Education & Skills Funding Agency

FE Commissioner Intervention Assessment Summary: Northern College for Adult Residential Education

March 2021

Contents

Background

Name of College	Northern College for Adult Residential Education
UKPRN	108314
Type of provision	Specialist Designated Institution (SDI)
Date of visit	17 March 2021
Type of visit	Intervention assessment (virtual)
Trigger for formal intervention	Decline in financial Health
Further Education Commissioner (FEC) Team members	Sir Richard Atkins - FEC Andrew Tyley - FEC Deputy Laraine Smith - FEC Adviser Steve Campion - FEC Adviser
Location	Stainborough, near Barnsley
Apprenticeship training provider	No
Latest Ofsted inspection grade	Outstanding (June 2014)
Education and Skills Funding Agency (ESFA) Financial Health Grade	Outstanding
Special considerations	Specialist Designated Institution (SDI)

Conclusion/Executive summary

The Northern College for Adult Residential Education provides high quality learning opportunities for disadvantaged and vulnerable adults in a unique and historic setting near Barnsley in South Yorkshire. The college is well led by a board of governors with an impressive and diverse range of skills, and by a highly committed principal and senior team.

Despite this, the college faces an increasingly uncertain future due to a combination of factors, which taken together contribute to a "perfect storm". These include a potentially substantial repayment of funds to ESFA; a significant shortfall in enrolments and income (mainly as a result of the COVID-19 pandemic); current and planned reductions in funding for residential provision; implementation of devolved funding; and the long-planned retirement of the long serving assistant principal finance and business services in the coming months.

The FE Commissioner undertook a diagnostic assessment in February 2021. In recognition of the range of challenges facing the college, escalation into formal intervention was one of a number of recommendations which also included an FEC led Structure and Prospects Appraisal (SPA) to explore options for structural change as a way of securing a sustainable delivery model. Whatever the outcome of the proposed SPA (which will test a standalone solution against other options), it appears inevitable that the college will need to undergo fundamental change to secure a sustainable way forward given its small scale, high costs of delivery and the prospect of rapid erosion of its cash reserves.

As part of the formal intervention assessment, the FEC team met with representatives of the 2 combined authorities who will assume responsibility for the majority of the college's AEB funding from summer 2021 –Sheffield City Region and West Yorkshire Combined Authority. Both authorities have an important contribution to make to the planned SPA and will be invited to join the SPA steering group as observers.

Recommendations

Recommendation 1: Governors should agree to participate in an FEC-led structure and prospects appraisal (SPA) and local provision needs analysis (LPNA) alongside the Sheffield City Region and West Yorkshire Combined Authority to explore options including structural change and standalone as a way of securing a sustainable delivery model. Target date: July 2021 (completion of the SPA).

Recommendation 2: Pending the outcome of the SPA, the college should continue to work closely with the ESFA to develop contingency plans given the risk of escalation of the current pressures on solvency and going concern status. Target date: ongoing

Recommendation 3: By May 2021, as part of work to finalise a fully costed curriculum plan for 2021/22, the senior leadership team (SLT) should complete work underway to quantify realistic opportunities to grow student numbers; necessary increases in curriculum efficiency; and scope to further reduce operating costs.

Recommendation 4: Governors and senior leaders should continue to monitor closely the college's cashflow forecast to assess the full extent of potential recovery of funds from the ESFA both in respect of 2020/21 and the funding audit for previous years. Target date: ongoing

Recommendation 5: By March 2021, governors and senior leaders should confirm the appointment of an experienced interim finance director as soon as possible to provide for effective handover/cover, given the long-planned retirement in May 2021 of the current assistant principal finance and business services.

The FEC team will conduct an intervention assessment stocktake visit to review progress in late May / early June 2021.

Governance and leadership

Governance

The Northern College for Residential Adult Education is a Specialist Designated Institution (SDI). It has a company board as well as a board of governors, though in practice, all company directors are also members of the governing body. The board is well supported by a highly experienced and qualified independent clerk.

The board meets 4 times a year, supported by 5 standing committees (curriculum, quality, and student experience; policy and finance; audit; search; and remuneration). Since the COVID-19 pandemic, more regular meetings of committee chairs have been introduced.

Total board membership is 15, with 2 current vacancies for staff and student members. The skillset of the board is impressive and includes members with strong credentials in education, business and finance/audit. The role of chair is shared under a co-chairing arrangement that was carefully considered at the time it was introduced, back in 2015.

Several governors have served on the board for a long time. Mindful of this, the clerk is in the process of reviewing the policy on terms of office, which needs to strike the right balance between flexibility and the expectation of maximum periods of tenure in line with good practice as set out in the AoC's Code of Good Governance for English Colleges. Careful consideration has been given to succession planning, though in recognition of the need for a degree of stability at the current time, the 2 co-chairs have recently agreed to continue in role for a further term of up to 2 years.

Board papers and minutes are of a high standard and demonstrate a good degree of challenge. During the FEC team's meetings with governors, the FEC team found a clear appreciation of the current financial challenges and risks facing the college. These have arisen mainly due to external factors and the impact of funding policy for residential provision, compounded by the acute impact of lockdown on enrolments on this particular institution.

The governors whom the FEC team met articulated clearly the added value of the college's provision to adults with complex needs and from disadvantaged backgrounds. They demonstrated both determination and commitment to exploring all avenues to secure the future of this provision, including - if necessary - structural change.

Leadership

The Executive Leadership Team (ELT) has been restructured and refreshed since the appointment of the current principal in summer 2018. There are 5 members of the ELT (including the principal) with a clear and appropriate division of roles and responsibilities and a strong focus on the core business of teaching and learning.

The principal has made several important and well-judged changes over the last 2 and a half years, including a substantial staff restructure in 2020 which saw 24 staff leave the college under voluntary or compulsory redundancy. This was part of a range of decisive measures to reduce operating costs in response to reductions in residential funding.

Despite these tough measures and the current challenges of the COVID-19 pandemic, the managers and staff the FEC team met were highly motivated and committed to the college and keen to embrace the ongoing and necessary improvements that are underway including the computerisation of previously paper-based business processes.

The introduction of devolved AEB funding and planned changes to residential funding have raised the prospect of an urgent requirement to ramp up student enrolments and achieve additional efficiency gains from summer 2021. Continuing uncertainty about the detail of these changes and the current timetable for implementation have made the task of developing an effective and successful response on these timescales more challenging.

Under these pressures, the retirement of the assistant principal finance and business services in May 2021 will create a critical gap in the senior team at a key point in the business cycle. In recognition of this, the college is actively taking steps to recruit an experienced interim in the coming weeks to continue the important work of planning and budgeting for the new academic year.

The principal and senior leaders are already working up curriculum and budget plans for 2021/22, though much work remains to test the robustness of plans for growth, assumptions about funding, scope to increase average class sizes and the scale / timing of cost reduction actions. This work should continue alongside the exploration through an FEC-led SPA of options involving structural change, which may yet prove to be the only sustainable solution to navigate the changes in funding that lie ahead.

Curriculum and quality improvement

Curriculum and provision overview

The college self-assessment report (SAR) notes that in 2019/20 56% of Northern College enrolments were South Yorkshire based learners and 28% were West Yorkshire residents. Much of the college offer is designed to provide a platform to engage people back into education with the aim of designing a supportive learning pathway so that every individual can reach their potential and use their learning to improve their lives both in their community and in the workplace. The curriculum offer includes access to higher education programmes, teacher training, English and Mathematics, social studies, preparation for life and work, health and social care and well-being, community learning and digital skills.

Prior to the impact of the COVID-19 pandemic on learner participation levels, the college achieved approximately 4k enrolments per year, with the vast majority being adult enrolments on short courses where the potential for a residential placement is considered by the college to be a key element. The opportunity for a residential placement has also been available to learners on access programmes. The college is committed to providing flexible and accessible modes of delivery – evenings, weekends, blended and residential.

Looking forward, the college intends to grow and diversify its curriculum offer. The college has identified growth opportunities such as extending its current curriculum offer beyond the historic cohorts it has attracted, including moving into the retraining market. The college also anticipates that in the post-pandemic period there will be a substantial bounce back in the need for the community learning programmes it offers.

Curriculum planning and development

The college has a strategic plan in place which sets out a curriculum vision for the 2020-2025 period. At an operational level, the college has an annual planning cycle and calendar. There is an iterative curriculum planning process in place with senior management oversight, that has included utilising a college devised planning system and management information tools. To support the planning of the 2021/22 curriculum, the college has introduced a management information system (MIS) tool that is designed specifically for modelling purposes.

The college has also begun to respond to the funding challenges that it faces looking forward. For example, with respect to the funding of the residential element of learner programmes, the college has recently identified a possible way to reduce the unit costs of the current residential delivery model, which are high. This is a critical area to address in order for the college to achieve a sustainable curriculum offer.

By way of overview, the college will need to maximise the efficiency of its curriculum delivery, as well as deliver significant growth in learner numbers, if it is to achieve its AEB allocations going forward. Such aspects as average class size and the contracted hours of teaching staff are likely to require further attention. For example, the college average class size target is 12, with the college routinely achieving below this level. This compares with 15 to 16 as the average class size norm for classroom-based delivery in a general FE college. In addition, the college plans to increase teaching hours contact from 756 hours per full-time teacher to 820 hours over a 3-year period. However, this revised total remains well below the sector norm of 864 annualised hours.

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

As noted previously, prior to the impact of the COVID-19 pandemic, the college achieved its AEB funded enrolment targets year-on-year. The negative impact of the pandemic restrictions on enrolment levels has been particularly acute with respect to the short-course residential provision which is the core of the college offer. As at January 2021, the college had achieved 15% of its total AEB annual allocation, with a forecast of 50% if no further enrolments were made in year. While the college has plans in place that may enable it to achieve up to 70% of its 2020/21 allocation by the end of the academic year, these plans assume the college will be able to operate at full capacity in the summer term, including full utilisation of the residential provision. The risks to the college achieving 70% of its 2020/21 AEB allocation therefore remain very high. In addition, the lower level of enrolments at the college in 2019/20 and 2020/21 year-to-date mean that there are fewer students progressing on to further courses, which increases the pressure on the college in achieving its learner number targets.

The college’s track record with respect to quality indicators such as retention, pass and achievement rates has been very good. A slight faltering with respect to retention and achievement is forecast for 2020/21 due to the impact of the COVID-19 pandemic. However, the forecast overall QAR for 19+ is expected to align with or exceed the national average. The college continues to focus on ensuring the best learner participation levels and outcomes possible. There is rich anecdotal and case study information about the progression and destinations of learners.

The college has a current SAR and accompanying quality improvement plan in place. The SAR is composed with reference to the latest Ofsted framework. However, it does not include an overall grading for the college, or sub-grades for the constituent elements, as is usually the case for further and adult education providers. Nevertheless, the SAR includes a good analysis of the areas for improvement for the college. These are captured and elaborated on further in the quality improvement plan, and appropriate actions are cited and are being monitored and followed through subsequently.

Promoting and ensuring high standards for teaching, learning and assessment is central to the mission of the college. Lesson observation arrangements are in place which are supportive and which promote the development of the skills of individual teaching staff. The quality improvement plan references several themes which relate to further improving classroom delivery, such as actions to further improve learner feedback and processes for promoting the sharing of good practice.

The leadership and management at the college of curriculum and quality and the underpinning student services are committed and very able. There is also an awareness that the challenges the college is facing to achieve a sustainable curriculum model are significant and will be a major priority to address going forward.

Student and staff views

Students and staff at the college are enthusiastic about, and highly supportive of, the college. For example, the college's response to the challenges of the COVID-19 pandemic is seen as comprehensive and competent. The college is viewed as particularly good with respect to its communications and to the support that is made available, including the arrangements to keep staff and students safe during the pandemic.

Finance and audit

The college has achieved Outstanding financial health over recent years with no borrowing and healthy cash reserves which are built on sound financial management plus the benefit of a funding uplift for residential courses. However, the issues that are highlighted above means that there is a risk that the final financial health grade for 2019/20 is moderated down to Inadequate because of negative earnings before interest, taxation, depreciation, and amortisation (EBITDA), funding audit clawback and concerns over the long-term financial sustainability of the college.

Based on the January 2021 management accounts, total income is forecast to be 27% lower than budget – which is attributed to the impact of the COVID-19 pandemic. This is forecast to result in a drop in budgeted EBITDA to a loss (LBITDA) in 2020/21. The forecast loss could be higher still given some uncertainty over AEB enrolments over the remainder of the year, the extent to which full occupancy of residential accommodation might prove possible and the uncertainty over funding audit clawback.

In addition, the college is now in a business planning round for 2021/22 with added uncertainty, with the devolution of AEB allocations to 2 combined authorities as well as the potential withdrawal of the uplift for residential students. Although cash reserves remain relatively strong at present the potential funding clawback and challenges outlined above mean liquidity could be challenged towards the end of the 2021 calendar year. These critical financial issues are well understood by both the governing body and the ELT, with an updated risk register outlining the 6 high (red) strategic risk areas for the college and the active mitigations in place.

In this context, the imminent retirement of the assistant principal finance and business services presents an added risk. Consequently, the governing body is currently focussed on confirming the going concern status of the college (2019/20 accounts remain unsigned at present) and potential options to maintain financial sustainability into the future.

Recent financial history and forecasts for coming years

Financial performance 2019/20

The college's draft accounts for 2019/20 indicate an operating deficit of £184k, which is a shortfall of £329k compared to budget. This reflects a £600k (11%) shortfall in income which is offset partly by in-year reductions in expenditure of £271k (net of staff restructuring costs of £328k).

The college's external auditors have not yet signed off the college's financial statements for 2019/20. This has been complicated by the outcome of the ESFA targeted assurance review of 2018/19 and 2019/20 which was not finalised until 4 February 2021. This review has identified funding errors of £1.2 million relating to claimed residential support for learners who were not resident; the college is currently considering the review report with its professional advisers. Having previously reserved the right to review funding back to 2016/17, the ESFA have recently confirmed that assurance work will be undertaken on 2016/17 and 2017/18. Initial preparatory work was being completed by the college at the time of the visit. Therefore, there remains a risk that funding errors could double to circa £2.4 million overall. Consequently, the figures in the table above remain as draft for 2019/20.

Financial forecast 2020/21 and 2021/22

The COVID-19 pandemic has had a significant impact on performance during 2020/21 with the income forecast now 27% below budget, and an operating deficit forecast for the full year. AEB delivery was only at 15% of target as of January 2021. To achieve the current forecast, there is an assumption of a further 1,500 enrolments and high occupation of residential rooms (including those with shared facilities) over the remainder of the year. In the current uncertain climate, this presents a significant risk depending on the return from lockdown and any local restrictions over the remainder of the year. The college's current forecast to budget includes potential under delivery of funding. The clawback in the cashflow assumed ESFA delivery target of 97%, however, a national threshold of 90% has now been set, to slightly improve the position.

The college had been adjusting to the reduced level of residential funding by undertaking a significant restructuring programme. The executive team and curriculum areas had been reorganised during 2019/20 with a further phase reviewing business support areas now on hold awaiting the outcome of the recent funding challenges. Further non-pay savings are anticipated as part of on-going reviews of operating costs such as catering, energy and security.

The previous ESFA submission (July 2020) suggesting Outstanding financial health, with a close to breakeven position for 2021/22 is being reviewed considering all the factors above. Costed curriculum planning is now being undertaken as part of the 21/22 budget setting process, with new software recently purchased. Devolved AEB budgets have been confirmed provisionally for 2021/22 subject to further work on delivery plans. Residual ESFA allocations are yet to be confirmed.

Cashflow/liquidity

The January 2021 management accounts includes only a rolling cashflow up until July 2021 with a July year end forecast. Using a worst-case scenario of AEB clawback due to under delivery in 2020/21 relating to the COVID-19 pandemic, the December 2021 balance reduces to £3.076 million. With a further potential clawback relating to the funding audit of the previous 4 years, overall cash balances going into 2022 could be marginal based on the current assumptions.

The college has had a good relationship with its bankers, Lloyds, reflecting strong cash balances over recent years. The college has no overdraft facility in place at present. This may need to be reviewed given the limited cash headroom under the worst-case forward projections.

Financial liabilities/loans

The college currently has no long-term bank loans or emergency funding arrangements with the ESFA. The college has carried a marginal balance sheet over recent years due to the low asset value of the estate (due to the arrangements set out below) with a current negative asset year end position forecast. This includes local government pension scheme liability of and a projected universities superannuation scheme liability. However, with the financial challenges currently facing the college, it is likely that the pension liabilities will need to be reviewed further.

Estates and capital plans

The main college building is the Grade 1 listed Wentworth Castle, dating back to the 17th and 18th centuries. It is set in the only grade 1 listed landscape gardens in South Yorkshire. The main house and other buildings (except Wentworth Court) were given to the college to use as a college at the peppercorn rate of £1. If college operations ceased, there is a deed of pre-emption which allows for the estate to return to Barnsley Council for £1.

Part of the estate, which is outside of the house, including home farm and the church, were leased to the Wentworth Castle Heritage Trust on a 99-year lease for them to access lottery funding to renovate the site. Following the renovation, several buildings were leased back to the college on a 25-year lease. The estate was in the care of the Wentworth Castle Heritage Trust until June 2019, after which the National Trust took over the care of the estate in partnership with Barnsley Council and Northern College.

The college is currently completing improvements under the FE capital allocation that was awarded in September 2020. The college has until September 2021 to complete the works. Under the direction of a new head of estates, the college is reviewing all estates operations, security and maintenance plans in order that they address future needs.

Appendix A – Interviewees

Co-Chairs

Principal & CEO

Clerk

Assistant principal finance and business services

Assistant principal curriculum, quality and market development

Assistant principal student experience

Group of governors

Representatives from Sheffield City Region and West Yorkshire Combined Authority

Appendix B – Documents reviewed

College Performance Table

Update on preparations for re-opening post COVID-19 lockdown

Performance reports on enrolments and funding 2020/21

Update on financial statements and audit 2019/20

January 2021 management accounts and cashflow forecast

Update on ESFA funding audit and recovery of funds

Progress report on curriculum plan and budget 2021/22

Risk register

Whole college KPI report

Update on succession plans for AP finance and business services role

Board agendas, minutes and papers