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**To: All Chairs and Principals/CEOs of Corporations  
and FE Institutions**

30 October 2015

Dear Colleague

#### **Area Reviews and the reshaping of the college sector**

It's more than twenty years since incorporation when colleges were established as independent corporations responsible for their own destiny. Since then there have been five changes of government and several changes of policy; curriculum initiatives have come and gone; funding agencies have become planning and funding agencies and then funding agencies again and new technologies have revolutionised the ways in which we work. Whatever the circumstances colleges have responded positively to the challenges they have faced, adapting and adopting appropriately to meet the needs of their communities.

It's no secret, however, that we are entering a period of tighter government funding when the sustainability of the sector will depend upon a different approach to what we do and how we do it. More colleges are finding it difficult to achieve an annual surplus and for the first time since incorporation the sector as a whole has posted an annual deficit. This is at a time when the imperative for high level professional and technical skills to improve productivity has never been higher.

More funding in the sector would of course be welcomed and the proposed new apprenticeship levy offers significant opportunities but there are still major efficiencies to be made in existing institutions as the intervention process over the past two years has clearly demonstrated. Class sizes remain low in many colleges and well below the 16-20 average range necessary to ensure a college's ongoing viability; there are considerable differences in the amount of time and money spent on management and support services and significant resources are used on competitive marketing – one college against another – rather than on marketing the real opportunities that colleges as a whole can offer to learners and employers.

The Area Review process is now underway with a view to addressing these issues and creating a more sustainable sector. The need to reduce public expenditure is a major driving factor but there is also the recognition that the college sector could do more to address the skills gap that many employers face. Area Reviews are therefore not only a way of encouraging colleges to tackle the problem of reduced funding collectively. They are also an opportunity for the sector to take stock, refocusing colleges on the needs of the economy and ensuring they become the local and regional hubs of professional, technical and vocational education. This will involve more colleges moving into higher level skills as well as in some cases becoming more specialised in what they offer, working closely with the LEPs and local authorities that will increasingly steer the skills system at the local level as devolution deals come into play.

Between now and March 2017, every area of the country will be covered with reports that will present clear recommendations for change. So what might come out of the process? That depends very much, of course, on how colleges respond to the challenge and the opportunity. In general colleges are being encouraged to move towards a new collaborative approach where public money is used more effectively to address a growing level of need. There will be a number of ways in which this might be achieved including:


- \* The establishment of larger colleges through mergers or federations
- \* The introduction of greater curriculum specialisation, especially at higher levels
- \* A more significant role in supporting skills development at level 4 and beyond
- \* The sharing of back office services between institutions
- \* More viable class sizes through curriculum rationalisation
- \* An increased use of technology to deliver and assess learning, with JISC reshaping itself to support colleges through the reviews and their implementation
- \* A reduced and more efficient college estate
- \* An improved infrastructure through a better and more targeted use of capital
- \* More funds for investment and new provision through the reduction of core costs
- \* A greater sharing and better use of expertise, especially in leadership and management
- \* Improved IT and data systems through the adoption of best practice
- \* Shared and better targeted staff development, supported by the work of the ETF
- \* Better quality through the reduction/elimination of poor provision
- \* Improved marketing of what the college sector can offer
- \* A new image and recognition of the value of colleges to the economy and the community



We should also be prepared, however, to “think outside the box” and come up with bold and innovative ideas for tackling the challenges facing the sector. There is no blueprint for what might happen in a particular area. There is simply the desire to provide a better and more efficient service to learners and employers at a time when funding is being reduced.

The extent to which some or all of this happens depends very much on the involvement and support of individual colleges. The area review guidance is clear – Colleges are independent institutions and their governing bodies will determine whether or not they accept the area review’s recommendations. The sector is probably facing its greatest challenge in over 20 years, both in terms of its greatest threat in terms of reductions in funding and its greatest opportunity to reshape and reform. The next eighteen months will show how well it responds.

Yours sincerely

A handwritten signature in black ink, consisting of a stylized 'D' followed by a horizontal line that extends to the right and then loops back under the 'D'.

Dr David Collins CBE  
FE Commissioner