Department for Education

FE Commissioner Intervention Summary: National College For Advanced Transport & Infrastructure

January 2020

Contents

FE Commissioner Intervention Summary

National College Advanced Transport & Infrastructure

Name and address of college	**National College Advanced Transport & Infrastructure (Birmingham & Doncaster)**
Assessment undertaken by	**Steve Hutchinson - Deputy FE Commissioner** **Anna Fitch - FE Adviser** **Tracy Kitchingman - FE Adviser**
Chair of the college	**Alison Munro**
Principal / Chief Executive of the college	**Clair Mowbray**
Clerk to the Corporation	**Sally Brook Shanahan**
Date of assessment	**14 to 15 January 2020**

Background to FE Commissioner Intervention Assessment

The National College for Advanced Transport and Infrastructure (NCATI) was referred for an FE Commissioner-led (FEC) assessment following the issue of a Notice to Improve by the Education and Skills Funding Agency (ESFA) on 13 January 2020 to report on the college's inadequate financial health grade.

The FEC's report is intended to advise the Minister and the Chief Executive of the ESFA on:

1. The capacity and capability of the college's leadership and governance to secure a sustained financial recovery within an acceptable timetable.

2. Any actions that should be taken by NCATI to deliver a sustainable financial recovery within an acceptable timetable; and

3. How and when progress should be monitored and reviewed taking into account the ESFA's regular monitoring arrangements.

At the time of the visit the college had a provisional rating of Inadequate from a recent Ofsted inspection and the college were challenging the inspection grade, both through the Ofsted complaints process and by seeking a Judicial Review through the courts. Therefore, the FEC's assessment did not focus on the quality of provision.

Overview of the college

The college was established in 2015 by a Statutory Instrument initially to oversee the capital construction project. The college opened to learners in September 2017, specialising in providing the technical skills required to build, operate and manage HS2 and other rail projects. The college is one of 4 National colleges set up at that time to meet a gap in higher level technical skills that are critical to UK economic growth. The college operates from two sites: one in Birmingham and one in Doncaster.

The intake of learners to the college has been highly dependent on the roll out of the HS2 project, which was expected to create up to 40,000 new jobs and require around 2,000 apprentices on an ongoing basis. These numbers of learners have not materialised and the college has been unable to recruit learners from other sources. This has created an ongoing shortfall in the college's finances. The college has recently changed its name and started to widen its scope to address wider market opportunities, and ongoing delays to the HS2 project. To date, the gap in operating costs has been met by a combination of Department for Education (DfE) and Department for Transport (DfT) loans and grant funding, but the learner intake for the current year (2019/20) has again been much lower than anticipated, resulting in the ESFA issuing a formal Notice to Improve.

Leadership and Governance

Role, Composition and Operation of the Board

There are currently 10 members on the board, including the chief executive, a designated member from HS2 Ltd, the chair of the Industry Advisory Board and a staff member. There is also a current vacancy for a student member. The board has a determination of between 8 to 15 members. At this stage the board are not seeking to increase their size to the maximum determination number.

The board operates 3 committees which are:

- Audit – 4 board members and a co-opted member
- Search, Governance & Remuneration – 5 board members and a co-opted member

  Quality Committee – 5 board members one of whom is a staff member

In addition, there is a budget task and finish group. This group meets three times during the annual budget planning cycle in order to provide a more detailed scrutiny on key budget assumptions as they are being developed by the senior team. There is also an Industry Advisory Board largely made up of employer representatives.

There is a good range of experience amongst the board members, including senior industry leaders, finance expertise, and HR. There are three independent members with extensive curriculum and quality expertise. One of these members is the chair of the newly formed quality committee, which replaced a task and finish group. The board are supported by an experienced head of governance and legal who has many years clerking experience and is a qualified solicitor.

Governors were asked if there was a need for a finance committee to be formed to replace the existing task and finish group, but were of a view that is essential that all of the board members were fully involved in scrutinising the college finances. At present the board are meeting monthly due to the seriousness of the current financial situation, but these are not formally scheduled meetings. Minutes of Board meetings have not been published and placed on the College's website since December 2018. A significant amount of time is given in each of the meetings to discuss finances and the associated implications. The board received independent expert insolvency advice at its December 2019 meeting from two senior individuals at the legal firm Eversheds. Subsequent to the FEC team's visit the FEC team received clarification from the college that the board are only scheduled to meet termly. In the current financial circumstances, there should be frequent scheduled meetings of governors to scrutinise the finances. Therefore, the board should urgently form a finance committee for this purpose.

Board members that the FEC team spoke with were fully aware of the seriousness of the financial position the college finds itself in. They accepted that there needed to be change, and that they must act swiftly. However, the board also balance this against a strong view that the original intention behind setting up the college still remains. They have undertaken research that shows there will be a significant need in future years to meet the skills requirements on major transport infrastructure projects.

Whilst the scope of this visit did not include curriculum and quality, the FEC team did question the board members on their decision to agree to significant legal costs to challenge the Ofsted outcome. Given that the college is in receipt of ongoing emergency funding from DfE this is clearly a very difficult and sensitive issue.

A KPI dashboard is provided to the board every month. This covers a range of indicators on learner numbers, learner experience, curriculum performance, finance and HR. However, the copy the FEC team were provided with at the visit had target numbers for full time learners that were different to the approved budget target. In addition, the actual numbers in November on both learner numbers and finance measures did not agree with the management accounts for the same period. There were also inconsistencies in the numbers provided in the curriculum plan summary that the FEC team were given. Whilst none of these differences were material in themselves, the inconsistency does not provide confidence in the numbers being reviewed. It is essential that the board have accurate and consistent management information to ensure decisions are properly informed. The range and presentation of the KPIs could also be improved.

Leadership and Senior Management team

The senior executive team consists of the chief executive and the commercial finance director. The wider senior management team has a further 9 posts, which report into one of the two executive posts, and the post of head of governance and legal. There are a total of 12 senior management roles, according to the 2019 finance record these alone have a gross cost of around 72% of income; an exceptionally high overhead cost to carry. Whilst the executive team have made some cost reductions, there is a reluctance by the board to cut costs deeply. The management team are of the view that the existing staff cost base is required to meet the needs of the business should the learner numbers start to rapidly increase. However, this has been the case for some time now and has to be balanced against the very poor financial position and a future reliance on emergency funding to continue operations. It is the FEC team's view that management can and should do more to minimise the ongoing financial losses.

The curriculum plan also demonstrates expensive staff overhead costs. The current year teaching pay overhead cost is nearly 60% of the total teaching cost for the year, which indicates that the actual hours teachers spend directly in front of students is a very low proportion of their time. However, this figure varies considerably from the amount shown in the management accounts. The plan the FEC team were provided with at the visit showed an average hourly teaching cost of £97. This is significantly higher than would be the expected norm in an FE college, and this hourly cost does not include the large amount of curriculum development time.

The development of a robust curriculum plan has been a recommendation on the two previous FEC visits. The copy of the plan the FEC team saw at the FEC team's visit did not reflect a usual FE college curriculum plan; it was more of a financial summary of the courses. It lacked detail on resource allocation, and it was not possible to see how this linked into and informed the budget setting process. Managers stated that there was no specific curriculum plan prepared as part of the budget setting process. The college uses a funding spreadsheet to estimate income and then applies curriculum delivery hours to model percentage allocations for resources required. This approach does not provide a robust planning process to properly inform the budget. The internal audit service carried out a review on curriculum planning and made similar points and a recommendation.

There were small inconsistencies in some of the key numbers in the curriculum plan. In addition to the point noted above on curriculum development costs, the total income figure also did not reconcile, and learner numbers were different. As referred to earlier the KPI dashboard also contained small errors and inconsistencies on key numbers with other documents. The FEC team also noted differences on learner numbers in 2018/19 on different reports. It is essential that senior managers, governors and stakeholders can have confidence in numbers being provided. Whilst many of these differences were fairly small this does not instil confidence. The college need to improve the consistency and accuracy of information provided.

Accurate forecasting of learner numbers is important. This is an area that the management team have struggled with since opening the college in 2017. Learner numbers have consistently been over-estimated despite developing pipeline modelling techniques. Some elements of over-estimation are due to factors beyond the college's control, such as the unexpected announcement of the Oakervee review and inconsistent modelling by key stakeholders such as HS2. The college must improve its approach to forecasting learner numbers. Current year learner numbers will be significantly under target, impacting on current and future year targets in the college plan. These should be based on robust evidence and updated as soon as possible.

There appears to be an open, transparent and good working relationship with the board, who do provide challenge to the management team at a strategic level. The management team are working hard to manage the business. They do have a clear strategic view but translating this into reality is proving to be very difficult and is not helped by some of the information and data issues referred to above.

The college management have had some initial discussions with other HE providers as part of the range of future options discussed by the board. Aston University has expressed an interest in some form of strategic partnership, but not merger. Whilst there are likely to be some benefits to both organisations, this in itself will not resolve the financial sustainability issues facing the college.

Finance and Audit

Recent financial history and forecasts for coming years

Income has grown from 2017/18 to 2019/20 but has been significantly below target each year. The cost base for the college was established in the expectation that income would be much higher than it has actually been.

Financial performance 2018/19

The draft financial statements for 2018/19 show a significant operating deficit and underlying income for the year well below budget. Of the underlying income most was earned through apprenticeships, with some through advanced learner loans for an access to HE courses and HE. Other income included catering, events and by delivering full cost continuous professional development (CPD).

Taking the figures from the draft financial statements, the college had 66 staff, of which 16 were teaching staff, leaving 50 non-teaching staff members. The comparative figures in 2017/18 were 6 teaching and 41 non-teaching staff.
50 non-teaching staff appears to be a very high level of resource for a college with such low levels of delivery activity, although it is acknowledged that running two sites increases the staffing requirement. Senior leaders argue that the college must be ready to respond to an increase in demand if the result of the Oakervee review of HS2 is positive.

Financial forecast 2019/20 to 2020/21

The 2019/20 budget was set based on total apprentice numbers of 761 (576 new starts, 185 continuers) and other full-time learner numbers of 263 (221 new starts, 42 continuers). When the budget was set, governors and senior leaders were content that their pipeline of future learners would allow them to meet the budgeted targets.

Due largely to the uncertainty around the future of HS2, which has arisen since the budget was set, employers in the industry are reluctant to take on and train new staff, especially apprentices. Therefore, recruitment is significantly behind budget. At 31 December 2019, the college had 216 apprentices and 94 other full-time students. From the November 2019 finance report income is forecast to be significantly below budget, which is expected to be partially mitigated by cost reductions but still with a large shortfall.

Year to date (November 2019) pay costs are 20% underspent, and if this continues at the same rate to the end of the year, it will result in an underspend. Part of the underspend is forecast largely on a run rate basis, and therefore costs will need to be carefully controlled to ensure that the saving is crystallised. The non-pay underspend is also forecast to continue on a run rate basis, apart from professional fees.

A plan for 2020/21 has been produced by the college but in light of the 2018/19 outturn and the forecast for 2019/20, this is highly unlikely to be achievable, and will need to be reworked.

Financial control, management and record keeping

Management accounts are produced monthly and include key metrics, an income and expenditure account, a narrative, monthly and weekly cashflow forecasts and a balance sheet. These are a considerable improvement over the outsourced management accounts seen by the team in January 2019. However, the FEC team considers that at a time when the college's finances are in a precarious state, the management accounts should be more robust, and include more meaningful KPIs. The narrative is currently very descriptive and should be improved with the addition of key actions to be taken to mitigate variances and risks. The weekly cashflow should include an element of headroom to ensure that cash balances do not fall below an acceptable level.

Subsidiary company

Within the college group is a subsidiary company: The National College for High Speed Rail Limited. It employs all the non-teaching staff in the college, other than some members of SMT who are employed by the college group. The subsidiary company is not required to be a member of the Local Government Pension Scheme (LGPS), and therefore all employees only have access to a defined contribution pension scheme. This reduces the cost to the college of employing these staff and allows the staff to offer more flexible contracts to attract staff from industry.

Estates and Capital Plans

Use and maximisation of college estates and assets

When the college was first established, it was decided by government that it should have two sites: one in Birmingham of 5,711m^2 and another in Doncaster of 7,200m^2. Both sites are in excellent condition, with extensive resources. Both sites are also significantly under-utilised due to the shortfall in learner recruitment. Senior leaders estimate that the college has benefitted from equipment worth £10 million which has either been donated or lent to the college by employers. Governors and senior leaders are considering whether parts of both buildings should be sub-let to generate income for a period of time until learner recruitment increases.

Conclusions

The college is in a very challenging financial position and would be about to run out of cash if it were not for the DfE providing emergency funding. There is no credible plan in place to resolve this issue, and it is clear that the current business model operated by the college will not provide financial sustainability. Radical change is urgently required.

The board recognise the seriousness of the financial issues facing the college and accept the need for swift action, but there is no finance committee to provide more detailed scrutiny on the finances of the college, and this should be urgently addressed. They have discussed a range of options and have received professional advice on how to operate as a board whilst facing potential insolvency. Without a commitment of 12 months of continued emergency funding the board will not be able to sign off on their 2018/19 financial statements as a going concern.

The cost base of the college continues to be far too high for the level of income. The board are reluctant to reduce costs by any significant amount on the basis that they want to be ready to scale up operations quickly should learner numbers start to increase. It is the FEC team's opinion that the college management team should be much more proactive in reducing the cost base in order to minimise the future emergency funding requirements. The ability to accurately predict future learner numbers has been an ongoing issue for the college, with a continued over estimation of recruitment. Future projections should be updated.

The college have not in the FEC team's opinion addressed the recommendation in the previous two reports to develop a robust curriculum planning model that is an integral part of the budget planning process. This should be addressed. The version of the curriculum plan the FEC team saw on the FEC team's visit indicated an inefficient curriculum delivery model, largely due to the low learner numbers. It also contained key numbers that were inconsistent with other key management reports. There was a similar issue of consistency with the KPI dashboard. These differing numbers, (albeit often small variances) in various reports do not help in providing confidence in the information received.

Recommendations

1. Given the very weak financial position and the current uncertainty around going concern with no immediate plan for financial sustainability the college, the FEC should undertake a structure and prospects appraisal (SPA) of the college as soon as possible, with an aim to complete by end of May 2020.

2. The board should urgently form a finance committee to provide frequent and more detailed scrutiny of the college finances by March 2020.

3. The board should consult with the Department for Education regarding the likely costs and risks of the proposed legal action against Ofsted

4. The college must provide an updated robust forecast on learner numbers which are properly evidenced in order to provide appropriate levels of confidence, which should be shared with key stakeholders. This should be completed by March 2020.

5. The college must make improvements to ensure that management information is consistent and robust by March 2020.

6. The KPI dashboard must be urgently reviewed to reflect accurate targets and actual numbers and should be further developed to incorporate a comprehensive set of measures. This should be completed by March 2020 for the February dashboard.

7. Further work should be undertaken as a matter of urgency to minimise the current cost base of the college. A plan should be agreed by the March board meeting to be implemented as soon as possible thereafter.

8. The curriculum plan needs further significant improvement. It should directly link to staff resource allocation and include key efficiency measures. This should be completed by April 2020 for the 2020/21 year.

9. There is a need to further enhance the content and format of the management accounts, including cashflow, with a particular focus on key performance measures and the supporting commentary with key actions. Changes should be included commencing with the March 2020 accounts.

10. The college will be placed into supervised status. ESFA observers will attend college board meetings and other relevant college meetings with immediate effect.

11. The FEC team will undertake a stocktake visit at a time to be agreed

Annex A - Information reviewed

- Finance Record 2019
- Management accounts July 2019
- Management accounts November 2019
- Financial plan 2019-21
- Budget FY20-22
- Future options presentation
- Impact of FY20 recruitment presentation
- Organisation charts
- KPI dashboard – December 2019
- Board papers and minutes including audit committee and budget task & finish group (some items redacted)
- Student number and retention information
- DFE National College team briefing document
- Financial Notice to Improve letter
- Risk heat map – December 2019
- College curriculum plan – December 2019
- Internal audit reports

Annex B - Interviewees

Chair

Chief executive/Principal

Head of Governance & Legal

Commercial Finance Director

Head of Commercial Finance

Chair of Audit Committee/Board member

MIS Manager

Board members

Learner group – 6 students

Staff group – 7 staff

Head of HR

Department for Education

About this publication:

enquiries www.education.gov.uk/contactus
download www.gov.uk/government/publications

Reference: DfE-00046-2020

Follow us on Twitter: @educationgovuk

Like us on Facebook: facebook.com/educationgovuk