Further Education Commissioner assessment summary

Oldham College

February 2017

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Assessment

Background

Oldham College provides vocational education and training for approximately 2,400 16-18 students and just under 2000 adults. The programmes range from basic skills and ESOL to higher level degrees, foundation degrees and high level Apprenticeships. The College turnover is c £24m, approximately 75% of which is Funding Body grants.

In November 2016 the Greater Manchester Area Review Final Report detailed how GMCA set out their priorities to support Greater Manchester's growth and reform agenda, stating that '*the area review should allow for the creation of an effective infrastructure across the post-16 education and training landscape. It was crucial that the infrastructure acted as a key enabler for further education providers to work in a more cost efficient and sustainable way in order to reflect recent and future reductions to budgets; and to be more responsive to the needs of businesses, particularly those in priority growth sectors'.*

In this context it recommended that Oldham, Stockport and Tameside Colleges should merge stating that;

'Oldham, Stockport and Tameside are districts which lie adjacent to each other on the eastern edge of the Greater Manchester area. The Colleges recruit primarily from their home local authorities, but they also draw students from the outer fringes of the Greater Manchester geographical area and beyond its boundaries.'

'The proposed merger will develop a new post-16 institution which focuses on progression to high quality technical education and training. The merger will release significant cost savings in management and support functions. These savings will be used to support additional investment in teaching and learning, and to fund a comprehensive approach to transforming quality, which specifically includes a focus on maths and English to improve achievement at GCSE.'

'The curriculum will be reviewed and re-planned to avoid unnecessary duplication, but each town will retain a wide range of study options up to level 3 for adults and young people, including Apprenticeships, and a selective offer at level 4+ to meet local demand. The option drew support from the 3 local authorities, employers and partners.'

'Stockport College is financially weak, and all 3 colleges were graded 'requires improvement' in their most recent Ofsted inspection. The Colleges have highlighted the need for funding to address the levels of commercial debt and to rationalise estates in order to improve efficiencies and reduce costs, to reconfigure buildings to suit planned provision and to improve building condition'.

The FE Commissioner subsequently advised Stockport College to seek a more financially stable partner as Oldham College had just entered the Intervention process due to failing financial health and a Notice of Concern had been issued by the Funding Agencies

Oldham College was keen to achieve a merger and had invested considerable time and resources to move forward with Stockport College. Stockport College is now pursuing a merger with Trafford College. A detailed merger "early proposals" document was developed by the three colleges in February 2016 during the ABR process.

In November 2016 the College Board received a Notice of Concern from the Skills Funding Agency as the College has been rated inadequate by the SFA for financial health. The schedule attached to the NOC determines a number of actions required by the College including the production of a financial plan for 2016/17 demonstrating how the College will address the current challenges. This plan needs the informed consent and ownership of the College Board and senior executive team. The College also needs to submit the latest management accounts and cash flow by the 30th of each month. These accounts need to be accompanied by a supporting narrative that provides evidence of a robust approach to forecasting and identifies any emerging issues.

In January 2017 the College received a visit from Ofsted and received a grade of Requiring Improvement. The College was last assessed in May 2015 at which it also received this same assessment.

In the light of the College's declining financial health and the current status of the College with respect to the outcomes of the Area Based Review, the College was subject to an intervention by the FE Commissioner. The outcomes of the January 2017 Ofsted assessment informed the agenda of the FE Commissioner's intervention assessment.

Scope of the Assessment

The scope of the assessment was as follows:

Advise the Minister and Chief Executive 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 timetable;
- 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 Agencies' regular monitoring arrangements.

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

Assessment Methodology

During the visit the Further Education Commissioner and two FEC Advisers met with the Principal, members of the Senior Leadership team, the Chair of Governors and Clerk to the Corporation; Interim Finance Director, Head of Estates and Head of MIS.

The team also reviewed written material provided by the SFA and by the College.

The Role, Composition and Activities of the Board

The Board of Oldham College is comprised of 21 members of which 2 are students and 2 are staff. The Principal is a Board member and joined the College in 2010. There are 15 independent Board members 53% of whom were originally appointed between 2009 and 2012 and 47% appointed from 2014, of which three new Board members were appointed in 2016. There are 12 men and 3 women in this group of independent members and one "external member" who is a local councillor.

The Chair of the Board was first appointed in 2010 and was appointed Chair in December 2016. During the ABR process he also chaired both the resources and the curriculum and quality committees to facilitate the then Chair and Vice Chair being able to attend ABR Steering Groups and focus on the potential merger.

Governance arrangements are supported by an independent Clerk who was appointed in September 2015. Prior to this the Clerk was the Deputy Clerk and her background is 30 years-experience in the local authority with regeneration work and experience in project management as well as a company secretary. The clerk has completed the National College Clerks qualification and is part of the AOC Clerks group.

There are 3 designated Senior Post holders, the Principal, Deputy Principal and Finance Director. The Board conducts an annual appraisal of these post holders. Both the Deputy Principal and FD have been either interim or short term contract roles so only the Principal has been appraised recently in November 2016.

The Board skills matrix demonstrates a range of skills and professions held by the Governors. Recent appointments to the Board include skills in management, sales, strategy and accounts. There are some long-standing members of the Board, including the Chair, the Vice Chair was appointed in 2014 and three new members were recruited in 2016. At a meeting with the Chairman, the Chair acknowledged that the Board and College could benefit from some learning from other colleges out of region that had achieved improved quality and finances at a more effective pace than Oldham. He explained that doing this in region was not possible or helpful and outlined the challenges of alternative 6th form provision in Oldham and some of the challenges of a diverse local population, staff recruitment challenges in curriculum areas such as construction and the variability of success rates across different curriculum areas.

In discussions he stated that in the light of the 3-way merger not proceeding (and Stockport College now seeking an alternative partner) that his priorities for the College were to address the failing finances and prioritise learning and teaching. He stated that the Board continued to express a strong willingness to consider structural change within the context of ABR, however they were now reviewing their priorities.

Over the last 5 years the Board has overseen a financial performance at the College that has continually set income targets that have not been met. In the last four financial years this has left the College close to a break even position or a deficit but with performance being as much as £1m below budget each year (see section 7.4).

Over the last 9 months the Board has been very focused on the financial out turn for 2015/16 and the forecasts for 2016-2018. The June Resources Committee meeting (21.06.2016) agreed an action that the latest financial out turn position would be reported to the Chair on a weekly basis. A special meeting of the Corporation was established for July 2016 at which the full board considered the budget for 2016/17 and a two-year financial plan. This was discussed but it was agreed that a further final review was needed of this plan and authority was delegated to the Chair, Vice Chair and Chair of Resources to “sign off the final plan” to be submitted to the SFA prior to July 31st 2016.

The Chairman expressed clear confidence in all staff and the leadership team at the recent SFA case conference stating that “the College is on a journey”. The appraisal of the Principal expressed confidence and the Deputy Principal was confirmed in her appointment during the academic year 2015/16.

Leadership and Management

The College Principal was appointed to his post in 2010. He is in his seventh year as the Principal of the College and under his watch there have been two Ofsted inspections both receiving a grade of Requiring Improvement (May 2015; January 2017) and the College has experienced declining financial health.

His background is within the education arena with a focus on transforming learning through large scale building projects. His previous role was as the Director of Transforming Learning in Oldham leading the building schools for the future programme from 2007-2010. Prior to this he was a head of services for Young People at Stockport local authority.

The Principal has the support of the Board and of his new Chairman who also joined the College in 2010. In 2014 the Principal appointed an interim Finance Director to "improve financial management" and to work alongside the Vice Principal Finance and Strategy. In 2015 the Vice Principal left to take up a new post and the interim FD assumed the FD role. She left the College in June 2016 and in July 2016 a new interim FD was appointed. While they are currently working as an interim there is an intention from the Principal to make this role permanent.

Further Executive team members in addition to the Principal and FD, include a Deputy Principal (appointed on a short term contract in Sept 2014 and confirmed in post in 2015) and three Vice Principals (Curriculum and Quality, People and OD, HE and Higher Skills). There are three further Directors (Apprentices and Business Development, Information and Data and Finance) and a Head of Strategy.

There has been considerable turn-over of senior managers in addition to the Finance Directors already mentioned and structures have changed from Assistant to Vice Principals and Vice Principals to Deputy. It is fair to say that there has been a lack of consistency of leadership, other than the Principal for some time and the change in personnel described above is significant in the context of considerable financial and strategic pressure at the College. It will inevitably have involved a lack of continuity and multiple handovers.

The College is now proposing another change to the senior structure moving to the retention of the current Deputy (Planning and Performance), the creation of an MD role for Strategy and Quality and two Vice Principal roles (Learning and HE and Higher Skills). This latest change is partly a response to the departure of one Vice Principal role to make savings and partly in response to the recent inspection.

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.

There is no question that income assumptions for a number of years have been ambitious and that a level of predicted growth in HE numbers, Apprenticeships and some 16-18 students have not materialised. The College has not had a specific curriculum strategy that reflects these growth projections for previous years. In 2016/17 the College began developing this approach. The College plans its curriculum offer on the basis of Greater Manchester skills needs and LEP priorities. The College has developed pathways for all curriculum routes through FE into Apprenticeships and/or Higher Education. Whilst in previous years the College has budgeted to grow student numbers the projections for 2017/18 are showing a flat line volume for Higher Education with an increase in income from increased fees and an increase in Apprenticeship volumes. This forecast is markedly different to previous years and more realistic and achievable. The College has not achieved its EFA target for 16-18 students for the last two years.

There is a marked absence of discussion from Board and Committee minutes about income and the implied growth within these income lines. The Board has a number of Strategy days during the year and the new Interim FD has produced a presentation for the Audit Committee (meeting February 7th 2017) entitled "Understanding Income and Inherent Risks" and he is anticipating presenting this also to the full Board.

It may be opportune to also consider a revision to the management accounts to ensure that a RAG rated front sheet with the Colleges top 10 financial indicators are available for the Board and committee members to see at a glance the current status of the College's performance. This may begin to address one of the outcomes from the Board Self-Assessment that just over 20% of the respondents felt that they did not receive monthly financial reports which proved to be reliable.

Quality Improvement

The College was recently inspected (January 2017) and received a grade of Requiring Improvement. This is the same assessment received by the College in May 2015. The grade for the Effectiveness of Leadership and Management is Requires Improvement. The summary of the key findings states that "in spite of some improvements, leaders and managers have not secured sufficient improvement to ensure a consistently high standard across the provision." They go on to say that "rates of improvement are not yet sufficient to be good and managers still have much work to do to achieve their objectives".

Additionally, Ofsted comments on the Governance of the College stating that they understand most aspects of the College well, however they state that Governors are not always clear about specific areas of the College that require improvement. Governors analyse the extensive data and performance information they receive from leaders but the clarity of information they receive does not enable Governors to carry out their role effectively in terms of providing challenge to leaders to "effect more rapid improvement".

The overall report makes clear that the College requires improvement over all areas of its leadership, management and provision.

This report is in draft form and is with the College for checking before publication.

The College has been on a path to improving success rates for students from a position of being below the national rates in 2014/15.

Achievement rates for 16-18 students overall have improved from 73.2% (2014/15) to 79.6% (2015/16) which is just below the NR. The College is predicting an achievement rate of 83% for 2016/17.

Achievement rates for students aged 19+ have been below the NR for the last 3 years but have improved from 77.9% (2014/15) to 81.9% (2015/16) which is still 5 percentage points below the NR. The College is predicting an achievement rate of 86% for 2016/17.

Although there is evidence of more robust target setting by teams and improving student retention and attendance, these are challenging targets for the College. Achievement rates for students are varied and range from just over 70% in Arts, Media and Publishing to 94% in Business Administration and Law.

Average class sizes for student in FE are targeted at 17.7 and in February are 14.8. For Higher Education the target is 18.6 with an actual of 15.7. These class sizes are low for an inner city/main town college and therefore quality and success could be better, faster.

Achievement rates for apprentices are improving from 61% (cohort 626) 2014/15 to 70% in 2015/16 just at the NR. The College has 776 apprentices currently on programmes of which 154 are trained and assessed by subcontractors. Ofsted reported that achievement rates had increased in 2015/16 but not enough apprentices successfully completed their programme in the planned time. The number of apprentices on target to complete on time is improving but it remains too low.

The College should develop a simpler and more robust PIAP that includes clear and timely milestones that can be monitored by both the leadership team and the Board and that carry obvious and well explained RAG ratings. Improvement needs to be rapid and therefore this PIAP should be well communicated with all staff and be part of a college wide conversation about student improvements. This will need to be done in the context of reducing costs and therefore risks associated with improving finances must be monitored with respect to their potential impact on quality and the student experience. This PIAP needs to be fully integrated with the College's financial recovery plan so the Board and the Leadership team can take a holistic view of changes and improvements.

The College's Financial Position

The SFA have issued the College with a Notice of Concern as it has it has been rated 'Inadequate' for its Financial Health.

A major factor on the financial position of the College has been the impact of the capital programme. During the financial period 2013 to 2015 the College has undertaken three capital schemes. The three new builds were forecast to increase the income and profitability of the College. Whilst constructing Building A, the Tower Block building adjacent to the new build was identified as being unstable and had to be demolished and provision moved into an used school nearby. These additional costs resulted in the project over spending significantly and this was funded by college cash reserves.

The scheme has improved the quality of the Estate but the additional income and the forecast increase in surplus was not realised. The College has not undertaken Post Project Appraisal of the schemes to identify why it failed to deliver the forecast improvement in the College income and surpluses.

Historical financial performance

The College's financial performance over recent years was considered and the performance has been compared to the FE Commissioner Benchmark Range. This revealed that there has been a continual decline in the College's finances from 2012/13. The operating surplus has never achieved the target range of 3%-5%. This is important as it was required to fund the capital scheme. Borrowings have increased as planned, but income has decreased. Cash days in hand and the current ratio have significantly reduced as the College have not replenished the cash used on the capital scheme by generating surpluses. Staff costs have been significantly above the FE Commissioner target of 65% in all years except 2014/15.

The College has significantly under achieved its budgeted surplus. The main reason for this is an over estimation of the income line. The College has therefore been unable to generate the surpluses required by the capital programme and resulted in a significant reduction in its cash and solvency position.

The latest financial forecast is set out in the December Management Accounts and shows a significant adverse variance in the budget caused by a reduction in HE income and an increase in pay expenditure. The College is taking action to reduce the adverse variance in the budget by not filling vacancies and reducing non budgets. The January Management Accounts which were in the process of being prepared at the time of our visit show the adverse variance against the budget to be getting smaller. This will be the fifth consecutive year of significant adverse variance against the budget. The College continues to fail to achieve any of the benchmark indicators. Based on the SFA computed health score the College would however move from 'Inadequate' to 'Satisfactory'.

The College's Draft Financial Recovery Plan

The College has been requested to develop a Financial Recovery Plan by the 28th February. The forecast within this plan is only an early iteration and work is ongoing to ensure a robust financial plan with further savings being pursued. The plan in its current iteration would fail to achieve the majority of the FE Commissioner Benchmarks. In preparing the recovery plan the College needs to take cognisance of the costs of service the loan and capital outlay - equipment and summer works. It is important that the budget be achieved to gain the trust of all stakeholders. The plan is not predicated on achieving significant growth but on reducing the cost base. However, given the record of under achieving the budget it should develop contingency plans to enable it to reduce costs in the event of a shortfall in income. The College should look to reducing pay costs as a percentage of income to below 65%. The College should consider increasing the loan in the short term to reduce the dependency on the overdraft facility which will be required during the period of the forecast. This will increase both cash and net current assets and reduce the risk of cashflow problems in the event of a further deterioration in the College's financial health. This will however increase borrowings as a percentage of income in the short term and may have a cost implication. If the College is unable to achieve the FE Commissioner Solvency targets, then it should extend the period of the forecast to show when the targets are forecast to be achieved. The College should develop a detailed action plan and detailed key performance indicators to support the Recovery Plan. This should include non-financial actions as well as Finance items.

There are also a number of risks to consider in relation to the College's return to good financial health including a failure to deliver the budgeted surplus based on past performance, the bank reducing or eliminating the overdraft facility and a reduction in income. These risks are material and require careful management. The College should develop contingency plans to manage these risks.

Conclusions

The intervention visit, concluded that the College needs to quickly develop a robust recovery plan that embraces both financial recovery and the post inspection action plan. The visit confirmed that quality and finances are integral to each other in providing a better student experience. It would also be beneficial for the College to continue to seek an appropriate partner to enable it to achieve a merger that is of benefit to the communities of Oldham and the long term sustainability of the College. Our conclusion is that the College would struggle to succeed in the long term with a “stand-alone option” and this is not the preferred option of the College.

To further improve their chances of financial success the Executive team needs to undertake team training to support a more robust and challenging approach to the management and scrutiny of management accounts, and outcomes from the new business planning process. The management accounts would also benefit from including a RAG rated front sheet of key indicators so that the Board and leadership can see at a glance the current status of the College’s finances in key areas. The leadership team and Board would also benefit the College by using the ABR Bench marks to monitor their performance and improve their resilience and sustainability. The appointment of a full time permanent Finance Director would help with all of the above.

In order to support the College’s continued developments in quality improvements and the student experience, members of the Board and the senior team could seek best practice in other regions that are also “Opportunity Areas” to share practice and learn how to accelerate both social mobility and student success rates. The College would then be able to continue to improve the processes and impact of teaching and learning and carefully monitor performance against the stretching student success improvement targets that have been set for 2016/17.

Recommendations

- The College needs to develop a robust recovery plan.
- The College should continue to seek an appropriate partner to enable it to achieve a merger that is of benefit to the communities of Oldham and the long term sustainability of the College. A structure and prospects appraisal (SPA) should be conducted by the FE Commissioner team to assess potential partners both within and out of the region. This should be completed by June 2017 with a merger taking place no later than January 2018.
- Whilst the SPA is underway, a robust and integrated recovery plan that embraces both financial recovery and the post inspection action plan should be developed and monitored by the existing regular case conferences. This recommendation is conditional upon;
    - a member of the FE Commissioner's team also attending the case conferences to monitor and be satisfied with progress
    - a full stock take visit in August 2017, undertaken by the FE Commissioner's team, concluding that a reasonable level of progress towards financial recovery is being made, that quality is not being compromised and that progress towards a merger is well underway.

- The College should look to reduce pay costs as a percentage of income to below 65%.
- The Executive team needs to consider team training to support a more robust and challenging approach to the management and scrutiny of management accounts and outcomes from the new business planning process.
- The management accounts should be developed to include a RAG rated front sheet of key indicators so that the Board and Leadership can see at a glance the current status of the College.
- The Leadership team and Board should begin to use the ABR Bench marks to monitor their performance and increase their sustainability.
- The College should appoint a full time Finance Director as soon as possible.
- The College should play a full and supportive role in the SPA process and seek learning from colleges in other national 'Opportunity Areas' to facilitate an accelerated process of improvement.

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