



To: All Governors/CEOs of Corporations and FE Institutions

13 June 2014

Dear Colleagues

I wrote to you in February to share with you my reflections and experiences as the FE Commissioner. I am writing to you today to update you on my last three months activity. Since I last wrote to you I have gone into a further four FE Colleges and monitored progress in the six FE Colleges that I, and my team of FE Advisers, assessed between September 2013 and February 2014.

In each of the FE Colleges recently under review the intervention process has been triggered by financial health and/or control concerns. Given this focus, I would like to share with you my reflections on some of the challenges that colleges are facing and how they could be addressed. In what is a challenging financial climate for all colleges, I hope these reflections help you to ensure you have the right systems, processes and structures in place to operate a flexible and sustainable business model.

There are clearly some colleges feeling the pressure from increasing demands on their resources and the need to improve quality and efficiency. Many colleges, however, have successfully responded to these pressures. Some have achieved this by introducing significant changes to their structure and delivery model, but many have responded through increased capacity and capability. They have improved the level of challenge and scrutiny by the governing body, secured additional financial skills and experience within the executive team, and produced and implemented robust recovery plans.

In most of the colleges I have visited to date, it would be true to say there hasn't been the level of challenge and scrutiny by the governing body that might be expected in an organisation that is dealing with financial concerns. This is often because some governing bodies do not have sufficient financial expertise within their membership to oversee complex multi-million pound organisations. Board members have also sometimes relied too heavily on the flow of information provided by the Principal and derived too much comfort from satisfactory audit reports. A strong Board/Principal relationship is critical for a successful college, and audit reports are an important source of information for governing bodies. However, if there are lessons to be learned it would be that Boards need to ensure they have the right skills mix amongst their members rather than being purely concerned with being "representative" and that they have sufficient access to other members of staff, including the finance team, to be able to triangulate the information that they receive.

Some, but not all, governing bodies receive a regular dashboard or balanced scorecard on how the college is performing. These dashboards and scorecards enable the governing body to scrutinise the performance of their college. The best dashboards and scorecards show how the college or institution is performing both against its own previous performance and against sector benchmarks. They also cover both quality and financial performance data. The data should be accurate and timely. I have included a good example from my recent visits with this letter.

At senior leadership team level, there are a number of legacy issues that the current executive teams are having to deal with and some issues that - unless they are dealt with quickly - may lead to even greater difficulties in the future. The first and most obvious is when a college does not deal with a financial shortfall as soon as it has been identified and then does not tackle the problem by cutting costs accordingly. Moreover, where cuts are needed there are cases where they have not gone deep enough, leading to several rounds of restructuring and an almost inevitable loss of staff morale. Too frequently it is also assumed that there will be sufficient growth in student numbers or income to bridge any shortfall of income over expenditure. This rarely, if ever, happens.

In those colleges experiencing financial difficulties, costs - particularly staffing costs - are frequently well in excess of what might be expected in the sector (over 70% of overall income as compared to a more normal 60% - 65% in the case of staffing). These extra costs usually derive not from a shortage of contracted teaching hours (the median figure

being 24 per week or 864 per year), but from an excess of support staff and, most importantly of all, from small class sizes. Too many groups in colleges with financial problems were in single figures and far from the 16-20 averages that would be found in the more efficient.

On occasion, this issue is the result of a lack of appropriate expertise within the executive team where the Principal or CEO may be a specialist in improving quality but has had little significant financial experience in his/her way to the top. For new Principals in particular, the assignment of an experienced Principal or ex-Principal with a balancing set of skills as a mentor could be a very useful development tool, particularly in the first year of appointment. It is also important that a member of the senior team is appropriately experienced and qualified in finance. The Education and Training Foundation's leadership development programme has a role to play in addressing these gaps and in supporting existing Principals to access mentors and coaches.

Given the scale of public funding invested in colleges, where colleges are causing financial concern the government requires them to produce a Financial Recovery Plan. These vary considerably in their fitness for purpose. In the best cases there is a clear charted pathway to returning the institution to in-year surpluses and the repayment of any debts. They have well identified milestones and designated individuals for each action that is to be taken. Good Recovery Plans are created from a detailed curriculum plan, matched with appropriate staffing and resources, that relates to the needs of the area, and from which the necessary actions to reduce costs naturally follow. In the less successful cases there is an undue reliance on projected growth rather than cost reductions and responsibilities are shared amongst groups rather than being allocated to individuals. They tend to be "top-down", based on aspirations rather than facts and regular milestones, against which progress can be made, are missing.

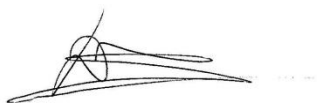
Some colleges have similarly been caught out by their failure to carry out a cost-benefit analysis of new, potentially exciting but also expensive new initiatives. Sometimes described as "vanity projects", these initiatives have then been pursued at the expense of the college's core business. Whilst many of these initiatives start with the best of intentions, governing bodies should ensure there is a detailed board level scrutiny of the proposal, looking at the downside as well as the upside, before any such initiative is taken forward.

In other cases, under-utilised estates are an issue. Colleges need to regularly review their estates plan, and for those that are struggling financially the governing body needs to consider carefully the possibility of downsizing to restore their financial health or entering into discussions with neighbouring institutions with a view to rationalising their offer. This may be something that successful colleges may wish to look at now, while they are still in good financial health, since the rationalisation of provision between institutions is easier to carry out at a time of strength than at a time of weakness.

However, despite these issues what is encouraging is the speed at which new executive teams have got to grips with the problems they have inherited and have clearly identified potential risks to the future sustainability of their college. In some cases there is early evidence that the college is on course to deliver a financial 'turnaround' in a remarkably short period of time. This has often involved taking some difficult decisions - in one case reducing staff numbers by almost 50% - but with positive results that go a long way to solving the financial problems which they face and within a twelve to eighteen month period.

In all of this what must not be forgotten, of course, is that the colleges and institutions attracting an intervention under the terms set out in *Rigour and Responsiveness* are the ones that for whatever reason are causing concern. They are very much in the minority in what remains a very successful sector.

With best wishes,

A handwritten signature in black ink, appearing to be 'Dr David Collins', written over a horizontal line.

Dr David Collins CBE
FE Commissioner