Department for Business Innovation & Skills

CURRENT MODELS OF COLLABORATION – POST 14 FURTHER EDUCATION

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Contents

Introduction

A key part of the work of the FE Commissioner and his advisers is in undertaking Structure and Prospects Appraisals (SPAs) on colleges (and potentially local authority adult education services) which have been identified as ‘failing’. SPAs commissioned in these instances are bespoke to each situation, taking careful account of the local environment, the underlying reasons for failure, and the steps which need to be in place to safeguard quality provision for learners. In an increasing number of cases, support is required from other providers to achieve this – frequently through a permanent structural relationship.

Structural relationships operated to date within the sector include mergers, federations, and joint ventures/partnership arrangements, some of which are well-established, others of which are very new. Some of these earlier arrangements are between colleges; others are between colleges and other bodies. The rationale behind decisions to change structural relationships is wide and varied, with some arising from necessity, or from an evolution of existing arrangements. Others have been in response to strategic drivers and opportunities. In every case, the primary objective should be to meet the needs of learners and employers.

To conduct an increasing volume of SPAs authoritatively and successfully, all FE advisers need a good working knowledge of successful and well-established models which are capable of replication elsewhere in the sector, and how the potential benefits relate to the evaluation criteria set out in *New Challenges, New Chances.*

This work has been commissioned to increase the level of understanding within the FE Adviser group about the circumstances in which the common models used in the FE sector work effectively, and an analysis of *why* they do so.

The report is structured in two sections – the first of which looks at the current models used in the Sector, and a second which details the practical findings arising from a series of visits undertaken by FE Advisers. The five key conclusions from the visits undertaken in Section 2 are reproduced here ease of reference. They are:

- **There is no one ‘right’ structural model for colleges to adopt**, and there are many examples of successful mergers, federations and other forms of collaboration which counter some of the well-publicised failures. A rigorous and objective analysis following Structure and Prospects Appraisal’ process will enable a college to thoroughly evaluate strengths, weaknesses and local circumstances. Time taken to do this thoroughly and objectively helps avoid issues later on. We would advise that regular review, following the principles of the Structure and Prospects methodology should feature in the strategic planning of all providers – with decisive action taken about future structures before fundamental problems become too advanced to address.

- **The sector has a history of larger, potentially stronger, colleges merging with smaller weaker colleges.** The lack of central financial support for debt clearance and staff restructuring, the current policy of an early Ofsted inspection, and a focus by many colleges towards on local and sub-regional needs makes this a much less attractive option in future.

- **Governors have a critical role to play in key decisions about structure and in the interests of their college and its learners; they need to be as objective as possible.** The choice of leader should take account of the skills and attributes needed to run the new organisation, and should not automatically confined to consideration of internal candidates. As reductions in public funding bite harder, it is sensible to assume that the need for senior leaders with financial and commercial acumen increases.

- Our views concur with the advice from the evaluations undertaken to date (and outlined in Section 1) – **the success of a model is in the detail of its implementation.** Once a decision to change has been made, the implementation process should be undertaken as quickly as possible. However, this stage needs to be well-planned, carefully executed, rigorously monitored, and underpinned by timely and accurate data about performance from Day 1. Following the technical merger, leaders need to be highly visible to their new teams, focused on delivering the planned benefits, and should avoid external distractions which do not have a direct impact on the institution and its performance.

- Our assessment of success suggest that **new collaborations and new structures,** where the decision to change has been subject to rigorous assessment and careful implementation, can create valuable economies of scale, protect and improve student access and progression, and address issues of poor quality. There is much good practice in the sector about how to ensure that these important features are realised, and a willingness by those visited and consulted during the course of this work to share their views and experiences with others.

Methodology

The methodology adopted comprised four elements:

1 Undertaking desk research on the range of different organisational structures currently in use.
2 Consultation with key sector stakeholder groups – to check the range of models currently in use in the sector, to identify current constraints, and to discuss the list of organisations to be approached for visits.
3 Consultation with the Devolved Administrations in Northern Ireland, Scotland and Wales, with visits to sector colleges where appropriate
4 Undertaking a programme of visits to institutions to discuss the drivers for change, implementation, and the lessons learned of relevance to the wider sector.

The initial work has focused on examining the wealth of documentation available on structures (which includes individual merger/federation submissions and consultations, policy documentation produced by the Devolved Administrations, and studies which evaluated the benefits of new structures). The work was supplemented by conversations with policy makers and key sector stakeholders (a full list of which is contained in the Appendix).

Policy makers and sector stakeholders raised a number of **other organisations which they thought would be helpful for advisers to contact.** These included a sample of four private providers, two local authority adult education service providers, and two HE/FE partnerships. Telephone discussions were arranged with these organisations.

The FE Adviser Team involved in this Project selected **a range of colleges to visit during the period December 2014 and January 2015.** These visits focused on 'established' structures, in order to evaluate the longer-term impact of change – and their relevance to addressing current sector issues of access, quality and financial sustainability. The sample was chosen to ensure as far as possible a broad geographical spread of institutions, and different types of collaboration and partnership. Institutions known to be in difficulties (financial or quality) were not included in the visits programme. The key questions used to prompt discussions are included in the Appendix.

The report is structured into two main sections, each of which has its own summary of key conclusions.

- **Section 1** explains the established structures now operating in post-16 education and training, and reviews the formal written evidence available about their impact.
- **Section 2** focuses on the views expressed during visits to institutions, and those of other practitioners and contributors contacted by telephone.

The short Appendix lists the organisations contributing to this Report and the key evaluative questions. There is also an analysis of how overall success rates over the past 3 years have changed in the institutions visited (against national averages) and provides a potted history of the dates and processes relevant to the *merged* institutions visited.

SECTION 1 - AN EXPLANATION OF THE CURRENT MODEL

This section explains the major structures currently used in post-16 education and training – broadly grouped as full mergers and federations – which may be relevant in developing option models for Structure and Prospects Appraisals.

1 Mergers in post-16 education

Mergers in English further education have been relatively commonplace since 1993, at which time there were 492 general FE, sixth form and specialist colleges offering post-16 education funded by the then FEFC. Currently, there are 336 colleges - 216 General Further Education Colleges, 93 sixth form colleges and 27 specialist institutions[1] . These have included mergers between FE colleges, FE colleges with sixth form colleges, and occasionally FE colleges with HE providers.

From a review of a range of merger submissions and proposals generated by colleges over the years[2], there are normally one of two key reasons put forward for mergers:

- **Establishing strategic advantage (the 'building competitive edge' merger).** The justifications put forward for creating larger colleges are about having greater local influence with LEPs decision-makers and funders, the potential to bring in more additional income (with the ability to resource a specialist team for competitive bidding), quality improvement, and more influence in work with employers (from being in a position to offer a full-service model across sectors sub-sectors and levels). They may also plan to exploit economies of scale, including through the creation of shared services. The increased scale of operation is often argued as providing better career opportunities for existing staff, broader professional development, and to enable the employment of specialist teachers. With students, there are generally plans to offer a wider choice of provision, including some niche programmes, with volume of delivery making progression from Level 1 through to HE more cost-effective.

- **As a solution to solving the problem of a failing college (the rescue merger) – where another successful provider takes them over**. In the past, such mergers have often been supported financially by the funding agencies, but in England this is no longer the case unless there are exceptional circumstances.

Mergers in the English FE sector are referred to as 'Model A' (double dissolution - where both corporations dissolve and form a new College, with a new name), or 'Model B' (single dissolution where one corporation – normally, but not inevitably the smaller weaker one[3] - dissolves and passes its assets/liabilities to the other). The new Corporation typically consists of members drawn from both original college boards (with a strong bias to the more dominant party). Either way, the trend in most

[1] AoC August 2014
[2] The FEFC and LSC required colleges to structure their proposals against a set of criteria which included explaining the potential benefits of merger in respect of range of provision, access, quality improvement and value for money.
[3] Occasionally this has been done for purposes of speed

cases has been to retain the distinctive name of the 'dissolved' college for local branding purposes, and to avoid any public use of the term 'acquisition'.

'Freedoms and Flexibilities' was introduced in 2011. Under *New Challenges, New Chances* and reinforced under the subsequent paper *'Rigour and Responsiveness'* in 2013, any College Governing Body considering a major structural change is expected to conduct a Structure and Prospects Appraisal - rigorously assessing all options and adopting an open and transparent process in the identification and selection of both a preferred model and potential partner/s. The process involves wide consultation with stakeholders including funding agencies, local authorities, other providers and, in most cases, MPs.

Should merger be the answer then, under the Education Act (2011), colleges are no longer required to obtain the Secretary of State's formal approval and the decision rests with the Governing Bodies concerned. However, the Secretary of State's approval is needed for both the creation and naming of any new FE College (formed should both colleges dissolve). Either way, colleges are expected to consult widely on their proposals and to respond to issues raised during the Consultation process.

2 The evaluation of mergers

Various studies evaluated the potential benefits and ultimate success of mergers in the further education since the late 1990s. Research and evaluation on the success of mergers is inevitably backward looking and for the FE sector in more recent years (i.e., after 2010), rather thin on the ground.

The LSC commissioned a 'rapid review' of the research in 2007[4], which summarised the wide-ranging bank of evidence available at that time. The report suggested that in many mergers, there was some evidence to suggest benefits in relation to student choice and progression, results, brand image, and financial strength. Harmonisation of systems, of staff terms and conditions and keeping control of costs were identified as significant issues for newly-merged colleges. **Factors underpinning successful mergers and partnerships included clarity of roles, strong leadership, clarity of vision, strategy and objectives, similarity of (positive) attitude between the two merging colleges, and the importance of the leadership team being people-focused**. These are judged to be important factors to consider in any proposals put forward by potential partners. A later document, published by LSN[5], reinforces many of these factors.

KPMG[6] has researched whether larger college size improved value for money - meaning lower unit costs and better results – they concluded that there were elements of truth in this – larger colleges *tended* to have lower unit costs; Ofsted grades *tended* to be higher (but not success rates).

The Higher Education sector, which has also undergone very significant structural change, offers valuable parallels with the Further Education sector. Research in 2010[7] concluded many of the same potential benefits as in FE, but emphasised

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[4] Collaborations and Mergers: Rapid Review of Research on Collaborations and Mergers between Further Education Providers, Leeds Metropolitan University, 2007

[5] Understanding FE Mergers and Making Them Work, LSN (2010)

[6] Delivering Value for Money through Infrastructural Change (May 2010) commissioned by the Learning and Skills Council.

[7] Oakleigh Consulting (2010)

issues of implementation much more strongly. There is often great excitement about vision and culture. It was suggested that ‘grounded’ issues such as absolute realism about the costs of merger, and caution about the time taken to achieve change and produce the intended benefits needed greater attention. The HE research concludes that most mergers fail, or fail to live up to expectations because of *poorly managed post-deal integration* (absence of planning, poor strategy and management, a lack of open communication and clear vision, and a range of people/cultural issues).

Variables which can affect whether or not a merger works (and which need careful identification in the planning process) include whether a merger is voluntary or involuntary, a consolidation or a takeover, single or cross-sector (FE/HE mergers have been shown to have their particular problems), two-partner or multi-partner, and between partners with similar or differing ‘academic profiles’.

South Africa went through major restructuring of its HE following the end of Apartheid – reducing 36 to 21 HE institutions (and with the creation of 2 new institutions). Lessons learned included the importance of rapid decision-making to make the new institution secure and irreversible, minimising ‘staff flight’, and building higher levels of trust through face-to-face contact. As trust improved staff recognised the need for a common vision, a simple management structure with clear accountability, participative budget processes and performance management.

3 Federations

‘Federation’ is a broad term used in post-16 education to cover a range of formal structures and collaborations short of merger. Federation has the potential to allow significant autonomy for those involved, but formally commits to collaboration in specified areas. Typically these are introduced as structures to address one or more of the following:

- Full management of provision (what we term here ‘management federations’)
- cost reduction (which might apply through sharing services)
- increased influence (particularly for a group of colleges across a sub-region)
- increased capacity for income generation (joint bidding using the expertise of both)
- improving progression
- joint delivery
- rapid quality improvement

Whilst the type, format, and underpinning legal structure of a federation is infinitely flexible, federations focusing on rapid quality improvement or joint management are not used extensively in the sector at the present time, possibly because of two critical factors:

Where colleges have overlapping catchments, or compete directly with each other in other respects, it is difficult to build the necessary trust and confidence to ensure that this type of federation is successful.

A second, equally significant barrier to the creation of federations is 'ring-fenced' accountability. Governors' responsibilities[8], the College principal's 'accounting officer' role, UKPRN[9] numbers, measurement of success rates as a key performance indicator, minimum standards, financial health and institutionally-based Ofsted grades - all conspire to push colleges to focus on their own success and performance. This College-focused accountability inevitably acts against wide-ranging innovative partnership and delivery arrangements.

Federation structures are used in four main ways:

- Within a merged college (to enable individual units to focus on their core business).
- Federations short of merger with a single Principal/Chief Executive and senior staff manage two colleges.
- Federations where two or more colleges agree to set up a joint company with a joint Board for a specific purpose (usually comprising the Chairs and principals of the colleges involved).
- Federations where the role of Chief Executive is separated from that of Principal – and the College sits under the umbrella of a Charitable Trust. The Trust takes on schools, training providers and other organisations as distinct parts of its business (for example, TEN in Norfolk), and each Principal, Head Teacher or Managing Director reports to the Chief Executive.

2a The federation structure within a merged college 'group' – with a single governing body and a single legal entity:

In practice, some aspects of the federation model have been adopted by larger (often merged) colleges working in locations with different needs (for example, Newcastle College Group, Hull College Group). The individual colleges within the Group work to agreed targets, but are expected to meet local needs in a flexible and responsive manner.

As a single entity, with one funding allocation from each of its core funders, a large merged college can allocate resources freely across its separate components. However, for inspection purposes it will receive a single set of grades – an issue which can cause significant internal tensions. They argue that a single grade may reduce 'transparency' to the public, employers and other stakeholders.

Overall accountability sits within the Chief Executive, with contracts and service-level agreements underpinning accountabilities and responsibilities for individual colleges. These agreements will include the separate college activities, their targets, the methodology to be used for resource distribution, required performance standards and intervention processes. Governance, quality assurance and improvement services sit within the College Group, together with shared services. Site-based college 'principals' generally sit on the Group senior leadership team, together with Group Directors and the Group Chief Executive.

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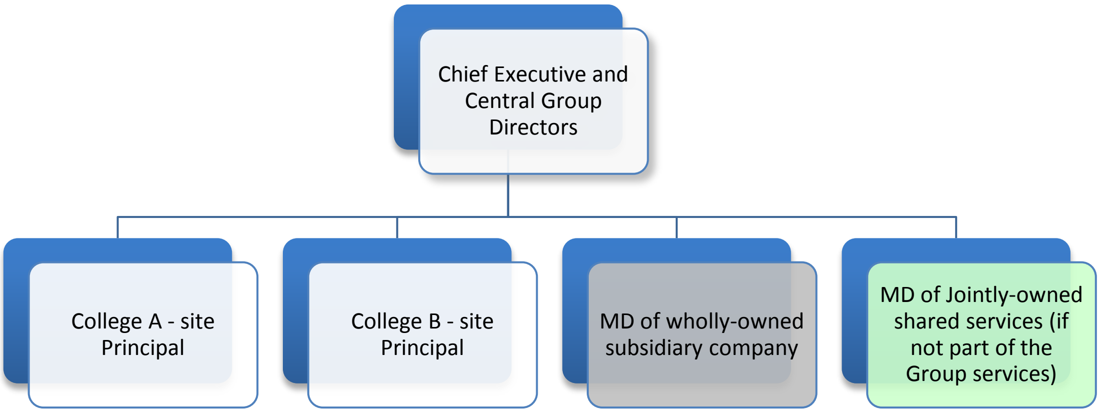
[8] Sections 18-19 of the Further and Higher Education Act (1992).
[9] UK Provider Registration Number

The model of federation within a merged College is illustrated diagrammatically below:



In theory, the benefit of a federation structure within a merged college lies in the ability of the individual colleges within the Group to maintain a local culture and presence, and respond directly to local needs. At the same time, they are able to call on the professional services and support of the Group. The Group and the Governing Body retain absolute control. They act as the commissioning body with funding agencies, and allocate resources (including investment capital) between college units according to both performance and need.

2b ‘Management’ federations with a broad remit short of merger

There are two typical models:

- **This is where a single Principal/Chief Executive and a small central team are shared across two or more colleges (for example, South Leicestershire College/North Warwickshire and Hinckley College, and Kingston College/Carshalton College).**
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In these examples, each institution retains its own governing body, and with legal contracts/service level agreements approved by both which set out the federation’s powers. The agreement also sets out how the federation can be terminated.

In the case of **Kingston/Carshalton College**, the services of the Principal, leadership of quality improvement and corporate services, and a full range of college-based shared services are provided through the Kingston and Sutton Educational Partnership Limited. With **North Warwickshire and Hinckley College and South Leicestershire College,** the senior team have proportional contracts across the two colleges. Leadership of two colleges involves a substantially-increased workload for senior staff, mainly around the need to service two governing bodies and the Federation Board.

Within these federations, each of which has a site principal/senior lead, the individual colleges do not have directly over-lapping catchments. They have strengths in different areas of curriculum provision, and make their decisions independently through their own governing bodies. Financial reporting, capital investment and KPIs are entirely separate. There are two UKPRNs, two ILRs, two Ofsted reports, and performance is recorded separately in league tables. The main advantages have been in planning and sharing quality improvement strategies, identifying the curriculum to be offered, and in creating economies of scale through shared services.

This type of collaboration may work well where both colleges are thriving but it may not be appropriate where one or more colleges in the Federation under-perform and ultimately need either financial support or a substantial 'rescue' package – involving other Member colleges. It also works well where the colleges are closely located, but not in direct competition.

2c Other types of federation retain two Principals/Chief Executives, and work through a joint venture company structure to deliver the services and commitments identified within the formal, legal contract. Typically these are for:

i Delivery of provision

Such a federation might provide a 'shop window' for employer-facing work through the creation of a company, limited by guarantee. This model allows for direct employment (for example, on different terms and conditions to the owning college). It also allows for secondments from the owning colleges or elsewhere. Company trading activities are likely to attract VAT as colleges' exemption from VAT is rooted in the powers of the Further and Higher Education Act (1992). If the company intends to receive public funding for education and training activities in its own right, then it may be necessary for the company to register independently in its own right.

ii Cost-cutting

Driven by the need to cut costs, and preserve 'front office' services, new models are emerging which focus initially on shared services (typically, seeking to combine transaction processing, HR, procurement, student administration, estate maintenance, and IT support). In 2010, HM Treasury provided £15 million funding for college shared services work.

In contrast to mergers, there is quite a bit of work which evaluates barriers to introducing shared services. In 2011, the AoC[10] commissioned an evaluation of shared services projects introduced through the Efficiency and Innovation Fund. Their conclusions about the barriers were broadly similar to those identified in the HE work, but included a lack of clarity of objectives, a need for trust, the dangers of inadvertently passing control to external consultants, the challenges of harmonising multiple colleges' tried, tested and trusted systems, and under-estimating the time, practical investment and the level of engagement (including governors and senior managers) needed.

The benefits of producing a 'local' solution to cost reduction via shared services may initially prove attractive to colleges. Common delivery service specifications can be developed using best practice, and may enable 'member' colleges to choose the services they wish to subscribe to from a menu. Whilst a reduction in support staff jobs is inevitable, those jobs that remain are retained in the local area, and local colleges retain their independence of mission, identity and reputation. There may be opportunities to bring in additional partners over time (voluntary and community sector organizations, schools, or other colleges), and with only minor adjustments to the processes agreed by the original partner colleges.

[10] Research and Evaluation of Shared Services Projects, Centrifuge Consulting for the AoC 2011

One downside is the level of investment needed to create a common data platform and to harmonise procedures and processes across two colleges. Early studies have shown that, with good management, it may be possible to reduce the costs of back office functions by up to 20% over a 3-year period. If savings exceed targets, then there is the potential to re-invest or distribute funds to foundation partners. Staff contracts and terms can be designed with incentives to encourage further savings.

With shared services (HEFCE funded about 35 shared services projects), there were 4 main reasons why some projects were less successful – a lack of institutional appetite (not always outwardly expressed), lack of market awareness, changing circumstances and lack of rigorous feasibility/viability at the outset. Failure of projects tended to occur where sharing was limited, where the work was driven by a group of enthusiasts but without more widespread support, where a leading individual 'moves on', where there is too much delegation from SMT, a lack of professional advice, and where the business case is insufficiently quantitative. [Shared services in HE, KPMG, 2006]

The barriers to achieving successful collaboration in these circumstances are significant. A model where two or more colleges combine their back office teams into a single service raises issues of accountability and performance measures, culture change in how services are delivered and managed to maximize value at minimal cost, shared funding of any up-front investment (for example in MIS), and standardisation of delivery specifications. Depending on the model adopted (which could range from an unincorporated shared services organization through to a company structure), there may be technical barriers including TUPE transfers, redundancy arrangements, and OJEU procurement rules). One key long-term issue, VAT, was partly resolved under the Finance Act (2012) which now allows exemption from VAT for 'cost-sharing groups'.

At a later stage, and assuming that early collaboration is successful at reducing costs, and at building trust and confidence in managers and corporation members about joint working, then the remit could expand to cover other aspects, for example - quality improvement services, joint curriculum planning and core curriculum specialization, joint advice, guidance and support, bidding, and estates management.

Iii Increasing influence

Some colleges have a successful history of working in formal regional structures (FE Sussex) often through the creation of a joint venture company, limited by guarantee. Companies have often evolved to provide services to their 'members' including joint bidding, joint lobbying, and shared delivery. Regular reports on activities and progress (together with annual report and accounts) are provided to all members.

***School federations**, where heads lead more than one school, and one governing body oversees the work accordingly are well established. Work by Ofsted in 2011[11], identifies hard federations (one governing body, one executive head teacher) as opposed to 'soft federations' with two governing bodies, shared committees and one head teacher. At the time of producing their report, Ofsted indicated that there were 600+ schools operating under one or other of these arrangements. Federations in*

[11] Leadership of more than one school, Ofsted 2011

schools are brought about under three main 'conditions' – a failing school, a school in danger of closer because of size, and cross-phase federations – improving transition. Ofsted's report indicates that the overwhelming push to federate is pragmatism or economic necessity. Good leadership in federations means improving teaching, adopting consistent best practice in monitoring teaching and learning, improving behaviour, monitoring student progress and rigorous performance management of teaching staff. Compared to FE, school head teachers in these circumstances can become very 'hands on'. The report highlights good practice in identifying strengths within failing or weaker schools and ensuring that these ideas are adopted within the stronger school. Effective leadership and management was highlighted as the single most important contributory factor to improvement. One of the biggest barriers which needed to be overcome was concerns by parents, pupils and staff.

Conclusions:

A review of the available documentation and literature which looks at mergers, federations and shared services highlights 5 major points:

1. In FE, some studies have shown that benefits from merger (student choice, progression, realising financial efficiencies and improving quality/success rates) are achievable. Strong leadership (of the overall strategy and the people involved), compatible culture and clarity of roles and vision are fundamental to success.

2. Federations are quick to establish and may avoid many of the common pitfalls of mergers (for example, harmonisation of culture and pay). However, they are not suitable in all circumstances, and can create enormous pressures on leaders (for senior staff running two colleges), and additional bureaucracy. The 'voluntary' nature of many federations makes it difficult to enforce financial efficiencies at an early stage. Single college accountability is also a fundamental principle which affects federation structures.

3. Shared services has been a visible part of the FE structural landscape for some time. Independent shared services (ie, not used as part of a wider 'management' federation) have proved challenging to establish and to run – largely because of the need for high levels of commitment and trust, and a willingness to compromise on systems.

4. In higher education, where much more work has been done on evaluating mergers, failures arise from over-optimism about timescales and costs, and what they term as 'poorly managed' post-deal integration. The research has also identified a range of variables which can adversely affect the likelihood of success, namely whether a merger is entered in to voluntarily, regarded as a takeover, involves merger from organisations across different sub-sectors or brings together multiple partners.

5. Federations in schools, with an executive head-teacher working across more than one school, have one governing body which aligns them more closely to a merged college than to the federation model adopted in FE. They are often effective in improving quality, or helping in smooth transition between phases of education. As in FE/HE models, effective leadership and management is highlighted as the single most important contributory factor.

SECTION 2 - EVIDENCE FROM VISITS AND DISCUSSIONS WITH THE SECTOR

This second section draws together the views and reflections of a range of consultees (policy makers, sector stakeholders), and current practitioners about structures in FE - the drivers of change, good practice in the process of decision-making and implementation, and how the intended benefits of structural change can be realised in practice. In is presented in five sub-sections:

1 The Drivers of Structural Change
2 The Decision about the Type of Structural Change Needed
3 Implementing Successful Structural Change
4 Benefits and issues
5 Conclusions

1 The Drivers of Structural Change

In practice, there have been five main drivers of structural change in colleges, all of which remain current and relevant in the context of the sector going forward.

These are:

a. *Larger colleges seeking to grow*
b. *Smaller colleges concerned in either the short-term or the longer-term about viability*
c. *Financially-sound colleges, seeking to reduce overheads in the face of the current outlook for public funding*
d. *Pressure from powerful and influential stakeholders*
e. *Board influence, driving a particular mission and focus*

(a) Larger colleges seeking to grow

Many of the larger colleges visited (including Newcastle College Group, Birmingham Metropolitan College, and Cornwall College) have grown extensively by acquiring others – through seeing an opportunity and making an approach, by invitation from a key stakeholder or funding body, or by a direct request from the organisation concerned.

Past motivation for acquisition has been driven by the likelihood of public funding support (in the case of a failing college) to help with the costs, the prospect of negotiating new capital funds as part of any ‘deal’, and policy incentives to expand particular types of provision, for example work-based learning. Merger has also helped some larger colleges build strong specialist areas of provision. During our visits, principals stressed the benefits achieved in building economies of scale, and in generating funds for investment in new buildings, infrastructure and specialist staffing posts.

However, in the light of cuts and constraints on public funds, our discussions with larger colleges and federations indicated a much more cautious approach to further growth by acquisition, and in particular a current lack of attraction in taking on a poorly-performing provider. They are seeking structures which allow them to have legal subsidiaries within an overarching ‘holding’ entity but which allows them to allocate resources across the group, spread risk and more easily access employer funded learning opportunities. Many have reviewed their own missions to focus on regional or sub-regional priorities and to align themselves with the expected further devolution of power to the English Regions, LEPs and through City Deals/Growth Deals. They are rejecting ideas or offers which are not aligned to their core purpose. A number have now developed clear criteria against which any new opportunity would be evaluated.

These criteria are focused on issues such as:

- What is the purpose of the organisation seeking help, and how well does it fit with our own mission?
- Could an acquisition or other form of partnership help improve provision, and meet learners’ needs better?
- Is the organisation potentially financially sustainable once joint back office services and any other changes to reduce costs have been factored in?
- Is there sufficient management capacity to do this, and what is the opportunity cost of this when compared with other strategy initiatives?
- What is the added value to our own organisation’s mission and strategy?

(b) Smaller colleges concerned about future viability

Discussions highlighted two distinct categories:

I Those taking early action

Smaller successful colleges, with good financial health and good Ofsted ratings but which, having undertaken their own analysis, decide that they are not financially sustainable into the medium term.

This is particularly the case for colleges which have been heavily dependent on the Adult Skills Budget, where colleges see significant additional competition from new free schools, sixth forms, academies and the private sector, or where there is a clear demographic downturn in the forecast numbers of young people within their catchment. Such colleges are also worried about future funds for capital investment. For example, many recognise the need to radically improve MIS, maintain their buildings, invest further in core IT infrastructure, and replace teaching resources in capital-intensive areas such as STEM). Many of the same features were apparent to Carshalton College when it invited proposals from neighbouring colleges in 2010, finally creating a Federation structure with Kingston College in 2011. The rationale for change and choice of partner in these circumstances is underpinned by a thorough analysis – either a strategic options review, or more recently a Structure and Prospects Appraisal.

A further factor driving rather more defensive action is new college competition. The presence of a large competitor on the doorstep changes local dynamics. A successful small college with a turnover of £15 million may well revisit its own strategic plans if a neighbouring failing institution is taken over by a provider with a turnover of £60+ million.

***Local authority adult education provision** is classified as a non-statutory service. Most providers are very heavily dependent on Adult Skills Budget funding. In many cases, local authorities are reviewing options to see how to continue to provide services through structural change – through modelling up to 100% subcontracting, through merger of services with other local authorities, or through forming a community enterprise company. In November 2012, Suffolk County Council agreed to the formation of Realise Futures as a company offering non-statutory services formerly run directly by the Council. The company offers three strands, adult learning services, employment services, and careers advice.*

ii Those slow to take action

The second category of smaller college is those which are already failing. In most cases, our consultees, and principals of colleges visited spoke about weak colleges in denial – having received poor inspection results or subject to close monitoring and potential intervention by a Funding Agency.

The tendency of senior managers and Boards in these cases was often to ignore the issues, present future plans for change and growth with little substance or evidence, and be driven by internal criteria (retaining independence, autonomy, positions of status and staff jobs). Without external intervention, there is a danger that potential suitors and partners are shortlisted for their ability to deliver these four criteria rather than by considering the bigger question of *"how high-quality provision for students might best be provided in our area in a cost-effective manner".*

(c) Financially-sound colleges seeking to reduce overheads

Some forward-thinking colleges, who have every intention of remaining independent, see advantages in finding ways of reducing overheads by adopting shared services.

Whilst it is clear from Section 1 that this is by no means an easy option, in a minority of cases, collaboration between colleges has been successful and extensive. It can include a limited range of back office administration, or be developed as a 'full service' model. For example, Wessex Educational Shared Services, which is based on two-college collaboration, was driven by a wish to maintain student-centred investment and cut back-office costs.

(d) Pressure from powerful and influential stakeholders

The three Devolved Administrations (Scotland, Wales and Northern Ireland) have taken a direct approach with their constituent colleges. They have encouraged mergers – to reduce costs, and maintain provision in isolated geographical areas where, on a standalone basis there are concerns that independent provision would not prove viable. In Wales, most of these have been between FE colleges, but there have also been cross-phase mergers, involving smaller HE providers and FE colleges. The Devolved Administrations generally regard the quality of provision offered in colleges as good or better, and do not see quality improvement as a primary objective of consolidation.

Scotland *In November 2012, the post-16 Education (Scotland) Bill included provisions to restructure Scottish FE colleges into 13 'college regions' with the object of achieving better financial stability in the face of revenue funding cuts.*

Wales *In 2008, there were 25 Further Education Institutes in Wales. There are now 13, with two community-based FE institutions. Transforming Education and Training Provision in Wales (2008) was the start of a process of rationalisation – based on the principles that unnecessary duplication of provision, small class sizes, too many educational buildings, and loose partnership arrangements, were not delivering the Government's agenda for change. The Welsh Government is keen to maintain choice of provision and opportunities for progression, but geography, transport and low population density are long-term challenges. The arguments put forward for change were that rationalisation would help strengthen strategic management, improve efficiency, maintain provision in rural areas, and build stronger financial resilience.*

Northern Ireland *Their FE colleges were incorporated in 1998, and remain classified as 'public sector'. Since 2004, there has been a major programme of rationalisation, reducing an initial 16 colleges to 6. All but one merged institution has dispersed campuses over an extended geographical area. The rationale for merger was – too many small and inefficient colleges, the importance of swift and consistent communication from the Centre to colleges, and a wish to reform colleges to focus strongly on economic development, social cohesion, skills and lifelong learning. The NI Government believes that small stand-alone colleges would have struggled to deliver this agenda.*

The very recent timescale of these radical structural changes within the Devolved Administrations in Wales and Scotland makes it too soon, in some cases, to determine whether the expected benefits have been realised.

Within the English system, larger colleges are acutely aware of matching their geographical focus and curriculum strengths to those needed by Local Enterprise Partnerships (LEPs) and by City Deal and Local Growth Deal boundaries. These factors will directly affect future decisions about mission, focus and curriculum offer, and structural changes will be made and implemented as a result.

Occasionally, direct intervention from Government and the Funding Agencies has driven structural change (for example in approaching high-performing Reigate College to take on Coulsdon College which had failed its Ofsted inspection). However, Reigate College governors, in considering the possibilities identified that it was both a sensible strategic move, and that the management team of their own college had the capability and capacity to make a difference.

(e) Driving a particular mission or focus

Strong Boards (which include principals as members) with clear views about where college priorities should lie have been the major factor driving structural change in some colleges. At Eastleigh College, Board-driven expectations that students should be gaining jobs rather than qualifications resulted in both cultural and structural change to rapidly expand work with employers – at the time, more than doubling the income of the college and focusing on high-quality sub-contracting, and setting up a separate unit of the College to commission and quality assure the work.

In Norwich, driving up standards in local schools and strengthening progression through post-16 and into HE for local and regional learners resulted in the creation of the TEN Group. Bromley College and in North Warwickshire and Hinckley College have created multi-academy trusts – responding to local and community needs.

Points made by private sector consultees about drivers of structural change:

"Scale will be absolutely critical to the future – otherwise you can't build in efficiencies. FE colleges will have to collaborate much more on e-learning, teaching materials and focus on what they do best. This will inevitably affect structures."

"Federations, which retain separate management teams, have the potential to focus on local provision and local needs, but they cannot deal so quickly and decisively with issues of costs. We may not see so many of these in future."

"Successful providers are close to their core employment sectors, and structure themselves in ways which enable them to do this well."

"All too often sub-contracting is used because colleges cannot fulfil their contracts – which is high-risk. Successful sub-contracting is about strategic rationale and developing the infrastructure to minimise the risks inherent in not delivering provision yourself."

2 The decision about the type of structural change needed

There are five important factors arising from our discussions with stakeholders and providers about the decision-making and approvals processes underpinning their structural change. These are:

a) Clarity and realism about expected outcomes
b) Vested interests
c) Rigorous analysis of options, benefits and risks
d) Strong, sustained leadership
e) Governance structures

a) Clarity and realism about process and outcomes

Our discussions raised the importance of all parties identifying what they wanted from any collaboration or merger – and then being unequivocally clear with others about the evidence base, issues which were non-negotiable (and why), what they would or could bring to the 'table' to benefit another partner, and what they would be prepared to relinquish.

Shared service federations in particular often started out with a large group of potential partners round the table, many of whom faded away once realities of what was proposed set in. One provider was clear that factors such as an individual change of principal, unwillingness to devote the necessary management time, a lack of appetite to deliver the cultural changes required, or an inability to compromise – were the main reasons for individual colleges (generally smaller colleges who might have benefited disproportionately from shared services) withdrawing at the planning stage. Unless the commitment and expectations of each potential partner are tested rigorously at the outset, there is a danger that change becomes a slow and expensive process.

b) Vested interests

Many of our contributors commented on the amount of time and money which has been wasted historically by the sector over the years on aborted mergers or other abandoned structural plans.

The key issues were:

- Unresolvable arguments and irreconcilable differences between principals and Board members of two or more colleges about power, status and control.
- The dangers of plans made on emotions rather than on facts and figures.
- A lack of commitment by senior managers
- Over-reliance on personal relationships and 'liking' or 'disliking' individuals based within the other party.
- Misleading or absent data – particularly about known shortfalls in meeting critical KPIs (such as funding, student numbers or quality indicators) which were subsequently unearthed at the stage of due diligence and proved to be 'deal-breakers' at a late stage. Late stage 'deal breakers' were not just about misrepresented facts; they undermined confidence that a compatible and respectful relationship between the parties would work.

c) Rigorous consideration of options

There are some good examples of very thorough analysis of options when colleges are considering merger or federation (Barnet and Southgate College, South Gloucestershire College, Kingston and Carshalton) – with the decision to seek merger or federation based on a sound rationale. Where there has been history of successful joint working with the proposed partner, there is a greater level of confidence that formal binding structures are likely to work.

These examples followed the principles and practice of the *Structure and Prospects Appraisal process* (even though many had been completed prior to the official 2011 guidance) and covered a detailed analysis of the College's existing position, a range of future scenarios, and how any structural change might assure better viability and enable local delivery to be maintained and enhanced. In the best examples of early practice, there was extensive consultation with local stakeholders and rigorous analysis of student travel patterns by age, level and key subject of study.

Many of the reviews undertaken by single colleges have pointed to merger or occasionally to federation, on the basis that:

- Other forms of long-term collaboration were difficult to achieve where the preferred partner was in direct competition, particularly in relation to geography.
- Where the two colleges have different strengths, strong leadership enables rapid and effective exchange of good practice. In one example *"We knew we had poor systems but a great student-centred culture. Our proposed partner had very strong systems and strong compliance. We both acknowledged this straightaway and made rapid progress as a result."*

In many cases, federation is considered not to be attractive where a College is forecasting financial losses. In the words of one college *"what's needed is something faster and harsher - merger enabled us to support a smaller campus year-on-year as performance fluctuated".* And from another*, "federations also need real enthusiasm* *from both parties, or either they won't work or they won't make progress fast enough."*

Larger colleges outlined three particular risks which might prevent them merging with weaker colleges in future:

- One was the prospect of an early Ofsted inspection and the potential risks to the whole college if the acquisition was a weak partner.
- A second was concerns about the size of the college entity with a single UKPRN, and how this defines the scope of funding allocations, performance measures and Ofsted's inspection boundaries. By way of example, as colleges become larger and more complex, serving markets with multiple needs, larger colleges recognise that it becomes more difficult to sustain 'outstanding' as an overall inspection grade, although many parts of the business of a large college might be graded 'outstanding' if they had been subject to their own inspection.
- The lack of financial support available – particularly in clearing any public debt from a failing college, and an expectation that the stronger college would cover the full costs of approval, implementation and restructuring, and debt repayment.

d) High-quality leadership prior to any decision

High-quality leadership at the planning and decision-making stage comprises several key features:

- Clarity on the purpose of the change, and an ability to reinforce the purpose constantly across all internal and external communications.
- An appetite to learn from the mistakes of others who have gone down the same path, and to share good practice in, for example, legal structures to avoid re-invention. Legal costs were highlighted as the major cost at this stage, often running into six figures.
- Rapid identification of 'enablers' and 'blockers' – particularly in relation to people.
- Working openly to resolve emerging issues, and barriers to progress, however tiresome and detailed.
- Working with influential stakeholders (LEP, local authority, employers, and funders) to secure their active support.
- Building confidence from within the community. Many providers commented on the importance of helping community stakeholders understand that changes in structure were focused on keeping, not losing, their local provision.
- Using every opportunity to speak with staff face-to-face. In the words of one provider *"Help people see what you are trying to achieve. Staff start from a presumption that merger is bad – tell people early and assure them that in any role changes, you will follow a fair selection process. If merger is not on the agenda – then say so."*
- Appointment of an experienced Project Manager, who kept the activities and decisions on track, and who planned in the key decision points (for example, making sure Board meetings were scheduled and synchronized at key approval stages).
- Leading the college to the right conclusion required senior staff and governors, in particular, to reflect on issues such as their own self-interest, the quality of the numerical evidence, key risks, whether credible alternatives

had been properly discussed and assessed, whether those with dissenting voices had had their opinions heard, and whether any ultimate decision might be overly-influenced by memories of past success.

Many colleges used consultants to provide an objective analysis of options and to provide a formal report to governors. However, in general this was considered a well-established consultancy 'market' with significant price competition. For those collaborations exploring the feasibility of new models, legal costs, were identified as the biggest area of expenditure.

Scotland *Most colleges completed the technical merger within a very short window of 18 months and a reduction in numbers from 41 institutions down to 16. The 'approvals' process required the production of a merger business plan (following Scottish Government guidelines), approval by each College Board, and then sign-off by the Cabinet Secretary for Education and Lifelong Learning. In some cases, a great deal of 'behind the scenes' discussions were needed to ensure approval at Board level.*

(e) Governance structures

Merged colleges typically organise their governance with a main Board, supported by either local 'Councils' (campus-focused) or 'Advisory Committees' (sector-focused). Several of our visits involved conversations about this issue.

In agreeing constitutional issues and membership, if councils and committees are to be effective, they need a clear remit, with selection of members against clear criteria.

Governance of federations typically consists of multiple boards. One principal and senior team managing two colleges may find themselves attending two sets of Corporation Boards, together with a third Federation Board (involving senior governors from both member colleges). In these, the issues for one set of governors consulted during this work was the enormous workloads of senior staff, and the time spent in the preparation of high-quality Board papers.

Federations established for more specific purposes, where individual principals retained autonomy over day-to-day management of their own institution but collaborated on specific issues, typically adopted a 'management Board' structure, with representation from each member organisation, and regular reports provided for approval by each College Corporation.

3 Implementing successful structural change

(a) Values

Values were described as emerging in many forms – but were primarily categorized as either for moral purpose *(e.g., based on ensuring students achieved their full potential)* or behavioural *(expecting staff and students to adhere to a particular set of behaviours).* Either way, strong values, articulated, debated and communicated by governors, principals and senior leaders at a very early stage in the process, helps people take decisions and measure their performance against what the new institution or structure expected.

(b) Choice of leader and the leadership team

Whilst there is a tendency for Boards to appoint their senior staff from the pool of internal candidates, many sector consultees reflected on the clear advantages about appointing a candidate who did not have a legacy in any of the member colleges, particularly when merger was involved.

Public and private sector representatives were both very keen to emphasise the different skills and attributes required by successful leaders of large and complex organisations and the pole position of the Board in selecting them. Crucial for the future are:

- Many more Principals and Chief Executives with strong commercial and financial acumen, who have a keen understanding of finance and cash flow, and who are prepared to see their bank as a key stakeholder (not just the province of the Finance Director).
- Principals and Chief Executives able to work through others and develop a skilled and cohesive management team. Many sector consultees discussed the problem of a single strong personality leading a College – effective perhaps in small teams, but less appropriate for complex, devolved structures which cannot function by reliance on one strong individual. Providers reflected that the transition from one to the other is not always easy for leaders to make.
- Senior management teams willing to adopt a much more rigorous approach to business planning with activities carefully classified to ‘invest’, ‘maintain’, and ‘reduce’, closely aligned to financial planning. This needed to be accompanied by rigorous forward planning and scenario building to manage the future rather than the present.
- A relentless focus on quality of provision. Implementation is crucial, but is largely an internal matter – and it is not about developing the core business of the College. If so much time is taken up in meetings and working parties concerned with structure, then quality suffers.
- A willingness to engage directly at Chief Executive level with employers – leading their colleges in discussions with employers about new opportunities.
- Data management – with colleges appointing at ‘director’ level and fully engaged as a member of the Senior Management team.
- Estates strategies which reduce overheads, and which do not compromise flexibility.
- A sharply focused mission. Successful organisations do not attempt to do everything, they are very clear about the ‘business’ they are in and the ‘business’ they are not in.
- Innovation and change underpinned by clear business planning processes which demonstrate value to the organisation and include a rigorous analysis of risk.

c) Governance

There are two potential models of approaching governance. In the words of one college - *‘Either you let governors have real responsibilities, or you let the senior team run governance for them’.* In weaker colleges, it was considered that there is a lack of serious challenge, and a willingness, by governors to accept the principal’s assurances that all is fundamentally well.

Selection against an in-depth skills analysis is now regarded as normal practice, but the skills needed to run a complex federated or merged structure are regarded as different. Those with significant experience of the sector wanted to see more high-calibre current business leaders joining boards, and fewer governors whose experiences lay in the past. Many recognised the value of governors being paid for their services (and also held to account should the College not succeed).

d) The implementation plan

College principals emphasised the need for detailed work streams (in the case of merger this would structure, finance, curriculum, estates, HR, IT, student services, marketing and communications) – led by senior staff who were aligned to the new culture and values and who reported in to a Steering Group, comprised of the Principal/s and governors. In many cases, change was led internally, with use of consultants for specific roles (HR and TUPE support, writing core documents). The costs of implementation, particularly legal costs, but also those of financial due diligence, were identified as major, often running into six figures.

Policies and procedures are regarded as incredibly important in larger institutions or in shared services structures, where people must operate remotely, or without immediate recourse to a manager. In poorly-integrated collaborations, people operate on either the wrong procedures, or old procedures, which in a heightened regulatory framework, becomes a key risk.

Those with significant experience of mergers pointed to the importance of middle managers and their influence on staff. Despite assurances to the contrary, most staff identify one organisation as the dominant party in the *'mergeover'*, retain this emotional attachment, and build their response to change accordingly. To ensure mergers succeeded, the advice was to progress the new structure and to make key appointments as quickly as possible, and ensure that day-to-day management of students and curriculum did not suffer as a consequence.

Federations are much quicker to implement than mergers. Issues of single culture, harmonisation of pay, terms and conditions – which are difficult and time-consuming to achieve in merged colleges - are often not critical to meet the objectives of other types of collaboration.

Scotland *Colleges meet some of the costs of implementing any individual mergers, but the process is supported by access to substantial funds to support severance (up to £8 million per merger in certain circumstances) and access to an experienced merger team to help with technical and management issues, including HR matters. There have been substantial changes to governance, with the Cabinet Secretary appointing each College Chair, and formally approving Board Member appointments. All Board members, regardless of their previous service, have been required to formally apply and be interviewed for their roles. Assessment has been against a skills matrix, but Colleges are expected to ensure that Boards take full account of Equalities legislation, particularly in relation to gender balance.*

Wales *Each merger was allocated some support funding (up to £650,000) but the Welsh Government considers that the real benefit was enabling them to exert strong influence as a stakeholder – some mergers may well have progressed without support funding. Governance has been changed to focus strongly on the skills governors bring to their role.*

Local authority merged adult education service *"We underestimated the time it would take around negotiations to avoid problems later on. After the decision was taken, we still had to agree liability for any redundancy costs, agreement on property transfers and licenses,* *novation of the contract, liability for professional costs and start-up funds, and clarity over EU procurement and competitive re-tendering rules."*

4 Benefits and issues

Providers talked freely about the benefits of merger, although many were keen to point out that, without a 'control' group, it was difficult to identify the extent to which success rates or quality grades might have improved had another path of collaboration been ultimately chosen.

***Former local authority – now a community interest company**. Adult learning enrolments have grown by 22%, and formal inspection has graded us as 'good'. More ideas have been generated; we are taking decisions much more quickly. Staff have greater ownership of targets, and by outsourcing, we now have responsive services at a lower cost.*

a) Cost reduction

Merged colleges and shared services federations talked about a reduction in income derived from public funds, but acknowledged an ability over a medium-term timescale (for example 5 years) to take out a higher proportion of costs (in some cases as much as 50% more). In a specific example, a newly merged college was able to save £2.5 million in management and support staffing costs at the cost of £1 million, without a reduction in quality of provision, and another reported making savings of 5% in the first few months following merger without loss of services to students. A hard head was needed to deal with avoiding harmonising terms and conditions upwards without some gains in productivity to compensate. Harmonisation was considered one of the key difficulties faced by merged colleges (in contrast to those which federated).

Most acknowledged that this period of creating savings through reducing overheads and restructuring management had now ended, and that the next round of budget reductions would be much more challenging, with provision scaled back in line with affordability. In the next phase of cost reduction work, governor involvement and support on the principles to be followed was regarded as critical – and those with commercial and financial acumen will be particularly highly valued. Most colleges expect to implement a rigorous process of identifying what they need to lose based on agreed criteria (applications, enrolment, success rates, progression, employer engagement, £ cost per hour, class size).

b) Investment in the curriculum and in MIS

Successful merged colleges, in particular, spoke about their ability to invest in sub-sectors of value to the sub-regional and regional economy (for example, Cornwall College – land-based and marine), Hull College (Centre for Digital and Green Energy). At South Gloucestershire and Stroud College investment in new areas (engineering, performing arts and sport) has arrested a decline in the numbers of 16-18 year olds, and complementary strengths has enabled rapid improvement over the merged college as a whole. At Bromley College, realising economies of scale has enabled investment in new 14-16 college facilities, a new hospitality suite and a new dedicated area for students with complex and multiple learning difficulties and disabilities. Hull College has invested £0.5 million in its new 14-16 Centre. Newcastle College Group funded a sixth form centre, largely from reserves.

In most cases, investment in accommodation and facilities had been considerable, with one college reporting £120 million invested in accommodation since incorporation, with only £15 million drawn down in loans. Another identified the ability to invest £23 million of surpluses into a new Sixth Form Centre. A newly-merged college has invested £7 million in the acquired smaller college which, had the route to independence or federation been pursued, simply would not have happened. *Looking forward, many colleges expressed serious worries about estates matters – difficulties of servicing loans, running costs of buildings with poor utilization or poor fitness-for-purpose, and the need for the sector to use sale/lease back arrangements where necessary.*

Their ability to resource a team with dedicated employer engagement skills "*starting from a point of how working with the College can help an employer's own objectives, rather than 'this is our offer, do you want it?'*

Merged colleges emphasised the importance of accurate data from Day 1, and many had made significant investments in MIS systems and communication infrastructure to achieve this. Colleges establishing shared services have invested heavily in systems. However, funding support, many would not have been able to progress their plans.

c) Influence

Merged colleges in particular focused on their position as the key stakeholder for post-16 education and skills. Many believe that this placed them in a stronger position to take a primary role in their LEP, to lead on bids for external funds (to agencies for capital, but also for European funds and regional/sector specific funding opportunities). Size also enabled greater influence with local authorities and has helped larger colleges take on positions of sponsorship of Academies, Free Schools, and Education Trusts. One 'downside' mentioned by some was the added media attention from being the largest or sole provider in a particular area and the need to 'tool up' with media expertise accordingly.

A second strand is influence with students, parents and the community. As the major sub-regional provider of vocational training, Hull College has been able to introduce a 'progression passport' for its highest-performing students. The power to 'brand' this across the whole of the City, employers and neighbouring catchments was considered to be very effective in raising the status of the College and understanding of the award.

Influence can also be regarded negatively. Merged colleges were not always considered quick to appreciate the position of schools and other providers, who frequently label larger merged colleges as 'predatory' 'untrustworthy' 'threatening' and too keen to take the leadership role in partnership initiatives at any cost. Good leadership and good communication can be highly effective in minimising negative perceptions of this type. One college which recognises this is promoting the concept of 'this is a locally focused college working under a single management team'.

d) Maintaining provision in a breadth of locations

Merged colleges, who maintained a commitment through their mission and strategy to access - considered that without their size and scale, and a consequent ability to cope with fluctuations in annual performance, local provision based in isolated communities and rural areas would have closed. Former independent colleges in these locations had survived because they were the sole post-16 provider. In the present funding context, they would have become unviable.

However, powerful Boards of merged colleges have some difficult decisions ahead of them. In the absence of an ability to make further cuts to overheads, further cuts to provision, and site closures are likely to form the next step in maintaining viability.

e) Improving progression

Collaborations which improved progression to HE offer described the value of this as helping raise aspirations, focus students on outcomes at all ages 14+. While many colleges have informal partnerships, franchise agreements, and other short-term contractual arrangements with HE providers, colleges engaged with these partnerships felt that the added certainty of a formal binding structure gave greater importance and momentum to their plans. There are many examples of good practice, but three contrasting examples are:

In Scotland, where Forth Valley College markets its provision based on destination *outcomes,* and achieves about 95% positive destinations (to relevant jobs and relevant high-level FE and HE provision). Their merger eight years ago had given them an ability to plan curriculum strategically, with specialist HE at Levels 4 and 5 (in STEM, creative arts and tourism, and business) on each of its 3 sites – each addressing local employers' requirements.

In Plymouth, the College of Art and Design supported a specialist Arts Free School (for ages 4-16) which, in conjunction with their own offer, had given seamless progression through school to postgraduate level for those with the talent and commitment to succeed. The ability to influence the curriculum pre-16 has helped build much stronger FE and HE niche provision which leads to quality jobs in the Creative Industries.

Aylesbury College's joint venture company with the Buckinghamshire New University has given the College the ability to sponsor a new UTC, develop higher apprenticeships, completely review the FE curriculum offer at Level 3 (with an eye to progression) and has enabled the partners to develop an HE facility in Aylesbury, in a building funded by District Council, and leased to the JV.

f) Quality

In discussions with providers, driving up improvements in success rates are not always a key issue in the decision to merge or to federate. However, in our discussions with institutions, the pace of improvement is generally in line with national averages (see Appendix, where we have modelled the changes in success rates of colleges visited over the most recent three-year period against national averages). In some cases there have been dramatic improvements – for example at Coulsdon College, and at Kingston/Carshalton (which in 2011 had success rates of 78% and 76% respectively). The recent inspection of South Leicestershire College (now 'good') and very positive grades and comments about Coulsdon College, suggests that Federations involving the right match of partner/s can make rapid strides in improving quality.

The quality and relevance of the curriculum in many cases has been improved, with better opportunities for work experience and 'on the job' training.

Ofsted, within our sample of colleges which have merged or federated, have judged overall effectiveness in each case to be at least 'good'.

Importantly, principals viewed well-led large institutions to be in a better position to tackle pockets of poor provision quickly and decisively – deploying specialist teams, or employing credible consultants (including ex-inspectors) to advise on how to address fundamental issues of quality. An ability to invest in strong MIS, with live data available, appropriately packaged, at all levels from lecturers through to governors was critical to identifying problems early. The expense of introducing and maintaining very strong MIS was considered to be much easier in structures with size and scale.

Northern Ireland *In evaluating the success of mergers, the NI Government reports that success rates have improved, levels of investment in data, skills and staffing is much stronger, and leadership has been 'refreshed' with the appointment of some new principals.*

Scotland *The Scottish Funding Council expects the structural reforms to generate about £50 million savings each year from 2015/16 – but acknowledges the substantial costs of development £54 million. Scottish FE colleges are now classified as part of the public sector. They must conform to public sector accounting requirements (which include holding minimal cash balances, reporting to a 31 March year-end date, and gifting any surpluses to an Arms Length Foundation - to which they may be able to subsequently apply for capital funds). The Scottish Government intends to monitor the effect of these changes (finances, savings and access to learning). The Scottish Funding Council will share the lessons from completed mergers and focus colleges on 'outcomes' which contribute to national priorities.*

g) Addressing bureaucracy and hierarchy

All colleges and partnerships which we visited indicated that they kept a watchful eye on bureaucracy and the inevitability of increased costs as a result. They presented the following examples of what they sought to avoid:

- *We are careful to structure our service-level agreements to avoid them getting in the way of an instant response to a problem. There is a danger that staff are seen as too remote and insufficiently aware of our issues and timescales. [shared services]*

- *We are making some use of IT for videoconferencing and SKYPE, to avoid travelling between sites for key meetings. Further investment in systems will be critical to retaining responsiveness. [merged college]*

- *A relentless focus on communication is essential. It is not just the messages which are important – it is the style of delivery. We have found that building consistency in style, particularly for face-to-face briefings undertaken further down the organisation, avoids miscommunication of the core messages.*

- *The number of meetings has grown considerably. This affects both members of the senior team and governors. Complex federations and structures, which involve meetings of single college governors, meetings of governors from all colleges involved, and then possibly additional meetings of Academies and Trusts is very time-consuming for everyone. [federation/s]*

- *In resolving differences and difficulties, we must have a 'corporate' position. This means we punch up in private (although this means we have some very long meetings), but then agree a corporate position and communicate it – hard for some. [federation]*

- *Shared services can be seen as remote and faceless. We have had to work hard to address this – both in terms of physical location, but also by structuring staff in college 'teams', so that they know the individuals, the culture and the requirements of their 'core' college well. This does not stop them working flexibly within the full service when needed.*

5 Conclusions

- **There is no one 'right' structural model for colleges to adopt**, and there are many examples of successful mergers, federations and other forms of collaboration which counter some of the well-publicised failures. A rigorous and objective analysis following Structure and Prospects Appraisal' process will enable a college to thoroughly evaluate strengths, weaknesses and local circumstances. Time taken to do this thoroughly and objectively helps avoid issues later on. We would advise that regular review, following the principles of the Structure and Prospects methodology should feature in the strategic planning of all providers – with decisive action taken about future structures before fundamental problems become too advanced to address.

- **The sector has a history of larger, potentially stronger, colleges merging with smaller weaker colleges.** The lack of central financial support for debt clearance and staff restructuring, the current policy of an early Ofsted inspection, and a focus by many colleges towards on local and sub-regional needs makes this a much less attractive option in future.

- **Governors have a critical role to play in key decisions about structure and in the interests of their college and its learners; they need to be as objective as possible.** The choice of leader should take account of the skills and attributes needed to run the new organisation, and should not automatically confined to consideration of internal candidates. As reductions in public funding bite harder, it is sensible to assume that the need for senior leaders with financial and commercial acumen increases.

- Our views concur with the advice from the evaluations undertaken to date (and outlined in Section 1) – **the success of a model is in the detail of its implementation.** Once a decision to change has been made, the implementation process should be undertaken as quickly as possible. However, this stage needs to be well-planned, carefully executed, rigorously monitored, and underpinned by timely and accurate data about performance from Day 1. Following the technical merger, leaders need to be highly visible to their new teams, focused on delivering the planned benefits, and should avoid external distractions which do not have a direct impact on the institution and its performance.

- Our assessment of success suggest that **new collaborations and new structures,** where the decision to change has been subject to rigorous assessment and careful implementation, can create valuable economies of scale, protect and improve student access and progression, and address issues of poor quality. There is much good practice in the sector about how to ensure that these important features are realised, and a willingness by those visited and consulted during the course of this work to share their views and experiences with others.

REPORT APPENDIX

1. **Key areas for discussion with sector consultees**

2. **Providers visited by FE Advisers**

3. **BIS and other sector stakeholders consulted**

4. **Comparative success rates against national averages**

5. **The merger diary (these tables are provided to set the context of the merged colleges in England which we visited in the course of this study).**

KEY AREAS FOR DISCUSSION WITH SECTOR CONSULTEES AND DURING VISITS TO INSTITUTIONS:

1. What were the key drivers for collaboration/merger at the time?

2. Were other models, approaches to collaboration or partners considered, and with hindsight, to what extent might each have worked?

3. How was the decision to merge/collaborate taken and by whom? How did the approvals process work?

4. What were the actual costs of planning and ultimately implementing the collaboration (particularly in terms of external support).

5. How long did the process of merger/collaboration take and what were the short term impacts, difficulties and consequences for students, staff, reputation and college finances as you went through the process?

6. What arrangements were put in place for governance How effective has governance and accountability been?

7. In practice, what has been the impact (positive and negative) on

    - Quality of provision (success rates, destinations, VA, pace of improvement in processes)
    - Identifying and implementing efficiency savings.
    - The breadth of the curriculum offer (particularly vocational and sectors meeting local employer needs - sector subjects and specialisms)
    - Employer-focused work, and the colleges' ability to expand its apprenticeship programmes (traineeships) and profit-making courses
    - opportunities for delivery in other 'markets' (14-16, DWP, international, HE,) – if relevant
    - work with the community and with local stakeholders including the LEP and local authorities?
    - Reputation and influence?
    - Other providers?

8. Has collaboration/merger helped improve longer-term financial stability, levels of capital investment and/or economies of scale?

9. How has the political and economic environment changed since the collaboration/merger – how has this impacted on plans?

10. Were there any legislative or policy barriers which prevented or limited consideration of particular collaborative options?

11. What would be your key 'messages' for others embarking on exploring and introducing new models of collaboration of this type?

PROVIDERS VISITED BY FE ADVISERS

A Established merged colleges

Hull College Group

The Manchester College

Leeds City College

Birmingham Metropolitan College

South Gloucestershire and Stroud College

Cornwall College

Barnet and Southgate College

B Colleges in Scotland/Wales

Gwent College

Merthyr Tydfil College

Forth Valley College

C Federations

Reigate College and Coulsdon College

North Warwickshire and Hinckley College/South Leicestershire College

Kingston College, Carshalton College

D Alternative collaborations and structures

The London Apprenticeship Company

Eastleigh College

Prospects College

E Shared Services

FE Sussex (Shared Services in Sussex and Surrey)

Wessex Shared Services (Bournemouth and Poole College and Brockenhurst Shared Services)

BIS AND OTHER SECTOR STAKEHOLDERS CONSULTED

Julian Gravatt (AoC)

Lynne Sedgemore (157 Group)

Stewart Segal (AELP)

Bob Powell (Holex)

Karen Murray (EFA)

Debbie Watson (SFA)

Marina Gaze (Ofsted)

Paul McKean (JISC)

Scottish Government (Melanie Weldon, Colin Baird, and colleagues from the Scottish Funding Council)

Welsh Government (Andrew Clark, Jane Ellis, Edwyn Williams)

BIS (Jacqui Entwistle, Steve Robinson and colleagues)

NI Government (Andy Cole and colleagues)

With additional material from the following organisations (as a result of discussions with sector stakeholders):

Newcastle College

Plymouth College of Art and Design (Andrew Bretherton)

Aylesbury College (Karen Mitchell)

Bromley College (Sam Parrett)

Calderdale College (Chris Jones)

3AAA (Peter Marples and Di McEvoy Robinson)

HIT Training (Jill Whitaker)

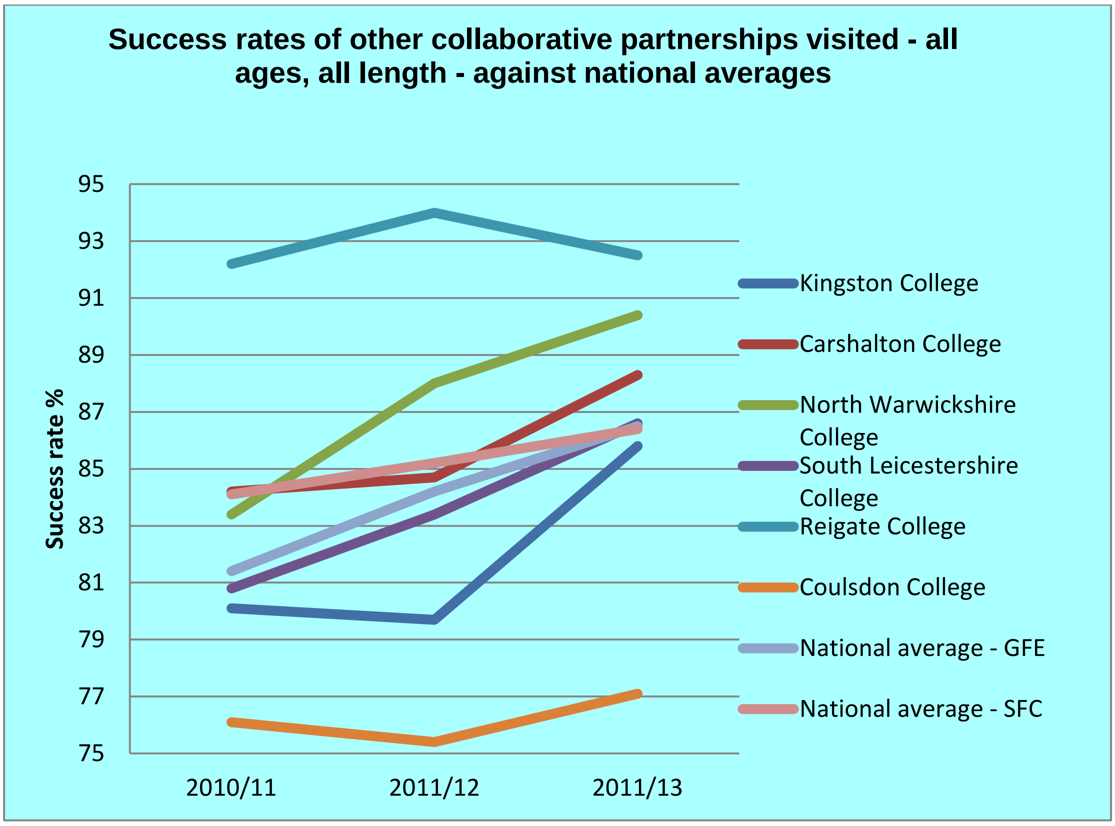
Kaplan (Tim Burrows)

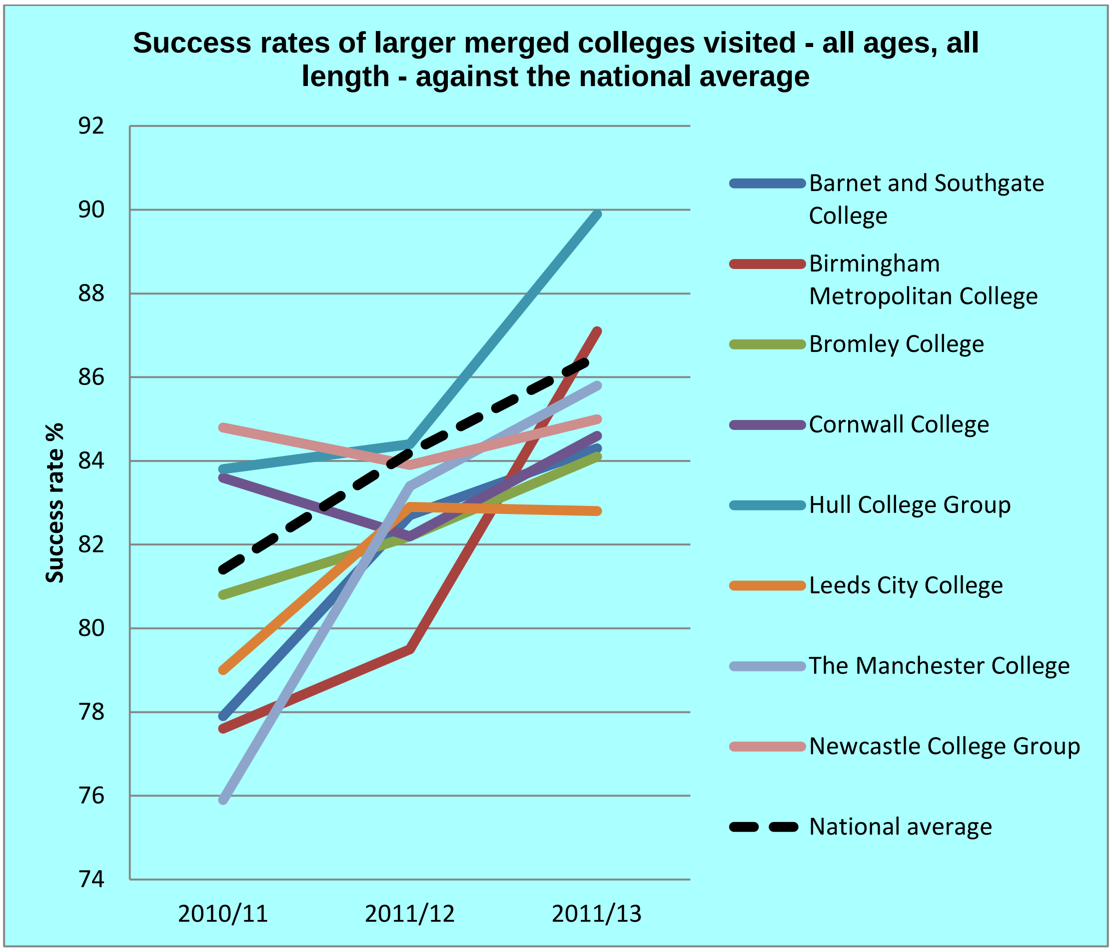
Learn Direct (Roger Peace)

The College of Estate Management (Ashley Wheaton)

Realise Futures (Sally Butcher)

LA adult learning Bournemouth, Dorset and Poole (Lesley Spain)


Success rates of other collaborative partnerships visited - all ages, all length - against national averages
Success rate %
95
93
91
89
87
85
83
81
79
77
75
2010/11
2011/12
2011/13
Kingston College
Carshalton College
North Warwickshire College
South Leicestershire College
Reigate College
Coulsdon College
National average - GFE
National average - SFC


Success rates of larger merged colleges visited - all ages, all length - against the national average
Success rate %
92
90
88
86
84
82
80
78
76
74
2010/11
2011/12
2011/13
Barnet and Southgate College
Birmingham Metropolitan College
Bromley College
Cornwall College
Hull College Group
Leeds City College
The Manchester College
Newcastle College Group
National average

College mergers under the FEFC (1993-2001)

	Colleges	Name of merged institution	Type of merger	Operative date
	St Austell Sixth Form College and Mid-Cornwall College	St Austell College	Double dissolution	02-Apr-93
	Hinckley College and North Warwickshire College for Technology and Art	North Warwickshire and Hinckley College	Double dissolution	01-Mar-96
	Airedale and Wharfedale College and Park Lane College	Park Lane College	Single dissolution (A&WC)	01-Aug-98
	Barnet College and Hendon College	Barnet College	Single dissolution (Hendon College)	01-Aug-00
	Kingsway College and Westminster College	Westminster Kingsway College	Single dissolution (KC)	01-Sep-00

College mergers under the LSC (2001-2010)

	Colleges	Name of merged institution	Type of merger	Operative date
	St Austell College and Cornwall College	Cornwall College	Single dissolution (St Austell)	01-Aug-01
	Shena Simon College and City College, Manchester	City College, Manchester	Single dissolution (SSC)	01-Sep-01
	North Birmingham College and Sutton Coldfield College	Sutton Coldfield College	Single dissolution (TTC)	01-Apr-03
	Stockport College and North Area College	Stockport College	Single dissolution	01-Jan-06
	Josiah Mason Sixth Form College and Sutton Coldfield College	Sutton Coldfield College	Single dissolution	01-Aug-06
	Keighley College and Park Lane College	Park Lane College Keighley	Single dissolution	01-Aug-07

	North Trafford College and South Trafford College	Trafford College	Single dissolution	01-Aug-07
	Newcastle College and Skelmersdale & Ormskirk College	Newcastle College	Single Dissolution	01-Aug-07
	Manchester College of Arts and Technology (Mancat) and City College Manchester	Manchester College	Double dissolution	01-Aug-08
	Salford College, Eccles College and Pendleton College	Salford City College	Double dissolution	01-Jan-09
	Leeds College of Technology, Park Lane College and Leeds Thomas Danby	Leeds City College	Triple dissolution	01-Apr-09
	Sutton Coldfield College and Matthew Boulton College	Birmingham Metropolitan College	Single Dissolution	01-Aug-09

College mergers under the SFA/YPLA/EFA (2010-)

	Bromley College and Orpington College	Bromley College of Further and Higher Education	Single Dissolution	01-Aug-11
	Leeds City College and Joseph Priestley College	Leeds City College	Single Dissolution	01-Aug-11
	Barnet College and Southgate College	Barnet and Southgate College	Single Dissolution	01-Nov-11
	Stroud College and Filton College	South Gloucestershire and Stroud College	Double Dissolution	Incorporation 04-01-12, Dissolution 01-02-12
	Birmingham Metropolitan College and Stourbridge College	Birmingham Metropolitan College		31-May-13
	Kidderminster College (WM region) and Newcastle College Group (NCG)	NCG		01-Aug-14

HE/FE mergers in the LSC period (2001-2010)

	College	Assets transferred to	Operative date
	Harrogate College (part of Leeds Met - FE/HE mergers in the FEFC period 1993-2001)	Hull College	01-Aug-08

Note: adapted from material provided by AoC.

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