Further Education Commissioner assessment summary

Kirklees College

October 2017

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Assessment

Background

Kirklees College is a General Further Education College based in the town of Huddersfield in the metropolitan district of Kirklees, West Yorkshire. The College currently operates from two main campuses based in the centres of Huddersfield and Dewsbury. There are, in addition, a number of specialist centres in or near the main campuses and an equestrian centre in Glossop, which offers courses in animal care and horse care and management. A process of estate re-configuration began in 2010, significant investment including the Huddersfield Centre opened in September 2013; the nearby Engineering Centre opened in 2012; and the Process Manufacturing Centre opened in September 2016. The Dewsbury estate is in the process of being relocated from its existing sites at the Dewsbury Centre and Batley College of Art.

A Notice of Concern was issued by the Education and Skills Funding Agency (ESFA) on 28 September 2017. The Notice, initially issued following the request for Exceptional Financial Support will be updated to confirm Inadequate Financial Health. As a result of the notice, the College was referred to the Further Education Commissioner for assessment.

The FE Commissioner conducted his assessment between 30 October and 1 November 2017. 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 by Kirklees College to deliver a sustained financial recovery within an acceptable 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.

Area Review Recommendations

Kirklees College's final recommendation from the West Yorkshire Area Review was **"to remain as a stand-alone institution focusing on the education and skills needs of the communities it serves in Kirklees."** However, the Area Review also recognised the College's long-term debt, combined with the ongoing capital programme and the recommendation added, **"to enable greater financial sustainability this is subject to re-financing of the high value, long term debt at Kirklees College."**

Assessment Methodology

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

The Role, Composition and Activities of the Board

The recently appointed Chair for 2017 to 2019 was previously Vice Chair of the Corporation and a governor since 2011. Public sector awareness and education specialisms are well represented on the Corporation, but financial expertise is limited.

The Board's effective oversight of curriculum and quality contrasts with the need for improved financial oversight of the deteriorating financial position, which goes beyond the management of financial debt. The Board appears to be aware of the need for strengthened financial expertise among its members, but this seems to have been the case for some time with insufficient action taken.

Leadership and Management

The Senior Leadership Team is led by the College Principal/CEO, who took up post in February 2017, having been appointed to the role by the Board in November 2016. The Principal has over 30 years' experience in Further Education and is supported by an executive team comprising a Deputy Principal, a Vice Principal Curriculum Performance and Innovation (appointed August 2017) and the Finance Director. The Senior Leadership Team consists of three academic Assistant Principals and five functional Directors. Corporate services are supported by nine heads of function and team leaders and the academic structure is supported by 10 heads of department. In addition, there are five senior posts supporting Quality and Student Services. Whilst recognising that the College is based on a number of sites, it is a large management team in a College where overall pay costs are more than 70% of turnover.

Quality of Provision

The College offers courses in all sector subject areas leading to qualifications from preentry level to Higher Education. The College does not offer A Levels. Numbers of full time 16-18 year-old students in classroom based learning have decreased by 898 (23%) between 2013/14 and 2016/17. This year the College is reversing this trend and has a current enrolment which is above target (and higher than 2016-17).

The College was last inspected by Ofsted in November 2012 and was judged to be "Good" overall. Quality of teaching, learning and assessment and outcomes for learners was also "Good". Effectiveness of leadership & management was judged to be "Outstanding".

Quality at the College has been sustained overall, with high levels of achievement that show an improving trend over the last three years. The College has not been subject to "support and challenge visits" in the light of its "Good" Grade in 2012, but has used external support to both develop and validate its approach to self- evaluation and to ensure that it is using reliable and valid benchmarks against which to judge its performance. The Quality, Standards and Performance Committee has held the College leadership clearly to account in the process of assessing standards.

There have been considerable improvements during 2016/17 and the current draft Self-Assessment Report (SAR) is to self-assess as "Good" in terms of overall effectiveness, with one area – Adult Programmes - as "Requiring Improvement".

The College has recently introduced a new process of performance evaluation and review, which is increasing the frequency of the review process, placing the focus of the review at Course Team level rather than that of Department and the evaluation quality in the context of overall business performance. This latter factor is enabling Course Team Leaders and Heads of Department to monitor and report on key performance indicators that impact on both the quality and the finances of the College. There is a stronger focus on the utilisation of staff, recruitment, group and class sizes as well as the development of the following year's curriculum plan alongside attendance retention and achievements.

Headline achievement rates are above the national rates. This increase is predominantly due to improvements in performance of exam-based qualifications, with achievement in GCSE Maths/English, Functional Skills Maths/English and Other Regulated qualifications increasing. Three-year overall achievement data shows that for 16-18-year olds achievement rates have improved from 68.21% (2014/15) to 84.14% (2016/17), which is now considerably above the national rate. Students aged 19+ show a smaller increase from 82% (2014/15) to 83.18% (2016/17), which is still below the national average. Apprenticeships have achieved consistently good results over the last three years outperforming the national rates.

The College HE Strategy has been thoroughly revised in light of the Leeds City Region Higher Level Skills Plan and consultation with the Local Authority, employers and other providers to establish clear technical and vocational progression routes from Further to Higher Education programmes, where there are identified skills gaps. The offer has moved from traditional BA courses to a wider range of Higher Nationals and Higher-Level Apprenticeships.

Student outcomes are high, with an overall achievement rate of 87%. The College was successfully awarded a TEF Silver Award, and the College's recent HEFCE Annual Provider Review states that the College fully meets the requirements for Quality and Standards

Class and group sizes are low (average 2016/17 of 14; target for 2017/18 of 15)

The College's Financial Position

Overview

The College's balance sheet has been relatively weak for a number of years, due to high levels of long-term debt and minimal cash reserves. Financial health has also been borderline satisfactory/inadequate for several years.

At the same time, the College has worked hard to contain reductions in income and has been able to generate positive cash inflows from operations and a strong EBITDA, which has helped to moderate an otherwise inadequate financial health rating to satisfactory.

A decline in the operating performance for 2016-17 has contributed to the College's selfassessment of financial health as inadequate. Further reductions in income coupled with higher costs has triggered a significant worsening of the operating financial performance for 2017-18 and resulted in a substantial forecast shortfall in working capital by the end of 2017.

During the first half of 2017, the College has worked on a full application for Restructuring Facility (RF) funding, culminating in a request for substantial RF grant in August 2017, including working capital support. Since the ESFA notified the College that it was not eligible to access RF as the Area Review recommendation was for the college to remain as a stand-alone institution, the College has lodged a request for substantial Exceptional Financial Support.

Financial Management and Control

The College has a detailed financial plan and budget and has devoted considerable time and effort to a full Restructuring Fund application which was until recently assumed to underpin a long-term recovery plan built on growth. Since notification regarding the College's current ineligibility for RF, the Finance Director has moved quickly to revise 2017-18 budgets.

The College has used benchmarking data to assess its financial performance, but has given insufficient attention to the area review financial indicators, all of which it currently fails. Rapid movement to bring performance in line with these indicators should be a high priority, whilst it is recognised that the high borrowing costs may prove more difficult to address in the short term.

There appears to be scope to use the curriculum planning process much more effectively to drive up curriculum efficiency and address small average class sizes.

The Finance Director is a fully qualified accountant with many years of FE experience. She is well briefed on the financial position and is able to respond quickly to questions and requests for information.

The Finance Director is supported by a small team which includes a Financial Controller (qualified Accounting Technician) and a Finance Analyst (part-qualified CIMA).

Whilst the Finance Director is confident in the skills and capacity of the team, the College should monitor workloads and priorities during the coming months to ensure there is sufficient capacity to drive forward the financial recovery plan and remain on top of cashflow management.

Risk Management

The College has a well-established risk management reporting process which is coordinated by the Director of MIS, IT and Risk. The key risk report is reviewed three times a year by the Corporation, this focuses on a narrower range sixteen of the most critical risks out of fifty strategic risks in total.

The College has given consideration to its risk appetite and identified three levels: low, medium and high.

Given the College's high levels of debt, low cash reserves and inadequate financial health, the College should review aspects of its risk appetite to reflect actions necessary to reduce the risk of insolvency.

The most up to date summary of key risks identifies failure to operate within the approved budget and failure to comply with loan covenants as red risks. Failure to manage cash flow within agreed bank/local authority facilities is rated amber.

The College needs to consider whether the frequency of review and updating of the risk register is sufficient.

Conclusions

Kirklees College has good student outcomes and good processes for monitoring and evaluating the quality of provision and the student experience. Standards on apprenticeship programmes are good and the levels of performance for both overall and timely achievements are well above the national rates. The new Vice Principal and Director of Business Development have added real impetus and energy to the continuing improvement of the College offer and outcomes.

The College has achieved a substantial transformation and improvement of its estate in Huddersfield, thanks to capital investment approaching £100m. Transformation of the Dewsbury estate is currently underway, providing for a major upgrade in facilities whilst also rationalising and removing substantial overcapacity.

These positive achievements have been put at risk by the College's lack of focus on curriculum efficiency and the potential for insolvency arising from its weak working capital position, high levels of debt and declining operating performance. Having built its strategy on growth-led recovery underpinned by an expectation of substantial Restructuring Fund grants, the College now finds itself heading for a cash shortfall and a requirement for substantial Exceptional Financial Support.

This raises concerns about the effectiveness of Governor oversight of finance and risk and the capacity of the Corporation and the Executive Team to put in place the necessary actions to deliver the improvements in the financial position which is now imperative. This in turn raises questions about the College's sustainability as a standalone institution.

Significant improvements in the governance and leadership of the College are now urgently required, which demonstrate evidence of action to improve financial performance and give greater confidence that a standalone solution for Kirklees College remains a realistic prospect.

Recommendations

- 1. The Corporation should move quickly and decisively to strengthen the effectiveness of financial oversight by Governors and ensure that the Board has the skills, confidence and capacity to drive forward the College's financial recovery.
- 2. The College should develop a robust and comprehensive financial recovery plan by January 2018 that focusses on timely actions to address the operating deficit in-year and stem the rapid decline in cash. This should include early action to achieve substantial savings in management and other pay costs.
- 3. As part of its financial recovery plan, the College should revisit key components of its growth strategy, particularly in respect of the risks and cashflow implications of current growth targets for Apprenticeships.
- 4. The College should improve low staff utilisation and curriculum efficiency, in order, by 2018/19 (or sooner) to address low average class sizes and bring pay costs as a percentage of turnover below 65%.
- 5. In order to address the substantial shortfall in working capital from January 2018, the College should progress dialogue with the ESFA/Transaction Unit regarding its requirements for Exceptional Financial Support as a matter of high priority.
- Provided that the College demonstrate sufficient evidence of improvement in leadership, governance and financial recovery, consideration should be given to the revision of the College's current Area Review recommendation, including a potential Fresh Start solution.

The Commissioner team will consider progress against these recommendations at a stocktake assessment at the end of January 2018. If insufficient progress has been made, the need for structural change will need to be considered.

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