of the College and improved management operations;
- the appointment of the new Director of Finance & Resources has resulted in improvements in internal controls, improved accuracy and presentation of the monthly management accounts;
- the Group Director, Development has been introducing new integrated data and MI systems and has led a project to identify curriculum efficiency savings;
- the short list for the role of Group Director, Curriculum and Quality is strong, and the College is confident of making a successful appointment.

During our visit, we considered whether the ELT, particularly the current senior post holders in post at the time, bore some responsibility for the College's financial difficulties. We concluded that they did not have responsibility for financial matters and, in fact, it was they who brought the nature of the difficulties to Governors' attention. Given this finding and the newness in post of most of the team, it is our view that, with the addition of an external experienced Curriculum & Quality Director and the support of the Fresh Start Director, the team will have the capability and capacity to secure a sustained financial recovery and continued curriculum quality within an acceptable timetable.

We do note, however, that the geographical position of the College means that it is easy for management to become isolated from professional development opportunities and also exposure to 'good practice' elsewhere. The ELT face a number of immediate challenges, the size of which should not be underestimated, and would benefit from a range of professional development and support, including mentoring, coaching and networking with other College leadership teams.

Governance

The College's Corporation Board included sixteen governors in July 2017. In recognition that new Governance arrangements were needed following the College's recent financial difficulties and the instability of the previous two years, Dr Ian Tunbridge was appointed as Chair in August 2016. He has extensive experience of both Higher and Further Education. The Board was also strengthened in 2016 by the appointment of a former Ofsted Inspector, who now chairs the committee accountable for curriculum and quality. Other governors have high level experience in farming, business, tourism, education and regional partnerships and there are two student and two staff representatives. Board membership also includes two qualified accountants.

A number of Committees with specific responsibilities scrutinise and consider key areas of the College's activities. The structure seeks to deliver particular emphasis on employer and related party engagement through Cluster Advisory Boards, and for community engagement and accountability through its Heads of Campus. The Leadership and Chair agree that the current structure is over complicated and have commissioned an external review to simplify it and improve the ability of the Board to focus on key performance indicators.

The College has been through a difficult period since 2014. The previous Principal and Chief Executive instigated a radical management re-structure and a rapid move away from a College structure based on campus identity to a cross-college system of management based around a more centralised ‘single college’ approach. Both of these management systems can lead to successful outcomes, but in this case the pace of the change, combined with under-developed change management arrangements, negative funding shifts and a subsequent fall in learner recruitment led to significant instability and a lack of focus on financial control. These difficulties manifested themselves in large operating deficits in 2014/15 and 2015/16.

When the scale of the College’s financial difficulties slowly became apparent in 2016, Governors took action and the Principal & Chief Executive and Finance Director both left the College in July that year. We note that a number of serious concerns in relation to the College’s financial position were raised by staff in late 2015; this suggests that there are a number of important Governance lessons to be learned by closer consideration of these events.

It is clear that the Board still needs to consider its continuing role and responsibilities and reflect on whether it can further improve its governance of the College. A review and refresh of the Governing Body is needed under the terms of Fresh Start and the Corporation has already engaged a National Leader of Governance to lead a Governance review. In completing this review the Corporation should consider whether the current size and committee structure enables the Board to successfully ensure that the Principal and ELT are challenged and whether Governors and in particular committee chairs have a sufficiently clear grasp of the funding and finances to carry out their critical fiduciary responsibilities.

We also recommend that they use this opportunity to refresh the membership and Chairs of Committees where that has not already been done in the last two years. A number of Governors are now in their third term, and whilst there are sometimes good reasons for retaining experienced Governors, the shortcomings in effectiveness of financial oversight in recent years would seem to now require consideration of a change in the membership and the inclusion of more Board members with audit and financial experience.

Curriculum and Quality

Curriculum Quality

The College was inspected in December 2015 and judged good overall, and good across all areas of judgment. The inspection was also positive about the College’s large Apprenticeship provision, noting that it was well managed and that success rates on Apprenticeship provision are generally high and most exceed the national rate.

In terms of Higher Education provision, the last Quality Assurance Agency (QAA) summative review in 2012 expressed confidence in all aspects and reported eight items of good practice.

The College self-assessment report published in November 2016 agreed with the above judgements, and the view at that time was that:

“The Cornwall College Group is a good College because the large majority of our learners successfully achieve their programme of learning and develop the skills and confidence to progress to higher levels of study and employment”.

However, the Principal and Curriculum team are realistic about the current situation and recognise that whilst external validation rates the College as ‘Good’, there are challenges and declining trends that need to be addressed. Overall consistency and pace in the rate of improvement in the Group needs to be the key focus.

During our meetings with the Cluster Directors responsible for curriculum quality it became clear that predictions of student performance in 2016/17 shows an overall slight deterioration in achievement particularly amongst the 16-18 learners.

The College has an effective system for assessing and monitoring performance, which the Director of Quality Improvement shared with us during our visit. Impact Reviews are conducted termly in each curriculum cluster, which consider a wide range of qualitative and quantitative information to derive peer moderated operating grades for each cluster area. At Impact Reviews the Curriculum Leaders and Director of the cluster meet with a group of senior managers and other key colleagues to evaluate the impact of actions taken to improve performance. In recent months, Governors have attended and actively contributed to a number of the Impact Review meetings, and the outcomes from each meeting are recorded in action minutes.

We discussed these Impact Reviews and noted that the College is prioritising a number of areas in need of further improvement:

- Timely completion rates in Apprenticeships across the provision.
- English and Maths:
  - Learner engagement and attendance rates across all campus sites, particularly Camborne.
  - Functional Skills English; 16-18 GCSE English and Maths A*-C pass rates.
- Learner progress, high grades and value added resulting from better use of target setting and greater stretch and challenge of learners particularly those on 16-19 Study Programmes.
- Capacity and skill sets of staff to manage increasing rates of mental health issues in learners.

Managers were also very aware of the slight deterioration in performance in Achievement in 16-18 as indicated in the recent predictions for 2016/17.
If these predictions prove to be accurate, Education and training qualification achievement rate data for 16-18 years olds would stand at 77.2%, around three

percentage points below the national average. This reflects the concern that the College has with seeking to improve learner performance in Maths and particularly English GCSE and Functional Skills. For 19+ the figure would be 84.8%, an improvement on the previous year but still just below national benchmarks. Apprenticeship success rates on a cohort of 1,836 would be much improved from the previous year.

FE Choices employer satisfaction survey for 2016/17 has been reported since the visit and if predictions are correct, this will show a significant improvement in levels of employer and learner satisfaction.

The ELT has already concluded that there is work to be done on further improving student performance, and the recent curriculum management changes should reinforce the actions that are needed to ensure that student outcomes continue to improve. However, it is important that the governors and management continue to concentrate on student performance in order to ensure they maintain their 'good' grade when OFSTED next visit, and the recent addition to the Board of a former Ofsted Lead Inspector as Chair of the Excellence and Experience committee will help that focus.

Curriculum Management and Development

TCCG's offer is extensive, with courses offered in all sector subject areas. Over the last three years the College has faced reduced 16-18 student numbers arising from a demographic downturn and local competition.

The curriculum challenges for the College are concentrated around three key issues,

- Continued decline in core 16-18 learner numbers
- Increased competition in the technical and vocational market from Truro and Penwith College.
- Core overheads in terms of class sizes and premises costs too high, with a particular problem in St. Austell, where the College needs to continue to re-shape its curriculum offer and create an estate fit for purpose for the long-term.

A significant problem for the College, partly due to the specialist and highly technical nature of some of its courses, and also the low attainment of a larger than average percentage of many of its students, is that its current class sizes are too low to be efficient. The College accepts that this situation needs to be urgently resolved so it can build a sustainable curriculum for the future focussed on supporting learners to develop skills for work.

It is clear, therefore, that there are difficult choices to be made around the College's future curriculum shape and offer, and the need to remove some lower financial contribution courses without entirely compromising the College's clear commitment to an inclusion agenda. It became clear from our visit that the College's new Leadership team's strategic intent and focus on becoming a 'Career College' provides the opportunity to complete a curriculum review, and refresh the courses on offer. The aim needs to be a more focused training and education provision across its campuses, which will still meet the skills needs of its local communities, and this will require some hard and urgent decisions.

The College has started to consider some of these curriculum cost issues but they are still outline ideas at present and there is still work to do in order to shape these into properly costed plans in order to test feasibility. However, whilst there is clear recognition by the College of a need to change its curriculum offer, at the same time this is constrained by a concern about the potential loss of income in stopping work in core areas. Even though the College needs to operate with increased class sizes, and must reduce non-viable courses, a loss of students due to closure of certain courses against the cost savings generated provides a difficult balance and presents real financial risk to the College.

The College's Financial Position

Background and Context

The College enjoyed generally good financial health until 2011/12. Operating surpluses were good and cash balances high. 2012/13 and 2013/14 were less good years, though, with the College experiencing declining student numbers and funding cuts. The College responded with a restructuring of its cost base in 2013/14 and maintained satisfactory financial health in both years.

A combination of factors, which governors and senior leaders have described as a 'perfect storm', led to severe financial problems in 2014/15 and 2015/16, when operating deficits were posted. The 2014/15 deficit and the forecasts set out in the College's 3-year financial plan at that time led to a financial grade of 'inadequate' and the issue of a Notice of Concern by the Skills Funding Agency in April 2016. In response, the College developed a Recovery Plan in May 2016, which forecast another operating deficit in 2015/16, and a small operating surplus in 2016/17. In the event, these forecasts were optimistic – the College posted a larger than expected operating deficit in 2015/16, and is forecasting another, smaller, deficit in 2016/17.

Current Financial Position

The Acting Principal & Chief Executive inherited a budget developed by the Finance team for 2016/17 (and approved by the Board in July 2016) which differed significantly from the Recovery Plan approved in April 2016. By October 2016, emerging concerns about the integrity of the July budget required a complete review of the assumptions made and a revised budget was developed which was a significant departure from the original. The College's latest management accounts forecast a larger operating deficit than that in both the original and revised budget forecasts. This compares with the forecast of a small operating surplus in the Recovery Plan forecast (May 2016).

The very poor outturns in 2014/15 and 2015/16, the continuing deficits and the College's inability to accurately forecast its financial position were indicative of a loss of financial control and inadequate budgeting. It seems likely that this occurred because of the pace of the organisational changes implemented in 2014/15 and the inability of financial control systems and procedures to keep pace. (It should be added that all this occurred during a period in which the College significantly reduced its staffing costs). There is evidence that financial control is now restored, with improvements in budgeting, management accounting and control systems in place.

Budget for 2017/18

The College is currently finalising its budget for 2017/18, with the draft budget forecasting an operating deficit. The budgeting process has been thorough and rigorous. The budget includes addressing significant cost pressures, including staff increases in two trading areas; essential estate maintenance, pension contribution increases and Apprenticeship levy costs. The budget includes a number of offsetting savings, including further staff restructuring, trading and income improvements. As with all such savings, there is a degree of risk attached to each item, which the College needs to carefully manage.

Plan 2018/19 and Beyond

The College has not yet finalised its budget for 2017/18. Nor has it been able to produce a financial plan for 2018/19 and beyond. We understand that it intends to submit the budget and plan to Governors on 24th July for approval. We have therefore not been able to review even an early draft.

Banking and Debt

The College currently has a bank loan and a small unused overdraft facility. The forecast borrowing/income ratio at 31 July 2017 is 22.3%, which is not excessive for a College of this size. However, the large majority of the loans are subject to high, fixed interest rates, so the annual debt servicing cost (capital and interest) is a major drain on cash, especially for a College in financial recovery.

As a result of poor financial results the College has breached its loan covenants. Consequently, the College must show its entire loans as repayable within one year (i.e. as short term rather than long term liabilities). This impacts the financial health score for current ratio and is a significant contributor to the inadequate financial health rating. A restructure of the College’s balance sheet is therefore required.

Estates

The College has a large and diverse estate. It has total space of around 123,000 m2, with an average utilisation of just 21%, so there is considerable opportunity to improve the efficiency of the estate.

The College has plans for a significant restructuring of the estate to facilitate the development of its curriculum offer. This is a key element in the College’s longer-term financial viability. This will require some investment and funds for this could be included in the application to the Transaction Unit.

Fresh Start

As a Fresh Start College there is the opportunity to access the Restructuring Facility. In our view the future financial viability of the College requires a financial restructuring and the College therefore needs to make a credible application to the Transactions Unit.

Conclusions

Leadership and Management

In our view the leadership team has the right expertise and capacity to deliver financial recovery and lead the changes needed in the curriculum. With the addition of an external experienced Curriculum and Quality lead and Fresh Start Director, the team will have the capability and capacity to start to secure a sustained financial recovery and continued curriculum quality within an acceptable timetable.

Governance

In order to support and challenge the leadership team in this demanding task, we believe that governance should be strengthened. We note that there have been recent positive changes in the Chair and also the Chair of the Committee focussing on curriculum and quality, and it is our view that they have the skills and experience to lead the College in these areas, but we would suggest that the other committees, particularly Finance & Resources and Audit, require a review of skills and membership.

Curriculum & Quality

The information provided on curriculum area contribution highlights that curriculum delivery is not consistently efficient, with low group sizes and contribution in some areas. A significant problem for the College due to the specialist and highly technical nature of some of its courses, and also the low attainment of a larger than average percentage of many of its students, is that its current class sizes are too low to be efficient, and this is a situation which needs to be urgently resolved if the College is to build a sustainable curriculum for the future. The College accepts that this delivery model for the core business is no longer viable and we had a number of discussions during our visit about the need to identify and develop a more focussed employability curriculum.

Finance

TCCG is a large College, which should with the right leadership, be financially viable. Given its current position, though, it requires financial restructuring of the type potentially available from the Restructuring Facility for the ‘Fresh Start’ to be successful.

As with many Colleges, TCCG has faced a demographic downturn and funding cuts, but under the previous leadership, failed to respond to these in an effective and timely way. There was also a breakdown in financial control. The time demands caused by the fundamental restructure and the merger with Bicton College did not help.

The College has a large dispersed estate and investment may be required at key campuses in order for the curriculum to be updated. Whilst debt is not excessive, fixed interest rates are high and debt servicing a significant drain on the College’s cash flow.

The new leadership team appears to have the necessary skills to deliver a financial recovery but may perform more effectively with mentoring support. They have already made a difference to the financial control environment and have good ideas for how this can be further improved. Mentoring support for the Principal, Director of Finance and Head of Information Management should be considered.

The 2016/17 financial forecast appears realistic and draft 2017/18 budget, based on a thorough process. However, until the 2016/17 financial results are confirmed and the 2017/18 budget tested it is impossible to draw firm conclusions at this this time. Given the inherent risks in the budget the College should undertake a risk assessment of the key underlying assumptions, with a robust sensitivity analysis and contingency plans. It is clear that the College will need around £3m of temporary cash flow support early in 2018.

Recommendations

1. As part of Fresh Start, a review of governance is required and that review should lead to a refresh of corporation membership and expertise, to ensure determined focus on financial recovery, whilst still maintaining high quality provision.

2. This review should also include Committee structure and Chairs with a refresh of Chair where these have not changed within the last two years.

3. The ELT faces a number of immediate challenges, the size of which should not be underestimated. The team should seek to secure a range of professional development and support, including mentoring, coaching and networking with other College leadership teams.

4. The College should urgently clarify its future curriculum offer supported by costed business plans.

5. Work on the review of curriculum delivery should be continued, with a view to improving efficiency across College clusters and campuses. (Informal benchmarking would indicate that a threshold contribution of 40 % may be appropriate.)

6. In order to secure the future of the College, financial restructuring is required. A credible application should therefore be made for Restructuring Facility support, which will require, amongst other things, the completion of realistic 2017/18 budget and 2018/19 plan.

7. Given the inherent risks in the 2017/18 budget the College should undertake a risk assessment of the key underlying assumptions with a robust sensitivity analysis and contingency plans.

8. It is important that the governors and management continue to focus on student performance in order to ensure they maintain their 'good' grade when OFSTED next visit.

9. Given the size and complexity of the College, and the crucial importance of high quality information, a review of the College's MIS function should be undertaken.

10. The following monitoring arrangements should be put in place:
    a. The FE Commissioner's team to be represented at monthly ESFA/College case conferences;
    b. A full FE Commissioner stocktake be undertaken in October 2017 with further stocktakes as required

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