Further Education Commissioner assessment summary

Moulton College

March 2017

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Assessment

Background

Moulton College is a specialist, independent, land-based college, offering courses from pre-entry to degree level. Around 15% of courses are HE, with the remaining 85% in FE provision. In terms of FE, 44% of courses are the more traditional land-based courses, such as Animal welfare, Equine and Agriculture, but the remaining 56% are in the growing sectors of Sport, Therapies and Construction. The vast majority of the provision is offered at the main site in the village of Moulton, about five miles north-east of the county town of Northampton. The college estate provides practical facilities and commercial environments including farm enterprises, a garden centre, equine therapy and rehabilitation facilities and sports facilities. Provision in animal management and construction is offered at three, smaller, satellite centres, located at Silverstone, Higham Ferrers and Daventry. The College recruits about three quarters of its students from Northamptonshire. It provides term-time residential accommodation for those living further afield and a county-wide network of buses that enables students to travel to the College from most areas of the county.

A further specialist curriculum area is being introduced in 2017-18 in Food Manufacturing seeing the introduction of a Food & Drink Innovation Centre funded by Government local growth funds. This will meet a strategic growth priority for Northamptonshire and the wider south-east Midlands (SEMLEP).

The College has seen a decline in its financial performance over the past 4 years, leading the SFA to issue the College with a notice of financial concern as the College's financial health rating has moved to "inadequate". In April 2016, the College received a visit from Ofsted and received a grade of Requiring Improvement. In the light of the College's declining financial health, a continuing Ofsted assessment of Requiring Improvement and the current status of the College with respect to the outcomes of the Area Based Review, the College was subject to an intervention by the Further Education Commissioner.

The intervention visit took place between 14th and 16th March 2017 and considered:

- The capacity and capability of the College's leadership and governance to secure a sustained quality improvement within an acceptable timetable;
- Any actions that should be taken to deliver a sustained quality improvement within an agreed timetable (considering the suite of interventions set out in *Rigour and Responsiveness in Skills*); and
- How and when progress should be monitored and reviewed taking into account the Agency's regular monitoring arrangements.

Assessment Methodology

The assessment consisted of consideration of briefing documents provided by SFA and EFA, examination of detailed information provided by the College, and interviews with key staff, learners and governors.

The Role, Composition and Activities of the Board

The Board skills matrix demonstrates a range of skills and professions held by the Governors, which includes three Governors with accountancy qualifications, and a number of members from business and farming. However, over the last 6 years the Board has overseen a financial performance at the College that has continually set income targets that have not been met.

The Corporation has operated a Carver model of Governance, with regular meetings of the full Board to oversee the whole range of College financial, legal and educational issues. The College accepts that it has not provided sufficient financial oversight in recent times, which may have contributed to the current financial situation. The management information and accompanying commentary was brief and lacked an adequate analysis of the financial health of the College and was not adapted to mirror key college issues (e.g. demographic change, bank covenant position) Consequently Board led challenge was inadequate and/or reactive.

The Board has recently established a 'Finance Scrutiny Panel', which includes the Chair of the Corporation and three of the Governors, who are members of the Audit Committee, and who have significant financial experience and expertise. The panel has been established to monitor the College funding and finances and report back to the full Corporation. Whilst it is recognised that this reflects the relevant skill sets of the members there is a concern around the Audit committee being able to retain its independence.

Some Governors were unaware of the specific targets set for the CEO in the critical areas of finances, student numbers and quality. The Corporation should consider whether the amount of time the Principal is expected to spend on matters relating to the Oxford Project in Saudi Arabia is appropriate, given the current College priorities of financial improvement and quality improvement.

Leadership and Management

The current Director of Finance and Corporate Services has been on long term sick leave since Summer 2016. An experienced interim has covered the role and he has agreed to remain in post until a permanent solution is found for the role. He has quickly gained the confidence of the Leadership and Governors, and has made improvements in the reporting of the management accounts and dealing with the urgent re-negotiation of loans with the banks. However, a permanent appointment is a critical part of achieving long term financial sustainability.

A revised five-year financial plan has been produced to focus on reducing current debt levels, and a review of college satellite centres and the whole college estate is underway to look at options for greater efficiencies and asset disposal to further reduce debt. All these actions provide greater confidence that the Leadership has the capacity and capability to secure a sustained financial recovery within an acceptable timetable.

However, the College still needs to produce a comprehensive Financial Recovery Plan urgently, based on realistic funding and student growth assumptions. If higher income targets are to be achieved over the next five years as part of a sustained financial recovery, then the financial plan needs to be accompanied by a detailed curriculum plan and commentary. This will ensure that all the key assumptions are clearly set out and understood. The Recovery Plan also needs to include a more detailed sensitivity and risk analysis to take account of funding changes, external economic factors and the growth assumptions included in the plan.

In terms of Curriculum Leadership and Management, a major staff restructuring and rationalisation of curriculum areas into programme areas was carried out in February 2014-15. Ofsted noted this when they visited the College in April 2016, but their view was that the new structure had not had time to make a significant impact on teaching and learning and student outcomes.

Curriculum and Quality Improvement

The Ofsted Report of April 2016 graded the College as 'Requires Improvement', and there is evidence that the College accepted that judgement and has made several significant changes since then to improve teaching and learning and student outcomes.

Ofsted did note a number of strengths including links with local partners, high rates of achievement in vocational qualifications, high standard of practical skills development supports progression to employment, and high quality practical and commercial facilities that support practical and employability skills development. However, there were also several significant weaknesses requiring improvement, which included inadequate achievement rates in English and Maths, Apprenticeship outcomes, classroom theory teaching and the lack of use of data to identify poor performance and inform improvements.

The Post Inspection Action Plan is updated and regularly monitored in SLT and Programme Leader meetings.

Improvement was evident in relation to apprenticeships where the current overall achievement is 5% above the comparable point last year. Weekly monitoring is in place with all students being risk rated in relation to timely achievement. Satisfaction rates for apprentices have increased to 89% compared to 80% last year.

Improved assessment planning in English and Maths has ensured that results are becoming available earlier in the academic year. Rolling success rates are being monitored on a weekly basis and resit opportunities have been planned for all functional skills. Work is also underway to maximise the proportion of GCSE English students at grade C or above at the completion of the course work element. Exam preparation teaching has also been reviewed this year to focus on securing improved exam performance.

Significant risks have been identified in the College's own self-assessment including, Teaching and Learning, Progress monitoring, and the development of English in vocational settings. The current PIAP has been shared with the curriculum management team and follow up actions to address these risk areas have been identified.

There is evidence that 'Learning walks' and the new observation scheme is improving practice, whilst the more effective use of attendance and performance data should have an impact on student outcomes this year. Programme Leaders recognise that the PIAP provides a mechanism for scrutinising and monitoring progress, but only a relentless focus on student achievement will produce the improved outcomes.

Whilst the College has put in place a number of improvements in both systems and management of the curriculum and the quality of teaching & learning, the Leadership and Governors still need to continue to monitor these post inspection actions in order to ensure they are converted into successful student outcomes.

The College's Financial Position

The finances of the College deteriorated for two main reasons:

- The College borrowed to fund its capital developments and did not achieve the forecast income and surpluses
- The College failed to deliver its budgeted surplus over several years

A major factor on the financial position of the College has been the impact of the capital programme. During the financial period 2011 to 2015 the College has undertaken a number of capital schemes. The capital programme was forecast to increase the income and profitability of the College but the forecast increase in the operating surplus was not realised. This was important as the College needed to generate surpluses to fund the capital improvement scheme.

The College's financial performance has deteriorated over recent years and as a result there has been a continual decline in the Colleges finances from 2012/13;

- The operating surplus has been consistently below budget. This is important as it was required to fund the capital scheme;
- Borrowings as a percentage of income have increased significantly. The level of borrowings is as the College had planned but income levels have reduced;
- Cash days in hand and the current ratio are below sector benchmarks as the College have not replenished the cash used on the capital scheme by generating surpluses;
- Staff costs have been significantly below the FE Commissioner target of 65% however they are more in line with Agricultural colleges as farm income and residences inflate the income figures.

The College has significantly under achieved its budgeted surplus in each year. The main reason for this is an over estimation of the income line. The College has therefore been unable to generate the surpluses required by the capital programme and resulted in a significant reduction in its cash and solvency position. In the current financial year, the forecast financial outturn shows that the College financial health grade would move from 'Inadequate' to 'Satisfactory' based on the SFA computed health score.

Despite achieving significant net cash inflow from operating activities, the College is only generating a relatively low level of cash each year. This is because of high levels of debt repayment in the period to 2020. The College is looking to maintain low levels of College funded capital expenditure in each year. The College therefore has a period of austerity when both revenue and capital expenditure will need to be tightly controlled.

The College has been requested by the SFA as part of the Financial Notice of Concern to develop a Financial Recovery Plan by the 28th February 2017. A five-year financial plan has been prepared, but there is not one coherent document that brings together all aspects of a strategic financial recovery plan. The plan is predicated on achieving significant growth in the next 4 years in HE, Apprenticeships, 16-19 year olds and full cost provision. The College has a contingency built into the recovery plan and additional costs which will not be incurred if the growth is not achieved. However, given the record of under achieving the budget, particularly in relation to income the College need to develop contingency plans to enable it to reduce costs in the event of a shortfall in income and address the deficit.

The five-year plan including the current year has a further three years of underlying operating deficits. Whilst these deficits are more than covered by positive cash generation in each of the financial years, the ongoing debt servicing costs will utilise much of this cash generated.

Whilst it is recognised the College has made good progress with the re-financing of bank loans the successful completion of this process, including negotiations of the revised covenants is critical to the financial sustainability.

The College has a minority stake in The Oxford Partnership (TOP), a joint venture set up to provide colleges for women in Saudi Arabia. The College has a potential exposure in relation to a performance bond provided to underpin the College's obligations in relation to TOP. There is a further bond covering fee payments received in advance by TOP. The College believes that no advance fees are outstanding at present, but further advance fees could be received in the future. The College's share is in proportion to its shareholding in TOP. This is shown as a contingent liability in the accounts.

Conclusions

Overall the College financial position has deteriorated in recent years with a succession of operating deficits, combined with a large capital investment programme. There is clear evidence that Governors are challenging the finances more rigorously now, and it is important that the CEO & Principal, together with his senior team are held to account in managing the College finances. However, the college management and governors must not become complacent in their oversight of the college finances. A completion of a single, coherent, financial recovery plan will be a very useful tool for monitoring progress by managers, Governors and key stakeholders.

This equally applies to the key curriculum and quality areas, if the College is to improve its current grade 3 from Ofsted.

One of the main priorities for the College is the long term solution of the Finance Director role. The current Interim has made a very positive impact and he has committed to remaining at the College until the permanent solution is achieved.

In terms of the area review recommendation put forward by the college, to remain as a standalone institution, it is our opinion that this is achievable. However, as outlined in this report there are a number of significant risks attached to this, and it is essential that there is active close monitoring of performance, both financial and non-financial, and early intervening actions are quickly implemented when required.

Recommendations

1. If the current post holder of the Director of Finance and Corporate Services role is unable to return from long term sick leave, the recruitment of a new Finance Director will be a critical appointment. The role needs to have a clear strategic focus on long term financial sustainability. It is recommended that the role be designated as a Senior Postholder, so that it is a governor appointment. As this is such an important appointment for the college we would request that the College allow an FE Commissioner adviser to be an observer on the interview and selection panel. We would also remind the college that due process needs to be transparent when making the appointment;
2. The Financial Notice of Concern letter from SFA required the development of a full Financial Recovery Plan. Whilst there is a five-year financial plan in place and a five-year curriculum plan, there is not one coherent document that brings together all aspects of a strategic financial recovery plan. It is recommended that this document is pulled together and submitted to SFA to ensure that progress can be clearly monitored against a detailed action plan;
3. The five-year plan contains a number of significant income growth assumptions. The college track record in the past in delivering growth has not been good. Also, whilst it is recognised the College has made good progress with the re-financing of bank loans the successful completion of this process, including negotiations of the revised covenants is critical to the financial sustainability. The risks associated with these assumptions will need to be monitored, and if necessary any intervening actions implemented quickly. As part of the Financial Recovery Plan there should be a clear sensitivity analysis and contingency plans aligned to these risks;
4. The College has had a number of years of underlying operating deficits, and the five-year plan including the current year has a further three years of underlying operating deficits. Whilst these deficits are more than covered by positive cash generation in each of the financial years, the on-going debt servicing costs will utilise much of this cash generated. It is recommended that the college try to set at least an underlying break even operating budget in each of the future years of the plan.
5. Since the appointment of the Interim Director of Finance there has been noticeable improvements in the quality of the monthly management accounts. It is recommended that the college implement further improvements to the content of the management accounts in line with good practice in the sector.
6. The College do not currently carry out a detailed contribution analysis of curriculum areas. It is recommended that as part of the curriculum planning and budget planning process the College include a contribution analysis by curriculum programme area. Also, it is recommended that the current contribution analysis for commercial activities be further developed, by recognising the full costs of the activity, including capital investment, where appropriate.
7. The College has put in place several improvements in both systems and management of curriculum and the quality of teaching & learning since the Ofsted inspection in April 2016. The Corporation and Leadership need to continue to

monitor these post inspection actions in order to ensure they are converted into successful student outcomes.

8. Governors do not appear to be aware of the specific performance targets for the Principal and senior team. Whilst the targets set for the Principal appeared to reflect the main priorities for the College, it is recommended that the governors have an opportunity to challenge the targets set, and the performance against those targets.
9. The College has set up a Finance Scrutiny Panel, which is a time limited group advising the main board on the financial performance of the College. The members of this panel are the members of the Audit Committee and the Chair of Governors. Whilst we recognise this reflects the relevant skill sets of the members there is a concern around the audit committee being able to retain its independence. It is recommended that the Governors consider the membership mix of the Audit Committee and the Finance Scrutiny Panel, whether the group should be time limited.
10. The Corporation should consider delegating the Principal’s current duties relating to the Saudi contract in order to focus on College operations.
11. The FE Commissioner team should carry out a stocktake visit in approximately six months to review progress against recommendations in this report.

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