Further Education Commissioner assessment summary

City of Liverpool College

August 2016

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Assessment

Background

The City of Liverpool College provides academic and vocational courses for around 13,000 students each year. The programmes provided range from basic skills to higher education qualifications. Measured by turnover, the college is one of the ten largest FE colleges in England.

In 2012, the college acquired a large national training provider, First4Skills (F4S). This provider, along with two other subsidiary companies (ShareEd, which is the college's back office service provider, and Liverpool Business Services, which provides a number of commercial services, such as catering) form part of a group structure operated by the college.

The college was subject to an FE Commissioner intervention in December 2013, following an Ofsted inspection in February of that year, which resulted in a grade of 'inadequate', and a Skills Funding Agency assessment of the college's 2012/13 financial health as 'inadequate'.

Following an improved Ofsted grade ('requires improvement') in April 2014, and improved financial performance ('satisfactory') in 2013/14, the college exited FE Commissioner Intervention in December 2014. The SFA's notices of concern in relation to quality and financial health were lifted in August 2014 and February 2015 respectively.

In January 2016 the college informed the SFA of the urgent need for £2m of Exceptional Financial Support to cover working capital requirements in February and March 2016. The Agency approved this request, but issued a further Notice of Concern, and again referred the college to the FE Commissioner for assessment.

Scope of the Assessment

The FE Commissioner's report is intended to advise the Minister and the chief executive of the funding agencies on the following, as appropriate:

- The capacity and capability of the college's leadership and governance to secure a sustained financial recovery within an acceptable timetable;
- Any actions that should be taken by 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 Agencies' regular monitoring arrangements.

The results of the assessment are set out in this report.

Assessment methodology

The assessment was carried out by a Deputy FE Commissioner and an FE Adviser during the period 18th to 22nd April 2016. It consisted of consideration of briefing documents provided by the SFA and EFA, examination of detailed information provided by the college and interviews with key staff and governors.

The Role, Composition and Activities of the Board

Membership of the college Board has changed considerably over the last four years. A skills matrix has been used to determine needs and facilitate Board appointments. Recent appointments to the Board include a corporate banker and a successful local entrepreneur. The current Board composition provides both continuity and fresh perspectives

There is no separate Finance Committee and the full Board has taken responsibility for all finance and general purpose activities since the appointment of the current Chair in December 2013. The Board is currently reviewing this arrangement.

The Board receives and interrogates three standing items at each meeting; a performance report, progress against the college's post inspection action plan and quality improvement plan and a presentational update on the financial situation, including the current month's management accounts.

The Group operates a number of subsidiaries, each with its own Board. The college Board is currently reflecting on the composition of each of these with a view to being able to have further oversight of their activities, and ultimate reporting to the full College Board. A step towards this has been the establishment of a Group Audit Committee which supports all three bodies and considers the consolidated group accounts, internal audit plans and external audit reports.

Governance arrangements for the Group are supported by an independent Clerk who was appointed in July 2013 and who has completed the HE Level 5 Award FE Governance qualification, University of Warwick. The Clerk is experienced and skilled and fully understands the importance and relevance of her independent role. She provides the Clerking services for all businesses within the group.

An internal audit report on Group Structures Roles and Responsibilities was undertaken during December 2015 following the revised group structure coming into effect August 1st 2015. The internal audit review only identified 2 actions, one a low priority and one medium. The low priority action refers to developing an effective integrated business meeting cycle to ensure that all parties within the group feed information to the main Board in a timely and effective manner. The medium priority refers to the development of an integrated MIS service to support the Group's back of office services. This is still work in progress.

With enhanced finance/accountancy experience and a supported development programme we concluded therefore that the Board does have the capacity and capability to secure a sustained financial recovery.

Leadership and Management

The Executive team in the college is led by the Principal and Chief Executive, who was appointed in June 2011. Previously she was Director for Transformation at Manchester City Council and prior to that, Area Director at the Learning and Skills Council for Greater Merseyside and Greater Manchester.

The Executive team includes five further senior post holders - a Deputy Chief Executive (DCE), a Deputy Principal, two Vice Principals (VPs) and the CEO of First4Skills. Of these six posts, two are vacant – the DCE and one VP. A replacement DCE has been appointed, and takes up post in June. The vacant VP post relates to business development. An appointment was made to this post in July 2015 to help the college secure its ambitious income growth plans, but the post holder did not successfully complete her probation period and left the college in January. The college expects to recruit to this vacant post this year. The change in personnel described above is significant in the context of considerable financial and strategic pressure at the college.

The position described above does raise a question over the capacity and capability of college leadership to secure a sustained financial recovery, as the team facing this challenge will be, at least in part, untested. It may be helpful for the team to consider undertaking a team CPD event such as Financial Management for non-Financial Managers run by organisations such as the Education and Training Foundation and the Institute of Directors (IOD). As half of the team members are new this could be an effective way of developing a collegiate understanding and responsibility for future financial sustainability of the Group.

However, on balance, given the calibre of the existing team and the experience and track record of the new appointees, we consider that the leadership team, supported by the Board, does have the required capacity and capability. This conclusion should, however, be monitored and kept under review.

Finance

There is no question that income assumptions for the year 2015/16 have changed dramatically within short periods of time. At the July 27th Board meeting the proposed budget was approved by the Board. There was considerable discussion at this meeting about the challenges facing the college with the reduction in SFA funding and the necessary expenditure cuts the college would need to make to manage the situation. The

Group Finance Director (GFD) assured the Board that a financial health score of Good would be achieved if all targets were met. The Board was warned, however, that there was a very “narrow margin for error”.

There was a marked absence of discussion from the minutes about income at this meeting. As the college was budgeting to double its income in FE 24+ loans and to double Apprenticeship provision we would have expected a considerable level of debate, particularly as the college has been only partially successful in achieving previous income targets. We note that the growth in apprentices was also premised on achieving growth funding bids that had been made to the SFA but not yet agreed, which therefore presented an additional risk.

All of these factors suggest a lack of sufficient consideration of such challenging income targets by the Board and insufficient debate and presentation provided by the Executive team about the planned approach to achieving these targets. The Executive had no track record of delivering substantial growth in income and the college’s strategic direction at this stage was moving from a transformation programme that focused on cutting costs to one that was intending to balance growth and efficiency. This is a significant shift that required a different strategic debate and discussion.

Due to falling student numbers and reductions in adult skills funding, the college’s funding allocations reduced very significantly between 2014/15 and 2015/16. The college’s Executive team and Board took the view that it would not be possible for the college to reduce its costs by this amount within a realistic time frame, particularly as it had already restructured its staffing and made significant savings. The college concluded that a combination of expenditure reduction and income growth was the most appropriate response to the loss of Agency funding. The college therefore set a budget which involved both cost reductions and significant income growth. Achieving these targets would deliver a cash-based operating surplus of around 5% at Group level.

Actual performance against the budget has been disappointing with a failure to implement the proposed reductions within the timescale envisaged and major shortfalls in projected income growth. This under-performance against budget is the cause of the college’s need to secure Exceptional Financial Support (EFS).

Discussions with Board members (six Governors), the Clerk and the Executive team all lead to the conclusion that the Board were sighted at the same time as the Executive on the deteriorating financial position. The Board meeting of January 27th changed its format to enable the independent Governors to hold a full discussion of the financial circumstances without the Executive Team. At this meeting the Board expressed “marked disappointment” that the assurance gained from the pattern of improved finances over the past two years had shifted. The Board agreed that “…the immediate issues notwithstanding, undertaking a review to ensure that lessons were identified and applied would be vital.”

In March 2016 the college developed a Financial Recovery Plan as one of the conditions for its receipt of EFS. The plan sets out eight key actions to reduce costs or increase income. These actions are largely on target or secure and will, if achieved, reduce costs/improve income by over £5m in the current year, and over £6m from 2016/17 onwards. It is also encouraging that the recovery plan contains a limited number of large savings, rather than a myriad of smaller proposals, which can be time-consuming to implement with relatively little reward. It is also noteworthy that the college's track record on implementing transformation programmes is good and that the work of the college's two sets of auditors did not identify any major weaknesses in control or governance arrangements for management to address.

Conclusions

Faced with a significant loss of Agency funding, the college adopted a financial strategy involving both expenditure reductions and increases in income. Neither have been fully realised in-year, causing the college a serious liquidity shortfall. In view of both the size of income increases planned, and the SFA's reservations about these increases, the college's budget was overly ambitious.

Although it would not have affected the eventual need for EFS, the college might reasonably be expected to have identified the need for support earlier in the financial year.

The college's Board was properly sighted on, and properly reacted to, the cash problem when it was alerted to the issue. Although it could be further strengthened by the addition of further financial/accountancy expertise, the college's Board does have the capacity and capability to secure the college's financial recovery.

The college's leadership also has the capacity and capability to secure the college's financial recovery, although this conclusion can only be tentative as two key financial posts will only be filled in May and June.

In summary the college's financial recovery faces a number of material risks but, on balance, we consider the college should be allowed to pursue its recovery plan, monitored by the regular case conferences already in place as a result of the SFA's issue of a notice of concern.

Recommendations

1. The college should pursue a college-led financial recovery, monitored by the existing regular case conferences. A member of the FE Commissioner’s team should also attend these case conferences;

2. The Board of Governors of the college Group should consider re-introducing a Board Committee with responsibility for finance and to further strengthen the Board membership with additional finance/accountancy experience;

3. In order to ensure the Group has a full and timely appreciation of the financial progress and achievements of F4S, the college Board should review whether/how it can strengthen governance arrangements relating to this subsidiary;

4. The Board should consider engaging with external governance support as part of its on-going development programme, facilitating Board members to govern in a Group structure;

5. Board members should consider the development and induction arrangements for existing and new Board members, with a view to focusing on the differences between governing within a group structure as compared to governing a single College entity;

6. The Executive team should review the impact and probability of risks associated with the recovery plan within the risk register and the Board should monitor these risks closely.

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