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for Education

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I am writing to inform you of the government's view of your College's position in light of the FE Commissioner's review, and the next steps that will be taken to secure improvement at Bournville College.

As you are aware, following the notification by the Skills Funding Agency that Bournville College had been assessed as inadequate for financial health, my predecessor Matthew Hancock MP asked the FE Commissioner to carry out an assessment of the College. The FE Commissioner conducted an assessment of the College during the period 18 August – 22 August.

I have now considered the FE Commissioner's assessment, which includes a set of recommendations. I have accepted all these recommendations. A summary of the assessment and the recommendations is provided with this letter.

The Assessment

As you will see, the FE Commissioner's assessment recognises the action that the College has taken to deliver a high quality offer for learners and employers, which has contributed greatly to the community and the regeneration of the Longbridge area, and the College's success in diversifying its income streams. This action is to be commended. However, the assessment also identifies significant concerns with the College's approach to delivering financial recovery. It is of utmost importance that the governing body and leadership recognises the seriousness of the financial position facing Bournville College and puts in place the necessary action to establish a financial sustainable and resilient College that can continue to deliver high quality provision while it grows new income streams and consolidates existing ones. With this in mind, the College is charged with producing an action plan within two weeks of the date of this letter that:

- Sets out the steps the governing body will take to continue to refresh its membership, including recruiting individuals with additional financial expertise.
- Sets out the process by which the governing body will ensure it continues to challenge and scrutinise the College's growth strategy and its financial recovery plan including its approach to risk management.
- Sets out the process and timetable (having agreed the timetable with the Skills Funding Agency in advance) for producing detailed cost-saving plans for approval by my officials at the Agency.

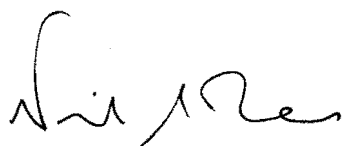
It is critically important that the College tackles its poor financial position as a matter of priority. This will likely mean that the College will need to make some difficult decisions. However, it is in the best interest of learners that Bournville College builds a stronger financial foundation and sustainable future that makes effective use of public money while it seeks out and secure new income streams.

Next steps and publication of the summary

Please provide my office with a copy of your action plan, under covering letter, within two weeks of the date of this letter. Your letter and action plan should be copied to the FE Commissioner and Karen Riley, Deputy Director Skills Funding Agency. My officials at the Skills Funding Agency will be in touch shortly to arrange a meeting between you, the Principal and the FE Commissioner to discuss the content of this letter and the attached summary.

In line with the published intervention process (May 2014) summaries of the findings from all FE Commissioner assessments are published to enable the college or institution subject to intervention, and the sector more widely, to see and learn lessons. The Bournville College summary will be published once you have provided me and my officials with your action plan.

If you have any questions about the FE Commissioner's assessment or this letter please contact Michael Kilduff (Michael.kilduff@sfa.bis.gov.uk) in the first instance.



NICK BOLES MP

Further Education Commissioner

Assessment Report; Summary and Recommendations

Bournville College

Background

1. Bournville College was founded in 1913 by George Cadbury. It relocated in 2011 to a £66m purpose-built campus spanning 4.2 acres on the former MG Rover site at the heart of the Longbridge redevelopment area. The College predominantly serves the local community, although the nearby Longbridge train station creates links with areas further afield such as Redditch, Erdington and Sutton Coldfield. College income for 2012/13 was £34.2m, an increase of 8.5% on the previous year.
2. Since the move to the new location there has been a significant growth in learner numbers. This has included apprenticeship provision, direct and indirect HEFCE funded provision, full-cost recovery and international provision. Learner numbers are currently 15,236 (4025 full-time; 11,211 part-time).
3. Provision is offered in a wide variety of sectors with state-of-the-art facilities including commercially-run hair and beauty salons, a restaurant, and a gym along with specialist provision in car servicing, repairs and MOTs. The College also has a significant and expanding international student base of 2300 learners in 2012/13 from countries including Korea, Italy, and Indonesia.
4. Following the notification by the Skills Funding Agency that Bournville College had been assessed as inadequate for financial health, the then Minister for Skills and Enterprise decided that the FE Commissioner should assess the position of the College in line with the government's intervention policy set out in *Rigour and Responsiveness in Skills* (April 2013).
5. The FE Commissioner's report is intended to advise the Minister and the Chief Executives of the funding agencies on:
 - a. the capacity and capability of the College's leadership and governance to secure a sustained financial recovery within an acceptable timetable;
 - b. 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
 - c. how and when progress should be monitored and reviewed taking into account the Agency's regular monitoring arrangements.
6. The assessment followed a Notice of Concern being issued to the College in April 2014 (updated June 2014) as a result of receiving financial support from the Agency in the form of two, repayable, Advance of Funds and a rating of Financial Health as 'Inadequate'.
7. Following the Advance of Funds, an Accountability Review was undertaken by the

Agency in February 2014. The review found that the College had inadequate financial controls in place over the period in question and a series of recommendations were appended to the formal Notice of Concern

Assessment Methodology

8. The FE Commissioner, supported by an FE Adviser, carried out an assessment during the period 18th August to 22nd August 2014. They received in advance extensive briefing information provided by the Skills Funding Agency and the Education Funding Agency and reviewed a wide range of College documentation. They interviewed board members, managers and staff, as well as speaking to representatives of the SFA and EFA.

The Role, Composition and Activities of the Board

9. The structure and operation of the Board was reviewed in 2013. The former committee based structure was replaced by two full corporation meetings per term, with only the necessary audit committee and other statutory committees in place. The intention of the change was to ensure that all corporation members had the full picture of how the College was operating and this seems to be working well. The clerk described the new arrangements as "continuous rather than periodic governance".
10. Minutes are comprehensive and show a good level of challenge, as was recognised by OFSTED in their comments on leadership and management which they described as "outstanding". However, given the financial difficulties that the College currently faces, the Board should continue to challenge themselves to ensure that they fully understand the risks associated with the growth strategy, fully scrutinise the financial information they receive and ensure decisions recognise and reflect the financial position of the College. The Board would benefit from further refreshing their membership to ensure they have the necessary high level of financial expertise to question the College's financial strategy in the detail required. This should be addressed at the earliest opportunity.
11. The audit committee operates well, although it is suggested that the auditors and members of the committee have time together to discuss issues, without management present. It is therefore recommended that the Principal only attends audit committee meetings when requested to do so.
12. The Clerk to the Corporation is effective and the Board is well supported in carrying out its duties. However, the Clerk is also a member of the Senior Management Team with responsibilities for elements of the College's income delivery, which could potentially lead to conflicts of interest. There is no evidence that this has happened but the practice of 'dual' roles for a corporation clerk is generally not considered to be good practice.

The Senior Management Team

13. The College Executive and Senior Management Team has a wide range of skills and is capable of delivering solutions to the College's present problems. They have a clear and shared view of where the College is going and work well together. However, there remains a danger that undue reliance on an ambitious growth strategy, successful as it may have been in the past, will present even greater problems in the future unless there is a parallel strategy of cost cutting and rationalization.

14. The College has little margin for error in its financial projections and needs to create headroom in its cash flow arrangements to allow for unforeseen setbacks. This needs to be addressed as a matter of urgency or there will be a serious question mark over whether the College continues to be a going concern.

The Quality of Provision

15. The College was inspected by Ofsted in May 2014. The College was judged as Grade 2 (Good) for overall effectiveness and Grade 1 (Outstanding) for Leadership and Management. The report noted that *"The principal and senior managers have high expectations for the college, its staff and learners. Staff morale is high and communications are excellent. External partners benefit greatly from the college's quality, responsiveness and "can do" attitudes. Managers have positioned the college well to meet the needs of the locality and region"*
16. The report also noted that *"Governors understand their role, contribute well to strategic decisions and support fully the drive for growth and diversification. They scrutinize thoroughly the college's plans and the progress towards their achievement and receive a good range of reports. They meet their statutory duties, provide appropriate challenge to managers and make an impact. The governors' self-assessment report is thorough, insightful and accurate."*
17. It should be noted that Ofsted does not take into account in their judgments a College's financial performance or how it is managed or monitored.

The Financial Position

18. The College is pursuing an ambitious growth strategy in which it intends to increase its income from new income streams, which include international markets, and to diversify away from a reliance on government funded provision. While this is commendable, this is a high risk policy given the uncertainties presently apparent in both core and non-core funding and requires thorough, detailed and continued risk management by the Senior Leadership Team, overseen by the governing body.
19. At the same time as it is intending to grow, the College is facing a critical cash position. The College should therefore accelerate the process of identifying cost saving measures to provide the necessary resources to make repayments of its debts, including its bank loans and the Advances of Funds provided by the Skills Funding Agency, and to act as a safety net in case the expected income from new ventures does not materialise as expected. The current cost base of the College is high and steps should be taken without delay to develop a cost-saving action plan. The Recovery plan includes cost saving measures of £1 million but the College now needs to find significantly more to provide some financial headroom.

Conclusions

20. The College has successfully improved its quality and diversified its income streams over the last few years. It has grown by more than 5% per year and predicts that it will be able to continue on this growth path into the foreseeable future. However, while this is an ambitious and commendable approach it is not without its risks.
21. Not all projects have delivered the returns forecasted and a failure by the College to address inefficiencies in parts of the College's operations has led to high levels of borrowing and serious cash flow issues. The present "hand to mouth" situation

cannot be allowed to continue and there are opportunities to improve the position significantly if the College is prepared to bring its expenditure into line with sector norms. Fears that this will lead to a diminution of quality are not borne out by the evidence elsewhere.

22. New projects or ventures into new markets need to be considered with a far greater degree of scrutiny by the governing body as to the financial as well as to the other benefits that they will bring to the college before they are undertaken. In particular upfront investment will need to be limited and payback periods carefully assessed.
23. Bournville College delivers high quality provision that contributes greatly to the community and the regeneration of the Longbridge area. However success in growing the college's income base has not been matched by an appropriate control of costs. This puts the college in a vulnerable position. It would be wise for it to consider a period of consolidation until the present financial situation is brought fully under control.

Recommendations

Governance and leadership

- 1. The Board should continue to refresh its membership, recruiting individuals with additional financial expertise. The selection process for such individuals should be open and transparent.**
- 2. The SFA should attend Board meetings as observers for a minimum of six months and until such time as the College's financial problems are resolved.**
- 3. The Executive Director Finance should be a senior post holder, with regular and direct access to the Board.**
- 4. To give the auditors and members of the audit committee time together to discuss issues without management present, the Principal should only attend audit committee meetings at the request of the Chair of the audit committee.**

Financial recovery

- 5. The Board should urgently review the College's risk strategy. The review should ensure that the strategy takes full account of the risks associated with the College's ambitious growth strategy and that it is urgently addressing the College's cash flow issues. The Board should then review the College's financial recovery plan to ensure the plan has the necessary steps in place to deliver reasonable surpluses each year.**
- 6. The College should include a contributions' analysis of all income streams in its monthly management accounts with a narrative to explain any variances from what has been planned. Benchmarking data should be included, where available.**
- 7. New projects and / or ventures into new markets should be subject to an appropriate cost benefit analysis before approval by the Board.**
- 8. In the light of the advances of funding that it has received, the college must discuss and agree with the SFA detailed cost-saving plans which indicate the measures to be taken and the timescale for their implementation. The plans should demonstrate that no further SFA additional support will be required beyond that which has already been provided. Benchmarking data should be included, where available, as the basis for the detail in the recovery plan.**
- 9. A detailed schedule of cost saving activity and the amounts realised should be produced for each board meeting for robust review and challenge.**
- 10. The FE Commissioner should conduct a monitoring visit at the end of November 2014 to determine the progress that has been made and if any further action is necessary.**