Department
for Education

FE Commissioner Intervention Summary: Hull College Group

November 2019

Update on progress since FEC intervention assessment

Since the recent FEC intervention assessment, membership of both the college corporation and executive team has undergone significant change. Following an independent review of governance by a national leader of governance (NLG), rapid progress has been made in improving the effectiveness of the board's operating model, clerking arrangements and membership, including the appointment of several new governors with strong financial skills. The recently appointed interim CEO has already made a positive impact, though the leadership team remains largely interim. Support from a national leader of further education (NLFE) is being provided.

During the lockdown resulting from the COVID-19 pandemic, the college worked hard to ensure that as many students as possible were engaged in learning, with tracking of vulnerable students having been particularly effective. Initiatives to improve the quality of teaching and learning are ongoing, alongside a staff restructuring exercise which aims to achieve a flatter, lower-cost and more student-centred management structure.

The college's closing financial performance in 2019/20 looks set to exceed budget targets, though much of this is attributable to one-off factors and high volumes of sub-contracting. Although this has helped to strengthen cash reserves, the college's underlying financial performance remains an area for improvement. The college has now completed a benchmarking exercise and space utilisation survey which will inform a comprehensive update of the estate strategy due for completion later in 2020. This will identify future investment plans, enhance the student experience, facilitate changes in delivery models, address overcapacity and reduce the college's high premises costs.

Given the recent history of declining student numbers and the turbulent start to the 2019/20 academic year, positive enrolments and a successful start to the new academic year are critical milestones towards the college's stability and long-term sustainability.

Contents

FE Commissioner Intervention Assessment Report: Hull College Group

Name and address of college	Hull College Group
Assessment undertaken by	Richard Atkins - FE Commissioner Andrew Tyley - Deputy FE Commissioner Mandy Exley - FE Adviser Jo Nowacki - FE Adviser
Chair of the college	Dafydd Williams
Principal / Chief Executive of the college (Acting)	Darryn Hedges
Clerk to the Corporation	Lottie Thompson
Date of assessment	30 to 31 October and 26 November 2019

Background to FE Commissioner Intervention Assessment

The FE Commissioner's team undertook its first intervention assessment visit to Hull College Group in November 2016. The intervention took place because the Education & Skills Funding Agency (ESFA) issued a notice of concern due to an Inadequate rating for financial health (based on the 2016 to 2018 financial plan) and as a result of the college's request for exceptional financial support (EFS) in October 2016. In accordance with the expectations set out in 'FE College Financial Intervention and Exceptional Financial Support (October 2015)', the college was referred to the FE Commissioner (FEC) for an independent evaluation of its ability to make the required changes and improvements to secure its financial recovery. An FEC assessment report was published and sent to the college, along with a letter to the then chair from the Minister for Skills and Apprenticeships in January 2017.

Progress has been regularly monitored since the initial intervention and it was noted in March 2019 that the restructure of the senior leadership team (SLT) was complete, with all key postholders in place and signs of increasing momentum in quality improvement; coupled with greater institutional resilience. Work on the 2019/20 curriculum plan was well advanced and reflected a timely, rigorous and well-structured approach.

The college was broadly on track to achieve its revised budget targets for 2018/19 and there appeared to be considerable scope to set a lower operating deficit budget in 2019/20 than was forecast in the 5 year plan. Despite this, the college's medium-term cashflow forecasts indicated potentially significant in-year cash shortfalls from 2021. The stocktake underlined the need to test the robustness of the cashflow forecast; review growth targets for apprenticeships; and reduce the substantial operating deficits planned for 2019/20 and 2020/21. Governors were recommended to take steps to reinforce the independence of the interim clerk and monitor the risk of a potentially significant shortfall in enrolments.

The focus of the June 2019 visit was to review progress against the 5 recommendations made at the March stocktake. The Ofsted inspection published in May 2019 judged overall effectiveness as Requires Improvement, with a grade of Good for leadership and management and Outstanding for 14 to 16 learners. The FEC team recommended the need to strengthen the financial skills and capacity of the board; further scope to reduce the budget deficit for 2019/20; finalisation of a medium-term cashflow forecast; external benchmarking of financial performance; and completion of a space utilisation survey to inform an updated property strategy.

The FEC team returned in October 2019 following a whistleblowing complaint and the recent departure of the deputy principal/chief executive.

The purpose of this assessment is to report on the progress the college has made since it was first placed in formal intervention and to assess the capacity and capability of leadership and governance at the college. The assessment was conducted over 2 stages; with visits in October and November 2019, with the second visit timed to take account of the board's response to an independent investigation initial report.

Overview of the college

Hull College Group is a medium-sized FE college, with its main campus in Hull city centre. The college also operates a number of small satellite centres in Hull, as well as Goole College; a small vocational campus 31 miles to the west.

The college offers a range of vocational programmes at all levels, including a substantial Higher Education (HE) offer, and operates a successful 14 to 16 centre.

The college transferred operation and ownership of Harrogate College to Leeds City College (part of the 'Luminate' group) from 1 August 2019. This was part of the fresh start/recovery plan that commenced in March 2018 with a substantial package of restructuring funds, of which an element was provided as EFS.

Since the original intervention in 2016/17, the college has had a change of leadership, including a new principal/chief executive and 2 new chairs of governors. The substantive CEO was recruited in January 2017 as deputy CEO, who undertook the acting CEO role from March 2017 and was later made the permanent CEO in August 2018. Throughout this period the college has been supported by a turnaround director who continues to provide support on a part-time basis.

Governance and leadership

Role, composition and operation of the board

Governance

Governance at the college is not yet effective. There are currently 8 independent governors, 5 of whom were appointed in 2019, one in 2018 and one in 2017. The chair of the board was appointed in January 2019. Governors have a wide range of skills and experience, but this is still a very new board that has only had 10 months to work together to establish its mode of governance.

The board operates a form of ‘Carver’ model and meets monthly. In addition, it has a committee structure that includes a finance committee, remuneration committee, audit committee and governance committee. The finance committee is a recent addition and met for the first time in May 2019 but has not met since then. The governance committee last met in February 2019.

Agendas and minutes of meetings are clear and well structured. There are comprehensive papers provided for governors for these meetings. There is insufficient evidence in minutes of robust challenge in all areas of business, other than some evidence of questioning to test understanding of the fresh start programme and the Harrogate disaggregation. The board have up to now chosen not to publish the minutes on the college website. We recommend that this is changed for the future to make the work of the board more transparent and accessible to staff and stakeholders. Governors have recognised for some time the need to strengthen the financial skills and credentials of the board but have so far been unsuccessful in their efforts to recruit additional financially qualified members. The first and only meeting to date of the finance committee was poorly attended and as yet governors are not exercising effective oversight and scrutiny of all aspects of finance. For example, governors met by the FEC team were unaware of the decision to moderate the college’s self-assessment of its financial health grade upwards from Requires Improvement to Good.

There is insufficient evidence of challenge over data with respect to quality outcomes and the student experience. For example, the September board meeting received learner voice survey outcomes indicating that a very low satisfaction rating was reported by 16 to 18 students when asked if they would recommend the college to a friend or family member. This rating does not seem to have received much challenge or discussion. The same is the case for student outcomes which, despite an overall improvement to national averages, are below the national rate in key areas including for learners aged 16 to 18 years old.

The board operates a carver model, so there is currently no committee for quality and standards. Governors state that they discuss these matters at all board meetings. A review of agendas and minutes over the last year shows that on average there are 13 agenda items per meeting and one item for discussion around curriculum and quality. Minutes do not demonstrate that this item takes up a significant amount of time in these meetings.

The review of quality improvement and the overall student experience has been supplemented, with the board beginning some ‘deep dives’ into specific curriculum areas; apprenticeships being the first of these. The September board minutes make only one reference to this deep dive into apprenticeships. The October deep dive was a presentation concerning the college’s strategic college improvement fund project. Again, there is one paragraph of text describing the presentation but no evidence of question, challenge or scrutiny. The November deep dive is on the financial statements and the January 2020 meeting will consider HE provision. To date, the deep dive approach is not demonstrating that the board is exercising enough challenge and oversight of the quality of the student experience, nor is it providing sufficient impetus and pace of change to quality improvement. The FEC team recommend as part of a wider review of governance and clerking that the board establishes a quality and standards committee to ensure that it is paying sufficient attention to curriculum and quality.

During 2018 within the context of fresh start, the board established its membership as requiring 10 independent governors; 3 with an education focus, 3 with finance and audit experience and 4 from business and the community. Actions to strengthen the skills and capacity of the board have taken too long and remain a high priority to enable governors to achieve a step-change in effectiveness. For over 12 months, the FEC team recommended the recruitment of additional financially qualified governors (November 2018, March 2019 and June 2019). The board has been too slow in implementing this recommendation.

Following the September 2019 case conference, the chair and principal/chief executive committed to using an external recruitment agency to identify potential new board members. Search activity was launched at the start of November and the recruitment agency has identified a number of potential candidates for both new finance governors and for 2 potential co-opted audit committee members. These interviews are planned for January 2020. The FEC team cannot emphasise enough the importance of recruiting new governors at the earliest opportunity, with previous non-executive director experience as well as specialist skills.

The governance committee considers the skills of the board and conducts an annual skills audit and self-assessment of the board; this is good practice. The last skills audit and self-assessment was undertaken in December 2018/January 2019. The vice chair is the chair of this committee. Governors identified the following training/development needs; FE funding rules; quality/Ofsted in an FE context; financial processes and audit requirements; safeguarding and current FE issues and challenges. There is some evidence that the board is beginning to address these and a strategic away day in July 2019 was seen as helpful by governors. The chair commented that this is a new board and “not yet where I would like them to be”. He went on to say that the period from July to date has not been an easy one and there has not been much contribution or challenge from board members at these meetings. This may well reflect the fact that most of these new board members have very little experience of non-executive director roles in other contexts.

The chair has led the work of the board in its most recent personnel challenges with commitment and determination – other governors spoke very highly of the way he has managed this process. Recent events have relied heavily on the input of the chair. The revised board and committee structure provides an important opportunity to spread the workload and make greater use of individual governor skills. An upcoming curriculum planning away day for the SLT is an example of where governors with expertise in the education sectors could both add value and further get to know managers and wider staff. Engagement in the college's self-assessment validation is also good work for these governors to be engaged with.

The board needs to establish a programme of training and development for all governors and for the board as a team. The college has a National Leader of Governance (NLG) to support the chair but has made limited use of this facility to date. This is an ideal opportunity for governors at Hull to learn from an Outstanding college and the operation of a board in this context. In addition, the college is partnered with an Outstanding college in south east England through the SCIF programme and this would also be an opportunity for governors to access development and support in their roles. This development programme needs to include the opportunity for governors to link with specific functions and areas of the college so that all board members are fully engaged with the work of the college.

Clerking arrangements

The board has been without a permanent clerk for most of the 2018/19 academic year due to maternity leave, with interim arrangements in place until the start of August 2019 and a gap since then until October 2019.

The company secretary (clerk) was previously a full-time role at the college. The job description is wide ranging, covering all the usual aspects of governor and board support. However, it also carries a role "to oversee the college's legal affairs, providing legal advice as appropriate and overseeing the relationship with the college's external legal advisers". This is less common in the role of a clerk and more aligned to a wider company secretary role. The duties of the company secretary/clerk need to be reviewed to ensure they give a clear enough emphasis and focus on the independent nature of the role within the context of public office, as well as the principles of transparency and integrity as set out in the Nolan principles and the governance code of good practice.

The company secretary went on maternity leave in 2018 and, in advance of her departure, had planned for an interim clerking role and the development of an additional role within the governance office. Governors were not sufficiently involved in the appointment and employment of the interim clerk and this risked compromising her perceived independence from the executive. This led to a recommendation by the FEC in March 2019 that the board should take steps to reinforce the independence of the recently appointed interim clerk and formalise the terms of engagement and reporting line to the chair. The interim clerk stood down at the start of August 2019, before the return of the company secretary in October 2019 from maternity leave. There was no handover or formal clerking support in place at what has proved to be a critical time for the board.

The additional role identified by the company secretary, in conjunction with the previous board chair, was of a governance manager. This role was felt to be more advantageous than simply administrative support and a way of supporting the existing clerking role and wider executive team. This role has recently been retitled as compliance manager but was advertised, recruited and identified within the organisational structure as a governance manager and is perceived by a number of staff as the company secretary's deputy. The job description for this role has 4 key responsibilities: data protection, governance, compliance and legal. It is a middle-management role on a 0.8 FTE basis. The governance aspect of this role covers: preparation, collation, and distribution of agendas, minutes and reports; support for all corporation and committee meetings; support with review, maintenance and application of the governance code of conduct and governance regulations and the maintenance, advice and application of the necessary governance arrangements, including register of interests.

A governance manager was appointed at the end of August 2019 following an external recruitment process. The successful post holder is the daughter of the vice principal human resources, who is a member of the SLT. A number of staff and managers in the college perceive there is a conflict of interest in these 2 roles being performed by close family members.

When the college was visited by the FEC in early October, the company secretary attended the meeting, though she did not officially return from maternity leave until the following week (7 October 2019) on a phased return (as 0.4 FTE increasing to 0.5 FTE going forward).

It appears that the current governors have had insufficient involvement in establishing governance arrangements, including the appointment of the interim clerk and the appointment of the governance/compliance manager. The absence of a clerk over the summer period has been an important omission and both the September and October board meetings have not had proper clerking support. The governance/compliance manager has been present at these meetings and took the October board minutes in the company secretary's absence. This again risks perceptions of a conflict of interest and lack of independence from the executive. It is important to note that the board was unwilling to sign-off the draft minutes of the September board as they did not feel they were accurate or representative enough of the meeting (the September meeting had no clerk and was minuted by the SLT's executive assistant, who has now left the college).

The chair and board need to urgently establish the support that they need and expect from their 'office'; take steps necessary to ensure appropriate and independent clerking support at all governor meetings; and consider how best to restore the confidence of staff in the independence of the clerking function (which has an important role to play in the operation of the whistleblowing policy).

An independent review of governance is recommended to help achieve this and put in place a clearer division between governor support and executive functions. An NLG, who is an experienced clerk, has been identified to undertake this review, which should happen immediately so that the board can take clear decisions about the way forward early in 2020.

Leadership and senior management team

Leadership at the college is not sufficiently effective at this time. There has been considerable change to the roles and structure of leadership at the college during the intervention period. This has been a necessary part of a fresh start for the college and the most recent leadership structure was developed as part of this process.

The strategic leadership team is led by the principal/chief executive who is supported by the deputy principal/chief executive; vice principal human resources; vice principal commercial, business development and HE; vice principal quality; and the finance director. As part of fresh start, a turnaround director was assigned to support the principal/chief executive and her team. The turnaround director has been retained on a part-time basis throughout this period. The principal, deputy principal and finance director are senior post holders, as is the company secretary who has a dotted line to the principal/chief executive.

The wider SLT includes 2 assistant principals, one for quality and learner support and one for English and maths; 6 directors of curriculum; a director of apprenticeships; a director of employment skills and a director of HE. A further 11 posts of functional heads complete this wider team.

The senior structure was agreed following the permanent appointment of the principal/chief executive and was implemented during the period up to December 2018. The new strategic leadership team took up their posts in January 2019 and at the time of visit were therefore a relatively new, untried and untested senior team.

Two key postholders in the new structure have left the college since May 2019: the vice principal commercial left the college prior to the completion of his probation in May; and the deputy principal/chief executive resigned from his post in August 2019.

The vice principal quality is currently acting-up as deputy principal/chief executive. This acting role combines both the deputy principal and the vice principal role into one. The vice principal commercial role has recently been filled by an internal candidate (promotion of the director of marketing) following an external recruitment process. In October 2019, the finance director assumed the role of acting principal/chief executive. The acting principal/chief executive has a finance background from outside the FE sector and, understandably, is not able to provide the same leadership for curriculum and quality as the substantive postholder.

The consequence of these changes since the new structure was put in place is that there is a lack of clarity amongst many staff regarding lines of responsibility and accountability under the current leadership. At the current point in time, the college is operating without either the principal or deputy principal.

Recent events have been a major distraction that has hampered progress with respect to improving the student experience since June 2019. Staff and managers whom the FEC team met commented that the college culture does not tolerate 'non-compliance'. They raised concerns about speaking out for fear of being exited from the organisation at short notice.

The use of settlement agreements and confidentiality clauses at the college seems to have eroded the trust and confidence of a number of staff and managers in the employment practices of the college (20 of these agreements have been implemented between March and August 2019).

Despite the wide range of communication initiatives, a significant number of managers and staff do not feel engaged with senior leaders. The acting principal/chief executive has worked hard to continue to provide frequent and open updates for staff using email. A series of face to face communications with all staff began after the half term break to supplement the more formal communications strategy to date. This is a welcome development and it is important that the senior team are clear about the messages they wish to give to staff and future leadership roles and responsibilities, as this is one of the major concerns.

New policies and procedures have been developed in relation to the use of settlement agreements that will need to be underpinned by an effective and proactive approach to staff communications and culture change. This will need to be led by an interim principal and an interim vice principal for HR, which need to be appointed as a matter of urgency.

Overall leadership at the college at this point in time does not demonstrate the necessary capacity and capability to lead the college forward positively. Senior leaders are undertaking temporary, larger and, in some cases, multiple roles. Some managers are unclear about direction and accountabilities and feel that the compliance-led culture is not helpful or reflective of good performance management. Two-way communications need to improve so that staff feel engaged in the process.

The acting principal/chief executive has received support from a National Leader of Further Education which he has found helpful and supportive. He has worked hard to maintain a ‘business as usual’ approach. The college has identified an experienced interim principal to join the college with immediate effect. This is a welcome decision that will allow the current acting principal to return to his substantive role as finance director and should remove the need for continued input from the turnaround director.

The vacant deputy principal/CEO role is a senior post holder and the FEC team recommend that all senior appointments are in future subject to an external recruitment process and that this practice should be formalised as college policy.

Curriculum and quality improvement

Curriculum and provision overview

The college provides a very comprehensive range of courses, including programmes for young people aged 14 to 16, study programmes for 16 to 19 year olds and tailored provision for adult learners in employment and those seeking work. Courses are offered from pre-entry through to degree level and beyond in many vocational areas. There is significant provision in English and mathematics. The most recent inspection commended senior leaders and managers for their work with local stakeholders and how this results in a curriculum that meets the needs of the local area. Managers work with the local enterprise partnership to ensure provision is made in skills shortage areas and with employers to develop a curriculum that helps to create employment opportunities. The college has a good number of effective partnerships, including with the National Health Service, to support learners’ progression into employment or further training.

There had been significant operational issues with the start of the new academic year which casts doubt about the reliability of the planning assumptions that underpinned the curriculum plan. For example, both staff and students reported that at the start of the autumn term, some classes were oversubscribed and timetabled in classes that could not accommodate them. Other classes arrived to find that they had no teacher. Many staff the FEC team met expressed frustration because they were not clear which senior manager to consult to help resolve these issues, and this was resulting in students leaving the college early. The FEC team were told by both staff and students that the situation was made worse by the departure of a number of teaching staff, which meant that agency staff had to be found at the last minute. the annual curriculum review planned with the directors of curriculum should put the college back on track and rapidly settle some of the current curriculum and timetabling issues.

Quality improvement and self-assessment

In May 2019, the college was subject to a full Ofsted inspection. Overall, this assessment validated the college's self-assessment report and awarded an overall grade of Requires Improvement with elements of Good, including leadership and management and adult programmes and outstanding 14 to 16 provision.

The key areas for improvement identified within the draft report are:

- The quality of learning, teaching and assessment is not consistently good across all provision.
- Learners studying English and mathematics make insufficient progress, with too many not achieving their qualifications.
- Leaders and managers have been too slow to address improvements required in directly delivered apprenticeships.
- Attendance is too low for learners on study programmes, apprenticeships and adult learning provision.

It was recognised at the June 2019 stocktake that this was a positive outcome for the college and that it gave managers and staff the right platform to begin to build the college's strategy to achieve a Good grade for overall effectiveness at the next inspection. The outcome fully validated the college's own view of its strengths and weaknesses. The stocktake report commended leaders further on the introduction of robust measures to improve outcomes for 16 to 18 learners. Instrumental in the measures was the restructuring of the SLT and the renewed focus on quality improvement through having at least 3 members of the team with significant and proven track records of successful quality improvement. This was noted as a particular strength and there were signs of increasing momentum in quality improvement, even in the short period after the inspection. Also of significance was the continuing emphasis on robust performance management.

The FEC team's findings on this visit are in stark contrast to those evident in June 2019. As outlined above, quality improvement is now headed up by the acting deputy principal who carries a strong track record of quality improvement but has also absorbed several other responsibilities. While there is no doubt of the continuing focus on quality improvement, the momentum that had been evident in the summer of 2019 has slowed significantly.

Overall learner outcomes for 2018/19 were not as high as the college had predicted in May 2019, although they have risen and are around the sector average. Adult learners' outcomes improved by just under 4 percentage points and are around the national average. Expected improvements in study programmes for learners aged 16 to 18 have not transpired and are significantly lower than the sector average.

Learners' outcomes in vocational areas are variable, especially for those aged 16 to 18. Adult achievement is better. It must be recognised that there is clearly good and consistent practice in several subject areas including health, public services and care and in science and mathematics.

Achievement in English and mathematics for all learners fell significantly by around 10 percentage points in 2018/19. This was in marked contrast to predictions, which indicated that improvements were expected. The college acknowledges that this has been due to poor teaching, learning and assessment and turbulent staffing, and also issues relating to exams due to poor management of the department. Apprenticeship outcomes remain a challenge as most have declined from an already low base in 2017/18.

Trends in student recruitment and retention

16 to 18 student recruitment has fallen significantly in recent years including in 2018/19, where actual student numbers were some 13% lower than the number allocated and funded by ESFA.

At the start of 2019/20, a substantial increase in 16 to 18 enrolments was reported for the new academic year. The late removal of no-shows from the management information System (MIS) artificially inflated the true position. At the time of the FEC team's November visit, 16 to 18 enrolments had fallen to 11% below the curriculum plan target and 2% below the funding allocation despite the college's substantial expenditure on marketing.

With attendance currently running at 85%, this may be an indicator of further issues later in the year with retention and achievement.

On a more positive note, full-time adult enrolments funded through AEB are currently 25% ahead of target.

However, HE recruitment is almost 14% below target, with most of the shortfall accounted for by full-time programmes. This is a common trend in FE and the college may well find this continues into 2020/21. Infilling of groups should go some way to mitigating the impact of many small HE classes.

Student views

Views amongst the small number of students the FEC team met were mixed. Students who had been at the college the longest were appreciative of their teachers' support and spoke about how many went the extra mile to help them progress. Other students said they were unclear about the support that was available or that this was not easy to access which is why some students leave. On the whole, students thought that most teaching was at least satisfactory in their vocational areas, but they were critical of provision in maths and English. Students were critical of the IT facilities, which they said were unreliable, dated and poorly maintained, often dirty.

Staff views

Staff echoed the views of students on the state of the IT infrastructure and systems, saying that they were frustrated because it was hindering their ability to provide students with a high quality service. Many staff are unclear about the revised roles of the SLT and this is creating instability in the college. They cited the recent issues over timetables and the apparent lack of accountability amongst senior leaders for this. Many staff reported low morale amongst many of their colleagues and felt reluctant to voice their concerns to senior leaders because of a lack of trust.

Effectiveness of the college to manage and improve quality

There is insufficient capacity in the college to manage and improve quality for the following reasons:

- Achievement has fallen in several areas, especially in English and mathematics and apprenticeships.
- The start of term has been hampered by timetabling and staffing issues, exacerbated with problems with the implementation of new IT systems.
- Morale amongst some staff is low, and there is an apparent lack of trust in the current leadership of the college.
- Of much significance is the absence of a principal/chief executive and deputy principal, both key members of the SLT.

As noted above, there has been insufficient focus on curriculum and quality by governors. It is therefore strongly recommended that effective use is made of those governors who have strong credentials and experience of further and higher education to create a quality and standards committee.

Finance and audit

Recent financial history and forecasts for coming years

Prior to entering formal intervention, the college's financial health had declined from Good in 2012/13 to Inadequate for 2015/16 due to a substantial operating deficit. The deficit contributed to a rapid erosion of cash reserves and a requirement for substantial levels of EFS to maintain operations. After further operating losses in 2016/17, the college made a successful application to the ESFA during an FE area review for a 'fresh start', coupled with substantial restructuring funds to repay EFS; settle outstanding loan and leasing commitments; and fund transitional costs as part of a comprehensive recovery plan.

Since January 2018, the college has undergone a major transformation and right-sizing, which has seen turnover reduced by around 10% from 2016/17 to 2018/19. A major staff restructuring exercise completed in summer 2018 has seen pay costs reduce by 24% from 2016/17 to 2018/19.

Following the disaggregation of Harrogate College from 1 August 2019 and further reductions in recurrent funding, turnover should stabilise in 2019/20. Of this, around 13% is sub-contracted delivery.

The college's 2019/21 budget and financial plan aims to achieve a broadly break-even operating position and bring pay costs as a percentage of turnover below the FEC benchmark of 65% by 2021, at which point the financial health autoscore is expected to be Good.

Financial performance 2018/19

The draft financial accounts for 2018/19 indicate an operating surplus. This includes restructuring fund income, FRS 102 pensions adjustments and a loss on disposals.

Positive performance has been achieved across a number of income lines, notably:

- Adult Education Budget (AEB), where the final outturn was 2% over the allocation.
- Skills Support for the Workforce income, which was 7% over the budget target.
- HE fee income, which was 6% over the budget target.

However, 16 to 18 student recruitment in 2018/19 fell significantly below the allocated number and taken together with the Harrogate disaggregation this has resulted in a 27% reduction in lagged programme funding in 2019/20 (excluding Harrogate, the reduction is 13%).

The college's Earnings Before Interest, Depreciation, Tax and Amortisation (EBITDA) is negative once restructuring fund income is excluded. This automatically generates a financial health autoscore of Requires Improvement. Governors recognise that the college's financial recovery remains work in progress and it appears they were not sufficiently involved or consulted in the decision to self-assess financial health as Good (ESFA have since confirmed their assessment of financial health as Requires Improvement).

Despite the major staff restructure in 2018 and tight control of staff headcount, pay costs were above the FEC benchmark.

Financial forecast 2019 to 2021

Current year performance (2019/20)

The 2019/20 budget aims to achieve a small operating loss. This includes the release of restructuring funds. This will increase the deficit in 2019/20.

Previously overambitious income targets for apprenticeships have been scaled back and initial indicators in the October 2019 management accounts suggest that income from Skills Support for the Workforce is already well ahead of budget.

After a strong start to 16 to 18 enrolments in September, the combined effect of no shows and withdrawals has meant that the college now expects the R04 headcount to fall. This will mean a shortfall in lagged funding in 2020/21 and is deeply disappointing given the apparent strong start to enrolments reported at the start of term.

Although adult full time enrolments are currently ahead of target, the AEB funding tracker used by the college appears to suggest a potentially significant shortfall against the budget target. This will require careful monitoring if the college is to avoid recovery of funds, particularly given its expectation that sub-contracted AEB delivery will reduce from 2018/19 to 2019/20.

HE recruitment is below target, which will mean an in-year shortfall in the current year without compensating income or savings.

Underspending to date on staff salaries is matched by significantly higher than budgeted expenditure on agency staff. Overall pay costs are in line with budget. The college expects to make further savings in pay costs during 2019/20 to help offset the shortfall in HE income.

Non-pay costs are currently below budget. This is mainly due to the lower than anticipated cost of terminating leasing agreements.

The college will need to continue tight financial control and effective monitoring throughout 2019/20 to ensure that shortfalls in income are offset wherever possible by savings.

The main barrier to achieving Good financial health is the college's weak/negative EBITDA. The October 2019 management accounts projection of an operating deficit will potentially give rise to a negative EBITDA score for 2019/20. This will automatically generate another autoscore for financial health of Requires Improvement.

Future year's financial performance (2020/21)

The 2020/21 forecast assumes an 8% increase in turnover (excluding releases from restructuring facilities [RF]). This looks optimistic in light of the prospect of an ongoing shortfall in HE income and the reduction in lagged funding resulting from this year's 16 to 18 recruitment.

As such, the college will need to review budget plans for pay and non-pay expenditure if it is to achieve its target operating surplus and reduce pay costs as a percentage of turnover to lift financial health to Good. In addition to tight control of pay costs, external benchmarking of non-pay expenditures is likely to highlight opportunities for savings, for example in marketing.

Notwithstanding these challenges, the college has the potential to achieve a breakeven budget or better in 2020/21 which should give rise to a positive EBITDA performance and a return to Good financial health.

Cashflow / liquidity

The current cashflow forecast confirms healthy cash balances throughout the next 2 years.

The finance director who joined the college in January 2019 has implemented significant improvements in the reliability of cashflow forecasting. Regular and continued scrutiny and monitoring of cash should continue given previous indications (as recently as March 2019) of a potential cash shortfall in future years.

Financial liabilities / loans

As part of the fresh start recovery plan, the college has nil commercial borrowing and has recently settled the outstanding balance on its substantial leasing agreement.

This has significantly boosted the financial health autoscore and means the college benefits from nil debt servicing costs.

Internal and external audit

The college's internal auditors are Mazars. The internal auditors completed 5 assignments during 2018/19 covering learner numbers; core financial processes and controls; asset management; health and safety; and general data protection regulations (GDPR). All received adequate assurance apart from learner numbers which was partially compliant. Audits of partnership provision and performance reporting have been deferred until 2019/20. To date no issues have been identified that may adversely affect the annual head of internal audit opinion.

The college's external auditors are RSM UK Audit LLP. External audit fieldwork on the 2018/19 financial statements is largely complete. However, the final sign-off of the accounts and finance record is unlikely to be completed until early in 2020.

The college has made significant improvements in its strategic risk register during 2018/19 in response to previous stocktake recommendations. There are currently 56 risks on the risk register grouped under 7 headings, of which 5 are currently RAG rated red:

- Ofsted Inspection and adverse rating (grade 4 or bad grade 3) in 2019/20, 2020/21.
- Enrolment and failure to meet student recruitment targets.
- Financial notice of improvement - not ended December 2019.
- Continued pension funding requirements.
- Security of core systems access on site.

Estates and capital plans

Use and maximisation of college estates and assets

The college has an extensive property portfolio in Hull comprising the main city centre campus plus satellite sites at Cannon Street, Preston road construction facility and the Steve Prescott Centre.

The college operates Goole College, a discrete campus some 31 miles to the west. The college also operated Harrogate College until 31 July 2019, when it was transferred to Leeds City College following a structure and prospects appraisal.

The 2017/18 finance record listed gross internal floor area at 65,655 m^2 over 9 sites, with 55% of accommodation as condition category C. An important element of the RF grant was earmarked to address priority issues with the condition of buildings.

Property management and investment

As part of the fresh start programme, the college has been able to take important steps to improve its estate and rationalise its footprint, most notably by the disaggregation of Harrogate College. The college has retained ownership of redundant playing fields at Harrogate which has potential for re-development or sale.

In light of the significant contraction in student numbers over the last 5 years and the continuing challenges presented by a number of the older properties at the main campus, the college has commissioned a space utilisation survey as part of a wider review of the estate and an updated property strategy. The first phase of this work is due to be completed before the end of 2019.

Alongside this, the college will need to re-evaluate its strategy for Goole College in light of the further significant shortfall in enrolments this autumn.

Conclusions

Despite the progress made by the college under fresh start, there have been significant shortcomings in the operation and effectiveness of governance and leadership, which require urgent improvement. Actions to strengthen the skills and capacity of the board have taken too long and remain a high priority to enable governors to achieve a step change in effectiveness. Clerking arrangements have not been sufficiently independent from the executive and have fallen below acceptable standards.

There is a lack of clarity amongst many staff regarding lines of responsibility and accountability under the current interim leadership, which reflects in part the high level of churn at second tier. Staff and managers whom the FEC Team met reported concerns about the use of settlement agreements and confidentiality clauses which has eroded confidence in the employment practice of the college.

New policies and procedures have been developed to address this that will need to be underpinned by an effective and proactive approach to staff communications and culture change. This will need to be led by an interim principal and an interim vice principal for HR, which need to be appointed as a matter of urgency.

Despite a positive start to enrolments in the new academic year, too many 16 to 18 students have either not attended or have left the college, leading to a shortfall against budget targets. This has not been helped by serious problems with timetabling and MIS.

Outcomes for learners in 2018/19 for adults are above the national average and in line with expectations. However, outcomes for 16 to 18 learners are below target and have declined since 2017/18; driven by maths and English. There is a significant challenge ahead to improve the quality of education to Good in specific curriculum areas, particularly maths and English, and the pace of improvement has faltered.

The provisional financial outturn for 2018/19 is better than forecast and further progress in financial recovery is being made in 2019/20. However, Good financial health is not yet secure.

Recommendations

1. The board should urgently progress the recruitment of additional members with financial expertise, by May 2020, as recommended in June 2018.

2. The board should commission an independent review of governance and clerking to be undertaken by an NLG and completed by January 2020.

3. The board should establish a quality and standards committee by February 2020 to ensure that appropriate consideration is given to curriculum and quality improvement issues.

4. Steps must be taken with immediate effect to ensure appropriate and independent clerking support at all future governor meetings.

5. A programme of training and development for governors should be implemented by March 2020.

6. The board should formalise the requirement for an external appointment process for all senior postholders by February 2020.

7. The board should implement revised policies and procedures for the use of settlement agreements and confidentiality clauses contained therein immediately, to be completed by January 2020.

8. The board should urgently appoint an experienced interim principal by 1 January 2020.

9. The board should urgently appoint an interim vice principal HR to address priority issues with staff communications and culture by 31 January 2020.

10. The finance committee should monitor the impact of shortfalls in student recruitment on the budget and financial plan and take corrective action as appropriate. This is ongoing.

11. The director of finance should complete work on financial benchmarking, space utilisation and the accommodation strategy that is underway (as recommended at the June 2019 stocktake) by December 2019.

The FE Commissioner should conduct a further visit in January 2020.

Annex A - Information reviewed

Organisation Charts

Progress Report

Acting Principal /CEO Corporation Report October and November 2019

Post Inspection Action Plan October 2019

Deputy Principal Quality and Curriculum Update October and November 2019

Quality Assurance Framework

Recruitment Report (Students) October and November 2019

Enrolment to Target Report October 2019

FE Choices

July 2019 Management Accounts and July Month-end Report

Three Year Budget Report 2019/20 to 2021/22

Financial Plan and Cashflow Forecast 2019

September and October2019 Management Accounts

Analysis of Marketing Expenditure

Analysis of Staff Restructuring Expenditure

Internal Audit Progress Reports June and October 2019

Group Risk Register September 2019

Governance Update 2019/20

Role Descriptions for Company Secretary and Governance/Compliance Manager

Governor CVs and Membership List

Senior Post-holders Disciplinary Policy

Example Settlement Agreement and Summary of Settlement Agreements

Board and Committee Minutes

Annex B - Interviewees

Chair of Governors

Group of Governors

Company Secretary

Governance/Compliance Manager

Acting Principal and CEO / Finance Director

Acting Deputy Principal

Turnaround Director

Vice Principal Commercial/Business Development and HE/Marketing/Customer Services

Vice Principal HR

Assistant Principal Quality

Director of Apprenticeships

Director of Funding

Director of Estates

Group of Staff

Individual Staff/Managers

Union Rep/Member

Group of Students

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Reference: DfE-00177-2020

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