Department for Business Innovation & Skills

FURTHER EDUCATION COMMISSIONER

Nottingham Vocational Education Review

JULY 2015

Contents

Confidentiality

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Executive Summary

1. Background Information

The FE Commissioner completed an intervention, in February 2015, in New College Nottingham as a result of a Notice of Financial Concern. This intervention led to a number of recommendations. In particular, the FE Commissioner noted the high levels of competition, duplication and overlap between New College Nottingham and Central College. He also noted that plans for a new Skills Hub for Nottingham, initiated from Central College, would stall unless the colleges developed a single proposition for the city. The D2N2 LEP is only willing to allocate £30 million in capital funding to a new Skills Hub if the colleges come together as one entity. As a result of these observations, the following recommendation was included in the FE Commissioner's Report:

'A city wide needs led review of vocational education should be undertaken by the Further Education Commissioner to consider opportunities for improving value for money and delivering better outcomes for learners and employers in the area.'

As a result, the FE Commissioner has been leading an analysis and quantification of the benefits of a *single proposition* for Nottingham over the past 3 months. Meetings have been held with both Corporations together and have focused on curriculum, estates and finance. Each element of the review has concluded that there are significant advantages to learners, employers and the community of reduced competition, financial savings and estates rationalisation. A merger would create opportunities for re-investment in new skills priorities, ensure buildings and equipment, are of industry standard and would secure a LEP capital contribution to a new Skills Hub to the order of £30 million. Regular meetings have also been held with significant stakeholders and funding agencies, all of whom support the creation of a single Further Education College for Nottingham. The Minister for Skills, Nick Boles MP, has been apprised of the emerging plans and is in agreement that a Structure and Prospects Appraisal would not be required. Both Corporations note that the creation of a single proposition for Nottingham would result in the creation of the 3rd largest Further Education College in the country.

1.1 Consultation with Central College

The FE Commissioner met with the Chair and Principal of Central College Nottingham to request their voluntary participation in a city wide review. The Central College team were very positive about their involvement as they recognised the value of a single proposition for Nottingham. In fact, the Central College Corporation formally endorsed their preference for this option at their Corporation meeting in December 2014.

1.2 Wider Consultation Schedule

A series of four meetings were established to ensure that all key stakeholders, SFA, EFA and college governors were kept fully formed of the emerging issues and conclusions. These meetings were held in May, June and July 2015. The target date for the conclusion of the review was July 2015 with an expectation that any recommendations would be considered and approved at the Board meetings of 23rd and 24th July 2015.

1.3 First Stage – Curriculum Review

The FEC team analysed the ILRs for 14/15 from both colleges. The focus was on full time provision and the initial analysis was to identify areas of curriculum overlap by SSA. A postcode analysis for both colleges was also completed. Meetings were held with college teams throughout this process, including senior curriculum leads and heads of areas. Staff in these meetings were able to identify additional areas of overlap owing to their detailed knowledge of programme content. The team concluded that there was a very significant level of direct overlap and significant opportunities to rationalise the offer, eliminating duplication, improving information, advice and guidance and making significant annual savings. Thereby releasing funds for re-investment into new skills priorities.

1.4 Second Stage – Estates Review

There are key challenges across the estates of both colleges with an overall excess of space which is no longer fit for purpose. Capital applications to the D2N2 LEP have resulted in an offer of £30 million towards a new city centre Skills Hub, provided that a single proposition for vocational learning in Nottingham can be achieved. Our work showed that a merged college could enable some very significant property improvements to be realised for the ultimate benefit of learners in Nottingham.

1.5 Third Stage – Financial review

The financial modelling work demonstrates that a merger of the two colleges presents a significant opportunity to create a financially resilient institution through delivery a more efficient curriculum and to achieve some substantial cost savings in many support areas without any impact on learners and the quality of the teaching and learning. There are a number of risks associated with merger that could have a financial implication, which will need careful management.

1.6 Role of the key stakeholders

The FE Commissioner’s team met with regularly with key stakeholders including the City, County and LEP to discuss the single proposition for Nottingham. All parties, including stakeholders, the colleges, the EFA and the SFA, at all times remained committed to a single proposition for Nottingham and the move towards merger.

The agenda for each meeting included:

- Progress towards a single proposition
- The financial implications
- Vision/Mission/Values
- Stakeholder update
- Governance / structural arrangements

Stakeholders noted that the work on curriculum modelling between the colleges had confirmed that a revised joint curriculum is in the best interests of all, and that there are significant gains for learners, employers and the community in bringing the colleges together to deliver a coherent, high quality offering.

Stakeholders remained keen to see a new radical approach to improving outcomes for learners. They noted that both colleges were still ‘requiring improvement’ even though each college could demonstrate year on year improvements. In order to achieve more rapid progress and to avoid any notion of ‘takeover’, the majority of key stakeholders preferred a Type A merger, with a new independent Chair and a governance composition of equal numbers from both predecessor college and new members. An example of 4-4-4 was proposed. There was also a preference for a national advertisement for the new Principal/CEO. Stakeholders wanted to see a new, highly innovative, high quality college emerge with none of the feel of its predecessor institutions. The opportunity for this new single entity was seen for some as the opportunity of a generation, against a backdrop of a decade of failed city wide collaboration.

1.7 Role of the College Corporations

All members from each Board were invited to each meeting held by the FE Commissioner. This resulted in a very large group but achieved full engagement of the majority of members. Initially views were quite polarised on the best way forward but against a backdrop of total commitment to achieving a single proposition outcome. After the third formal meeting, if was agreed that members should meet in a more informal arena, facilitated by the FEC team. The first informal meeting was held on 9th June 2015 and all members were provided with helpful guidance from the SFA on the distinctions between Type A and B mergers. Also at this meeting, each Chair presented their vision for the future and there were high levels of synergy and ambition between the two presentations, in particular:

- Delivering outstanding Teaching and learning which puts learners at the heart of the college

- Ensuring curriculum coherence that is relevant and market driven

- Being the first choice for learners, employers and education partners

- Having an excellent Estate
- Providing industry standard resources
- Being a collaborative partner and adding real value
- Being an employer of choice – developing and retaining high performing teams
- Being commercially astute and financially resilient

Although this group was smaller than the formal meetings and provided an easier opportunity for frank discussion, it was agreed that 3 board members from each college should form a working group to finalise the proposals for structural change. The working group met through June and early July, facilitated by an FEC Adviser, and finalised recommendations for their respective boards' meetings for 23rd and 24th July respectively. An independent Clerk joined this group and added significant value in the production and co-ordination of the final Corporation papers.

1.8 A new single proposition emerges

The College Corporations have been acutely aware of their legal responsibilities and have each taken independent legal advice. They have tried to balance the need to keep the pace of improvement on target in their respective colleges, alongside supporting the creation of a new college for Nottingham, to be in place by at least August 2016. They have given significant regard to the views of stakeholders and tried to balance the advantages and disadvantages of various structural arrangements in relation to minimising commercial risk, protection of staff, avoidance of any suggestion of 'takeover', pace and ease of operation. Their final recommendations are included at Annex A. Throughout the process, very positive relationships have developed amongst those keen to be part of the development of a new college, any issues of self-interest have been put aside and all elements of the recommendations have been thoroughly thought through and are considered to be the best solution for a merger. This has not been an easy journey and the working group must be commended for its determination to persuade the full corporations to agree to their final recommendations.

1.9 Conclusion

The Boards of both Corporations met on the 23rd and 24th July respectively and both boards agreed to support the recommendations for merger to take effect by August 2016. The final structural arrangements which will determine the recommendations to the Secretary of State will be finally determined once due diligence is completed; likely to be in October 2016. In reality, either college could dissolve once this process is complete and objective independent advice is received from professional advisers. Initial membership of the designate board is agreed and the new board is due to meet in late August/early-September 2015. It has clear delegated powers and as a first stage will increase its membership through the recruitment of new members. In parallel it will commission the due diligence and following further legal advice, will determine the arrangement for the recruitment of the new senior team. A series of press announcements took place in local media on 24th July 2015 and have since been picked up by interested national media. There is much local stakeholder celebration and the implementation phase will now be overseen by the Skills Funding Agency.

Analysis of the curriculum

2.1 Introduction

Senior Managers from Central College Nottingham (CCN) and New College Nottingham (NCN) together with members of the FE Commissioner's team undertook an analysis of the in-year ILR data from each college, 2014-15 to identify those courses which were identical and duplicated in both colleges and which, although not identical, were sufficiently similar that they might be rationalised should the two colleges come together to offer a unified curriculum.

2.2 Parameters

The ILRs from the two colleges were merged into a tabular format allowing comparisons to be made between provision at CCN and at NCN – Appendix B

The ILR data was disaggregated as follows:

By college

By full-time learners only, part time learners excluded

Analysis by the number of learners rather by than the number of enrolments (a student might enrol on several courses skewing the data)

By subject area - Tier 1 and by curriculum area within the subject - Tier 2

By Levels; Entry Level, Level 1, 2, 3 and 4

Subcontracted provision was excluded from the data set

By delivery site and by curriculum area and college

2.3 Methodology

CNC and NCN Senior Managers and members of the FE Commissioner's team undertook a pilot analysis of the ILRs, i.e. the curriculum offer, from the two colleges, 2014-15. Curriculum specialists from the selected pilot areas, namely Construction and Health and Social Care, also added intelligence to aid understanding about the specifics of the current curriculum offer.

Analysis identified which courses were duplicated and delivered by both colleges; these courses are highlighted in Green in the following tables –Appendix **B**

Further analysis identified which courses, although not identical, were sufficiently similar that they might be combined into one offer. The areas of similarly, or curriculum overlap, are highlighted in Yellow in the following tables – Appendix **B**

The pilot study gave rise to an agreed approach which was then applied to the whole of the curriculum offer by college. Managers and subject teams worked together to identify curriculum duplication across the two colleges and those areas which, although not identical, were substantially similar.

Using the average class-size determined by the college for each subject area revealed the approximate number of student groups by college. (Appendix 2). Totalling the number of groups and dividing by an average class size of 18, indicated the number of groups which would result if the curriculum were amalgamated into a single offer across the two colleges. It is recognized that although calculations are based on an average class size of 18 in practice this figure would differ by subject area; practical courses often having a lower group-size than classroom based subjects.

A number of subject areas, or courses, are offered predominately, or solely by one college, e.g. Sport at CCN, A levels at NNC, in these cases these areas are simply labelled 'Rationalise' in the summary table at Appendix 2.

The difference between the number of groups per college compared to the total number of groups which would result from a single, combined curriculum offer indicates the potential savings which could be achieved from a unified curriculum offer**.** (Appendix 2). Calculations demonstrate a possible saving of approximately 109 student groups. Calculating the annual potential savings in terms of staffing costs gives rise to a figure in the region broadly of £750-£1 million.

2.4 Travel to Learn

The student travel to learn patterns for each college by subject area and by delivery site were analysed and mapped. (Maps by subject area and by college follow each subject area analysis in Appendix E). The analysis plots each student's home postcode and indicates which college and which site each student attends.

It can be seen from the maps that significant numbers of students from both colleges frequently travel past a centre near to their home which offers the course they wish to pursue and travel to a centre farther away which offers an identical, or similar, course.

Patterns of attendance by subject, level and age were scrutinised revealing that a number of students travel to CCN one year and NCN the following year and vice versa. Analysis also showed that in some subject areas students favoured a particular level of course at one college whilst a lower or higher level was favoured at another, e.g. Level 3 Health and Social Care at NCN recruits significantly more students than does CCN whilst levels 1 and 2 at both colleges recruit similar numbers.

2.5 Rationalisation

Rationalisation of CCN and NCN's curriculum into a single unified offer has the potential to serve students more effectively and efficiently. A similar rationalisation of delivery centres would see considerable savings and allow inward investment into the development of high quality specialist centres. For example, digital technology and media are LEP priorities and require considerable investment and costly set-up costs. Utilising the most skilled teachers and investing in their training and development would facilitate higher quality teaching, learning and assessment which in turn would enable a greater proportion of students to succeed and reap the benefits in a relevant, up-to-date high quality curriculum supported by state-of-the-art resources.

Analysis of estates

3.1 Introduction

A review of the property owned and/or occupied by both New College Nottingham (NCN) and Central College Nottingham (CCN) was undertaken over a two week period in May 2015. This section of the report describes the approach used, an analysis of the existing position, and an outline scenario of one possible solution. The main objective for this review was to determine what potential benefits in relation to the use of existing college property could be achieved by bringing together the two colleges as a single entity. The outcome of this work was fed back to the two colleges in the form of a presentation (Appendix C – Nottingham Review.ppt) at a joint governors meeting on 18 May 2015.

3.2 The Approach used

The process of work was a mixture of desktop review and analysis and face to face meetings with relevant senior managers in both colleges, and a meeting with the property advisers working on the City Centre Skills Hub project. The first step was to seek a range of information on the existing property from both colleges, which was broadly as follows:

Details of all existing sites (owned and leased), to include overall space, condition of buildings, functional suitability of buildings, annual running costs by site (including pay and non-pay), and the most recent space utilisation survey if applicable;

- Copies of the individual college property strategies;
- Details of planned maintenance programmes
- Details of any lease agreements, including expiry dates and any early termination options;
- Details of which curriculum areas were delivered on each site;
- Details of any planned disposals;
- Details of the proposed new City Centre Skills Hub development.

The work carried out in the earlier phase on a potential merged curriculum was then used to calculate future theoretical space needs across the college. In this particular situation an estimate had to be used in the standard SFA space calculation. If time had allowed the merged curriculum data would have been converted into daytime guided learning hours (GLH). The merged curriculum plan was based on full-time learners from both colleges being brought together, where there was duplicate or very similar provision currently being delivered separately. There were also some substantive part-time learners (e.g. Preparation for Life) included in the merged curriculum plan. The learners were then converted into GLH by going back to the source data. The total GLH for the 2014/15 learners included in the merged curriculum plan was used as a substitute for the daytime GLH. Whilst there would be some inaccuracy in this approach, it should not be significantly different unless one or both of the colleges undertake very significant daytime part-time programmes. It was confirmed by both colleges that the vast majority of these learners would have been picked up in the merged curriculum plan.

The SFA space guidance calculation was then used to calculate a theoretical space requirement for the combined curriculum plan. As it was recognised that there could have been some margin of error in the total GLH figure the upper limit of 14.5m2 was used to calculate total space requirement. Two adjustments were the made to the overall figure, a one-off 1,500m2 was added (part of the SFA formula), and an adjustment was made to add in space used by HE and International students as these were not included in the joint curriculum plan.

The theoretical space requirement was calculated by each curriculum area as per the curriculum plan, and then notionally allocated to a particular site to get a guide as to whether or not various sites had sufficient capacity to deliver a particular curriculum area. This notional allocation of curriculum areas to sites was guided by senior managers at each of the colleges, taking into account current travel to learn patterns in their own colleges. In the case of Nottingham this was not a significant issue as many learners were crisscrossing the city already to access provision, and transport links across the city are good. The results of this are shown in the attachment at (Appendix C – Estates Analysis.xlsx)

Whilst the above methodology provides a good guidance the colleges need to carry out a more sophisticated analysis to target different types of space more accurately e.g. science labs, catering, construction workshops, art studios, standard classroom etc. This will determine whether the site has not only the total overall space required but the right types of spaces in the right quantities. This is especially relevant in the case of Nottingham where there is a consideration of the space requirement for the proposed new Skills Hub. The colleges need to avoid the temptation of spending considerable sums of money on the construction of a major new building and then finding it is either too small or too large.

Meetings were held with the senior managers in each college to discuss the existing property strategies for each college, the potential options for site disposals, the proposals for the new Skills hub, and any other relevant information arising out of the desktop review and analysis. Both colleges had already given thought to the potential redistribution of curriculum areas to sites across the city, and these views were taken into account when suggesting an estates scenario for a merged college.

3.3 The Existing Estate

The two colleges have a current combined space of just in excess of 90,000 m2 (excluding Ruddington site which has been separated out as it used for commercial purposes). Both colleges have recently been following a strategy of reducing space through site disposals, so this total used space excludes Peoples First site, West Bridgford, Bath Street, Clumber and Pelham, all of which have either just been sold or are in the process of being sold. In addition there are two other leasehold sites that have been excluded as they are now no longer used. This means that only as recently as one year ago the two colleges would have occupied in excess of 100,000 m2 in and around the city of Nottingham.

The Colleges are currently operating out of 17 sites, 14 of which are owned, 2 leased and one is under a PFI arrangement. Other key findings from the review of the combined existing estate were:

- 18% of the space in poor condition classified as ‘Inoperable’ but still being used
- 32% functional suitability assessed as being unsatisfactory;
- Very low levels of utilisation, both frequency and occupancy;
- Current annual spend c£5m on site running costs;

(Appendix C – Space calculations.xlsx) shows a full analysis by site of the various measures for the existing estate.

3.4The potential opportunity

The work carried out on the total space requirement using the outputs from the merged curriculum work suggests that the two colleges combined would have a total space requirement of c61,500 m2 (excluding usage of the Ruddington site). The curriculum work assumes learner numbers as per 2014/15, so this space calculation does not allow for any future growth that may be planned in the future. Even so, what is very clear from this work is that there is currently far too much space, and that the current property portfolio is being used inefficiently. This not only provides a huge opportunity to make significant savings on the annual running costs of the various sites, but also to improve the percentage of space that is currently considered as ‘inoperable’ in terms of condition and/or ‘unsatisfactory’ in terms of functional suitability. By merging duplicated provision the space utilisation will also significantly improve.

There appears to be broad agreement on retaining 4 core sites, which between them give just over 31,000 m2 of space, which is about half of the total requirement, based on the current learner numbers in a merged curriculum offer.

There is a view from the college management teams that 6 of the sites would probably be surplus to requirements and could be offered for disposal. The disposal of most of these sites are directly linked to the development of the Skills Hub, especially the largest two sites, Maid Marion Way and Clarendon. The total potential disposal proceeds is estimated to be c £7m- £8m. In the case of Maid Marion Way the City Council are looking to agree a land swap with the Broadmarsh East, which is the proposed location for the Skills Hub. However, Central College are of the view that there should be a premium payable instead of a straight swap as it is their view that the Maid Marion Way site has a higher commercial value than Broadmarsh East.

If any premium were to be agreed then this would be in addition to the estimated site disposal proceeds mentioned above.

The Adams building in the Lace Market is under a PFI arrangement, which still has eight years remaining on its original terms. It is a very large space, but is very poorly utilised as the space is very inflexible. The original PFI contract conditions are financially quite onerous and any early exit would be very heavily penalised. It seems that the colleges would probably need to retain Adams until the expiry of the PFI deal, at which point there would then be an option for the college to ‘walk away’. This is consistent with the advice NCN have already taken on the options open to them with regard to Adams.

CCN have two leased sites that are currently being used. One is ‘Salon Central’, which is a very small city centre shop front, and is very successful, so therefore it would seem appropriate to retain this. The other lease is at London Road, which is currently used for Motor Vehicle provision. The lease on this site expires in 2017, and is unlikely to be extended. There is a possibility that this provision could located to new building at Basford Hall, which NCN have nearly completed.

If the above potential scenario were to be implemented there would be three sites remaining. The future need to retain the Highfields would almost certainly be linked to whether or not both its current provision and the Motor Vehicle provision at London Road could all be moved to Basford Hall. If not then Highfields would probably need to be retained. If it can be disposed then it could generate sale proceeds in excess of £4m, however there is a legal agreement with SFA which has an overage clause entitling the agency to a share of any future sale proceeds from the Highfields site. The last two sites are 16 and 25 Stoney Street. Number 25 contains mainly Creative Arts and Design provision, and is favoured by the current management at NCN to be retained rather than shifting the provision to the proposed Skills Hub. Number 16 is physically linked to the Adams building, and whilst it could be disposed of separately (it is not part of the PFI) as it has a separate entrance this would not be straight forward due to differing levels of access etc. and requires further investigation.

The presentation to the joint boards set out a possible scenario based on the above site configurations. Clearly this is only one possible scenario out of many potential options that could be created by different combinations of site disposals and retention. It would be for the board of governors to develop the appropriate property strategy for any newly merged college. As an illustration the improvements that could be realised under the above scenario are very significant. There would be net cost savings on site running costs of in excess of £1m per annum, as well as improving the usable space for learners. The ‘inoperable’ space referred to earlier would be completely eliminated and nearly 80% of learners would be taught in buildings classified either ‘As New’ or ‘Good’. In terms of functional suitability this would reduce to less than 20% of total space (due to retention of the Adams building), and nearly 60% of learners would be classified either ‘very good’ or ‘good’, compared with less than 30% of learners now.

3.5 Skills Hub Development

The two colleges having been working together on a proposed city centre Skills Hub for over a year now. The LEP are willing to contribute £30m as a grant towards the total cost, provided it is a joint facility operated by both colleges either as a single merged entity, or some formal partnership. This is supported by both the County Council and City Council. The work to date has suggested a space requirement of between 23,500m2 to 25,000m2. In the scenario outlined in the above section the total space would probably not need to exceed 20,000m2. Obviously the final size of the building will be determined by the re-configuration of the existing sites, moving provision to locations that provide the best solution for learners, and of course working within an overall envelope of affordability. The outline schemes worked on to date range in costs from £65m to £75m. At current SFA cost guidance levels of c£2,500 per m2, a building of 20,000m2 might be built for c£50m. Affordability is considered further in the finance section of this report. There are a number of key issues and risks that need to be addressed in order to progress with the development of the Skills Hub and turn it into reality:

A decision on the Hub will need to be taken before any merged college has had a chance to develop a new property strategy;

- In principle decisions on site disposals required by both colleges, including use of current sale proceeds;
- There are many challenges to resolve, such as planning, programme timing, funding and financing, governance arrangements, and what legal entity will be the contracting body;
- Any proposed phasing of work will be problematic, there are lots of practical issues but these are not impossible to resolve. Phasing could help reduce the financing risk exposure but will increase overall costs;
- NCC and LEP assistance will probably be required to ‘make it happen’, in the form of up front funding at risk, otherwise the colleges could have to go to an alternative refurbishment option.

3.6 Conclusion

It is very clear from the evidence reviewed that a merged college would enable some very significant property improvements to be realised for the ultimate benefit of learners in Nottingham. These include:

- The opportunity to improve the percentage of space that is currently considered as ‘inoperable’ in terms of condition and/or ‘unsatisfactory’ in terms of functional suitability:
- Through merging duplicated provision the space utilisation will significantly improve;
- There will be significant savings in annual site running costs;
- An opportunity to create an iconic new city centre Skills Hub, with significant grant funding from the LEP.

Analysis of finance

4.1 Introduction

A review of the finances of both New College Nottingham (NCN) and Central College Nottingham (CCN) was undertaken over a three week period in May and June 2015. The main objective for this review was to determine what potential financial benefits could be achieved by bringing together the two colleges as a single entity. The outcome of this work was fed back to the two colleges in the form of a presentation (Appendix D – Nottingham review-finance.ppt) at a joint governors meeting on 15 June 2015.

4.2 The approach used

As with the estates review the finances were reviewed through a mixture of desktop analysis and meetings with the two senior managers with responsibility for finances in each of the two colleges. The initial information requested from each of the colleges was as follows:

- Audited financial statements for 2013/14 (in the case of NCN these were still draft due to issues of going concern, although it was not expected that any of numbers in draft statements would be changed);
- Latest management accounts;
- Latest financial forecast;
- Any budget planning for 2015/16. The timing of this review was part way through the budget planning process, so at that stage neither college had an approved 15/16 budget, so early draft planning documents were used;
- Breakdown of staff costs by type e.g. teaching, non-teaching;

An initial desktop review of all of the above documentation was carried out before meeting with the member of the senior management team with responsibility for finance in each of the colleges. The meetings were used to talk through and gain a better understanding of

- The recent historic financial position;
- How each of the colleges were performing in the current financial year;
- Any implications of current year performance on future years;
- The indicative budget plans for 2015/16;
- All of the key assumptions used in the most recent financial forecast prepared by each individual college, and likely changes when the next forecast prepared in July;
- Thoughts on potential financial savings that could be achieved through a merger, and any one-off costs.

Following these discussions a financial modelling exercise was undertaken to combine the two individual college financial forecasts into a single financial plan. Adjustments were made to reflect the discussions above on the current position of the college. The output of this was effectively a combined financial forecast reflecting as far as possible the latest financial position of each individual college, but without any adjustments for the impact of merger, and the proposed capital development of the Skills Hub.

The combined forecast was then adjusted for the potential impact of merger, bringing in assumptions on potential savings and possible one-off costs. A further forecast was then prepared, which now added in the potential impact of the Skills Hub development, taking into account possible site disposals and an assumed building size taken from the estates work described in the previous section of this report.

The creation of three separate financial forecast models was useful to enable the governors at both colleges to see firstly the current position, then to see the potential financial opportunity of merger, and finally to see how a potential scenario on the Skills Hub could be financially affordable. Each of the three forecast models covered a five year period (including the current year) and included an indicative monthly cash flow forecast for the full forecast period, to give an idea of any short term financing requirements.

These three models were then subsequently updated in July to reflect the actual budgets and forecasts prepared by both colleges for their July 2015 submission to SFA. In addition a meeting was held with SFA on 14th July to discuss potential implications on FE from the Chancellor's budget statement of 8th July.

4.3 Current financial position

The first version of the three financial plans was the combining of the two colleges' individual financial plans, and updated to take account of the current financial position. This version was described as the 'unadjusted' plan. The key assumptions used in this version of the plan were:

- 2014 – Used financial statements;
- 2015 – Based on forecast outturn from latest management accounts;
- 2016 – indicative draft unapproved budgets;
- 2017 – As per NCN recovery plan and CCN 5 year forecast prepared Oct 2014
- 2018 & 2019 – rollover of income assumptions for NCN (costs unchanged) and figures from 5 year forecast for CCN;

Further detail on the key assumptions for each college are attached in (Appendix D– Nottingham Colleges Key Assumptions.doc). The results of the combined plan are also attached as a full five year financial forecast in the SFA format as (Appendix D– Combined Financial Plan 2015-17).

When combined the two colleges would have a turnover of c£93m in 2014/15. The financial forecast shows that this is likely to reduce over the next few years to around c£83m by 2018/19. The financial health indicators (as used by the SFA) for 2014/15 are as follows:

- Current Ratio = 0.8 – score 20 (updated version July 0.7 – score 30)

- Performance Ratio = 2.5% - score 30 (2.6% - score 30)
- Gearing Ratio = 39% - score 60 (36% - score 60)

Total Score 110 rating is **INADEQUATE (120 – Satisfactory)**

4.4 Financial plan adjusted for merger

The next stage of the process was to take the combined version as described in the previous section and make a number of adjustments to the financial model, which could reflect the impact of the two colleges coming together as a single legal entity. The main assumptions were:

- Income - simply added the two individual colleges together in the first version. In the updated version the SFA funding classroom based learning was reduced by £850k in 2015/16 to reflect the funding announcements following the budget. Also from 2016/17 an adjustment was made to EFA funding to reduce by 3% per annum.
- Pay Costs - Teaching Staff the work on the combined curriculum plan assumes a reduction of 99 groups. Assuming a minimum average of 450 taught hours per group, this translates to a saving of 44,550 teaching hours. At an average hourly cost of £50 the total estimated savings are over £2.2m. The model only assumes 50% of this saving, so £1.1m from 2017. The lower saving figure has been taken to err on the side of caution as the current individual college financial plans already include some assumptions on teaching staff cost reductions, so this approach should more than eliminate any risk of double counting savings. There are likely to be potential further savings on teaching support staff costs as a consequence of such a significant reduction in the number of teaching groups. However, for the sake of caution no further savings have been assumed;
- Business Support Staff – assumed savings of £1.35m (around 10% of the current total cost) from 2017. Much of this saving could be achieved by simply not requiring duplicate management posts, both at senior management level and the relevant managers of the business support functions;
- One-off restructuring costs equivalent to 6 months of the saving above, estimated as £1.2m in 2016
- Non Pay costs – only saving assumed is £300k on Admin & Central services costs (10% of current total costs from various areas that are currently duplicated e.g. insurance, software licenses, marketing etc.). All areas of cost that directly impact on learners are assumed to remain unchanged in order to protect quality of teaching and learning e.g. materials, exam fees, LRC, student support etc.
- One –off costs of merger professional fees, rebranding, harmonisation of systems total c £750k.

The result of these adjustments are shown in full in the attached (Appendix D– Combined Financial Plan 2015-17 – Adjusted for merger). In terms of financial health it shows that 2015/16 would be 'Inadequate' due to short term liquidity pressures, but from 2016/17 onwards it would move to 'Good'. This position remains the same in the updated version.

4.5 Financial plan incorporating the skills hub

The adjusted merger plan as detailed in the section above was then used to add in the potential financial implications of a scenario to complete the proposed capital development of a city centre Skills Hub. There may be some timing issues here with some major decisions probably being required before any formal merger date in order to draw down the LEP capital grant. The main assumptions used for this illustrative model were:

- Site disposals as per estates section, generating c£10m (includes a premium on Maid Marion Way);
- A new build of c20,000m2 @ £2,500 per m2 So £50m;
- LEP grant of £30m;
- Cash reserves of up to £5m (assumes retention of sale proceeds from CCN disposal of West Bridgford);
- New long term loan c£5m @ 4%;
- Property running costs of the sites net savings of just over £500k assumed. As above a cautious approach has been taken by only assuming 50% of the full potential savings to ensure no double counting.

The full detailed results from this version of the financial plan can be found in (Appendix D- Combined Financial Plan 2015-17 – Adjusted for merger and Skills Hub). As would be expected the inclusion of a major capital project does have an impact on the financial health. When comparing with the above scenario instead of moving to 'Good' in 2016/17, the capital project means a financial health of 'Satisfactory' in 2016/17, before moving to 'Good' a year later. This position remains the same for 2015/16 and 2016/17 in the updated version.

4.6 Conclusion

It is very clear that a merger of the two colleges presents significant opportunity to deliver a more efficient curriculum and to achieve some substantial cost savings in many areas without any impact on learners and the quality of the teaching and learning. There are a number of risks associated with merger that could have a financial implication, which will need managing. Some of these (the list is not meant to be exhaustive) are:

- Short term working capital;
- Maintaining income targets e.g. external environment;
- Achieving the efficiency savings;
- Skills Hub – timing/costs/financing etc.;
- Management and/or board distraction;
- Cultural issues;
- Harmonisation issues

Proposed structural changes

5.1 Introduction

Both Corporations agreed early partnership principles and many examples of collaborative activities are already achieved:

- ***Commitment to Nottingham ahead of self interest***
- ***High levels of energy and determination***
- ***Willingness to leave past experiences behind***
- ***Commitment to value staff and avoid distractions away from the improving learner experience***
- ***Joint communication in place***
- ***Excellent curriculum sharing including 15/16***
- ***Staff recruitment protocols***
- ***Joint CPD***
- ***90% plus agreement on estates***
- ***Agreement to share 15/16 curriculum plans, risk registers, emerging success rates***
- ***Commitment to recommend merger at Board meetings of 23/24th July 2015***
- ***Commitment to draft joint press release for 24th July 2015***

Whilst the full Corporation Board papers are at Annex A the following chart provides a visual summary of progress

Issues – first order	**Central**	**NCN**	**Actions**
Shared Vision	**Presented informally on 9th June 2015**	**Presented informally on 9th June 2015**	**Joint vision to be developed by Board designate from September 2015**
Type of Merger	**Type B for expediency and ease within agreed protocols and must be to the advantage of both colleges**	**Type B for expediency and ease within agreed protocols and must be to the advantage of both colleges**	**Ongoing discussions Eversheds/Martineau advice now shared - SFA advice note on mergers already circulated** **Protocols for a Type B merger drafted and subject to final legal advice**

Issues – first order	Central	NCN	Actions
Commitment to new independent Chair	Yes but to only take place when the right person is identified	Yes but with the correct skills set – a transferring member should Chair initially	SFA have agreed to identify potential candidates when appropriate and when skills gaps have been identified – timing on appointment needs to be flexible to allow the transition process to continue at pace with experienced existing members SFA passed their potential candidates to the designate board for consideration –
Desire to limit TUPE consultation to only one staff group via a Type B merger	Yes	Yes	A joint communication plan will support the agreed messages –
Transferring members – each Board to identify up to 4 existing members to join designate Board	Up to 5	Up to 5	Recommendations to Boards on 23/24 July 2015
Skills audit for transferring members	Completed	Completed	Joint skills analysis completed – strong mix of long and short serving members with commitment to reduce terms for long serving members
Commitment to add 2/3 new	Yes up to 5	Yes up to 5	SFA have passed initial list to

Issues – first order	Central	NCN	Actions
members to designate Board alongside skills audit of transferring members			designate Board – potential members to be contacted in August
Commitment to staggered terms of office for designate board members	Yes	Yes	Designate board will stagger terms of office
Both Boards to instruct the same teams to start due diligence immediate after the week ending 24th July	Yes	Yes	Likely to be existing advisers – Eversheds and KPMG
resolution for 23rd/24th July Boards	Complete	Complete	Recommendation sent out on 17th July 2015
Issues –second order- to be finally determined by designate Board			
Agreement to appoint independent Clerk to designate Board	Yes	Yes	Agreement to second current Central College Clerk
Boards have requested FE Commission observer for first 3-6 months of designate board	Yes	Yes	To be determined by FE Commissioner
Merger to be completed as	Yes	Yes	Potential target 1st

Issues – first order	Central	NCN	Actions
soon as possible- subject to due diligence			April 2016
Arrangements for recruitment of new Principal/CEO via national advertisement	Prefer 2 stage process	Could accept a 2 stage process with clear, independent panel members in addition	Legal advice will be followed
Arrangements for the recruitment of new Principal/CEO via ring fencing in first instance with external panel members and independent observer	For further discussion	For further discussion	Legal advice will be followed
Arrangements for the recruitment of other senior staff via ring fencing	Yes	Yes	
Terms of Reference of designate Board	Yes	Yes	Terms of reference to be approved 23/24 July 2015
Recognition that the Bank may use the merger to increase loan payments			Barclays confirm that both Type A and B Mergers would trigger a renegotiation of any loan agreements – they are keen to be involved as soon as possible. They noted the rarity of Type A mergers.

5.2 Conclusion

The FE Commissioner and team would wish to give credit to the enormous time commitment which has been made by corporation members, especially the Chairs and members of the working group over the past 3 months. The journey from initial mistrust and potential hostility to the formal agreement by both corporations has been impressive. It has been challenging and all of those involved have sought compromise where necessary and have balanced the protection of the improvement s which they have made as separate institutions against their recognition that a single proposition for the City was the ultimate prize for Nottingham, its learners, employers and communities. The use of a neutral facilitator and experienced independent clerk have enabled pace to be maintained and deadlines met. The involvement of the FE Commissioner and his team has been an essential part of this journey.

Conclusions and recommendations

The Vocational Review in Nottingham was pioneering ground and much has been learnt to improve the process and to help shape the next phase of Area Reviews. These recommendations have been grouped for specific interest groups as follows:

- Inter-agency communication
- Stakeholder management
- Challenges for Chairs and key governors
- Challenges for existing senior post holders, especially the Principal/CEO role

6.1 Inter-agency communication

- **Overt agreement on lead role with college and governors and improved clarity of the FEC role and SFA/EFA**
- **Early clarity on data requirements**
- **2 weekly contact via a conference call required otherwise local agencies are unable to manage informal and formal stakeholder feedback directly to them**
- **Some sensitive ‘difficult conversations’ are difficult to report back on in detail as the parameters can change so frequently**
- **Increased clarity as to when FEC role finishes and local implementation team take over**

6.2 Stakeholder management

- **Awareness raising required via briefing sessions for stakeholders to fully understand the role of college corporations and further clarity around desired outcomes**
- **Early engagement of stakeholders to include college Chairs – otherwise stakeholder feedback is never heard directly by the college with increase risk of misunderstandings and potential defensive positioning**

6.3 Challenges for Chairs and key governors

- **Briefing session on their roles in regard to process**
- **Early PR, media and staff communication protocols**
- **Support for college Chairs new to this type of activity – (regular telephone support was a key part of the FEC team role)**
- **Understanding by Chairs and key governors that some discussions must be in the absence of their own senior teams and Principals**
- **Overt guidance to help avoid 'local deals' around key staff**

6.4 Challenges for senior post holders/Principals/CEOs

- **Briefing sessions to understand that some conversations will be held in their absence and outside of their current relationships with their board**
- **Early PR, media and staff communication protocols**
- **Support for Principals in particular, who may be in fear of losing their roles and thus their ability to think strategically is clouded – (regular telephone support was a key role of the FEC team)**
- **Support for other senior post holders also at risk of job loss**

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