Department for Education

FE Commissioner Intervention Assessment Summary report: West Nottinghamshire College

August 2018

Contents

FE Commissioner Intervention Assessment Summary Report

Name and Address of College	**West Nottinghamshire College** **Derby Road** **Mansfield** **Nottinghamshire** **NG18 5BH**
Assessment undertaken by:	**Richard Atkins** **Ioan Morgan** **Andrew Tyley**
Chair of the College	**Nevil Croston**
Principal / Chief Executive of the College	**Dame Asha Khemka DBE DL**
Date of Assessment	**30-31st August 2018**

Background to FE Commissioner Intervention Assessment

West Nottinghamshire College is a large general further education (GFE) college with approximately 25,000 full and part-time students studying programmes from pre-GCSE to university level. Locally, it serves the areas of Mansfield and Ashfield which include some significant levels of deprivation. Its apprenticeship delivery has national reach.

The college has been subject to Education and Skills Funding Agency (ESFA) early intervention since June 2017, due to weak satisfactory financial health.

In response to a potentially significant financial shortfall identified by the college and the ESFA in January 2018, the college put together a recovery plan involving the sale of a minority stake in their subsidiary company, BKSB, to avoid a shortfall in working capital and finance the upfront costs of a substantial staff restructure. The failure to complete the partial sale of BKSB in July 2018 resulted in the request to ESFA for short-term exceptional financial support (EFS) of £2.1m for the period July to October 2018.

In accordance with the expectations set out in *FE College Intervention and Exceptional Financial Support* (October 2015), the college was referred to the Further Education Commissioner for an independent evaluation of its ability to make the required changes and improvements to secure its financial recovery.

- The FE Commissioner's report is intended to advise the Minister and the Chief Executive of the Funding Agency on:
    a. The capacity and capability of West Nottinghamshire College leadership and governance to implement financial recovery within an agreed timeframe
    b. Any action that should be taken by the Minister and/or the Chief Executive of the Funding Agency 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.

Overview of the College

West Nottinghamshire College is a large GFE college with its main campus based in Mansfield in addition to several smaller sites. The college offers a broad curriculum delivering courses in most curriculum areas (other than land-based) from pre-GCSE to higher education. The college's apprenticeship provision has national reach and is substantial, although the majority has until recently been delivered by sub-contractors.

The West Nottinghamshire College group includes a range of subsidiary companies including BKSB Limited; Vision Apprentices Limited; Vision Business Support Services Limited; Vision Workforce Skills Limited; Safety Plus Training and Consultancy Limited; and Safety Plus Construction Limited. The group accounts reflect the consolidated financial performance of the college and its subsidiary companies.

The Derby/Derbyshire/Nottingham/Nottinghamshire (D2N2) Area Review concluded in March 2017. The recommendation for West Nottinghamshire College was to continue as stand-alone.

Leadership and Governance

Role, Composition and Operation of the Board

The board currently has sixteen members including the principal/CEO and is clerked by an experienced and legally qualified person. The board currently lacks expertise in finance, audit and accounting and needs to refresh the expertise in FE, curriculum and quality, especially apprenticeships. The college is currently recruiting in these deficit areas.

The monitoring, scrutiny and challenge offered by the board to the executive and its approach to managing risk are called into question, as the college has had to request EFS during the summer of 2018, as it has run out of cash.

A plan to sell a share in a successful college business to an investor was the only strategy the board had to avoid financial instability and when this plan failed there was no contingency in place.

The board has failed to satisfactorily oversee the senior post holder succession planning and the loss of a long serving FD has proved a serious blow for the college despite that individual serving a long notice period.

The governors oversaw a major downsizing exercise in staffing, but this work is not yet complete as the college will need further business adjustment to face its financial challenges.

The board’s oversight and challenge around the crucial change from subcontracting of apprenticeship provision to direct delivery within the schools of learning in line with national policy has been lacking and has had a damaging effect on the college.

The college needs to more effectively performance manage its executive team. The lack of oversight has led to corporate failure. The college is now faced with paying back the EFS and the bankers for the college may now change their attitude to the college’s debts.

The chair and other board members need to reflect on their role and responsibilities for the college's current exposure as the FE insolvency regime comes into play in April 2019.

Leadership and Senior Management team

The college has been led by the current principal/CEO since 2006. The college has benefited from the principal's national and international reputation and the college notably moved away from the sector norm when it embarked on a subcontractor model for apprenticeship delivery and offered national provision. National policy has moved away from subcontracting to direct delivery and the sector has been given lengthy and clear notice of this change. However, the governors and executive have been slow to implement the change and have not adequately prepared the schools of learning to implement the new strategy.

The senior team has undergone significant and negatively impactful changes in recent months with the loss of the long standing FD and the rapid departure of his replacement, together with the departure of the director of apprenticeships. This has meant that the deputy principal has assumed responsibility for areas of unfamiliar work: he now line manages a newly appointed apprenticeships manager. A senior team member has been absent through long term sickness and this has caused further disruption. The experienced, but very new, interim FD needs to have a direct report as a senior post holder to the board immediately, as the college is in financial crisis.

Below the senior team in the college structure are the heads of schools of learning and other functional managers. This group needs intensive training and support not only in the business of the college but in generic management skills, cultural change techniques and implementation techniques, including project planning. It is this group of middle managers in the college that will implement the move towards direct delivery of apprenticeships and who will have to manage the right sizing of the college and its curriculum implications.

The curriculum and quality aspects of the college, other than apprenticeships and maths & English, cause no major concerns and the college was awarded an overall good in its Ofsted inspection of 2017.

Curriculum and Quality Improvement

Curriculum overview

The college offers a wide range of vocational courses and in addition, A levels and GCSE maths and English are in place. It is vocationally orientated and offers good quality HE provision in a competitive market place.

Learners needing extra support are very well looked after by this college. Learners give regular feedback on the college which indicates a good level of satisfaction.

Ofsted inspections

The inspection of February 2017 described the college as good overall, however, study programmes were graded requires improvement (RI). Key areas for improvement were maths and English and study programmes. The inspection report also noted that vocational level 3 learners do not reach their capability and that too much teaching, learning and assessment is not good enough.

The college is a very good provider for learners needing greater support levels.

Quality improvement

A comprehensive self-assessment report (SAR) self-assessment report is in place with updates with an associated quality improvement plan (QIP). The latest SAR was yet to confirm gradings for apprenticeships and leadership and management at the time of the visit.

Improved monitoring, accountability and review systems are now in place to drive progression for learners. Learning walks are being used to focus on particular areas of weakness in teaching, highlighted by the Ofsted report.

Arguably, the college's biggest quality challenge is to improve maths and English, especially higher grade attainment. Achievements in the college are showing a three year rising trend with the exception of level three adult provision which has shown a significant drop.

The director of quality and performance is effectively driving positive change.

Curriculum planning

There is evidence of costed curriculum planning related to labour market intelligence (LMI), with a review process for course additions and deletions and a fixed calendar for this planning.

Attendance

Attendance has been fairly consistent over the last three years, with 16-18 year olds averaging 89.7% over the period.

Outcomes

- The point score for academic subjects was below national average and this includes
  A levels.
- Technical levels were at the national average.
- Level 3 vocational learners made less than expected progress.
- The overall 16-18 achievement rate was 82.3% in 16/17 and this represents +5% points on 15/16.
- Achievement rates for all ages are rising.
- Apprenticeship achievement rates declined by 4.9% between 15/16 and 16/17.
- In 17/18 retention for 16-18 year olds GFE learners is 95% and is 98% for academic programmes.

Teaching, learning and assessment

The college does not grade lessons. It uses learning walks for both individuals and groups. The schedule of walks is set out and monitored in ProObserve. Poorly performing teachers are supported, but then leave the college if they cannot improve.

Student views

A comprehensive survey system is used and the feedback in most key aspects is positive with 94% of students thinking the college is overall good.

Effectiveness of the college to manage and improve quality

The college has, and is, addressing the key areas for improvement identified by Ofsted. The curriculum and quality leaders and teams have the capability to further improve the college in terms of learner outcomes and progression, but major challenges still exist to improve apprenticeships and maths and English.

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Finance and Audit

Analysis of income and expenditure

The most significant feature of the college's finances is its high level of apprenticeships delivery, which in 2017-18 was budgeted to account for 38% of college income. The provisional out-turn for apprenticeships is a significant shortfall. Performance on most other income lines (other than HE fees and full cost sales) has been broadly on track.

Despite the substantial shortfall in income, pay costs for 2017-18 were only marginally down on 2016-17. Whilst the college has implemented a major staff restructure over summer 2018, the impact on 2017-18 has been more than offset by the one-off costs of staff restructuring. The full year impact is a net reduction in pay costs, which will make a significant contribution to reducing the operating deficit in 2018-19.

The other most significant feature of the college's finances has been its extensive use of sub-contracting. The college has historically benefited from a large contribution from sub-contracting, which is set to decline in 2018-19 and possibly less again in 2019-20 as devolution of adult education budget (AEB) funding is implemented.

The overall operating losses for 2016-17 and 2017-18 have contributed to the college's significant working capital challenges. Whilst the 2018-19 budget targets an operating surplus, it is well below the 3-5% FE Commissioner benchmark. Excluding the forecast profits from subsidiary operations, the core college performance still represents a budgeted operating loss.

Underlying financial performance

West Nottinghamshire College has achieved its significant financial scale thanks partly to an exceptionally high volume of subcontracting, which has typically accounted for over one third of gross turnover.

The college's highly ambitious strategy for the replacement of the majority of its sub-contracted apprenticeships with direct delivery has fallen significantly short of target, resulting in an unplanned decline in income and contributing to a substantial operating loss in 2017-18.

The steady decline in cash reserves in recent years contributed to weak satisfactory financial health scores in 2015-16 and 2016-17 and meant there was insufficient headroom to cover the cash impact of the 2017-18 operating loss. As a consequence, financial health for 2017-18 is inadequate and the college is reliant on short term EFS.

Whilst the college has already implemented a substantial staff re-structuring plan to reduce costs, further work on the business recovery plan is ongoing to confirm the route back to sound financial health and timetable for repayment of EFS.

Whilst the 2018-19 budget plan reflects important steps forward to address the operating deficit and high pay cost percentage, the college has much more work to do in order to rebuild its long term sustainability.

Performance against funding allocations

Over the past two years, the college has generally performed well against its 16-18 learner funding contract. As such the value of allocated 16-18 funding has remained stable.

Performance against the college's annual AEB has generally been on target, thanks largely to the role of sub-contractors who deliver the majority of this provision. A sizeable element of sub-contracted delivery is out of region and is potentially at risk as devolution of AEB is rolled out from 2019-20.

The financial impact of apprenticeship reforms has been particularly significant for West Nottinghamshire College. The budget plan to treble direct apprenticeship delivery from 2016-17 to 2017-18 was a fundamental risk which clearly materialised with forecast direct delivery for 2017-18 almost 40% short of the budget target.

Several of the college's sub-contracts have been subject to assurance audits by ESFA in recent years. The college has disputed a potentially significant recovery of funds, which if upheld could further worsen the college's working capital position.

Cashflow / liquidity

The college has been operating with low working capital for several years. This is a significant risk that has not been sufficiently mitigated in the college's risk register or its ambitious strategy for apprenticeships.

By January 2018 it was becoming clear to the college and ESFA that financial performance was likely to fall well short of the approved budget and that working capital was coming under further pressure.

In summer 2018 the college implemented a substantial staff restructuring programme to address its high pay cost percentage and the significant shortfall in turnover. This necessary action inevitably incurred up-front costs which were due to be financed by a partial sale of a subsidiary company, which fell through just before the financial year-end. The college approached ESFA in mid-July 2018 seeking short-notice EFS.

The draft cashflow forecast for 2018-19 underlines the weakness of the college's liquidity. Further work is essential to stress-test the cashflow forecast over the period 2018-20 as part of the recovery plan. This needs to provide assurance to governors and external stakeholders regarding the college's capacity to repay EFS and avoid the risk of a further cashflow crisis, particularly as the insolvency regime comes into force.

Staff costs

The calculation of the college's pay cost percentage is complicated by the significant volume of sub-contracting and the complex relationship with group subsidiaries. Excluding sub-contract income, pay costs as a percentage of turnover in 2016-17 were exceptionally high at 87%. The substantial staff restructure completed in 2018 has gone a considerable way to address this. In light of the further decline in turnover in 2018-19, the college may need to consider further staff savings of between 3-5% to achieve the 65% FE Commissioner benchmark.

Budget setting arrangements

At the time of the visit, the college was yet to submit its financial plan for 2018-20 to ESFA and there was considerable work required to finalise the recovery plan and populate the financial plan template.

Whilst much good work has been done on the detailed budgets for 2018-19, the draft financial plan does not extend beyond 2018-19 nor does it address adequately the critical weaknesses in the college's balance sheet.

In light of the significant underperformance against budget targets for both 2016-17 and 2017-18, the interim finance director should be given sufficient time to undertake a comprehensive review of 2018-19 and 2019-20 that is subject to appropriate challenge and review by governors by the end of September 2018. Even at this point, there are likely to be a number of ongoing financial recovery work-strands that will require following through over at least the next six months. A financial recovery task and finish group including co-opted finance professionals from outside the college should be established to support the senior leadership team and provide enhanced review and challenge.

Financial (budgetary) control, management and record keeping

The college has significantly underperformed against budget targets in 2016-17 and 2017-18. The college has failed to take full account of the implications of this on its capacity to invest in capital assets and its steadily eroding cash balances.

The college did not take sufficient in-year action in 2017-18 to make savings to help offset the substantial shortfall in apprenticeships income, relying instead on partial disposal of a subsidiary company to provide a short-term injection of cash.

Insufficient attention has been given by governors and leaders to key financial performance indicators, notably the high pay cost percentage, low cash days in hand and compliance with bank loan covenants.

Financial reporting

At the time of the visit, the college was yet to sign-off its 2016-17 financial statements and submit the ESFA finance record, this should be rectified as soon as possible.

The college has also missed the 31 July 2018 deadline for submission of its budget and financial plan for 2018-20 to ESFA. Given the need to demonstrate a credible business recovery plan and a timetable for the repayment of exceptional financial support, finalisation of the financial plan by the end of September 2018 should be given top priority.

It is important that the draft financial plan is shared and fully tested with key budget holders, the senior leadership team and governors, to ensure there is buy-in from across the college and confidence in key targets for income, pay and non-pay expenditures.

Effectiveness of the financial recovery plan

The draft business recovery plan was very much work in progress at the time of the intervention visit. A number of critical assumptions require further refinement and testing, not least the options and plans for any asset disposals. Further actions appear necessary to achieve a sustainable forward plan that demonstrates a convincing strategy for restoring working capital, repaying short term EFS and securing the long-term sustainability of the college. There also needs to be a much clearer understanding of the bank's position on future access to revolving capital funds (RCF) and any changes to the terms of the long term loan.

Management of financial risk

The college has in place a risk register which is regularly reviewed by the audit committee. The June 2018 updated risk register for 2017-18 included seven risks RAG rated as red out of seventeen in total. In three cases the level of assurance was described as “not adequate”.

Whilst the draft risk register for 2018-19 includes a risk regarding financial stability (RAG rated red), the register does not explicitly refer to the risk of insufficient working capital or the failure to repay EFS. There is a reference to compliance with loan covenants linked to financial stability, where the level of assurance is described as adequate despite the apparent covenant breach.

Given the substantial operating losses for 2017-18, the current dependency on EFS and the decline in financial health to inadequate, the audit committee should review the effectiveness of its oversight of risk and ensure there is a much more explicit focus on solvency.

Estates and Capital Plans

Use and maximisation of college estates and assets

The college estate comprises 41,295 m2 of accommodation on eight sites, of which over 80% is in category A or B condition. This reflects substantial capital investment by the college over a number of years, much of it from its own reserves. The college completed an impressive new HE centre in 2016-17 as part of its ambition to grow HE provision.

The college concluded the disposal of a small site in Ashfield during 2017-18, with potential for a further site disposal in the short to medium term, though the likely sale value is of relatively small order.

Property management and investment

The college has minimal short-term requirements for capital investment thanks to the general high standard of its estate. Because of the tight working capital position there is no provision for any capital investment in 2018-19. Whilst this is a pragmatic decision that reflects the short term need to protect cash, it is clearly not sustainable into the medium term.

Conclusions

West Nottinghamshire College has experienced a serious corporate failure in the summer of 2018. During several years of adopting growth strategies focussed on apprenticeships, adult learning and sub-contracting, the college's financial reserves depleted until it entirely ran out of cash in July 2018. The board and principal/CEO have overseen a serious business failure which will impact on the whole college. There needs to be an urgent review that ensures that those with ultimate responsibilities are held to account. Given the profile and reputation of both the college and its principal/CEO, this failure will inevitably attract considerable attention.

As a matter of urgency the college should develop a robust and reliable recovery plan so as to ensure that learners, employers and the wider community in Mansfield and Ashfield enjoy the benefits of a sound, financially sustainable, FE college.

Ofsted judged the quality of provision at this college to be good in 2017, and the evidence that the FE Commissioner team saw suggests that this has been maintained and that approaches to quality assurance and improvement are very good. Learners clearly value the opportunities the college offers them. Those who need extra support are very well looked after and developed. Level one and two learners make good and appropriate progress. The college is valued by its community and stakeholders and strives to meet their needs and raise aspirations.

Recommendations

1. In light of the corporate failure of the college, the corporation should review the accountability of the principal/CEO and accounting officer and her capacity to deliver a timely and successful recovery plan.

2. The corporation should take urgent steps to improve the effectiveness of governance and to review the suitability of the chair and vice chair and their ability to successfully guide the college through its current corporate crisis. We recommend the urgent recruitment of one or more governors with financial credentials and the immediate designation of the interim finance director as a senior post holder.

3. In the short term, the corporation should establish a financial recovery task and finish group to include co-opted finance professionals with experience of financial recovery.

4. The college should progress work to finalise its business recovery plan and two year financial plan by the end of September 2018 to address the decline to inadequate financial health and drive pay costs as a percentage of income down to 65% or less. The business recovery plan should demonstrate a sustainable future for a college which serves the Mansfield area and confirm the college's future strategy for its subsidiary company operations.

5. The interim finance director should urgently complete further stress testing of the cashflow forecast for 2018-19 and 2019-20 to ensure this provides a reliable basis for ongoing dialogue with its bank and ESFA regarding its future requirement for Revolving Credit Facilities and the timetable for repayment of Exceptional Financial Support.

6. The interim finance director should work closely with the college's external auditors to resolve the remaining issues preventing sign-off of the 2016-17 financial statements and confirm the implications of the apparent loan covenant breach with both the external auditors and the bank.

7. The ESFA should be appointed as observers to corporation meetings.

8. The FE Commissioner should undertake a stocktake visit in October 2018 to review the completed business recovery plan and updated cashflow forecast.

9. The FE Commissioner recommends that the college should be placed in administered status in accordance with the November 2017 guidance. This will involve enhanced monitoring and review by the ESFA and FE Commissioner including the expectation that the college keeps the FE Commissioner and ESFA informed of major upcoming decisions.

Annex A - Information reviewed

Self-assessment Report 2016-17

WNC QIP 2017-18

Performance Report 2017-18 Final

Structure Chart and Responsibilities

West Nottinghamshire College Ofsted Report

Curriculum Plan Extract 17 August 2018

Schools Budgets 2018-19 24 August 2018

Management Accounts June 2018 Final

2017-18 Out-turn Commentary Final 16 August 2018 plus Appendices

WNC Members’ Report and Financial Statements 2016-17 Draft 03.08

West Nottinghamshire College Group Business Recovery Plan 2018-19

WNC Budgeted Income and Expenditure Account Year Ended 31 July 2019

WNC Cashflow Forecast (College only) Year Ended 31 July 2019

Timetable for Revolving Credit Facility Rollover and Facility Letter 13 April 2016

Letter from ESFA 29 May 2018 re Sub-contracted Railway Engineering – Trackwork Ltd

Loan Facility Amendment Letter 15 May 2017

Analysis of Staff Establishment by Department (excluding vacant posts)

Breakdown of Pay Budget 2018-19

Class Size Review v2.1

Annex B - Interviewees

Chair of Governors

Principal and Chief Executive

Interim Director of Finance

Director of Quality and Performance

Deputy Principal

Clerk to the Corporation

Vice Principal: Communications,
Engagement and Student Experience

Managing Director of BKSB

Head of Apprenticeships and Development

Department for Education

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