Further Education Commissioner assessment summary

Barnfield College

February 2018

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Assessment

Background

Barnfield College is a small General Further Education (FE) College based in Luton, Bedfordshire which operates from two campuses and attracts students from Luton town and the surrounding areas, which together have a population of around 211,000.

The College has circa 1,500 full-time learners of which 1,223 are aged between 16-18 years. The majority of adult provision has until recently been sub-contracted out.

The College has ambitious plans for relocation of its two main campuses on a 1.8 acre site which it has acquired in the centre of Luton adjacent to the main railway station. Scheme costs of up to £57 million are to be financed through a combination of asset sales, local enterprise partnership grant and bridging loans. A target date of project completion has been set for September 2021.

In 2007 the Barnfield Federation included a nursery, primary and secondary schools and a College. In August 2013, serious whistleblowing allegations led to a joint investigation by the Education Funding Agency (EFA) and Skills Funding Agency (SFA), a Financial Notice to Improve and a Financial Notice of Concern and FE Commissioner (FEC) intervention. Following the investigation and changes at the College, Barnfield returned to being a standalone entity with a new Board and came out of FEC intervention in September 2015.

The College has been subject to Education and Skills Funding Agency (ESFA) early intervention since January 2017, due to declining financial health. As a result of the financial health assessment of inadequate for 2017-18, the ESFA issued a formal Notice to Improve in December 2017, with a requirement for completion of a comprehensive Financial Recovery Plan by 28 February 2018.

In accordance with the expectations set out in *FE College Intervention and Exceptional Financial Support* (October 2015), the College was referred to the FEC for an independent assessment of its ability to make the required changes and improvements to secure its financial recovery.

Area Review Recommendations

In addition to concerns about the College's financial health, there were also concerns about the progress made following Area Review recommendations. The recommendation of the South East Midlands Area Review was:

> ***"The Corporations of Barnfield College and Central Bedfordshire College ('The Corporations') are seriously committed to exploring the principle of merger. The Corporations have agreed to progress, with immediate effect, a jointly commissioned feasibility study with a view to making a final decision to merge by 31 July 2017. The Corporations have agreed the newly merged institution would commence on 1 September 2018 (unless both parties agree to an alternative date).***
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> ***Both colleges consider that, if the merger does not proceed, then they are able to remain stand-alone as financially viable institutions although they will review options at that stage.***

In the event that a merger between the two colleges is not agreed, both colleges will complete a Further Education Commissioner-led structure and prospects appraisal"

Since the conclusion of the area review, work on a feasibility study had not progressed and plans for merger had ground to a halt.

Assessment Methodology

The FEC conducted his assessment between 12 and 14 February 2018. The purpose of the FEC's intervention was to review the position of the College and, in particular, to advise the Minister and the Chief Executive of ESFA on the following:

- 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; and
- how and when progress should be monitored and reviewed, taking into account the ESFA's regular monitoring arrangements.

The assessment consisted of consideration of briefing documents provided by the ESFA, examination of detailed information provided by the College and interviews with key staff, governors and stakeholders. A list of meetings and interviews is set out at Appendix 1.

Role, Composition and Activities of the Board

The Board consists of 13 members, of which there are 9 independent members; the Principal; 1 member of staff; and 2 students. The Board has a mix of expertise and experience weighted towards finance and business.

The Governance model is a hybrid of the Carver Model, with a Curriculum, Quality and Standards Committee and a Capital Projects Task Group, but no Finance Committee. Several Governors believe removal of the Finance Committee was a mistake and given the financial challenges now facing the College, there is a strong case for its re-instatement.

Recently, the very experienced full-time Clerk was replaced. The Clerk's part-time replacement does not have prior FE experience but is being mentored by her predecessor, who has taken on the role of Director of Quality and Improvement.

The Executive Director of Finance and Resources (a senior post-holder) had left the College in December 2017 and the role of the Executive Director of Finance and Resources has been downgraded from senior post-holder status with a reduced salary. This was felt by the FEC team to be a concern given the importance of improved financial management and forecasting.

The Chair is confident about the viability of the College due to the land assets it owns and the potential for sale and redevelopment. The Board devotes a great deal of time to the capital project and the move to Luton town centre.

The Ofsted inspection outcome and the serious decline in financial health raises questions regarding the adequacy of scrutiny from the Board and the quality of officer reporting to the Board. The Board must hold the Executive more effectively to account for the quality and accessibility of data upon which major decisions are being made at all levels in the College. Given the range of pressures on the Board a period of Administered Status with ESFA observers on the Board is considered appropriate.

In relation to the area review, the Board, Chair and Principal explained that they felt the College must focus on tacking its current challenges, after which it will be open to engaging in a merger. Their vision is for a successful move to new facilities in the town centre and an improved Ofsted grade in the next cycle.

The FEC team's assessment however considered the pace of improvement too slow and that the finances demand a faster move to a new structure, alongside merger sooner than later (whilst there is potential for access to the Restructuring Fund)

Leadership and Management

The Principal leads an Executive with two Vice Principals who line manage nine Heads of Department, who in turn manage Subject Area Leads and non-academic functions. There is some confusion over job titles, roles and reporting lines. This is a hierarchical structure for a relatively small College which offers scope for rationalisation to reduce costs and enhance clarity.

There is a tendency for managers at all levels to blame the slow pace of academic improvement on the poor state of the College following the break-up of the Barnfield Federation in 2014. They refer to a complete lack of systems and a subsequent influx of new staff, agency workers and poor data. Although a Three Year Development Plan led by the Principal has been established, this is now seriously derailed by the latest Ofsted outcome and the deterioration in the College's finances. Arguably, the capital project is a distraction to getting the College back on track.

As Accounting Officer, the Principal should have been aware of the significant financial issues much earlier. The management of Apprenticeships was clearly weak and this also should have been addressed much earlier. The failure to recognise these weaknesses at an early stage has cost the College as evidenced by the Financial Notice of Concern and the risk that the College will no longer be able to recruit new Apprentices.

Following the departure of the former Executive Director of Finance and Resources, the College has recruited an interim Finance Director to work with a Finance Consultant, both of whom report directly to the Principal.

Quality of Provision

Curriculum and Quality Improvement

The College offers a range of full and part-time further education courses in 13 subject sector areas from Entry level to Level 3, Apprenticeships, Higher Education including Access and pre-access and Adult and Community. It does not offer A Levels.

Presently the curriculum offer in terms of volume of students is mainly at Entry level, Level 1 and Level 2 with a much smaller provision at Level 3. The Principal has a clear vision for developing the curriculum to increase the offer and progression pathways to Level 3 and then into HE. More recently College managers have grown their adult provision mainly through the delivery of ESOL in community centres with the intention that some of these students will also progress through to higher levels of learning over time.

Classroom-based 16-18 year old student numbers have increased from 1,138 in 2016/17 to 1,223 in 2017/18. 19+ students in 2016/17 totaled 3,989 with 2,463 of these (61%) delivered by sub-contractors. College managers have budgeted for similar 19+ enrolments in 2017/18. In 2016/17 there were 377 Apprentices and 297 in 2017/18. Higher Education enrolments have fallen significantly from 278 in 2016/17 to 198 in 2017/18 with a corresponding shortfall in fee income against budget of over £200,000.

The curriculum planning process historically has been unreliable in producing a curriculum offer that is financially sustainable, as staff costs are too high and average class sizes at 13 are too small. Whilst changes to improve this process have been introduced this year, the FEC assessed this to be far too slow for this point in the academic year to be confident that it will bring about the required efficiency gains.

The Principal recognises the changes that need to be made, but prefers a process for bringing about the changes required is one the Principal describes as ‘evolutionary’ rather than ‘revolutionary’. The Vice Principal for Curriculum and Learning and some curriculum managers have an expectation that the College can grow learner numbers quickly enough to be able to recover the financial situation without reducing staffing. Based on recent performance this approach appears unrealistic.

The present Three Year Development Plan 2015-2018 (updated July 2017) is now insufficiently up-to-date on exactly how senior managers are going to critically review their curriculum or have the capacity to formulate specific plans in the required timescales and make the required efficiencies.

Quality Assurance and Improvement

Discussions regarding the actions emerging from the recent Ofsted Inspection had taken place at senior and middle manager meetings and a number of specific actions agreed. However, at the time of the FEC’ assessment visit the College had not yet received the draft Ofsted report for checking for factual accuracy - the Ofsted Inspection being very recent.

The quality of provision at Barnfield improved in 2016/17. The overall achievement rates at headline level for 16-18 year olds (including English and mathematics) improved from a low base by 10.9% on the previous year but are still 3% below national benchmark. Achievement rates for 19+ students improved by 5% on the previous year and are 2% above national benchmark. The Higher Education provision has recently been commended by Quality Assurance Agency for Higher Education (QAA).

However, the achievements at Level 1 (16-18) although improved by 14.5% are 10% below national average and at Level 2 (16-18) are 2% below national average. These two levels combined represent the highest volume of starts for 16-18 year olds.

English and mathematics, despite some improvement, continue to be of concern to leaders and managers.

Apprenticeship outcomes (both overall and timely) are well below the minimum levels of performance at 45.1% and 36.7% respectively and judged by both the College managers and Ofsted to be inadequate. Consequently, the College will be advised that they are being removed from the Register of Apprenticeship Training Providers. Senior managers have placed the Apprenticeship provision under internal scrutiny. Progress is being monitored fortnightly by senior managers at performance reporting meetings. New middle managers have been appointed and more assessors are now in place, but the impact is yet to be evaluated.

Senior Managers have introduced a range of quality improvement measures to improve the quality of teaching, learning and assessment in 2017/18. However, there is an urgent need to strengthen the quality assurance processes by providing more accurate and timely management information data.

The self-assessment report and judgement grades for 2016/17 were broadly accurate. However, the in-year position statements prepared for Ofsted inspectors for 2017/18 were over-generous in their assumptions and did not accurately reflect the evaluation by inspectors who awarded lower grades for the effectiveness of leadership and management, the quality of teaching, learning and assessment and personal development and welfare to requires improvement. The quality improvement plan for 2017/18 addresses the areas for improvement identified from 2016/17 but has not yet been updated to reflect the recent inspection areas for improvement or with progress on the actions to address weakness to date.

The College has not applied for monies from this Strategic College Improvement Fund (SCIF), which presents an opportunity for the College to link with a ‘good’ or ‘outstanding’ College to improve quality. The maths and English improvement work with Luton Sixth Form College might form the basis for an application. A next round application from the College could help accelerate improvement.

The College’s Financial Position

Income and Expenditure Account

The college’s turnover has fallen between 2013/14 and 2016/17. Whilst over half of this is due to the transfer out of academy operations, there has been a further year on year decline in income. Despite the reductions in turnover, pay costs have not reduced. This has resulted in exceptionally high pay costs as a percentage of turnover and significant operating losses. The operating deficit for 2016-17 compares with a budget target for the year of break-even and indicates fundamental weaknesses in the effectiveness of budgeting, forecasting and financial management.

The original budget proposals submitted to the Board in July 2017 aimed to reduce the operating deficit largely through income growth. The Board rejected this budget plan and a revised budget was prepared which stripped out most of the growth and resulted in another significant planned operating deficit. The College is currently in the process of preparing a forecast out-turn. Early indications suggest shortfalls in Apprenticeship and fee income with (as yet) no compensating reduction in pay or non-pay costs.

The prospect of another substantial operating loss in 2017-18 underlines the urgent need for a fundamental restructuring and right-sizing of the College. For several years the College has failed to address its exceptionally high pay costs, which are likely to be around 90% of adjusted turnover in 2017-18.

The delay in finalising the 2017-18 budget, coupled with the lack of adequate management reports on in-year financial performance (notably the absence of forecast out-turn) is a major weakness that is only now being addressed by the Interim Finance Director and Financial Consultant.

The Balance Sheet

The College's previously strong cash position has rapidly declined through a combination of operating losses since 2015-16 and the costs of acquiring the site for the planned new campus.

Cashflow forecasting has until recently been inadequate. The College is confident it can cover its short-term cash requirements, either through the commercial borrowing or by exercising its option to sell land but there is ongoing work to confirm forward cashflow projections. This has delayed the sign-off of the 2016-17 accounts and finance record.

Because of the tight working capital position in the coming months and the College's track record of over-optimistic forecasting, there is a strong case for external review and validation of its cashflow forecast.

The lack of long-term loans coupled with a positive current ratio has generated a financial health autoscore of satisfactory or better until 2017-18, when it is set to fall to inadequate.

Based on the College's recent financial performance and discussions with the college's leadership team, the FEC team concluded that the sale of land appears to have been the College's primary strategy for resolving its declining financial health and cash shortfall at the expense of tackling its high pay costs and operating deficits.

Financial Forecasts beyond 2017-18

The College's original 2017-19 financial plan was submitted in July 2017 but did not include assumptions for the capital project. A revised plan was requested by ESFA, which was submitted in November 2017. The revised financial plans fell short of acceptable standards with no accompanying narrative, gaps relating to the management of cashflow and no cashflow forecast covering the period of the capital project.

At the current time therefore, there is no clear position statement of forward financials and no adequate basis for the governors to make informed decisions about major capital commitments.

As part of the Financial Recovery Plan required by ESFA, it is essential that the College produces a robust and realistic forward financial plan that indicates how the College can restore its financial health and which models the monthly cashflow implications of its capital plans.

Financial Management and Control

Budget setting arrangements

The College recognises fundamental shortcomings in its budget setting and forecasting processes, with clear evidence of concerns being registered by Governors and the Chair at the July 2017 Board meeting.

In December 2017 the College engaged an experienced FE Finance Consultant to support the College and following the departure of the Executive Director of Finance and Resources an interim Finance Director with previous FE experience was appointed in January 2018. The interim Finance Director and Finance Consultant are working hard to establish the baseline financial position for 2017-18 and the forward cashflow forecast, as part of work on the Financial Recovery Plan. This is however work in progress and there is significant work required to build a robust forecast for 2018-19 onwards that fully addresses the underlying operating deficit.

In light of past and current shortfalls in income, a growth-led recovery plan is too high-risk. A step change in curriculum efficiency linked to a major staff restructure before the end of this academic year appears unavoidable. Inevitably this will incur one off staff restructuring costs and these should be factored into the financial forecasts.

The College should pay much greater attention to the four area review financial indicators, three of which it currently fails (adjusted current ratio >1; pay cost as % of turnover <65%; operating surplus >3-5%). Rapid movement to bring performance in line with these indicators should be a high priority if the College is to put itself on a sustainable footing.

A high-level target reduction in the operating deficit of around £2 million by 2018-19 would appear necessary coupled with emergency actions to contain this year's deficit.

Financial record keeping and Budget Monitoring

Financial record keeping and budget monitoring falls well short of acceptable practice. The format and presentation of the December 2017 management accounts does not give the Board the information it needs to exercise effective oversight of financial performance.

These are significant shortcomings that the Interim Finance Director and Finance Consultant are working hard to address. This is essential for both the College and its external stakeholders.

Since January 2018, the College has acted to strengthen the finance function through the engagement of an interim Finance Director and a Finance Consultant (three days per week).

The Interim Finance Director oversees a small finance team led by a qualified Head of Finance who is new to the College and the FE sector. Given the limited FE experience within the finance team, the College should monitor workloads and priorities during the coming months to ensure there is sufficient capacity to drive forward the financial recovery plan and remain on top of cashflow management.

Internal and External audit

Two internal audit reviews in 2016-17 identified significant weaknesses in internal control (student applications and payroll) which were reflected in the Head of Internal Audit's annual report. The College was subject to a fraud in November 2016, which was made possible by a weak control framework although the College appears to have acted promptly to address the weaknesses in its controls.

The Annual Report of the Audit Committee for 2016-17 concluded that it was satisfied as to the adequacy and effectiveness of the College's assurance arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency of the institution and the safeguarding of its assets. In reaching their opinion the Committee took into account a subsequent follow-up audit which explored the extent to which weaknesses in student applications and risk management had been addressed.

Due to ongoing work to confirm forward cashflows, the external audit of 2016-17 and finalisation of the financial statements is currently outstanding. The College has therefore failed to provide its financial data as required by ESFA. As a result of the College's recent application for Exceptional Financial Support, a Notice to Improve for financial control from the ESFA is imminent.

Estate and Buildings

The College has two campuses located on the northern outskirts of Luton. Based on the latest data 46% of the College estate is in poor/unsatisfactory condition. Minimal recent capital investment has been made at either of the campuses pending progression of plans for a new campus to be built on a 1.8 acre site in Luton town centre. The condition of some buildings at New Bedford Road is particularly poor, resulting in significant maintenance and repair costs. Several parts of the campus are unused and in the process of being mothballed.

The College has considered a range of options for the new build in the town centre, ranging from 8,000m2 to 13,600m2 dependant on costings and funding available. The College is currently pursuing the 8,000m2 solution at an estimated cost of £40 million, with a target date for completion by summer 2021. This option will allow the College to vacate and sell the New Bedford Road campus. A further phase of 5,600m2 would enable the College to co-locate all provision at the town centre campus and vacate/sell the Enterprise Way campus.

Although aspects of the financing and planning approvals were not finalised at the time of the FEC visit, the College has already acquired the town centre car park site and commenced work on planning and design. Governors appear confident that substantial sale proceeds can be achieved from the extensive site at New Bedford Road and local authority appears to be very supportive of the town centre campus plan. Notwithstanding this, the College needs to take great care to ensure that the upfront costs of the capital scheme do not jeopardise the College's short-term finances.

Conclusions

Although the College has made significant improvements in quality since 2014, aspects of provision (specifically Apprenticeships) are inadequate and a number of other areas still require improvement.

The College's financial performance is a major cause for concern, with significant operating losses in 2015-16 and 2016-17 likely to be repeated in 2017-18. This has weakened the College's balance sheet and eroded cash balances to the point where the College will need to sell land or secure commercial loans.

A step change is urgently required, both in the quality and reliability of financial information coupled with decisive leadership to right-size the College and deliver a realistic and credible Financial Recovery Plan.

The College does not currently have a clear enough picture of its forward financial position to be confident it has a sustainable future as a standalone institution. Whilst the opportunity to request Restructuring Funds remains open, there is a compelling case to progress with the FEC-led Structure and Prospects Appraisal recommended by the South East Midlands Local Enterprise Partnership area review.

Recommendations

1. The FEC should complete a Structure and Prospects Appraisal by July 2018 to confirm a sustainable future for Barnfield College which best meets the needs of learners.
2. Governors should take further action to address serious deficiencies in financial management and leadership, including the establishment of a Finance Committee and the reinstatement of the post of Director of Finance as a senior post accountable directly to the Board.
3. The Principal should ensure rapid improvement in the reliability and accessibility of data to inform better decision making and curriculum planning; underpin student number forecasts; accelerate quality improvement activities and improve the tracking of student attendance and attainment.
4. By March 2018, the Principal should ensure the completion of a fully costed curriculum plan for 2018-19 based on a realistic and achievable assessment of student numbers which delivers a step-change in curriculum efficiency without compromising ongoing work to improve quality.
5. Governors must ensure that the College's financial recovery plan sets clear and measurable targets to right-size the College; drive down pay costs below 65% of turnover; and achieve a substantial reduction in the 2018-19 operating deficit of at least £2 million.
6. Governors should consider external testing and validation of the cashflow forecast to ensure that the short-term risks to the College's finances are adequately mitigated

The College should be placed in administered status until there is sufficient evidence of a significant improvement in financial management and forecasting.

The FEC will undertake a monitoring visit in March 2018 to review the robustness of the College's financial recovery plan and the capacity of the leadership team to deliver the step change needed in financial performance, whilst continuing progress on quality improvement. A full stocktake will be undertaken in October 2018.

Appendix 1: Consultees

Chair of Governors

Chair of Capital Project Task Group

Chair of Audit Committee

Principal

Clerk

Vice Principal for Equalities and Safeguarding

Vice Principal for Curriculum and Learning

Interim Director of Finance

Director of Quality and Improvement

Director of Funding and Management Information

Head of Facilities

Senior HR Business Partner

Curriculum Heads of Department

Group of Managers / Staff

Group of Students

Union Representatives

Chief Executive of Luton Borough Council

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