

**Further Education Commissioner
stocktake assessment summary**

The City of Liverpool College

February 2017

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Assessment

Context

The City of Liverpool College Group comprises - The City of Liverpool College; First4Skills (F4S - the Group's national training arm delivering mainly service sector apprenticeships), SharEd (the Group's professional shared services function) and Liverpool Business Service (providing mainly internal commercial services to the College, such as catering).

The College offers a broad curriculum from Entry to Level 5 in most curriculum areas, with some provision up to Level 7, comprising classroom learning, 16-18 and adult apprenticeships, higher education (HE), European Social Fund (ESF)/European Regional Development Fund (ERDF) provision, 14-16 school links, full cost recovery and adult loans provision. The majority of provision is vocational, although the College also delivers some 900 A' levels each year (7% of provision by volume).

The College has five main campuses - all located in the Liverpool City Council Local Authority area. While there are 35 schools with sixth forms and one UTC within a five-mile radius, the College is the only further education college in the City.

The College underwent an FE Commissioner (FEC) Intervention in December 2013 following an inadequate Ofsted inspection and a Skills Funding Agency (SFA) assessment of 2012/13 financial health as '*inadequate*'. Following an improved Ofsted judgement ('*requires improvement*') in April 2014, and improved financial performance ('*satisfactory*') in 2013/14, the College exited FEC Intervention in November 2014. The SFA notices of concern in relation to quality and financial health were also lifted in August 2014 and February 2015 respectively.

The College was inspected by Ofsted in November 2015 and maintained its '*requires improvement*' status overall. Provision for adults and provision for learners with high needs were both judged as '*good*'.

In January 2016, the College informed the SFA of the urgent need for £2 million Exceptional Financial Support (EFS) to cover working capital requirements. The Agency approved this request, but issued a further *Notice of Concern* in February 2016, and referred the College to the FEC for assessment.

The FE Commissioners report (May 2016) made the following recommendations:

1. The College should pursue a college-led financial recovery, monitored by the existing regular case conferences. A member of the FEC team should also attend these case conferences;
2. The Board of Governors of the College Group should consider re-introducing a Board Committee with responsibility for finance and to further strengthen the Board membership with additional finance/accountancy experience;
3. In order to ensure the Group has a full and timely appreciation of the financial progress and achievements of F4S, the College Board should review whether/how it can strengthen governance arrangements relating to this subsidiary;
4. The Board should consider engaging with external governance support as part of its on-going development programme, facilitating Board members to govern in a Group structure;

5. Board members should consider the development and induction arrangements for existing and new Board members, with a view to focusing on the differences between governing within a Group structure compared to a single College entity;
6. The Executive team should review the impact and probability of risks associated with the Recovery Plan within the Risk Register, and the Board should monitor these risks closely.

The above recommendations were all accepted by the Board. Five of the six recommendations had been actioned by the end of 2015/16 and progress is being made on the sixth – the college-led recovery. Much remains to be done.

In October 2016, the Minister of State for Apprenticeships and Skills placed the College in '*Administered College Status*' and asked the new FEC to undertake a stocktake to assess recent progress and the longer term direction of the College.

Assessment Methodology

The stocktake assessments were carried out by the FE Commissioner and two FE Advisers (the FEC team) in November 2016 and February 2017. The reasons for these two stocktake assessments were;

1. City of Liverpool College Group had an £8m adverse variance to its agreed 2015/16 budget resulting in a £2m exceptional finance support loan from the Skills Funding Agency to maintain the College's operations
2. The College remains graded as "requires improvement" by Ofsted
3. During the November stocktake the FEC team were concerned about some of the College Board's responses to the 2015/16 financial crisis

They considered briefing documents provided by the Skills Funding Agency and Education Funding Agency, examined detailed information provided by the College and met with The Chair and Vice Chair of the Corporation Board, other governors, the Principal, relevant College and Group managers, staff and various Trade Union representatives and stakeholders from within the City Region.

The College provided a detailed response to the Commissioner's report in December. The FE Commissioner discussed the points raised in detail with the College's Chair, Chief Executive and Clerk during February, and this report has been updated to reflect that discussion.

Progress since November 2016

The FEC team made a number of comments and recommendations after their visit in November 2016. These have been reviewed and updated in the light of Board comments and progress to date (February 2017).

November 2016	February 2017
<p>In 2016, governance and management were inadequate because the College incurred a large deficit in 2015/16 requiring £2m exceptional support to continue its operation.</p>	<p>Improvements to governance, following on from the recommendations in the FE Commissioner's report (May 2016) have now been implemented and the impact of these changes is evidenced.</p>
<p>Capacity, knowledge and experience at the most senior levels of governance and management are insufficient to consolidate and see through the College's full recovery. The College requires a new, externally recruited Chair and Vice Chair of the Board, who can lead the full recovery and hold senior post holders to account appropriately.</p>	<p>The Chair of the Board resigned in November 2016. An Interim Chair has been elected who has extensive further education college experience.</p> <p>The Board has not yet agreed how they will recruit a new Chair. The FE Commissioner team recommend an external advertisement during 2017 for a new Chair. As the College is in Administered Status the process should take place under the oversight of the Skills Funding Agency.</p>
<p>The College needs to build a stronger, strategic partnership with the City Council, which could help strengthen governance.</p>	<p>The College is in agreement, highlighting that it is already progressing this activity which fits in with its aspiration to be seen as the '<i>College for Business</i>' in the City.</p>
<p>Governors have made improvements in financial monitoring although there needs to be more robust scrutiny of key Budget and Management Account indicators e.g. staff numbers, learner numbers and a costed curriculum model (taught hours).</p>	<p>It is noted that the KPIs referred to are reported on to the Group Finance Committee and to the full Board under separate cover.</p> <p>It is however good practice that the Management Accounts include key financial indicators alongside financial information. Readers of the Management Accounts can then compare student numbers with forecasts of income, staff numbers and projected expenditure.</p> <p>The £8m deficit in 2015/16 may have been identified earlier if the information had been presented in this way.</p>
<p>Learner achievement rates continue to improve with the majority now at or above national rates.</p> <p>Some new curriculum progression routes are</p>	<p>Classroom based and apprenticeship headline achievements show year on year improvement for all age groups.</p> <ul style="list-style-type: none"> On Study Programmes (16-18) both retention and pass rates improved in 2015/16 leading to a seven percentage

November 2016	February 2017
<p>being developed, including flexible routes in higher education, which are valued by stakeholders and employers.</p> <p>This aspect should be celebrated across the College and staff and Governors commended.</p>	<p>point improvement on overall achievement rate - some three percentage points above 2014/15 national average rates.</p> <ul style="list-style-type: none"> • Adult achievement improved two percentage points above national average rates. • Apprentices overall achievement improved by five percentage points and at 72.5% is just above the 2014/15 national rate. Timely achievement (64%) is significantly above the national rate, although the College recognises that a much higher proportion of apprentices need to achieve within the timeframe. • The College SAR recognises the inconsistencies across some vocational areas and significant weaknesses in AS provision • Mathematics and English basic skills are broadly in line with national rates and have increased on the previous year. GCSE A*-C high grades, although improving are below (low) national rates. • Attendance by learners is an area requiring improvement and vigilance and remains too low. <p>The QAA (July 2016) judged that HE provision meets national standards and commended the College on both the quality of its student learning opportunities, and the enhancement of student learning opportunities.</p> <p>First4Skills (F4S) achievement rates are significantly below those of the College and are just below national minimum levels of performance.</p>
<p>Financial reporting and systems are poor and require further development. This is recognised by the new finance managers.</p>	<p>In 2015/16 financial controls at the College failed for a period of time. Once this was known to the Principal and governors' actions began to be taken. Work is now progressing on improvements to the financial and reporting systems.</p> <p>The movement in the reported budget each month however highlights the need for further work to be done.</p>
<p>The College must continue to develop middle managers' knowledge and understanding of costed curriculum planning and the implications of not reaching targets.</p>	<p>In 2016/17, better developed MIS reports are enabling informed decision-making and there is an improved approach to curriculum planning and to achieving targets.</p> <p>Lines of communication have been refined to</p>

November 2016	February 2017
	<p>provide greater clarity and accountability to curriculum leaders through their monitoring of quality within subject areas.</p> <p>Performance management processes have been amended and a consistent set of criteria, including achievement rates, high grades, outcomes from lesson observations are reviewed for each member of staff.</p> <p>The impact of these changes are not yet fully evident.</p> <p>The College should continue to develop middle managers' knowledge and understanding of costed curriculum planning and the implications of not reaching targets.</p>

Governance, Leadership and Management

Governance and Accountability

At the November 2016 visit the FE Commissioner judged that in 2015/16 governance and leadership at City of Liverpool College were inadequate because the College incurred a large financial deficit requiring £2m urgent exceptional financial support in order to continue its operations. This resulted from an £8m adverse variance to the approved budget for 2015/16.

The FE Commissioner also judged that a full, independent and transparent investigation into the reasons for this deficit had not been instigated and the College Principal and Accounting Officer had not been appropriately held to account during this period.

Once the serious financial problems became known in early 2016, the Board initiated a “*review to identify learnings from the need to apply for exceptional financial support*” from the College’s internal auditors - RSM (27 January 2016). This was commissioned and directed by the Audit Committee (14 March 2016). The RSM ‘*Learning Review*’ report was published in August 2016. The internal auditors agreed terms of reference which included that they were not to apportion responsibility for the financial situation that the College was in during 2015/16. The minutes of the College’s Remuneration and Succession Planning Committee meeting held in September 2016 suggest that the Principal, as Accounting Officer, was not independently investigated or held to account in any meaningful way in the aftermath of a very serious financial crisis for the College. The report does comment on the actions of individual managers and takes a view as to whether their actions were appropriate and timely in the context of the information available. The learning report concludes that both the Principal and Deputy Chief Executive acted swiftly and appropriately and in line with their duties to the emerging crisis, and that there is ‘*no case to answer*’ in respect of the Principal’s performance

Since his appointment in November 2016, the new Interim Chair has taken additional steps to satisfy himself in relation to the matter of accountability. Specifically, he interviewed the College’s former internal auditors (RSM); the former Deputy Chief Executive (Finance and Commercial); the new Group Finance Director; and the external

auditors who signed the financial statements with a statement confirming the College as a going concern for 2015/16 in December 2015.

Each interviewee was questioned in detail on the sequence of events leading to the College's financial situation, and specifically and explicitly asked:

- Would it have been reasonable and realistic for the Principal to have anticipated the emerging crisis sooner than she became aware and alerted the Board to it?
- Whether all actions taken were appropriate?
- Did the Principal act in line with her responsibilities as Chief Accounting Officer?
- Were the interviewees subjected to any pressure to act or attest contrary to their professional opinions as finance and audit professionals at any time?

The Chair confirms that all were unequivocal in confirming that the Principal acted in line with her duties and met fully her responsibilities to act at all times in the best interest of the College. They confirmed that she could not have reasonably or realistically foreseen the financial crisis, given the information available and provided in response to her challenges.

Nevertheless, the College now accepts that financial controls did fail for a period of time during 2015/16, and that the agreed terms of reference for the subsequent internal auditors' learning report lacked rigour.

Employment Matters

Additionally, the decision to change the employment terms of the Principal, as the Board stated '*to manage risk associated with turnover at a senior level in the College*', however well-intentioned, were ill-advised before the year-end annual statements had been signed off.

It is noted that the Board considers matters of remuneration for all senior post holders, when appropriate. The Board confirms that the Principal has not benefited from any increase in salary as a consequence in this instance.

Improvements to Governance

Improvements to governance, following on from the recommendations in the FE Commissioner's report (May 2016) have been implemented as follows:

- The Board has set up a Group Finance Committee in July 2016 which met for the first time in August. It has an appropriate membership and is beginning to get to grips with the challenges facing the College. Prior to that, as part of additional scrutiny, three extraordinary meetings of the full Board took place during the summer period.
- New governors have been appointed with finance/accountancy experience.
- The Board has appointed a Deputy Chief Executive with experience of finance within the FE sector (from a college consistently judged '*good*' by Ofsted), and a new experienced Director of Finance
- The Board asked PWC to undertake a review of the 2016/17 financial plan to test the validity of the budget; PWC confirmed the College as a '*going concern*' for 2015/16 in December 2015.
- Governor induction has been strengthened to include an explicit focus on governing within a Group structure.
- Risks associated with financial recovery are incorporated into the Risk Register.

Whilst good progress has been made since May 2016, the Budget and Management Accounts for 2016/17 do not yet provide sufficient information for Governors to question the underlying financial position of the College. They should be further strengthened by the inclusion of underlying key performance indicator (KPI) data such as:

- Learner numbers
- Staff numbers
- Staff utilisation
- Performance against contract and basis for forecasts
- Average Class Size

It is noted that the KPIs referred to above *are* reported on to the Group Finance Committee and to the full Board under separate cover. It is however good practice that the Management Accounts include key financial indicators alongside financial information. Readers of the Management Accounts can then compare student numbers with forecasts of income, staff numbers and projected expenditure. The recently appointed Deputy Chief Executive and Group Director of Finance are aware of this and have plans to further develop the Management Accounts and budgeting arrangements to include these key indicators.

The College had previously responded effectively to the earlier FEC Intervention assessment in December 2013 which recommended that *governance arrangements needed to be improved, with additional, high level expertise in further education and training*. Board education and training expertise was strengthened quickly by the membership of a former university lecturer and experienced former Principal of an FE college, who was instrumental in setting up a revised Performance and Quality Task and Finish Group (PQTFG) in January 2014 – a working group with flexible governor membership which scrutinises performance and quality management, initiatives and their impact.

Responsibility for student performance and quality is retained by the full Board which considers curriculum and quality related standing items at each meeting, including a performance report, progress against the post inspection action plan (PIAP) and a quality improvement plan. Progress is being made in this aspect of the College's work, but as Governors themselves recognise, the pace of improvement needs to increase. The College needs to improve from Grade 3, requires improvement, to Grade 2, good, at the earliest opportunity.

Leadership and Management

The College has gone through a number of projects as part of its transformations programme in recent years focussed on cutting costs and generating income. Pay costs are currently above the FE Commissioner recommended upper limit of 65% of financial turnover. The current Executive team is led by the Principal and Chief Executive with overall responsibility for all aspects of the College and three further senior post holders (SPH) - a Deputy Chief Executive, responsible for SharEd and Corporate Services, and two Vice Principals (VP Curriculum and VP Business Development). A further twelve people make up the Senior Leadership Team (SLT), including four Assistant Principals aligned to the College's academic pillars and key Local Enterprise Partnership (LEP) areas for growth. There is also a wider leadership team (WLT).

Of the Executive senior post holders, the VP Business Development position is vacant; the previous appointee having left the College in January 2016 after non-completion of probation. Vacant responsibilities are being overseen by the Executive team, as are the ultimate responsibilities for quality and transformation (the previous senior post holder having left the College in early 2017 to take up a Principal appointment). This turnover at a senior level presents both a challenge and an opportunity.

Last year, 2015/16, leaders and managers planned to double Apprenticeship provision, increase adult loan income and recruit to 16-18 targets; this did not fully happen and there were shortfalls in projected income growth. There was however growth in

Apprenticeship provision, with the College securing growth cases against both contract allocations. The Board did hold the SPH responsible for the failure to realise planned income and the VP did not complete probation successfully and left College.

The current management structure is one that acknowledges that some middle managers are capable of maturing into senior roles

In 2016/17, better developed MIS reports are enabling informed decision-making and there is an improved approach to curriculum planning and to achieving targets. More rigorous performance management is leading to greater accountability in managers and a better understanding of the implications of not reaching student number predictions and associated income generation.

Lines of communication have been refined to provide greater clarity and accountability to curriculum leaders through their monitoring of quality within subject areas. Performance management processes have been amended and a consistent set of criteria, including achievement rates, high grades, outcomes from lesson observations are reviewed for each member of staff. Managers are supported well to take prompt action to support their staff to improve quickly. The impact of these changes are not yet fully evident.

The College should continue to develop middle managers' knowledge and understanding of costed curriculum planning and the implications of not reaching targets.

In 2016/17, the ILR return shows that 16-18 recruitment was c250 below target. Senior managers highlight that accurate forecasting of potential learner numbers is difficult. The College recruits from among 30 of the most 100 deprived districts in England across Greater Merseyside, with multiple and intergenerational worklessness, and over 20 very local schools/academies now have sixth forms, with aggressive competition for the declining (until 2020/21) 16-18 cohort in Liverpool. Further competition for 16 to 18 year olds will come from the new Performing Arts College opening near to City College.

Senior managers also highlight that the failure to reach 16-18 targets in 2016/17 will be offset by increases in higher education, 19+ loans and Access recruitment – all of which are expected to be above target. Adult education budget (AEB) provision will recruit to target and adult Apprenticeships will increase. 16-18 Apprenticeships are likely to be lower than in 2015/16.

Curriculum

The College highlights that it works very effectively with a very wide range of employers and other partners to ensure that the breadth and content of provision is carefully aligned to local and regional priorities. They cite their 94% positive student destination rate and good reputation with the LEP/stakeholders and employers.

The College offers a broad curriculum from Entry to Level 5 in most curriculum areas, and to level 7 in some. It has made significant changes to provision to ensure so that it better supports employers. Provision is arranged into vocational 'pillars', which reflect LEP priorities of *Low Carbon, Knowledge Economy, SuperPort, Digital and Creative Skills* and 'City 6' (sixth form centre). The majority of provision is vocational, although last year the College delivered 940 A' levels. Headline 16-18 achievement is rising, although AS level achievement is weak and was poor again in 2015/16. In 2016/17, a reduced AS offer is focussing on core subjects and subjects that are above national rates, whilst leaders continue to reflect on the City6 offer.

Apprenticeships cover 39 framework areas, nearly half of which are at Level 3 and above. There is a growing profile of College starts and declining subcontracted starts.

Higher Education is well established and is growing. It has recently been recognised by the Quality Assurance Agency for its good quality. Target numbers are 740 in 2016/17 and 813 in 2017/18. Feeder programmes support widening access for a diverse student population, with the focus on local industry needs, employability and progression to further study.

Stakeholder Views

The College and its leadership retain the confidence of key stakeholders with whom the FEC team spoke in November 2016. They agreed that *'strong partnerships with a wide range of stakeholders enable the College to provide a responsive curriculum with good work experience opportunities and a wide range of employment opportunities for learners.'* (Ofsted 2015)

Stakeholders confirm that the College has made significant changes to provision to ensure it better supports employers in the City Region, particularly in creating a skilled workforce, responding to labour market needs and developing students' skills to meet key employer requirements. They highlight that the College is now much more focussed in engaging with the skills agenda and takes more of a leadership role within the business community than previously.

Outcomes for Learners

The quality of learner achievements in the College continues to improve and the majority of headline achievement rates are now at or above current national rates. Innovative progression routes are being further developed and the College's responsive curriculum is valued by stakeholders and employers. This should all be celebrated and staff and governors commended.

Classroom based and Apprenticeship headline achievements show a year on year improvement for all age groups and funding streams.

- On Study Programmes (16-18) both retention and pass rates improved, leading to a seven percentage point improvement on overall achievement which is some three percentage points above 2014/15 national rates.
- Achievement of Adults improved to two percentage points above national rates.
- Apprentices overall achievement improved by five percentage points and at 72.5% is just above the 2014/15 national rate. Timely achievement (64%) is significantly above the national rate, although the College recognises that a much higher proportion of Apprentices need to achieve within the timeframe.
- The College SAR also recognises inconsistencies across some vocational areas and in particular in AS provision - an area that needs to improve rapidly
- Mathematics and English basic skills are broadly in line with national rates and have increased on the previous year. GCSE A*- C high grades, although improving are below (low) national rates. This remains an area for improvement.
- Attendance is an area for improvement and vigilance and remains too low.
- First4Skills (F4S) achievement rates are significantly below those of the College.

Quality

The City of Liverpool College has no notices of concern for quality. It was inspected by Ofsted in November 2015 and judged '*requires improvement*' overall. Provision for Adults and Provision for Learners with High Needs were both judged '*good*'.

Strengths highlighted by inspectors included: *strong partnerships leading to the development of a responsive curriculum with good work experience opportunities, good occupational skills development, particularly at Level 3 and very good additional support.*

The Ofsted '*Stretch and Challenge*' visit in December 2016 focused on the areas identified for improvement at inspection, particularly: *reducing inconsistencies in some achievement rates, particularly AS levels; monitoring learners and apprentices progress, monitoring of staff performance so that the quality of teaching, learning and assessment improves, especially in English and mathematics and improving attendance and punctuality.*

The PQTFG are providing support and challenge to senior curriculum managers, which has led to an ongoing improvement in quality. Ofsted (2015) judged that Governors '*rigorously scrutinise detailed reports about the College's performance and monitor closely the progress that leaders and managers make in improving provision*'.

The 2015/16 self-assessment report (SAR) provides comprehensive coverage of all aspects of the College and includes the key areas for improvement identified in inspection in November 2015. Each aspect is risk assessed and progress towards meeting targets is rated. For 2015/16, the College judged that it '*requires improvement*' overall. Provision for Adults and Provision for Learners with High Needs are both judged '*good*', as is Personal Development and Behaviour (the only grade that has improved since inspection).

PQTFG minutes (December 2016) note that these judgements are prudent and reflect the position at the end of 2015/16. The Group is clear that there is evidence of further improvements in the first term of 2016/17. The Group note that in terms of outcomes, the College has demonstrably improved, with all areas above national rates, but understand the need to ensure consistency across programmes and continue to improve mathematics and English achievement.

The Quality Assurance Agency (QAA) judged in July 2016 that higher education provision meets academic standards and commended the College on both the quality of its student learning opportunities, and the enhancement of student learning opportunities.

First4Skills (F4S - the Group's national training arm delivering mainly Service Sector Apprenticeships) was last inspected in May 2015 and judged as '*requires improvement*' overall. Outcomes for learners, quality of teaching, learning and assessment, and, effectiveness of leadership and management were all graded as '*requires improvement*'. Based upon 2015/16 apprenticeship achievements First4Skills fell just below national minimum levels of performance. Inspection is anticipated in 2017.

Finance

Financial Position

The Group annual audited accounts for 2015/16 show a total deficit for the year of £15,349 million. The College budgeted for a Group breakeven position before taxation.

This has caused cashflow problems, with the College requiring a £2 million advance from the Skills Funding Agency. This has now been repaid.

In March 2016, the College developed a Financial Recovery Plan.

If the Budget is achieved, then the College would move to a position where its Financial Health grade is 'Good'. Governors and the Senior Management are aware that the budget is very tight, with risks that if not managed, could result in an operating deficit.

Finance Team and Systems

The College has strengthened the Finance Team with the appointment of a Deputy Chief Executive (Senior Post Holder) and Group Finance Director. The College are in the process of restructuring the Finance Team with the intention to increase resources in the short term to improve budget monitoring and systems development. This is a transitional arrangement whilst new, more efficient processes are embedded as there is a need for senior members of the finance team to be freed up from transaction accounting to implement improvements in budget management and systems development.

Budget responsibility has been consolidated at the Senior Leadership Team Level and controls over authorisation of ordering have been enforced.

IT systems are not currently being fully exploited, so that there is still a need to manually prepare management accounts from the output of the system, rather than directly from the system.

IT Systems are not integrated to an efficient level – The Finance and Student Record Systems are not integrated, requiring the manual transfer of data between the two systems.

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