Department for Education

FE Commissioner Intervention Summary: Gateshead College

December 2019 / January 2020

Update on progress since FEC intervention assessment

Since the FEC intervention assessment, the college has made good progress in implementing the FEC team recommendations. Moreover, changes that the college has implemented have had a positive impact on facilitating the college's recovery by addressing staffing and restructuring issues whilst ensuring that the college works through the COVID-19 pandemic in a calm and responsive way.

The appointment of an experienced chair, an interim principal and interim finance director, together with a board that has been refreshed by new appointments, has had a significant impact on the organisation. The college is now stable and responding positively to its financial and organisational challenges.

Good progress has been made in developing the financial recovery plan, though work remains to determine strategies to mitigate the risk of future financial under performance, with increasing cash levels remaining a key challenge. The newly restructured senior leadership team has driven the planned staff reductions process, which has achieved significant non-pay savings. In respect of learner experience, the college has maintained high standards, as evidenced in 2020 learner outcomes and the subsequent high level of enrolment for the new academic year.

A structure and prospects appraisal (SPA) process has been recently concluded. The process of re-establishing the college as a local centre of excellence is underway, including the recruitment of new, permanent senior postholders.

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Name and address of college	Gateshead College Baltic Campus Quarryfield Road Gateshead NE8 3BE
Assessment undertaken by	Richard Atkins – FE Commissioner Martin Sim – Deputy FE Commissioner Teresa Kelly – Deputy FE Commissioner Bob Smith – FE Adviser
Chair of the college	John McCabe
Principal / Chief Executive of the college	Judith Doyle
Clerk to the Corporation	Womble Bond Dickinson LLP (Lead individual Emma Moody)
Date of assessment	16 and 17 December 2019 17 and 22 January 2020

Background to FE Commissioner Intervention Assessment

Gateshead College was referred for a diagnostic assessment (DA) due to financial concerns when the college indicated a need for exceptional funding support from the Education and Skills Funding Agency (ESFA) in November 2019. The Further Education Commissioner (FEC) and his team visited the college in December 2019 to undertake the DA and found significant financial issues. A Financial Notice to Improve was issued by the ESFA on 20 December 2019 and the college was escalated to formal intervention. The FEC team carried out additional visits in January 2020 in order to complete a full intervention assessment. The recommendations in this report relate to issues that were identified in December 2019 and January 2020.

The FEC team's report is intended to advise the Minister and the chief executive of the ESFA on:

1. The capacity and capability of the college's leadership and governance to secure a sustained financial recovery within an acceptable timetable;

2. any actions that should be taken by Gateshead College to deliver a sustainable financial recovery within an acceptable timetable; and

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

Overview of the college

Gateshead College is a medium-sized, mixed economy college of further and higher education that is based within the Gateshead local authority. The college's new main site, which is located on the Tyne River Quayside, opened in January 2008 and is part of a 14-hectare mixed-use site developed by Gateshead Council that is referred to as the Baltic Quarter.

The main site is complemented by 5 other smaller campuses offering accommodation in key locations across the North East in Newcastle, Gateshead and Sunderland.

The college offers a broad range of vocational and academic curriculum for young people and adults, from foundation level to higher education (HE) including apprenticeships. The majority of learners study level 2 and level 3. The college mainly recruits from the Gateshead local authority area where it remains the most popular choice of destination for 16 to 19 year old residents; some students are recruited from neighbouring Newcastle, South Tyneside and Sunderland areas.

The provider market is highly competitive. There are 3 general further education (FE) colleges within a 10-mile radius of Gateshead, in addition to 41 academies or secondary schools offering provision for 16 to 18 year olds (excluding independent and special schools).

The North East Area review concluded in February 2017. The recommendation was for Gateshead College to continue to operate as a stand-alone college working with neighbouring colleges on a collaborative curriculum offer.

Initial concerns about the financial position of the college arose when anomalies came to light, including understated creditors and irregularities in the outturn position for 2017/18. As a result, the college's forecast outturn of a small surplus for 2018/19 became a significant deficit after the year end, which required the college to seek emergency funding from the ESFA.

The principal/chief executive officer (CEO) brought forward her planned retirement to 31 December 2019 and a deputy principal stepped up on a temporary basis as acting principal. The chair of the board resigned on 17 January 2020, following feedback from the FEC team. It was noted that whilst the chair had acted with integrity, at this particular time the college needed a chair with substantial FE sector recovery experience. On 22 January 2020, a chair with such experience was appointed by the board.

Gateshead College was judged as Outstanding when inspected by Ofsted in June 2015; self-assessment 2019 judged that the college had retained this position. In January 2020, a full inspection by Ofsted provisionally revised the overall grade to Requires Improvement.

Leadership and governance

Role, composition and operation of the board

The board of governors is made up of 13 members, including the principal/CEO and one staff governor. In addition to the main board, there are 5 committees: teaching and learning; corporate services; business; audit; and remuneration. The board also has responsibility for the Gateshead College Foundation, a subsidiary body that was established in 2011 to provide an additional source of hardship funds for students.

In July 2019, the previous chair stood down after 11 years in post. He was replaced by a chair who was identified through an external recruitment exercise. However, due to the need for a chair with substantial FE experience and certain potential conflicts of interest with other public posts that he held, the newly appointed chair stood down from the post in January 2020. During the intervention assessment, a chair with significant FE and HE experience, at both management and board level, was identified. His appointment to the post was endorsed by the board in January 2020.

In October 2019, the board was informed by the principal that the college was going to underperform significantly with regard to the 2018/19 financial end of year position. The corporate services committee and the board received a set of management accounts in early July 2019 that indicated that the financial end of year position would be in surplus and in line with the budget set. The deputy principal (finance and resources) went on long-term sick leave at the beginning of September 2019. It became evident at this point that the reason for the late indication of the financial deficit was unclear and that the principal as chief accounting officer was unable to provide an adequate explanation about the cause or extent of the shortfall.

The board immediately commissioned an external company specialising in investigative reporting to review the circumstances surrounding the unplanned deficit position. This report was received by the board at the end of January 2020. The report commented on the cause and full extent of the deficit, and concluded that the operation of the senior leadership team (SLT) and their relationship with the board was not good and that it had contributed in part to the current position of the college.

As of February 2020, the projected end of year position for 2018/19 was a significantly large deficit. The underpinning cause of the unplanned deficit position was a failure by the board and the SLT at the college to address the very significant reduction in income that was the result of the loss of the European Social Fund (ESF) contract. Given the scale of the reduction, the board failed to make sure that adequate and timely action was being taken to restructure the college and the curriculum in order to ensure that current and future expenditure was aligned to income. The operation of the quadrant system[1] contributed to this failure because it allowed for the masking of key issues and allowed the board not to consider the performance of the college in its entirety.

The board of governors placed much reliance on the fact that the college had been judged as Outstanding by Ofsted in 2015 and, up until summer 2019, the principal and other members of the SLT were reporting that there were no significant financial concerns. This position was seemingly supported by internal and external audit reports, despite the fact that income was reducing considerably due primarily to the loss of a major ESF contract. There was also a downward trend in recruitment,

[1]A system, adopted from the commercial sector, for the organisation of priorities across the organisation

particularly in the area of apprenticeships, and queries regarding the financial treatment of large sub-contracting arrangements. In addition, the board failed to exercise sufficient oversight of sub-contracted provision, which represented a considerable proportion of college provision.

Remuneration committee

The remuneration committee have responsibility for recommending the pay packages of the senior post holders and other members of the SLT. The remuneration packages for these staff have included an annual pay award significantly in excess of that paid to college staff, plus an annual performance bonus payment averaging in excess of 10% of annual salary plus a 3 year talent retention bonus, which was paid out in full to all those in scope in August 2019. This has led to these senior staff being remunerated at much higher levels than at other similar FE colleges.

Oversight by the board and the remuneration committee of the various performance related payments made to the SLT, including the annual pay rise, was limited and relied on input from the principal and former chair. The FEC team understands that annual pay rises were awarded to SLT members without consistent appraisals or performance review activity taking place. SLT members were asked to prepare their own annual targets and there was insufficient benchmarking across the FE sector to ensure that the board could satisfy themselves that the payments were appropriate and represented value for money.

According to remuneration committee minutes, the committee was advised that in determining the appropriateness of the principal and SLT's remuneration package, members needed to take account of a series of factors. These included value for money, reputational considerations and how the levels of senior pay compared to pay levels and pay awards that were made to the rest of the college staff. There is also evidence that the clerk raised similar issues with the committee on a number of occasions. The minutes do not record that any consideration was given to this advice.

The Talent Retention Bonus (TRB) scheme was not in-line nor tested against FE sector best practice. It was inappropriately bench-marked against wider, non-FE sectors. No challenge was made to the proposals by board members and the board approved the scheme.

The remuneration committee and the board approved the full payment of the TRB just before the end of the 3-year period of the scheme on the basis that they understood that the conditions of the scheme had been met in July 2019, but without taking account of the true financial position of the college. Approval and payment were made before the full 2018/19 end of year position was known, despite two of the criteria for the payment being affordability and college financial performance.

The board of governors should reflect on whether the process for remuneration of the senior postholders and other members of the SLT was sufficiently robust and transparent. They should also consider whether the pay and bonuses that were awarded, including the TRB, were appropriate and represented value for money in light of recognised best practice across the sector and the declining position of the college over a period of time. In addition, the board will need to consider if there was any correlation between the timing of the payment of bonuses, including the TRB, with the timing of the notification of financial issues facing the college. Minutes of the remuneration committee in November 2019 indicate that had the board been aware of the deficit position, the TRB would not have been paid.

Clerking arrangements

Clerking arrangements are contracted to a firm of solicitors who have some experience in providing clerking services across the sector. The clerking function is supported by administrative support provided by the college.

The clerking arrangements are adequate, but there is a risk that the level of resources that are available through the contract arrangements may be insufficient to provide full oversight of board procedures, particularly in relation to issues of remuneration, financial performance and the maintenance of fiduciary responsibility. The board will need to consider whether the current arrangements provide enough clerking resource to meet and improve the corporate oversight of the college.

Leadership and senior management team

At the time of the December visit, the SLT consisted of the principal, 2 deputy principals (one each for finance and resources and curriculum and quality) and 4 directors; 5 of the 7 members of the SLT are senior postholders. The principal was appointed in June 2013. She had worked her full FE career at the college, starting as a part-time teacher for English and employability skills. The principal left the college at the end of December 2019 and the deputy principal (curriculum and quality) took up the role of acting principal with effect from the 1 January 2020.

The quadrant system introduced in 2013 had the consequence of allowing the leadership of the college to operate in isolation of each other; focus was on the achievement of strategies that were relevant to their quadrant of responsibility rather than promoting corporate leadership and accountability. The general working arrangements for the SLT were at best dysfunctional and, through a lack of knowledge and understanding of each other’s areas of responsibility, the SLT were overconfident regarding the overall position of the college. Too much reliance was placed on the oversight and management of the college finances by the deputy principal (finance and resources). No effective forum was in place to question or challenge strategy. Communication was poor and team members have suggested that the principal was unresponsive to concerns that were being raised.

Members of the SLT reported that there was limited collective oversight of financial matters. Key items, such as the management accounts, were not considered at SLT meetings. Financial matters were held within the remit of the deputy principal (finance and resources), and discussions with him regarding financial strategy and performance were limited to the principal. SLT members did not challenge this position. They did, however, report that they raised concerns with the principal about the working relationship at SLT level, but that these concerns were not acknowledged.

Members of the team also reported that no formal appraisals took place despite the link between their remuneration package and their performance. They were asked, by email, to set their own annual targets, which were then presented to the board as the basis for their performance bonus payments and annual pay award. Given the level of remuneration across the SLT when benchmarked against the rest of the sector, this approach on the part of the principal was unacceptable and gives rise to questions regarding conflict of interest.

Self-assessment is overgenerous and has failed to attach enough weight to performance in the area of apprenticeships and subcontracting. College leadership was unable to recognise that their Outstanding Ofsted rating was at risk and therefore approached many aspects of essential improvements, such as apprenticeship provision, with an insufficient level of priority.

The board will need to consider if the current SLT is fit for purpose and represents value for money given the major challenges facing the college. In addition, the board needs to ensure that senior postholders are encouraged to raise matters of concern directly with board members. This does not appear to have been the case, although executive team members attended every board meeting and relevant committee meetings.

Curriculum and quality improvement

Curriculum and provision overview

The college offers a broad range of academic and vocational qualifications at all levels which attract over 2,000 learners aged 16 to 18. Responsiveness to local employer and learner needs has been a key priority; ranging from an innovative career college programme for 14 to 16 year olds to level 3 electrical and mechanical pathways developed with Ford Engineering, NOV and Beamish in order to address regional skills gaps.

The adult curriculum is varied and designed to improve individuals' life chances and contribute to progression rates to employment and higher education.

Adult delivery through Access to HE Pathways, employability programmes and English for Speakers of Other Languages (ESOL) are very popular. Adult pre-employment programmes are offered in response to local employment demands. Pathways to Employment has benefitted from partnership with Intu and Go North East. The apprenticeship curriculum is current and informed by employers considering regional and national skills shortages.

The college operates a small, highly focused HE curriculum that is informed by employer partners and the local enterprise partnership (LEP), which is closely aligned to higher apprenticeships.

Curriculum planning and development

There is significant anecdotal evidence to confirm that the college has aligned its curriculum strategy to the clearly defined economic priorities that are identified by the North East LEP in their strategic economic plan. The college reports strong collaborative partnerships with employers. The college's core curriculum prepares learners to progress. A high proportion go on to positive destinations, including higher-level learning, employment or apprenticeships.

The business dimension to planning is limited and the concept of contribution analysis is underdeveloped. High level indicators such as class sizes and staff deployment are monitored for traditional classroom full-year provision. However, the college has developed a very broad curriculum, which is delivered in a variety of ways, and continues to be responsive to time limited funding opportunities that occur, as evidenced by the differing income levels recorded over the past years. Whilst direct costs are managed appropriately, it is difficult to determine the impact of a proposed loss of funding on college services that are benefitting from this additional income.

There is a significant risk that core services to the key 16 to 18 curriculum have been significantly subsidised by the income that was raised from the ESF project. The loss of this subsidy will have an impact on the level of services that is currently offered to students.

The college's successful ESF project concluded in July 2019, at which point direct resource costs were immediately removed. However, indirect costs relating to college services remain unclear with the risk of future underfunding of these services. A planned reduction in subcontracting has also resulted in a reduction in funding to associated support services; it is unclear if resulting necessary savings have been made in full.

Management of the apprenticeships comprises a finance and quality function. In practice, these functions are discrete and the curriculum function does not have timely access to financial data. There is a significant risk of missing key income targets; the additional risk with capped non-levy funding is that enrolments will not be funded; and the planned enrolments may be affected by the unforeseen funding impact of continuing apprentices.

The college has recently agreed with Northumbria University to deliver management qualifications in the South East of England. A pilot is scheduled to start later this academic year. However, there is no agreed internal business plan, logistics around delivery and quality have not been detailed or costed, and risk assessment and mitigation of risk have not been considered.

Quality improvement and self-assessment

Education and training are strong, and outcomes are significantly above national benchmarks; however, value added measures indicate room for improvement. In 2017/18, the college's 16 to 18 English progress score and 16 to 18 maths progress score were below the averages for Gateshead and England. The college's Performance against Target reports a more positive view for 2018/19.

Other provision (excluding apprenticeships) continues to meet targeted outcomes. ESF provision outcomes have been externally audited.

The apprenticeship QAR reported in 2018/19 has dropped 20% over a 2-year period; the college will fall below minimum standards for aspects of apprenticeship delivery.

The decline is primarily as a result of data cleansing. Internal provision is now in recovery; partner provision has been removed. The college has introduced new systems to track learners and monitor leavers and is forecasting that the QAR in 2019/20 will improve.

The college was subject to an ESFA apprenticeship audit in February 2019, which resulted in a clawback of funds. This was because the process of withdrawals/leavers was too slow and not recorded until post R14. However, following clarification with the ESFA, the clawback was reduced. The senior leaders who were responsible for managing the ESFA clawback did not inform the apprenticeship senior (tier 3) or middle managers of the ESFA audit; this is poor practice.

Analysis of the internal audit programme over the past year indicates that critical business items, for example student records, have not been audited. Further investigation confirmed that student records, funding and student support funds have not been internally audited for more than 3 years. The absence of external assurance presents a significant operating risk.

The self-assessment report is structured to celebrate the outcomes of its learners and contains a thorough, evidence-based analysis in respect of strengths and areas for improvement of the college's teaching and learning. Arguably, it understates the significance of issues within apprenticeship delivery; however, areas for improvement are being robustly addressed. Governors are fully aware of these issues and challenge and support accordingly.

Discussions with staff and managers (tier 3+) indicate a siloed approach to management. Individuals seem knowledgeable about their own areas of responsibility but are unable to articulate a thorough understanding of the whole college position other than headlines. Self-assessment does not identify this as either an issue or risk.

Leadership and management is graded Outstanding – this is not reasonable or appropriate given overall academic performance and the level of financial issues reported.

Trends in student recruitment and retention

The core business of the college remains 16 to 18 learners.

16 to 19 allocated student numbers at Gateshead College have increased by 15.5% between 2016/17 and 2019/20. This is reflected in an increase in allocated funding over the same period. Actual student numbers saw an increase of 14.1% between 2016/17 and 2017/18; however, they declined by 10.6% in 2018/19. This was due to the end of a sub-contracting arrangement and fewer shorter duration learners.

High level analysis of enrolment (all age) would indicate that 24.3% of enrolled learners left the college before meeting the funding requirement of 42 days. This appears to be high and requires further analysis.

Student views

Students whom the FEC team met were primarily 16 to 18 and based at the Baltic Centre. All had made an informed choice to come to Gateshead College, having looked at other neighbouring FE institutions and/or considered remaining in their school sixth form. They were all positive about their learning journey from initial enquiry through to enrolment; they were complimentary about staff at the college.

They reported class sizes in the order of 15/16, with many opportunities for one-to-one support. A number of students had made use of the college's support services; they had been dealt with promptly and professionally.

The reputation of the college locally is very positive. The students considered that they were on the right course and, with the college's assistance, would achieve their desired outcome.

Staff views

Staff were surprised at the scale of the financial issues that were facing the college. Up until the initial FEC visit in December 2019, they were not aware that there were major gaps in the college financial position.

They reported that they felt that they were well supported by the college and that the key message that they received from senior managers was about providing the best possible experience for students. Whilst highlighting that they were encouraged to be prudent in managing their resources, they did not identify any circumstances where they felt that they were under resourced.

Generally, the staff held the principal in high regard and felt that she was dedicated to the college and its students.

Effectiveness of the college to manage and improve quality

The college will need to make significant financial savings that will impact on both management capacity and existing processes and procedures.

The college's SLT lacks transparency, problem ownership and co-ordination; it is disappointing. They have adopted a style of leadership that encourages and restricts staff to work within their own areas. The current situation will demand a distinct change of style to manage change and minimise impact on quality and standards.

The interim chair and the board will need to assess the capacity, capability and support requirements in order to facilitate significant change.

Finance and audit

The college is facing serious financial challenges. Most of the challenges have occurred as a result of a failure to effectively manage the financial performance of the college over a period of years. The position has been compounded because there has been a failure of communication within the SLT and from them to the board of governors.

The last set of management accounts were April 2019, which showed a deficit to date and a full year forecast surplus. The year financial forecast 2019/2021, produced in July 2019, also forecast a surplus for 2018/19. The deficit came to light after the deputy principal (finance and resources) went on sick leave and the finance team started to close down the accounts in September 2019. The board of governors commissioned an independent forensic investigation of the causes of recent events. This included a review of governance and oversight of financial matters. The investigation identified the reasons for the deficit.

Just over half of the deficit is related to prior years and just under half relates to 2018/19. The trading position of the college has, therefore, been in deficit for a number of years, but this has been masked by misstatement of accruals. The main areas of concern are highlighted below.

Individualised Learner Record (ILR) clawback

In February 2019, the ESFA undertook an audit of the college ILR which identified that the college had claimed for students who had subsequently withdrawn. 90% of the sample were through partner delivery. The ESFA wrote to the college on 26 July 2019 informing them of a clawback. The college disputed the figure as some of the clawback related to transfers. The college did, however, identify late withdrawals after the ESFA audit. The total reduction was subsequently confirmed.

Apprenticeship income

The college was over optimistic in its budgeting for apprentices and this was compounded by a profile which had a significant amount of the new starts late in the year. Therefore, adverse variances were not reported. The college also miscalculated its carry-in from 2017/18. The college was subject to clawbacks in 2018/19 as a result of the late withdrawal of learners after the R14 in 2017/18. However, the impact of the learner withdrawals on the carry-in to 2018/19 was not realised when the budget was set, i.e. all learners withdrawn after the R14 close in October 2018 relating to previous years would result in less carry-in to 2018/19. This should have been identified early in 2018/19 and reforecast.

Subcontracting

The college has been heavily reliant on subcontracting to deliver its ESF project. The incorrect budgeting and accounting for these costs has been a major factor in the size of the deficit, with around 40% of the deficit relating to incorrect budgeting in-year or previous years' subcontracting incorrectly accounted for. The independent report highlights a number of concerns relating to subcontracting, which require further investigation.

2019/20 to 2020/21 financial forecast

Due to the significant adverse variance in the financial outturn for 2018/19, the college reset its 2019/20 budget and 2020/21 forecast. This was approved by governors on 4 November 2019.

Forecast 2019/20

Performance to date shows that the college was already exceeding the budgeted deficit forecast in the November 2019 management accounts.

The college would have to achieve an overall surplus for the remaining 8 months to achieve the reforecast deficit.

Despite the operating deficit as of November 2019, the SLT were confident that the forecast deficit would be achieved. However, in January 2020, the SLT recognised that this was not the case and are preparing a second revised reforecast for 2019/20 and 2020/21. The 2019/20 second reforecast is for a much larger deficit.

The college have not yet prepared a revised forecast for 2020/21. However, this will require greater pay savings, which may impact on higher restructuring costs in 2020/21.

It is imperative that the revised forecasts for 2019/20 and 2020/21 and associated cashflows are robust and achievable and have the full understanding and support of the SLT and governors. In particular:

- Income streams should be based on income to date and a realistic projection to the year end.
- Pay expenditure should be realistic in the timing and impact of savings.
- The decision not to seek savings in the curriculum area should also be reviewed.
- The pay of the SLT should also be reviewed as, even with a 10% reduction, they remain significantly above sector averages.
- A 24-month rolling cashflow without excessive and unrealistic creditor stretch.
- One-off costs likely to arise this year should be included.
- The college urgently needs to secure external funding in order to remain solvent.

Cash and liquidity

The cashflow forecast has deteriorated significantly in a short space of time and does not include a request for exceptional ESFA funding required to maintain college solvency.

The variances in the cashflow forecasts are due to the cash effect of the increase in deficit and release of unrealistic creditor stretch.

A short-term cashflow loan was made from the Gateshead College Foundation (GCF) to the college during the year to 31 July 2019. The full amount was repaid in July 2019. However, funding was transferred from GCF to the college in September 2019 and its repayment remains outstanding. It appears that this has been custom and practice over a number of years; however, it does not appear to have been approved by either the board of the college or GCF. The college does not have the cash to repay this loan. The college needs to review the legality of the transfer from GCF to Gateshead College.

The college is seeking an emergency loan with the EFSA to enable it to remain solvent. The amount is likely to be increased based on the latest cashflow. The college urgently needs to secure external funding in order to remain solvent.

Finance team

After the finance director went off sick in September 2019, the college appointed a governor as interim finance director (the governor resigned from the governing body), who oversaw the production of the November 2019 reforecast. The college appointed an interim finance director on 6 January 2020 on a 3 day per week contract. Given the extent of the financial challenges at the college, the board and the interim finance director should urgently assess finance staffing and appoint additional experienced finance specialists with immediate effect. This is needed to ensure that the finance function is fit for purpose and has the capacity to swiftly address the strategic issues facing the college.

Audit and risk

The external auditors have not completed their audit for 2018/19 as they are awaiting the college to confirm that they are a ‘Going Concern’. However, the auditors did give an unqualified audit opinion for previous audits. The external auditors declined to take part in the independent forensic investigation and the college should seek an explanation as to why the prior year adjustments to the 2018/19 were not identified during the audit of the 2016/17 and 2017/18 annual accounts.

Given that a significant amount of the deficit is related to the recognition of subcontractor costs in the wrong year, the college should query with their internal auditors why this was not identified in the audit of suppliers and payments. The board should ensure that internal audit focus on corporate areas that are business/financially critical and high risk such as subcontracting, the ILR and registration systems.

Current position with estates and asset disposal

The college has potential to dispose of some of its estate in the immediate future. These options need to be progressed as a matter of urgency. Where parts of the estate have been developed with use of ESFA funding, the college must confirm that this money is not repayable.

The college does not have an estates strategy. Whilst the overall condition of the estate is good, the number of sites and size may not be appropriate to a college of this size. The college urgently needs to develop a written estates strategy, including any planned disposals or significant investments, which can be approved by the board.

Conclusions

The board of governors have failed in their oversight of the college primarily through a lack of communication with the principal and members of the SLT. They have relied too heavily on the advice of the principal, the deputy principal (finance and resources) and other members of the SLT. They have not exercised an appropriate level of challenge, particularly in relation to financial and remuneration matters. They appear to have been ill informed regarding the general health of the college and have accepted, with little challenge, the views of members of leadership team and external bodies. Some of the external advice that was received was limited in its scope and, in the case of remuneration matters, failed to provide an adequate assessment of value for money and best practice across the FE sector.

SLT members, whilst reporting that they were unaware of the financial position of the college, failed in their corporate responsibility as senior postholders to provide leadership and take corporate responsibility for the performance of the college. They were all aware of the over reliance on the deputy principal (finance and resources) and they failed to address the issues of poor communication. The consequences of a lack of transparency across the SLT led to a failure by the principal and SLT to take the required actions to maintain quality levels and financial viability. All were aware of the loss of a substantial income stream but failed to challenge the adequacy of the financial strategy that was put in place to address this. At best, the SLT were over optimistic and unrealistic in their assumptions and believed that they could grow themselves out of the decline in funding.

The principal and SLT communicated to staff that the most important priority was that the college provided and maintained an outstanding curriculum offer for students. In doing so, they failed to provide the leadership required to ensure that the college was financially viable and managing its resources efficiently and effectively. They also over assessed the overall performance of the college, particularly in relation to apprenticeship provision, relying too heavily on those areas of the college that were and are performing very well. Within the SLT and the board, there was a siloed culture that was encouraged by the principal, the former chair and the deputy principal (finance and resources), which resulted in a lack of transparency and accountability for the declining position of the college.

The SLT have been in denial about the extent of the financial crisis that the college now faces, despite evidence that the reforecast in November 2019 was not going to be achieved. There has been a shared lack of ownership and responsibility for the preparation of the original budget and November reforecast by the SLT.

Large short-term contracts, such as the ESF project, provided a significant financial contribution to the bottom line and served to provide a substantial subsidy to the cost of core curriculum delivery. There was an insufficient link to curriculum planning and delivery and the allocation of resources. Resources allocated to teaching, learning and assessment were overgenerous and well above the efficiency benchmarks that are set for the FE sector. Plans to address these core inefficiencies, as set out in the recovery plan, are not sufficient and rely too heavily on unrealistic assumptions regarding potential growth.

Recommendations

1. The interim chair should assess by 31 January 2020 the competency, capacity and commitment of the existing board to ensure that moving forward the board is fit for purpose.

2. In consultation with the ESFA and the FEC team, the board should appoint by 28 February 2020 an experienced interim principal from outside the current SLT.

3. The interim chair and interim principal should determine and approve the restructure of the SLT by 31 March 2020 with implementation by the end of the academic year in order to facilitate recovery from corporate failure, ensuring that the SLT has the essential skills, expertise and independence to accelerate recovery.

4. The board should ensure that by 1 August 2020 the remuneration of all senior staff reflects best practice across the FE sector.

5. The terms of reference and membership of the remuneration committee should be subject to review by the board by 28 February 2020; all decisions of the committee should become recommendations to the main board.

6. The board should ensure that by 31 March 2020 there is enough clerking capacity to support the board through a challenging recovery.

7. The board and interim finance director should by 31 January 2020 review finance staffing and appoint additional experienced finance specialists with immediate effect. This is needed to ensure that the finance function is fit for purpose and has the capacity to swiftly address the strategic issues facing the college.

8. In order to develop greater confidence with stakeholders, including the funding agencies, the interim finance director needs by 28 February 2020 to:

    - Review and update the 2019/20 budget and 2020/21 financial forecast.
    - Review and update the cashflow (minimum 24 months).
    - Review and update the monthly management accounts.
    - Ensure that the above are timely, robust and accurate, and understood and supported by the SLT and board.

9. The board must endorse by 28 February 2020 a prudent, robust and accurate recovery plan to ensure that the college can produce an achievable surplus budget in line with FEC benchmarks.

10. The board should ensure that the recovery plan (recommendation 9) sets out the strategy for achieving a staff to income ratio of 65%, sets out a strategy to enable the repayment of exceptional loans, and facilitates the resolution of the college's classification with the LGPS.

11. The SLT by 28 February 2020 must take responsibility and ownership of the recovery plan and, going forward, the budget setting and monitoring process.

12. The board needs to develop a written estates strategy by 31 March 2020, including any planned disposals or significant investments that can be approved by the board.

13. Apprenticeships and sub-contracting provision are areas of significant risk and the board need to be assured by 31 March 2020 about the strategic relevance,

quality and expected income from this key area of work. In seeking this assurance, the board need to be mindful of the recommendations in the independent forensic report.

14. In line with the independent forensic report, further investigation by the board is required by 31 March 2020 into partnership payments over the period 2016 to 2018 and a review should take place urgently to ensure that the current sub-contracting arrangements are robust.

15. The board should ensure that by 30 April 2020 internal audit focus on corporate areas that are business/financially critical and high risk. Items such as the accuracy of the ILR and registration systems should be audited as a matter of routine.

16. The board should seek by 31 March 2020 an explanation from their internal and external auditors as to why the prior year adjustments to the 2018/19 accounts were not identified during the audit of the 2016/17 and 2017/18 annual accounts or the internal audit of suppliers and payments.

17. The management accounts should be produced each month and reviewed and endorsed by the SLT.

18. The board and interim finance director by 31 January 2020 need to secure external funding in order to remain solvent.

19. The board needs to review by 28 February 2020 the legality of the transfer of funds from the GCF to Gateshead College.

20. On receipt of the final and approved recovery plan, the FEC team and the ESFA will consider by 28 February 2020, with the college board, undertaking a structure and prospects appraisal to assess the best structural solutions for provision going forward.

21. The FEC team will recommend by 31 January 2020 that Gateshead College is put into supervised status with immediate effect.

The FEC team will undertake monitoring visits in February and March 2020.

Annex A – Information reviewed

Self-Assessment report

Quality Improvement Plan

Management accounts and associated documents

Financial Plan

Finance record

Financial planning documentation including sub-contract and apprenticeship data

Recovery Plan

Organisational Chart

Corporation membership with CV's and latest skills audit

Board minutes

Remuneration Committee minutes and briefing papers

Gateshead Foundation Trust documentation and Trust minutes

Tempest Forensic Accounting Report (January 2020)

Internal and external audit reports

ESFA Briefing papers

Independent Business Review (December 2019)

Annex B – Interviewees

Chair (Resigned 17 January 2020)

Interim Chair (Appointed 22 January 2020)

Principal/CEO (Resigned 31 December 2019)

Deputy Principal/Acting Principal wef 1 January 2020

Interim Finance Director (from 14 December 2019

Former Governor / Turnaround consultant

Clerk (Womble Bond Dickinson)

Chair Audit Committee

Chair Teaching and Learning Committee

Chair Remuneration Committee

Governor

Director of Marketing & Communications

Director of Business Development

Director of People and Organisational Development

Director of Student Experience

Director of Student Experience Funding & Data Manager

Financial Controller

Finance Manager

Assistant Principals x 5

Staff Group x 6

Unions x 2

Student Group x 6

Governor Group x 5

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