Department for Education

FE Commissioner Intervention Summary: Ruskin College

July 2020

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Background

Name of College	Ruskin College
UKPRN	10005583
Type of provision	Residential specialist designated institution
Date of visit	14 - 15 July 2020
Type of visit	Intervention assessment
Trigger for formal intervention	Decline in financial health
Further Education Commissioner (FEC) Team members	Richard Atkins – FEC Andrew Tyley – FEC Deputy Laraine Smith – FE Adviser Steve Campion – FE Adviser
Location	Headington, Oxford
Apprenticeship training provider	Yes
Latest Ofsted inspection grade	Good
Education and Skills Funding Agency (ESFA) Financial Health Grade	Satisfactory (2017/18) 2018/19 finance record Outstanding but likely to confirm decline to Inadequate
Structural history/recent mergers	Structure and prospects appraisal (SPA) in 2018 - board decided to remain independent
Special considerations	Independent Practitioner (IP) review of future sustainability in progress

Conclusion/Executive summary

Ruskin College currently faces an uncertain future due to the serious deterioration of its finances over the past 18 months. This has been caused by a sharp decline in higher education (HE) enrolments alongside a substantial overclaiming of adult education and bursary funding due to the misapplication of funding rules and poor record keeping. Despite generally positive quality indicators, volumes of on-site provision are now very low, and turnover has fallen despite a significant number of short courses that are delivered off-site. This low level of activity raises fundamental questions over the college's prospects and its capacity to repay overclaimed funding. Future options are currently being assessed by an ESFA-appointed IP. This is a challenging time for governors and staff, which is further exacerbated by the COVID-19 pandemic. Despite improvements in aspects of governance in the last 2 years, concerns have surfaced that should be followed-up outside of the intervention assessment. In the meantime, the board and senior leaders need to work closely with the ESFA and the IP to ascertain how it may be possible to protect and develop the college's identity and heritage.

Recommendations

Recommendation 1: There have been significant changes in board membership and improvements in governance since 2018; however, during this visit, the FEC team received unsolicited letters from a number of individuals who are involved with the college, raising serious concerns about governance. The FEC team strongly recommends an independent review of governance. This should be conducted by 2 National Leaders of Governance (NLGs) and completed by October 2020.

Recommendation 2: The board should accelerate plans to fill the large number of governor vacancies, widen representation from the local community and include a qualified accountant by September 2020.

Recommendation 3: The board and senior leadership team (SLT) urgently need to finalise a realistic operational plan and budget for 2020/21 and update the 12-month cashflow forecast in line with these plans.

Recommendation 4: The board should continue to monitor closely the cashflow risks that the college faces and consult with the ESFA and the IP prior to finalising decisions about potential asset disposals.

Recommendation 5: The board should as soon as possible ensure that there is adequate strategic finance capacity on the SLT to support the head of finance whilst addressing the significant short-term financial challenges that the college faces.

Recommendation 6: The board should continue to work closely with the IP and, subject to the IP's conclusions and recommendations, seriously consider an FEC-led structure and prospects appraisal (SPA) process, leading to a merger with a larger, more sustainable institution.

Recommendation 7: The SLT should review and update the curriculum vision for the college to ensure that it reflects a viable model by October 2020.

Recommendation 8: The interim head of management information system (MIS) should continue to progress clearing the significant backlog of enrolment processing. This is to be completed by September 2020.

Recommendation 9: In light of the current financial position, the college should be placed in supervised status with immediate effect, with the ESFA attending all board meetings as observers.

The FEC team will complete an intervention stocktake visit by October 2020**.**

Governance and leadership

Governance

Following comprehensive and long-overdue changes to the college's constitution in 2018/19, governance was further strengthened in 2019/20 by the appointment of 4 new governors with impressive business and educational credentials, many of whom are affiliated to the trade union movement. However, since January 2020, the board has lost 4 members through resignations and retirements. This has resulted in 7 vacancies out of a total membership of 16 – these remain unfilled despite a proactive recruitment campaign. The FEC team are concerned about the high number of board vacancies, the low number of governors from the local area and barriers to entry – be these perceived or actual – that may have contributed to this situation. This is in addition to the ongoing absence of a qualified accountant on the board at a time when the college faces significant financial challenges.

In light of escalating financial pressures, the chair has established weekly monitoring meetings to review the cashflow forecast. These are attended by several governors, senior leaders, including the finance manager, and, more recently, the clerk. This development reflects the seriousness of the situation and recognition by governors of the risks that the college faces. These meetings are not intended to displace or duplicate the proper functions of the board, nor blur the division between governance and leadership, which could be a risk. Despite these additional meetings, the college was late to identify the need for additional working capital facilities before the end of July 2020.

At the time of the intervention assessment, governors were in receipt of a draft recovery plan that was due for formal consideration at the next corporation meeting. Governors whom the FEC team met understood the scale of the financial challenges and were open to a range of options, including the potential disposal of property and engagement with an FEC-led SPA. Governors expressed their commitment to working constructively with the IP and the FEC team to explore a way forward.

During the intervention assessment, several individuals registered serious, unsolicited concerns with the FEC team about aspects of governance and the role of the chair. The fact that concerns had been raised was fed back to the chair with a recommendation that the board commission an NLG-led independent review of governance.

Leadership

The SLT has undergone significant change, including the recent appointment of an interim assistant principal, an interim head of MIS, and a permanent human resource (HR) manager. Although the college has retained the services of the interim finance director on a consultancy basis, his input is now more limited, and project based. The finance manager has developed his understanding of FE finance over the past year and now acts as the de facto finance lead for the college.

The interim head of finance has worked hard to address the many data and compliance issues that the recent ESFA audit raised. Progress with processing the backlog of enrolments has been complicated by lockdown. Governors and the principal should keep under review the need to strengthen strategic finance support given the onerous and competing demands in the months ahead.

Curriculum and quality improvement

Curriculum and provision overview

Ruskin College is a small adult-only institution without 16 to 18 students or funding. The ESFA-funded element of the provision is comprised of mainly short-course provision, with some longer programmes delivering Access to HE programmes. The college has a distinct historical mission and ethos with longstanding and well-established connections to the trade union movement. A proportion of the ESFA-funded provision supports the trade union-studies aspect of the curriculum offer, which is mainly delivered as short course programmes off-site. The range of subject areas that is offered is diverse and reflects a curriculum that is focused on social work, activism, social care, youth work, public service, politics, voluntary work and the creative industries. The college also delivers HE funded courses in subject areas that broadly align with the FE offer.

Campus closures in response to the COVID-19 pandemic severely interrupted the college's curriculum delivery during 2019/20. Post-March 2020, the college took steps to support students to complete their programmes of study, particularly with respect to the Access to HE and dedicated HE programmes. However, factors indicate that the current college curriculum offer is not sustainable, even after considering the short- to medium-term impact of COVID-19. These factors include the ongoing impact of the substantial funding reductions resulting from the ESFA's funding audit of 2018/19 and a declining trend in enrolments, especially with respect to HE programmes. Data that was shared with the FEC team by the college during the intervention assessment reveals that, as of July 2020, the 2020/21 application numbers show a declining 3-year trend for both ESFA-funded and HE programmes, which is a further negative indicator. There is an urgent need for the college to explore options for a sustainable curriculum model.

Curriculum planning and development

College awareness of the issues that need to be addressed to ensure that the curriculum is delivered in an efficient and effective way is developing, albeit from a weak base. For example, the curriculum planning documents for 2020/21 include reference to average class size requirements and ground rules to assist with improving staff utilisation, both of which are areas where the college is not currently operating in-line with good practice.

As indicated, the college curriculum offer is not currently viable nor sustainable. This means that there is a substantial challenge for the college to ensure that the curriculum offer works effectively and efficiently in the mechanics of its delivery as well as delivering a curriculum vision that aligns with the college's strategic intentions. With respect to the dedicated HE programmes, there is a specific planning and development issue – namely, that, as of July 2020, university validation arrangements for learners that might start HE courses in 2020/21 had not yet been confirmed. At the time of the intervention assessment, plans for a new university sub-contract were still subject to due diligence.

Quality: self-assessment & effectiveness to manage and improve quality

For 2019/20, the college reports that the learner number total for ESFA-funded provision has been adversely affected by the COVID-19 lockdown. As of July 2020, ESFA-funded enrolments are just over 50% less than in 2018/19, although further enrolments for 2019/20 are yet to be processed. If processed as the college expects, these additional enrolments will increase the 2019/20 total ESFA-funded learners to 80% the number of total learners in 2018/19. For dedicated HE programmes, learner numbers have decreased by just under 50% from 2018/19 to 2019/20. At this stage, a small number of continuing HE learners are funded for 2020/21 due to the lack of university validation arrangements for new HE learners.

Although there is a decline in learner numbers for ESFA-funded learners, retention remains high at 95.5%, although this is -4% compared to the 99.4% level that was achieved in 2018/19. The college predicts that the college's qualification achievement rates for ESFA-funded adult learners will also remain high at 98%, compared to 99.4% in 2018/19. For HE learners, while there is a clear 3-year trend of decline in learner numbers, retention actually improved from 59.2% in 2018/19 to 76.9% in 2019/20, an increase of 17.7%. However, this needs to be considered against the 3-year decline in overall achievement on HE programmes from 87% in 2016/17, to 71.7% in 2017/18 and 67.7% in 2018/19. The college did not provide predicted achievement figures for 2019/20 HE completers, though the actual figures will be available following an examination board meeting towards the end of July 2020.

Learner recruitment, retention and achievement rates reveal variable patterns of these indicators across the college's ESFA-funded provision. For HE programmes, on balance, these indicators are comparatively weak and further call into question these programmes' viability.

The college was last inspected by Ofsted in September 2016. This was a short inspection, which resulted in an overall grade of Good. The current quality improvement plan addresses several appropriate headline areas for improvement. However, baselines from which to measure improvements, or national average comparisons where these would be relevant, are not referenced routinely, which is a weakness. For example, there are references to 'improved retention', 'improved progression', 'improved learner feedback' and 'improved enrolment' but no targets are indicated nor references in the progress commentary sections made that provide clear evidence of measurement.

Following the COVID-19 campus closure, considerable teaching and learning-related continuous professional development took place, with emphasis on supporting the delivery of high-quality online learning. The rapid and wholesale shift to online delivery in response to the COVID-19 pandemic was challenging and the college reports that both teaching and support staff continue to actively engage in this change process. The interim manager, who is overseeing curriculum and quality, took up her role in February 2020, at which point the college's response to post-lockdown delivery was her central priority. It is too early to assess the effectiveness of several teaching, learning and assessment related systems and processes that were introduced in 2019/20.

Finance and audit

Recent financial history and forecasts for coming years

The college has seen declining income over the last 5 years. Although the college posted an operating surplus in 2017/18, the college has otherwise recorded deficits in 7 out of the last 8 years, including the 2019/20 forecast of a substantial operating deficit.

Previous year financial performance (2018/19)

The college is awaiting sign-off of the 2018/19 accounts by the external auditors. This is principally following the ESFA funding audit and potential clawback relating to overclaims for adult education budget and residential bursary funding for 2018/19 and potential recoveries that are yet unconfirmed for previous financial years. This has potential implications for the college as a going concern. The draft results are a substantial deficit, including the provision for an ESFA funding clawback. The college's financial health grade is expected to be Inadequate with a potential breach of loan covenants. There is a risk that unsigned accounts will impact the college's ability to recruit new HE students in the forthcoming academic year.

Financial forecast 2019/20 to 2020/21

Financial performance in the current year (2019/20)

The May 2020 management accounts forecast another substantial operating deficit in 2019/20. Whilst commercial and residential income has been adversely impacted by COVID-19, the most significant shortfall relates to a likely decline in bursary income reflecting the college's revised approach to the use of bursary funds in line with ESFA guidance. Shortfalls in residential and other income have been partly offset by sub-letting student accommodation to NHS workers and marginal savings in pay and non-pay expenditures. The college is expected to fail all 6 FEC benchmarks, which underlines the seriousness of the financial challenge that the college faces.

2020/21 Draft budget

A draft recovery plan was prepared in advance of the intervention assessment visit, setting out draft budgets for the next 3 years that are based on delivering operating deficits in all 3 years, albeit showing a positive earnings before interest, taxes depreciation and amortization (EBITDA) from 2020/21 onwards. The plan sets out 3 key dependencies for a sustainable future including: the disposal of Stoke House to offset the outstanding loan with Co-op Bank; the write-off or deferment of ESFA recovery of funding for 2018/19; and the sign-off of the 2018/19 statutory accounts by the external auditors, subject to ESFA assurance of no further clawback in prior financial years. Scrutiny of the draft recovery plan has highlighted 3 major areas of concern requiring further review as a basis for ongoing operations:

- The assumption of ongoing HE recruitment is dependent on awarding body validation approval which is, amongst other things, conditional on the college's financial position and sign-off of the 2018/19 accounts.
- The revised model for curriculum delivery in 2020/21 proposes staffing changes that significantly underestimate required resources.
- The recovery plan sets out an ambitious target non-pay cost saving, which is equivalent to a 47% reduction on the forecast out turn for 2019/20. With only 2 weeks to go to the start of the new financial year, implementation of this level of target saving looks extremely challenging to achieve these targets.

The college and the financial controller must urgently finalise a realistic operational budget for 2020/21 given the imminent start of the new academic year.

Cashflow / liquidity

The recent and unexpected deterioration in financial performance has directly impacted on cash reserves. Although the cashflow forecast is currently being reviewed on a weekly basis, an emergent and urgent requirement for cashflow support for the remainder of

2019/20 was sought at the start of July 2020. This shortfall arose due to ongoing delays in drawing down learner placement funding; failure to draw down funding for apprenticeship starts in a timely manner; and additional costs relating to trade union awarding body certification.

In July 2020, the college approached the ESFA and their lending banks to support the cash shortfall. The college is now confident that it has secured a short-term overdraft facility. Before proceeding, this will be subject to final board review and approval.

The college currently produces weekly cashflow projections covering the 2020 calendar year. As well as the immediate challenges in July, the cashflow suggests that additional cashflow support could be required from the start of December 2020 onwards. The finance manager should incorporate a realistic 12 month rolling cashflow into the final 2020/21 budget and operating plan.

Financial liabilities / loans

The college has a long-term bank loan. Gearing remains very high relative to turnover, with limited potential to reduce this rapidly without disposing of property assets. The FEC team remain concerned to ensure that any significant asset disposals deliver fair value and a wider view of the impact on income generating activities and future prospects/options for the campus in its entirety. The board should consult with the ESFA and the IP prior to finalising decisions about potential asset disposals.

In addition to the bank loan, there remains the outstanding liability to ESFA relating to the adult education budget and bursary funding for residential provision in 2018/19, with potential further clawback in prior years. The regulator has agreed to defer any decisions on this issue until the outcome of the independent business review.

Audit and risk

The college's external auditors have continued to withhold their opinion on going concern status as part of the finalisation of the 2018/19 financial statements, primarily linked to the potential ESFA clawback highlighted above.

The college operates a live risk register that was last updated in July 2020. This reflects current risks such as the COVID-19 response. However, despite recently updating several college policies, there are many on the website whose reviews are overdue.

Long-term sustainability

The ESFA has commissioned an IP to assess the college's financial viability and summary of management actions to drive turnaround. This assessment is at an early stage but is expected to complete by August 2020. The IP will provide an assessment of the college’s future sustainability, including advice on options including those that could be delivered using insolvency legislation. The advice will seek to:

- Determine whether the college can be financially sustainable as a standalone entity or confirm that it cannot, with reference to various scenarios including those that have been proposed by management.
- Determine whether the college could be financially sustainable if it were merged into another college or institution, including with the benefit of merger synergies to reduce costs, via a SPA.
- Provide advice on the impact of, and options for, recovery of the ESFA overpayments.

Estates and capital plans

The college has repurposed the utilisation of some of its estate over this academic year. Because of the small numbers of students in residence and limited eligibility for bursary funding, the college is refocussing its attention to external hire and is effectively managing-out residential provision for students. With the onset of the COVID-19 pandemic, the college offered their facilities to the neighbouring NHS hospital for worker accommodation. This is contracted until October 2020 and there is also a verbal agreement that this arrangement will be extended for the remainder of the academic year, thus further limiting student residential lettings. The pandemic has prevented the operation of summer (and Easter) schools at the campus, which is an income stream that has generated substantial cashflow in previous years. Prior to COVID-19, the business development manager was optimistic about scope to further increase volumes and profitability; however, this is now much less certain. The principal has recently approached all the University of Oxford colleges to gauge interest in partnership working and income generation opportunities, including options for under-used Ruskin college buildings. Despite some interest, discussions remain at an early stage.

Appendix A – Interviewees

Chair

Principal

Clerk

Interim finance director

Finance manager

Quality and curriculum director

Head of MIS/Data

Head of HR and staff development

Business development manager

Group of governors (3)

Appendix B – Documents reviewed

Board and committee membership 2019/20

Corporation CVs

Skills audit for governors 2019

College structure

Letter outlining control measures

Coronavirus guidebook

Health and safety procedure return to work

CPD for June and July 2020

Online learning PowerPoint

Enrolment numbers by SSA (Adults and HE)

Student numbers, including retention

Curriculum plan 2020/21 analysis

Quality improvement plan 2019/20

May 2020 management accounts

Cashflow forecast June 2020 to December 2020

July 2020 college recovery plan (Draft)

Status update on bank transfer

Update on capital expenditure and disposals

Risk register July 2020 final

Ruskin college return to work risk assessment

Department for Education

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