FURTHER EDUCATION COMMISSIONER ASSESSMENT SUMMARY

Guildford College

AUGUST 2014

Assessment

Introduction

1. In March 2014, the Skills Funding Agency assessed the financial health of Guildford College as inadequate and issued a Notice of Concern. As a result, the Minister for Skills and Equalities decided that an FE Adviser should assess the position of the College in accordance with the government's intervention policy, as set out in Rigour and Responsiveness in Skills.

Scope of the Assessment

2. The scope of the assessment required the FE Adviser to advise the Minister and the Chief Executives of the funding agencies on:

    - the capacity and capability of the College's leadership and governance to secure a sustained financial recovery within an acceptable timescale;
    - any actions that should be taken to deliver a sustained financial recovery within an agreed timetable (considering the suite of interventions set out in *Rigour and Responsiveness in Skills*); and
    - how and when progress should be monitored and reviewed taking into account the Agency's regular monitoring arrangements.

3. The assessment took place between 26 August – 1 September 2014, and this report sets out its results.

The College's financial position

<u>Income & Expenditure</u>

4. Over recent years, the College has experienced significant financial turbulence, as illustrated in the table below:

Year	Approved Budget	Forecast Outturn at Period 12	Actual Outturn
2011/12	£21k surplus	£1,100k deficit	£670k surplus
2012/13	£154k surplus	£78k surplus	£1,572k deficit
2013/14	£1k surplus	£3,121k deficit	Not yet known

Source: College Financial Recovery Plan 2014/15 – 2015/16, July 2014

5. The College's forecasts for the next two years are as follows:

Year	Income	Expenditure	Surplus/(Deficit)
2014/15 (approved budget)	£33,324k	£33,295k	£3,109k surplus
2015/16 (financial plan)	£33,342k	£33,641k	£299k deficit

Source: College Financial Recovery Plan 2014/15 – 2015/16 (July 2014), and College Management Accounts 2013/14

** Notes: 2014/15 is forecast to benefit from a one-off 'below the line' surplus of £3.1m on an asset disposal (the surplus being the excess of the expected sale proceeds over the book value of the asset). This surplus inflates the surplus shown in the table above. The deficit in 2015/16 is caused by depreciation charges on a planned investment in ICT.*

<u>Capital</u>

6. To support the College's Estates Strategy, the Skills Funding Agency has approved support for three capital projects since February 2013, as follows:

   - An ERG3 project for the construction of a new Animal Management Centre. The project costs are £4.5m, and the Agency support is £1.5m, ie 33%
   - A CCIF project for remodelling and refurbishing construction and technology buildings at the Guildford campus. The project costs are £8.9m and the Agency support is £3m, ie 33%
   - A CCF project for modernisation and repair of the Guildford campus. The project costs are £1.6m and the Agency support is £540k, ie 33%.

7. (In addition to these schemes, the College is developing an LLDD facility at Merrist Wood, with a total value of c£2.6m, which is to be fully funded by the Education Funding Agency. Although the project budget is under pressure, the College is confident the project can be delivered within the available resources.)

8. Excluding the fully-funded LLDD project, the total cost of these projects is £15m, and Agency support amounts to around £5m, leaving the College to finance the remaining £10m.

9. The College intended to borrow around £10m from its bankers to finance the investment and initially understood that the bank would be prepared to advance such a loan. It now appears that the College's deteriorating financial position has led the bank to inform the College that it is only prepared to consider a loan of £3m. As at the time of this report, no written commitment to provide even this level of loan has been made by the bank.

10. In view of the changing circumstances, the College has reviewed its capital strategy. The main changes are to halt the CCIF project and to reduce the CCF project to match the value of the SFA's grant.

11. The College now proposes to fund the strategy as follows:

- secure a £3m loan from a bank;
- sell surplus land at its Farnham site for around £3m;
- agree a restructuring of grant arrangements with the SFA.

12. The College's cash flow is heavily reliant on these proposals being successful, but each includes risks, ie:
    - discussions with the bank in relation to the loan are continuing;
    - the sale price for the surplus land depends upon the grant of planning permission, which the local authority has recently refused (the College is appealing against this decision);
    - the SFA is currently discussing the restructuring of grant arrangements with the College.

13. If one or more of these proposals fails to materialise, by January 2015 the College will require support in order to be able to meet its day-to-day liabilities.

Causes of the difficulties

14. It is clear from the evidence collected during the assessment that the College's financial difficulties have a number of causes. In summary, these causes (which are partly inter-related) are:
    - Unsustainably high costs;
    - Instability in the senior management team;
    - Ineffective governance;
    - A dysfunctional finance team;
    - Poor financial processes;
    - Unreliable management information;
    - Poor decision making in relation to capital schemes;
    - Insufficiently influential and effective audit services.

15. There was evidence during the assessment that the College has taken steps to address each of these issues.

Risks

16. The College has recognised the causes of its financial difficulties and has taken steps to address them. This is positive and to be commended.

17. Nonetheless, there are a number of serious risks to the College's financial recovery. The main risks are outlined below.

- The capital programme and cash flow - this is the key risk facing the College and the one with the potential to cause a financial crisis in the short term;
- management capacity – the agenda facing the College is very demanding;
- governor commitment – the College has new senior governors, who are committed and impressive, but it has to be recognised that the appetite of unpaid governors to commit time and energy on a long-term basis cannot be taken for granted.

Conclusions and Recommendations

1. Based on the work undertaken and the evidence collected, the conclusions from this assessment are as follows:

    - on balance, the College's leadership and governance does have the capacity and capability to secure a sustained financial recovery within an acceptable timescale. The risks set out above, the size of the challenge and the resources available make this conclusion finely balanced, but, in my opinion, there is no advantage in changing individuals, or placing the College into administered status at this stage.

    - there are a number of actions that should be taken to deliver financial recovery, i.e.:
        i. the SFA needs to consider the extent to which it is able to be supportive in terms of the capital grant restructuring. The availability of capital resources is a matter for the Agency, but the FE Adviser conducting this assessment supports in principle the College's requests for flexibility and support, as it would be critical to the College's recovery;
        ii. the College needs to work its contingency plans to generate capital cash up into workable alternatives as a matter of urgency;
        iii. the College needs to re-visit its Financial Recovery Plan (FRP), with a view to increasing the forecast surplus in future years to provide contingency against unforeseen events;
        iv. given that a great deal of the work to deliver recovery will fall upon the new VPFR, the College should consider providing him with external mentoring support. Given that the individual is high quality and has experience of recovery elsewhere, this offer should be 'light touch' and not be interpreted as an indication of any weakness on his part;
        v. the College's Clerk retires in a couple of months. It would be helpful if the new appointment has experience of advising governors in a financial recovery situation.
    - a robust monitoring process is required. Given that events are likely to move quickly in terms of the key cash risks (eg a bank decision about loans and the planning appeal results) and in terms of understanding the success or otherwise of 2014/15 enrolments, it is recommended that monitoring of the College's position takes place on a monthly basis until these issues are resolved.

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