Education & Skills
Funding Agency

FE Commissioner Intervention Assessment Summary Report: The City Literary Institute

January 2022

Contents

Background 3

Conclusion/Executive summary 4

Recommendations 5

Review of progress in implementing DA recommendations from November 2020 visit 5

Governance and leadership 6

Curriculum and quality improvement 7

Finance and audit 9

Estates and capital plans 11

Appendix A – Interviewees 12

Appendix B – Documents reviewed 13

Appendix C – Closed Recommendations 14

Background

Name of College	The City Literary Institute (City Lit)
UKPRN	10001463
Name of College Principal /CEO	Mark Malcomson
Name of College Chair	Dame Moira Gibb
Type of provision	Institute of adult learning
Date of visit	11 January 2022
Type of visit	Intervention
Trigger for formal intervention	Financial health
Further Education Commissioner (FEC) Team members	Shelagh Legrave – FE Commissioner Steve Hutchinson – FEC Deputy Laraine Smith – FE Adviser
Location	London
Apprenticeship training provider	No
Latest Ofsted inspection grade	Good (December 2016)
Education and Skills Funding Agency (ESFA) Financial Health Grade	Inadequate
Structural history/recent mergers	Largest provider of community learning in Europe

Conclusion/Executive summary

Governance and leadership continue to be good. City Lit has been proactive and flexible in adapting its curriculum offer and delivery in response to the COVID-19 pandemic restrictions and challenges that have predominated since March 2020. The college has remained firmly committed to promoting and maintaining the engagement and participation of its learners, with the rapid development of online learning providing a viable alternative to face-to-face delivery for many programmes. Nevertheless, the college curriculum offer has been severely constrained due to lockdown periods and other social restrictions associated with the pandemic. Fewer learners have been able to participate in and benefit from college programmes, resulting in a substantial negative impact on the college's financial position. Curriculum planning, development and quality improvement at the college are led and managed well. The impact of the pandemic has prompted an increased focus on maximising efficiency in curriculum planning and delivery. The cost reductions achieved to date will be augmented further by the revised curriculum modelling process in place for 2022 to 2023, where efficiency indicators such as contribution levels and average class size will be refocussed in all curriculum areas.

Continuous improvement in the quality of provision is a key priority for the college. The pandemic introduced additional complexities in the teaching, learning and assessment processes, resulting in a negative impact on quality indicators for some programmes. The college has demonstrated the capacity to correctly identify priorities for quality improvement and securing improved processes and outcomes. For example, achievement outcomes on accredited programmes improved substantially in 2020 to 2021, with 2021 to 2022 quality improvement actions likely to secure further improvements.

The impact on fee income through the pandemic has been the primary factor in the deterioration of the college finances. On a positive note, the college has no long term debt and they have a very strong asset base. The issue is that of working capital. The business model developed before the pandemic resulted in fee paying adults making up over half of total income. The college management acted quickly in spring of 2020 to move as much provision online as possible. However, this could not prevent a significant reduction in fees. Costs were reduced, but the college has reported 2 years of significant operating deficits and are likely to see a third year of this in 2021 to 2022.

A financial recovery plan has been prepared, which aims to strike a balance between growing back fee income, retrenchment, and the timeline for full financial recovery, and in the FEC team's opinion is based on a reasonable set of key assumptions. Operating margins are low, in part due to the very strong commitment to supporting social and community provision, which is subsidised by the college. Rebuilding cash over the 5-year term of the plan is a priority

Recommendations

There are no new recommendations following the FEC team's intervention visit. There are 3 ongoing recommendations from the FEC team's previous diagnostic assessment (DA) visits. An update on each of these is provided below.

Review of progress in implementing DA recommendations from November 2020 visit

Recommendation 1: The senior leaders must improve achievement outcomes for accredited courses and programmes so that outcomes align with or exceed national averages by July 2021.

This recommendation is ongoing. Achievement on accredited programmes has improved, and is at or above the relevant national averages. However, the second pandemic-related lockdown and the need to switch to online delivery, as well as the resulting changes to the administration of exams, did impact on outcomes for some learners. Improvement plans in place for 2021 to 2022 are robust and convincing, which gives confidence in the college's expectation that any remaining achievement issues on accredited programmes will be addressed effectively this academic year.

Recommendation 2: The senior leaders must review the curriculum model with a view to maximising efficiency, including increasing average class size by March 2021.

This recommendation is ongoing. The college is refocusing on improving contribution levels for curriculum modelling in 2022 to 2023, which will build curriculum efficiency targets into both the planning and the monitoring of delivery of programmes in every curriculum area. This will include targets for contribution levels and average class sizes, for example.

Recommendation 3: The college must prepare an updated financial plan for 2021 to 2022 and beyond, which includes scenarios and sensitivities on trading performance and the subsequent implications for the mix of cash and debt. This plan is to be regularly reviewed and adjusted during the remainder of this financial year. An initial plan is to be completed by December 2020.

This recommendation is ongoing. This has now evolved into the draft financial recovery plan. The option on long term borrowing should be explored. The executive should undertake some scenario modelling to assess the opportunity to provide working capital and the investment required to enhance the digital infrastructure to a level that could support the future growth of the online business against the cost of annual debt servicing and the required margins to generate sufficient cash each year.

The FEC team will conduct an intervention assessment stocktake visit to review progress in **July 2022**.

Governance and leadership

Governance

The governors have good oversight and understanding of the college and of the financial challenges it faces. The board functions well. They operate a committee structure, with 5 committees covering finance and commercial, quality, audit and risk, governance and people, and remuneration. They receive good analysis of management information to assist with their understanding of key issues – not only financial, but across all areas of activity.

The board has a full complement of members at the current time. They have a good range of skills and experience, and the diversity of the board is appropriate. Four new members have joined the board over the last few months, and succession plans for replacing 2 retiring committee chairs have been actioned. There is evidence of support and challenge to the executive team. The board has been very well led by the chair, but she has come to the end of her term of office and in line with good practice will be stepping down in the summer of 2022. The recruitment process for a new chair was in progress at the time of the FEC team's visit.

Governors receive training as required through a mix of online learning, external speakers, and external events such as those organised by the Association of Colleges (AoC). All governors are invited to attend curriculum department self-assessment report (SAR) panels, and many take up that invitation. Several governors also enrol as students on a regular basis. There are 5 full board meetings each year, and a strategy day usually held in May each year. The board and committees receive good support from the clerk.

Leadership

Leadership and management at City Lit is effective. College leaders and managers promote a supportive working culture, built around trust, flexibility, and outputs, and they proactively address the wellbeing of staff. The college is responsive to the changing context and conditions in which it operates. This means that securing the best recovery post-pandemic is the central priority of leaders and managers in 2021 to 2022 and moving forwards. This involves returning the college to campus-based delivery in 2021 to 2022 in line with the lifting of COVID-19 restrictions, while maximising the utilisation of its estates and facilities, and continuing to develop its national reach through online delivery in specific curriculum areas. This balance of priorities is being addressed effectively. The principal and senior team work well together and with governors, and demonstrate both strategic and operational insight and effectiveness. The policies, systems, and processes in place across the organisation are comprehensive and appropriate.

Curriculum and quality improvement

City Lit is one of 5 institutes for adult learning in London. It offers over 5,000 courses to over 30,000 learners each year. The provision, most of which is non-accredited, ranges from short courses of less than 5 weeks to programmes which see learners commit to one or 2 years of study. The range of provision is broad and includes humanities, social sciences, languages and classics, visual arts, performing arts, broad based skills provision (English, ESOL, maths and digital skills), family learning, community outreach, speech therapy, counselling, business and technology, creative writing, health and wellbeing, sign language and lip-reading and provision for adults with learning disabilities. The college also works with families and communities across London, with the aim of reducing barriers to learning and hence raising participation levels.

City Lit demonstrates a dynamic approach to curriculum development. New courses are introduced in year and through the curriculum planning cycle to reflect the changing social, health, digital, academic or employment needs of learners and shifts in the external environment. The COVID-19 pandemic, with its associated lockdown periods and other social restrictions, presented significant challenges which the college responded to in a timely and effective manner. Nevertheless, the college's curriculum offer has been constrained during the period of almost 2 years since the pandemic emerged. Looking forward, the college is confident it can not only return to its pre-pandemic level of learner engagement and range of provision, but will be able to extend its offer and its reach further due to the substantial development of its online learning capability, which has accelerated over the course of the pandemic.

At the more technical level of curriculum planning and development, the college's existing curriculum modelling is being revised further for 2022 to 2023 to ensure a focussed approach to maximising efficiency is embedded across every curriculum area. This will include setting and monitoring targets for contribution levels and average class sizes for all programmes, for example. This college is aware that taking such actions is an important element of the college's financial recovery plan.

The college promotes and secures good quality of provision by ensuring there is a balanced and effective approach to both quality improvement and quality assurance processes. There is a targeted and highly effective professional training and development programme for tutors, which results in improved quality of education and tutors' increased confidence and skills. The programme is varied, and incorporates technical, professional, pedagogical, and subject knowledge and skills. The college's quality monitoring systems and processes are rigorous, fair, and thorough, incorporating close oversight by both college leaders, managers and governors. The college's self-assessment report (SAR), including the overall grade of good with some outstanding features, is evidence based and accurate. The accompanying quality improvement plan cross references well with the SAR and sets out realistic and appropriate actions to support the college's continuous improvement.

As previously noted, the college responded well to the challenges of the COVID-19 pandemic. Nevertheless, student enrolment numbers have decreased during the pandemic, with the consequent loss of fee income leading to the financial challenges the college is currently addressing. In 2021 to 2022, achieving student number targets year-to-date remains a challenge – which the college has addressed realistically in its forward planning. Student retention improved in 2020 to 2021 compared to 2019 to 2020, and is above the national average. Average student attendance also improved in 2021 to 2022. Across over 5,000 non-accredited courses, the improvement in attendance has been significant since 2018 to 2019, and on accredited programmes attendance has risen over the same period. These retention and attendance gains in 2020 to 2021 have been maintained year-to-date for 2021 to 2022.

Achievement rates improved on most qualifications in 2020 to 2021 and were at or above national averages for all levels – other than Level 1, which was below national average, although improved compared to 2019 to 2020. In 2020 to 2021 the college has made progress in reducing what was previously a significant gap in achievement between students with learning difficulties and disabilities (LDD) and those without. Some of the remaining challenges in improving achievement on accredited provision relate to the impact of the pandemic in 2020 to 2021 on the delivery and/or assessment of specific programmes, which the college reasonably expects to be able to address effectively in 2021 to 2022. The college is also addressing the recurring achievement challenges in the community outreach area.

The students met during the FEC team visit were very positive about their experience of the college, including the way the pandemic-related restrictions and safety requirements have been addressed. They praised the diversity of the student body and the inclusive approach, which makes for a productive and friendly learning environment where they feel genuinely cared for and supported. The students rated the teaching, learning and assessment practices highly, which aligns with the course evaluation summary details the college provided in advance for 2020 to 2021 and year-to-date for 2021 to 2022.

A range of staff were also met during the FEC team visit. There is a strong sense of mission across both the curriculum and support areas and at the different levels of the organisation, with the learners' best interests being the central focus for individual staff and their teams. This has assisted the college hugely as it has worked through the restrictions and challenges of the last 2 years and engenders confidence in the college's future plans.

Finance and audit

Recent financial history and forecasts for coming years

The actual and planned financial performance of the college from 2019 to 2020 to 2022 to 2023 shows worsening education-specific earnings before interest, tax, depreciation and amortisation (EBITDA), from 2020 to 2021 to 2021 to 2022, and then an improvement in 2022 to 2023. The 2021 to 2022 figures are behind budget due to the lower level of tuition fee income, reflecting the ongoing impact of the pandemic.

Financial performance 2020 to 2021

The college met only one of the FEC benchmarks in 2020 to 2021. Operating performance was badly affected by the pandemic. Despite a significant and successful switch to moving many courses online, overall fee income paid directly by learners was significantly reduced, following several years of continuous growth. As a result of this reduced income, staff costs as a percentage of income were high and led to an operating deficit, albeit one which was better than the anticipated budget for the year. The executive team implemented several actions during the year to minimise the costs incurred and quickly built an impressive online business. The ESFA financial health score was assessed as inadequate.

Financial forecast 2021 to 2022 to 2022 to 2023

The executive team prepared the 2021 to 2022 budget in a continuing period of uncertainty. The budget set was for an operating deficit, with a positive EBITDA. The key assumptions were to recover fee income close to pre-pandemic levels whilst maintaining the overall cost base at a similar level to the previous year. After term one, the fee income in the current year is behind budget. The online business has been resilient with producing over 40% of the fee income in the first term. The forecast for the full year uses this run rate for the first term, and now projects a full year shortfall on fees. The ESFA financial health grade will remain inadequate.

A 5-year financial recovery plan has been developed, which at the time of the FEC team's visit was a draft, to be discussed and approved by governors at the scheduled board meeting on 25 January. The draft plan assumes further cost savings by reducing permanent staff headcount in this financial year. Fee income is projected to grow but at a slower rate, recovering to pre-pandemic levels by 2023 to 2024. Building on the initial success of the online business provides great opportunity, but may be constrained by the capacity to invest. There is a strong commitment to retain the social enterprise business model adopted by the college, where higher margin courses cross subsidise the social and community provision. This balance and the level of cross subsidy required will need to be kept under constant review. The staff costs ratio will slowly reduce towards the college target of 70% of income. There is a gradual year on year improvement in overall operating performance, taking until the end of the plan period in 2025 to 2026 before achieving a financial health grade of good.

In the FEC team's opinion, the financial recovery plan is based on a sound analysis of the college position and the underlying issues, and makes a reasonable set of key assumptions about future years. However, the plan will take until 2023 to 2024 to improve the financial health assessment to requires improvement. The overall operating margins are low and therefore will be sensitive to risks of adverse movements. The business model adopted by the college has been shown to be agile and this ability to act quickly if things start to go wrong will be vital to the future success of the college.

Cashflow/liquidity

The large deficits in each of the last 2 years, and the projected deficit for this year, have had significant implications for cash. There is a restriction on capital expenditure throughout the recovery plan to help rebuild cash.

Financial liabilities/loans

The college has no long-term borrowings. It owns the freehold of the main site, and this has a significant value given its prime location in central London. This does provide an opportunity to explore the option of restructuring the college finances.

Audit and risk

The external auditors, Buzzacott, issued an unqualified audit opinion for 2020 to 2021 – but did refer to the material uncertainties that COVID-19 presents to the institute with the going concern basis of preparation of the financial statements. There were no other significant points reported. The internal audit service in 2020 to 2021 was provided by BDO, and in their annual plan, issued in November 2021, they did not report any significant issues in relation to their audit work during 2020 to 2021.

Long term sustainability

Although the inadequate financial health has triggered intervention in line with the college oversight policy, it is recognised that the primary cause of the deteriorating financial health is the impact of the pandemic. In 2018 to 2019 the college generated over half of their overall income from fee paying students. Growing back the fee income is critical to long term financial sustainability. The strong asset base means the college is not insolvent, but there is an ongoing working capital issue that needs to be addressed through improving operating performance. The restricted capacity to invest remains a concern.

Estates and capital plans

Use and maximisation of college estates and assets

As described previously, the college owns the freehold of its main site. There are also 2 leased properties very close to the main building. The use of satellite centres around London has now ceased.

Property management and investment

The college have received capital grants from both the Greater London Authority (GLA) and the DfE during the pandemic, and these have been used for building improvements and IT infrastructure improvements. The college are currently awaiting the outcome of a second stage application to the DfE-led FE Capital Transformation Fund. If successful, this will be used to continue with improvements to the main building.

Appendix A – Interviewees

Chair of the corporation

Principal and CEO

Clerk to the corporation

VP curriculum and quality

Chief finance officer

Executive director - people

Executive director external engagement

Head of MIS

Heads of school and quality manager (x4)

Governors (x 4)

Staff group (x6)

Student group (x 4)

Appendix B – Documents reviewed

Minutes and papers from Board and Committee meetings since last visit

Update on progress made towards recommendations

Update on college strategic plan

Latest whole college risk register

Latest whole college KPI report to governors

Corporation and Committee membership and latest skills audit

Board Self-Assessment

Organisation chart

FEC Quality Spreadsheet

College Self-Assessment Report 2020 to 2021

QIP and progress

Student feedback/evaluations 2020 to 2021 and year-to-date (Deceember2021)

People and overview position paper

Employer and stakeholder feedback

FEC Financial Spreadsheet

Student number data for 2021 to 2022 academic year for all main income streams

Draft financial recovery plan including contribution by curriculum area

2020 to 2021 financial statements

ESFA finance record 2021

External and internal audit annual reports 2020 to 2021

ESFA CFFR and supporting commentary July 2021

October 2021 management accounts

Budget papers 2021 to 2022

Cashflow forecast December 2021

Bank loan facility letter

Estates strategy

Latest COVID-19 guidelines for external visitors

ESFA briefing update

Appendix C – Closed Recommendations

Listed below are the closed recommendations from the DA work with the college.

Recommendation 4: The college is to be referred to the Department for Education (DfE) governor recruitment service to help support the need for a new education governor with experience of online learning (by December 2020) and for the replacement of the current chair whose term of office will finish in summer 2022.

This recommendation is complete. The governor vacancy has been filled and succession plans are in place.