FE Commissioner Intervention Assessment Summary Report: SMB College Group

October 2023

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Background

Name of College	SMB College Group
UKPRN	10000952
Name of College Principal /CEO	Dawn Whitemore
Name of College Chair	Jane Wilson
Type of provision	General FE College
Date of visit	2 – 3 October 2023
Type of visit	Intervention Assessment
Trigger for formal intervention	Finance
Further Education Commissioner (FEC) Team members	Shelagh Legrave (FE Commissioner) Frances Wadsworth (Deputy FEC) Andrew Tyley (Deputy FEC) Stuart Parkes (Placed Based Team Observer)
Location	Coalville / Brooksby
Apprenticeship training provider	Yes
Latest Ofsted inspection grade	Requires improvement
Education and Skills Funding Agency (ESFA) Financial Health Grade	Requires improvement

Conclusion/Executive summary

Brooksby Melton College and Stephenson College merged shortly before the COVID-19 pandemic in 2020 to form the SMB Group. Quality at both colleges pre-merger was judged by Ofsted as good and the financial health of the newly merged college was also good.

Since that time a downward trend in student numbers has continued, resulting in an associated decline in income. Coupled with a significant increase in pay and non-pay costs in 2022/23, this will result in a substantial operating loss contributing to a decline in financial health in the coming months. The college is currently in the middle of a substantial cost reduction programme that has involved closure of the majority of the Melton campus this summer, and relocation of most provision to the Brooksby campus.

Quality of education has deteriorated since the merger, as reflected in the February 2023 Ofsted inspection report which judged overall effectiveness as requires improvement.

The combined objectives of improving quality and rebuilding student numbers whilst continuing to bear down on pay and non-pay costs presents a major challenge for the board and the senior leadership team.

Early indicators for the new academic year point to a more positive 16 to 19 student intake, though the college is anticipating another year of substantial losses even after taking account of the recent uplift in 16 to 19 funding rates. Work is underway to finalise a recovery plan which will need to demonstrate a credible path to financial sustainability and identify solutions to the impending cash shortfall, whilst according priority to addressing the key areas for improvement in quality.

Governors and senior leaders will need to monitor progress rigorously over the coming months to ensure the pace and direction of improvement is sufficient without the need for more fundamental changes to the delivery model and structures.

Recommendations

Recommendation 1: The board and director of governance should continue to take steps to fill existing governor vacancies alongside succession planning for the chair, whose term is due to finish in summer 2024.
Timescale: by December 2023

Recommendation 2: The board and senior leadership team should finalise a recovery plan that demonstrates a credible path to financial sustainability by 2025/26.
Timescale: By November 2023

Recommendation 3: The senior leadership team should develop a clear curriculum strategy to identify the means by which growth in provision can be achieved and inform the curriculum plan for 2024/25 (and beyond). The Department for Education (DfE) will prepare a Local Needs Provision Analysis (LPNA) to inform the curriculum strategy and a wider assessment of the needs of the local area.
Timescale: By January 2024

Recommendation 4: The chief finance and funding officer should continue close dialogue with the Education and Skills Funding Agency (ESFA) to confirm the extent of short-term financial support required**.**
Timescale: Ongoing to December 2023

Recommendation 5: The board should engage external advice from a turnaround specialist to stress-test key aspects of the recovery plan and cashflow forecast to give assurance that the forward projections are robust and credible.
Timescale: October/November 2023

Recommendation 6: The senior leadership team should continue to implement cost reduction actions at pace in order to demonstrate significant progress in reducing the operating deficit by the mid-point of 2023/24.
Timescale: ongoing to February 2024

Recommendation 7: The senior leadership team should progress work with LocatED and/or its own property advisers to firm-up and where possible accelerate opportunities to reduce estates running costs and release surplus property assets.
Timescale: ongoing to spring 2024

Recommendation 8: The director of governance and chief finance and funding officer should strengthen the effectiveness of risk management reporting and ensure this reflects the cashflow and solvency challenges in the period ahead.
Timescale: November 2023

Recommendation 9: Board papers should provide a sharper focus on key performance indicators (KPIs), with clear accountabilities allocated. Papers would benefit from being more succinct and having clearer analysis of information.
Timescale: January 2024

Recommendation 10: The college should be placed in supervised status with immediate effect.

The FEC team will work with the college to finalise a single improvement plan (SIP) which will form the basis of an intervention assessment stocktake visit to review progress in February 2024.

The FEC supports continuing input from a National Leader of Governance (NLG) and 2 National Leaders of FE (NLFEs). Mentoring support for the 2 curriculum and quality assistant principals will also be available.

Governance and leadership

Governance

The chair joined the board of Brooksby Melton College in 2017, became part of the merged SMB Group board in 2020, and was confirmed in post as chair of SMB Group in 2022. Her term as chair finishes in 2024.

Board members with whom the FEC team met spoke positively of the improvements the chair has brought in since taking up post and of the greater clarity that they feel is emerging regarding the college's position.

The chair and board felt that the merger, followed soon after by lockdown, had combined to distract the newly forming board and cloud issues. She admitted that the board subsequently 'took their eye off the ball' regarding income and weren't monitoring the income trends closely enough.

Following the appointment of the current chief finance and funding officer, the chair spoke of a process which began with what she referred to as 'peeling the onion', clarifying the position of the college and looking at the bigger picture, which then moved debate to the right conversation. She said that looking at the whole picture hadn't been happening, but that it now was.

Support from Peridot to recruit new board members is ongoing and the chair welcomes the opportunity to strengthen the board membership, firm up succession planning – including that of her own replacement – and address recommendations from the external board review and any further FEC recommendations. The chair spoke positively about the NLG support that she has had.

Board members with whom the FEC team met were sighted on, and concerned to address, the current financial challenges and the requires improvement Ofsted grading of the quality of provision (both pre-merged colleges had previously each been rated as good).

Members said that the financial issues were "foreseeable, but not foreseen" and that the merger and lockdown period had meant that the board was slow in coming together. They referred to the board as being relatively passive. They felt that the appointment of the current chair was a turning point, described "enriching and helpful" and that "the dialogue had begun".

Board members were keen to play their part in addressing the college's difficulties. They reflected that what they referred to as the quiescence of the governing body had previously not provided appropriate challenge to the leadership team and felt that this had contributed to the situation.

Board members and the director of governance said they recognise that board papers lack focus, rigour and challenge and that they would welcome moving to clearer, streamlined, succinct papers with focus and analysis.

It was recognised that the risk register would also benefit from further work and that responsibility of senior members of staff and allocation to specific board committees should be made clear.

The recently appointed experienced director of governance is working with the board to address the external board review suggested actions and recommendations. She welcomed the suggestion of some additional NLG support to assist her work, with a particular focus on improvements to board papers.

Leadership

The board and principal explained that leadership of the SMB Group had experienced turbulence and difficulties across the period through – and since – merger.

Governors explained that post-merger, "a structure came about through attrition". The senior leadership team (SLT), formed by existing managers following merger, did not embed or prove effective. Individuals left and as they did, changes had to be made. Governors commented on this period of leadership instability and its impact.

The principal spoke of what she referred to as the 'perfect storm' - a merger and then the COVID-19 lockdown. She had decided the best way to move forward was for her to focus on finance and for her newly appointed deputy to focus on curriculum and quality. She said she now recognised that this wasn't the right strategy and that she hadn't secured the correct structure in place for leadership to be effective.

Leadership of curriculum and quality highlighted as having been particularly problematic and several decisions of that period were identified as concerning. A board member referred to the introduction of A levels and running classes of 3 or 4 students as worrying examples and spoke of how the "feel" of the merged college was wrong.

The role of deputy curriculum and quality has been replaced relatively recently by 2 assistant principals, one with focus on quality, the other with focus on curriculum. This has, directors said, led to a welcome clarity of approach and they felt the 2 assistant principals worked well together.

External support for both, from a mentor with experience of Ofsted and expertise in teaching, learning and assessment, can be provided by the FEC to assist in establishing these roles and ensuring the curriculum and quality leadership functions combine appropriately, whilst also offering support with benchmarking of judgements.

Directors whom the FEC team met spoke of the increased visibility of senior leaders and improved communications. They saw a greater focus now on teaching, learning and assessment, which they welcomed.

The college is just embarking on the process of consulting on further structural change of middle management to achieve required savings. It is recognised that moving through that process will need to be managed carefully.

Leadership of commercial activities is largely, but not wholly led by the vice principal (VP) business services, resources and service improvement. The principal personally leads, separately, on some of the strands of commercial activity.

The principal said she now had a "prudent but demanding recovery plan" and that she was making progress against it. She was now "more confident – with the right team around me." She has had the support of a National Leader of Further Education (NLFE), which she has welcomed and which will continue.

Curriculum and quality improvement

Curriculum and provision overview, planning and development

SMB Group offers a broad range of provision for young people, apprentices, and adults. Its courses for young people are mainly in animal management, sport, construction and vehicle maintenance, and much of that is at level 3. Alongside the introduction of T Levels, it also has a small, recently introduced, A level provision. Foundation courses were offered but have recently been closed. Apprenticeship provision is largely in the areas of engineering, construction, vehicle maintenance and electrical maintenance. Of the 1,236 apprentices last year, about half were 16 to 19-year-olds.

Learner numbers have declined over the past 6 years across all funding streams. Apprentice numbers have nearly halved, whilst higher education (HE) and adult education budget (AEB) enrolments have dropped by around 60%. Over the same period, 16 to 19 enrolments have fallen by 16%, though early indications are that numbers for 2023/24 could potentially start a reversal of this trend, with current numbers of 1,597 (funded for 1,410). A more effective year start appears to be improving the dropout rate in the first 42 days, which last year was cited as being circa 12%.

The recently appointed assistant principal curriculum explained that he is reviewing courses to be offered in 2024/25, reflecting on learner number trends and quality as key factors determining the offer. Decisions on new courses and courses to be withdrawn will be made in October.

Although elements of necessary planning were outlined, there is a need to develop the college's curriculum strategy, informed by an LPNA (Local Provision Needs Analysis) and arrive at a considered strategy for the future of the group. A curriculum planning process which integrates consideration of curriculum efficiencies, contribution levels, staffing and resource considerations is required, and this is recognised in the latest quality improvement plan. It is unclear that the board had been fully engaged in the determination of the curriculum offer and strategy, but the future planning process should include this engagement.

Decisions to open or close provision require careful consultation, consideration and communication, so the leadership and management of such activity and decisions is an area for further reflection. The closure of foundation learning provision was mentioned by unions as a decision that had perhaps not been fully communicated to or understood by all staff.

This example serves to reinforce the need for a carefully crafted curriculum strategy and curriculum planning process to ensure robust decision making.

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

Quality declined in the period following merger. Brooksby Melton and Stephenson Colleges were each grade as good by Ofsted pre-merger, but the recent Ofsted inspection (February 2023) assessed the merged college group as requires improvement.

Outcomes are, as managers recognise, of concern, at 77.2% for 6 to 18 classroom-based learners, 88.7% for 19+, and a decline from 57.8% in 2020/21 for apprenticeships to 45.4% in 2022/23.

The principal and managers pointed to flawed arrangements for year start in 2022 which contributed to a fragmented and confused year start. This affected retention in the first 42 days (circa 12% dropout for 2022/23 was cited) but also impacted adversely on other aspects of the learner experience for the remainder of the year. Those whom the FEC team met all felt this year's start (2023/4) had been much better organised and learner numbers were "holding up".

Apprenticeship outcomes, the FEC team were told, were affected by the ending of a large contract and subsequent legacy issues. There was confidence that quality assurance activities outlined were having impact and that provision was improving. There was, however, a recognition that inconsistencies across the quality of all provision remained a significant factor to address and that systems, processes, and significantly teaching, learning and assessment needed to improve.

The quality improvement plan provided picks up on many of the aspects managers had outlined as being of concern and requiring improvement. Each area had the same timeframe and deadline for activity: 1 July 2024. Many of the key performance indicators (KPIs) are also ones that will not crystallise until the end of academic year. To make the quality improvement plan a more dynamic and powerful tool, thought might be given to how progress could be judged in-year, with consideration as to whether interim milestones could be determined, with varied deadlines, to ensure pace and ease of close monitoring of progress across the year. Underpinning detail of the more granular activity which sits under this quality improvement plan would similarly benefit from delegated responsibilities and differentiated milestones and deadlines.

Although the finalised self-assessment report (SAR) judgements for 2021/22 closely mirrored the findings of Ofsted in February 2023, board members outlined that this had not initially been the case. They had had to challenge the draft of the SAR brought to them for approval in 2022 by the SLT, as they felt it did not accurately reflect the quality of provision. This highlights the importance for the SLT in the future of securing appropriately experienced robust external validation prior to any board consideration.

The two assistant principals hold fortnightly meetings with directors to ensure join-up of decision making across curriculum and quality, and these meetings are appreciated.

Student and staff views

Students whom the FEC team met were largely positive about their experience at college.

Many were very positive about their teachers and the teaching and pastoral support they received. However, inconsistencies were evident, even from students from the same subject areas but with different members of staff. It was clear that not all students were aware of their targets or progress against those targets.

Some students were disappointed that they had been moved from Melton campus to Brooksby and regretted the lateness of that notification and the transport difficulties they now had of getting to Brooksby.

There were a number of concerns raised regarding timetabling and the spread of their teaching across the week. It seemed that the timetabling of English and mathematics sessions in particular (Monday mornings and Friday afternoons mentioned) might not be most conducive to encouraging student attendance.

The student survey evidenced inconsistency of student experience across the subject areas and colleges, with some areas of concern. 100% in 15 subject areas said that the quality of teaching is good, but 100% of media, 36% agriculture, 25% equine and 40% of horticulture students who responded did not think teaching they experienced was good, and 100% media, 60% horticulture, 50% construction and 85% of A level students would not recommend the college to others. Managers pointed out that the survey response was small in some instances, nevertheless the feedback is concerning.

Staff views, as outlined in the staff survey (October 2022) “indicated managers perceived their own departments were working well but not the wider organisation" (VP’s report of this September 2023 analysis). Some managers whom the FEC team met commented on improved and improving communications, but noted that the next staff survey, about to be completed, would be able to further evidence progress.

Union representatives the FEC team met were aware of the quality and financial changes facing the college. However, they felt there was a need for greater transparency and ownership from the principal about what had gone wrong and the rationale for decisions such as the introduction of A levels, the closure of foundation learning provision and the future of the Melton campus. It was felt there was important work necessary to strengthen buy-in from staff to the forward strategy.

Finance and audit

Recent financial history and forecasts for coming years

The college has experienced a steady decline in turnover in recent years, reflecting a downward trend in student numbers across all funding streams that began well before the merger in 2020. Despite this, the merged college has until 2022/23 managed to achieve modest earnings before interest, tax, depreciation and amortisation (EBITDA) and its financial health grade (previously good) has benefited from a healthy balance sheet. The college is relatively asset rich and is currently debt free, having used cash reserves to pay off the balance on its only commercial loan in the closing months of 2021/22.

Financial performance 2022/23

The college's financial performance has worsened significantly during 2022/23, with the latest accounts indicating an operating loss of around 20% of turnover. Comparison with 2021/22 performance and the original budget for 2022/23 highlights the combined impact of declining income coupled with a substantial increase in both pay and non-pay expenditures. Whilst an element of the deficit can be attributed to inflationary pressures on non-pay budgets, the majority of the increase in pay costs is attributable to additional posts and agency staff.

The financial health auto-score for 2022/23 is currently requires improvement, though there is a risk the final financial health grade will fall to inadequate during completion of the financial statements. The college is expected to fail 5 out of 6 benchmarks in 2022/23, with pay costs as a percentage of turnover at 76% (some 11% above the FEC benchmark).

The cumulative impact of operating deficits, substantial AEB recoveries and capital commitments means that year-end cash balances will be rapidly eroded in the coming months and that significant DfE financial support is likely to be required. The college has begun work on a recovery plan overseen by a governor-led recovery plan working group in response to the notice to improve. This needs to be completed by November 2023 to set out the full extent of financial support required, along with a credible strategy to return the college to a sustainable operating position whilst improving quality to good.

Cost reduction actions have already been taken in the latter half of 2022/23, notably the decision to relocate the majority of provision out of the Melton campus. A first round of staff restructuring has been completed. The actions that have been taken so far to reduce the cost base have come too late to make a significant impact on the size of the deficit for 2022/23.

Financial forecast 2023/24 to 2025/26

The approved budget for 2023/24 indicates a marginal reduction in the operating deficit.

Key assumptions within the approved budget for 2023/24 include:

- a reduction in lagged funding as a result of the 15% shortfall in 16 to 19 students in 2022/23
- net reductions in pay costs reflecting savings arising from partial closure of the Melton campus, further phases of staff restructuring and savings from natural turnover and non-replacement of vacant posts
- Provision for staff restructuring costs
- Efficiency savings on non-pay costs of 4%, linked partly to the closure of most of the Melton campus

The latest draft of the recovery plan targets a reduced deficit for 2023/24, mainly as a result of the recent increase in the 16 to 19 funding rate. The continuing operating deficit and negative EBITDA will put further pressure on cashflow and is reflected in a forecast financial health grade of inadequate.

The draft recovery plan targets a further reduction in the operating deficit in 2024/25 thanks to further net savings on pay of almost 6%, cautious assumptions about scope for income growth and a reduction in staff restructuring costs.

By 2025/26 the draft recovery plan aims to further reduce the operating deficit and achieve positive EBITDA. This is achieved largely as the result of an assumed increase in lagged funding, which is dependent on achieving an additional 150 16 to 19 enrolments in 2024/25 without a compensating increase in delivery costs.

Cashflow/liquidity

The college's working capital position has already materially worsened since the decision taken in summer 2022 to repay the balance on the bank loan. This can be attributed in large part to the substantial and largely unforeseen operating loss in 2022/23.

The full extent of the impending cash shortfall is only apparent once timing factors are taken into account, notably the short-term benefit of capital grants received in advance, the in-year benefit of payment of AEB funding on profile and the ringfenced capital receipts held as unrestricted cash but required as match-funding contributions to future capital projects.

Important work by the chief finance and funding officer has been completed to help present a much clearer analysis of the forward cash position gross and net of ringfenced cash and capital commitments. This presentation format should be built into the contents of future monthly management accounts along with a much more explicit recognition in the risk register of the pressures on solvency ahead.

In the coming months it will be essential for the board and senior leaders to work closely with ESFA and DfE to secure the college's short-term liquidity. Governors should take appropriate advice to ensure they understand their responsibilities including the provisions of the insolvency regime.

Financial liabilities/loans

The college repaid the balance of its only bank loan in the summer of 2022 and is currently debt free. Governors approved this decision in anticipation of rising interest rates and mindful of the loan term which was due to expire in November 2024.

Whilst repayment of the commercial loan has helpfully removed the security held by the bank over the Brooksby and Melton campuses, it has materially reduced cash reserves shortly before going into a period where solvency has now become a major challenge for the college. Given the extent of the forecast cash shortfall and the college's limited

capacity to repay these from operating surpluses, it is likely that the college will need to negotiate a substantial term loan with DfE once the immediate liquidity position is secured.

Audit and risk

The current risk register highlights a significant number of 'red', risks but needs to be expanded to ensure mitigating actions and responsibilities are clearly identified. In light of the current cashflow pressures, a separate risk related to the risk of insolvency should be included.

The college's external auditors have started their work on the 2022/23 draft financial statements and have previously given an unqualified opinion. A key area of focus this year will be the going concern opinion. Timely sign-off of the accounts will be dependent on the timelines for demonstrating forward cash cover for the next 12 months.

Long term sustainability

The path to SMB Group's financial recovery presents a major operational challenge - particularly to manage the substantial staffing reductions required whilst at the same time improving quality and retaining and building on the higher number of 16 to 19 students enrolled this autumn.

Given the extent of the challenges it is likely that recovery could take several years and is not without risk. Independent review and stress-testing of the recovery plan by a turnaround specialist should be considered to provide assurance for governors and stakeholders on the pace and deliverability of the recovery targets.

It will be important to monitor progress rigorously and take stock of 2023/24 performance at mid-year.

Estates and capital plans

Use and maximisation of college estates and assets

The SMB group has 3 main campuses in Coalville (Stephenson campus), Brooksby and Melton Mowbray.

The Brooksby campus comprises a range of specialist land-based and general vocational training facilities in a rural setting, comprising a total of 850 acres including a college farm, residential accommodation for up to 120 students and a quarry. The quarry is leased to a third party and has in the past generated substantial revenue for the college. Since the COVID-19 pandemic, these revenues have substantially reduced.

As/when quarry operations fully resume, this could provide an important source of revenue that is not built into the college's current financial projections.

DfE capital funding has been allocated to fund major investment in new classrooms and AgriTech workshops that are due for completion by the summer of 2025 at a total cost of circa £19 million. The college has committed to match fund £0.8 million from the remaining proceeds arising from the sale of the former Spinney site.

The Melton campus is based in the centre of Melton Mowbray and comprises a range of buildings including vocational classrooms, a public theatre operated by the college, a rural catering facility and the public library. A decision was taken in spring 2023 to relocate the majority of continuing provision out of Melton to the Brooksby campus due to declining student numbers and unviable class sizes. Since the summer much of the Melton campus has been mothballed apart from the performing arts courses, the theatre, the library, and the rural catering centre.

Property management and investment

The college has worked hard to manage the relocation of most of its provision from the Melton campus over the summer. So far, the indications are that this has been achieved without losing significant numbers of Melton students to other providers. Whilst relocation has already delivered efficiencies and should help improve low average class sizes, the full financial benefits of relocation will only arise once an alternative use for the redundant facilities has been secured. The Melton site has considerable potential, but it will require extensive dialogue with the local authority and other stakeholders to secure an optimal and timely solution that takes account of the complex range of users involved.

Significant investment planned for the Brooksby campus will bring much of the teaching accommodation up to a high standard and will result in additional capacity on completion in summer 2025. Challenges remain, however, with the quality of student residences, which is reflected in low occupancy rates. The level of investment required to convert to single ensuite bedrooms is substantial and at this point in time is unfunded.

Taken together the property assets present significant opportunities both to accommodate future growth in enrolments but also to release surplus land and buildings to help fund investment and reduce operating costs. The college may need specialist property advice and support to help progress these property opportunities and accelerate realisation of the benefits arising.

Appendix A – Interviewees

Chair of Governors

CEO and Principal

Clerk

Vice Principal Business Services, Resources and Service Improvement

Assistant Principals for Curriculum and Quality, Teaching and Learning

Directors of Curriculum

Chief Finance and Funding Officer

Assistant Principal Estates and IT

Director of Student Services

Director of Funding, Planning and Information

Directors of Employer Engagement and Business Analytics and Marketing

Head of HR

Trade Union Representatives

Group of Governors

Group of Students

Appendix B – Documents reviewed

Last twelve months minutes and papers from board and committee meetings

Latest college strategic plan

Whole college risk register

Whole college KPI report to governors

Corporation membership (and committee structure) with CVs and the latest skills audit

Board self-assessment and quality improvement plan

Organisational chart

Senior Leadership Team membership with CVs and CPD record (12 months)

Pre-visit Provider Quality Performance Table

Updated College Self-Assessment Report

College Quality improvement plan and progress against it

Staff and student surveys and allied action plans

Employer and stakeholder engagement and feedback

Pre-visit financial information request template

Costed curriculum plan including contribution analysis by department/curriculum area

Latest management accounts, including cashflow forecast for at least the following 12 months

Last annual report from the internal auditors

Details of recent or planned staff restructuring events and staff turnover

Estates strategy / position statement

Details of recent and planned / potential asset disposals

Employer and stakeholder engagement and feedback

Update on autumn term enrolments by funding type compared with the curriculum plan targets and previous year's actuals

Outline recovery plan

Department for Education

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