



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

11 June 2015

Dear Colleague

As budgets tighten across the FE sector, increasing numbers of colleges are having to take some difficult decisions as to what they can afford to provide and how best they can provide it. There are still some of course with significant amounts of internal efficiencies that can be made – notably in increasing class sizes, reducing the percentage of income spent on staffing and ensuring that support staff numbers are appropriate to the size of the institution and what it can afford. Curriculum delivery models are also being examined by many to enable the use of technology and on line learning to reduce the costs of teaching and learning. More and more colleges, however, feel that they have gone as far as they can in these areas and are beginning to explore ways of working more closely together, rationalising their offers and ensuring greater value for money.

This is invariably a difficult exercise involving high degrees of trust between participants and a willingness to put the needs of learners and employers and the reality of the financial situation ahead of the protection of individual institutions or indeed staff. It is not easy, for example, for a Board to be prepared to merge or join in a federation which may mean a change of character, or even the formal dissolution of an institution they have loyally supported for a number of years. Nevertheless the truth of the matter is that there is clearly not enough money for the sector to continue as it is and rationalisation and collaboration is the new order of the day.

A key part of the work of the FE Commission in its first eighteen months has been the undertaking of Structure and Prospects Appraisals (SPAs) for colleges which have been identified as having inadequate quality or poor financial health. Each SPA endeavours to take careful account of the local environment, the underlying reasons for the difficulties, and the steps which need to be in place to safeguard the quality of provision for learners in a manner that is sustainable. In a number of cases the outcome of such an SPA has been a merger or federation.

Structural arrangements operated to date within the sector to help address quality or financial issues have, however, included not only mergers and federations, but also joint ventures and other partnership arrangements. Late in 2014, a team of four advisers, led by Joanna Gaukroger, conducted a review of established and successful collaborations in order to increase sector-wide knowledge about existing models which are capable of replication elsewhere. Overall, they visited eighteen providers, including seven in England which had been formed as a result of a merger, three federations and eight others including those engaging in shared services.

The key conclusions from the visits undertaken as a result of this work were:

- **The sector has a history of larger colleges with sound finances and good quality provision seeking to merge with smaller weaker colleges.** The main lessons are that a college is in a better position if it looks for partners before its position becomes serious and that it is much more attractive to a suitor if it has well thought through recovery plans, that shows that the key issues are being addressed.
- **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.** Generally, however, history would suggest that the "softer" forms of collaboration based almost on a "gentleman's agreement" do not work in the longer term as the pressures for individual survival grow. What may appear to be a clear division, for example, between a GFE offering vocational provision and a nearby Sixth Form College providing 'A' Levels almost invariably leads to 'mission creep' when times get tough. Hard federations that preserve individual college identities under one Board and one Senior Team tend to work well when one or more of the participating partners has a strong 'brand' and is associated with high quality, although there is a danger of the oversight of what were previously separate institutions becoming a bureaucratic nightmare if anything other than a single governance model is adopted. Mergers in theory can produce the greatest benefits of all but also have the greatest number of potential pitfalls. Running a large multi cited institution, however, requires a very different set of skills to those needed in a much smaller, single sited college.
- **Agreeing the core purpose of the collaboration from the outset, drives the type of structures which providers may wish to consider.** These might be one or more of cost reduction, improving quality, investing in new sub-sectors relating to LEP or other employer priorities, growth into 14-16, HE or International markets, or protecting local provision. The reasons for whatever type of collaboration that is proposed need to be very clear from the beginning and the likely benefits spelt out in real terms rather than in the form of aspirational targets

- **A rigorous and objective analysis enables colleges to evaluate carefully strengths, weaknesses and local circumstances and arrive at the best solution.** Time taken to do this thoroughly and objectively helps avoid problems later on. Regular reviews, following the principles of the Structure and Prospects methodology, should feature in the strategic planning of any new venture. Where fundamental problems exist, early and decisive action is necessary before issues become too advanced to resolve easily.
- **In the past, much time and money in the sector has been wasted where discussions have faltered at a late stage in the decision-making process. Governors have a critical role to play in key decisions about structure and in the interests of their college and more importantly its learners and employers. Fundamentally they must be as objective as possible.** Objectivity means cutting through any vested interests, ensuring that ultimately decisions are made on data and other firm evidence, and not basing too much reliance on memories of past success. Members of any new Board created as result of structural change should be selected against a rigorous skills analysis.
- **Leadership of large organisations may require a different skill set to those of smaller ones.** The choice of Principal/Chief Executive and those of the senior management team should take careful account of the skills and attributes needed to run the new organisation, and should not be automatically confined to consideration of internal candidates. With reductions in public funding and increase in institutional size, it is sensible to assume that the need for senior leaders with financial and commercial acumen increases.
- **The success of any model is in planning and implementation.** Once a decision to change has been made, the implementation process should be undertaken as quickly as possible. This process needs to be well-planned, properly funded, carefully executed, and rigorously monitored. Timely and accurate data on the performance of the new organisation from its first day of operation is essential to its success.
- **Strong leadership at the planning stage means openly debating values and priorities, working tirelessly to resolve emerging issues and barriers to progress, and constantly communicating with local stakeholders, employers, staff, students and funders to build confidence in the proposals put forward.** New systems and policies need to be developed and tested early. Measurable short and medium-term targets relating to finance, quality enhancement and type of provision to be offered need to be set by the Board during the planning phase.

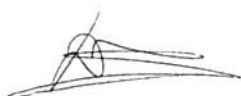
- **Bringing institutions or systems together does not necessarily mean that everything has to be harmonised and uniform.** It is important to note that what is most valuable to all participants can often be preserved in any new arrangements. The merger of a GFE and a Sixth form college for example does not necessarily mean one standard 'teaching contract'
- **In the period immediately following the 'technical' start date of the new structure, leaders need to be highly visible to their new teams and strongly focused on delivering the planned benefits.** They should avoid external distractions which do not have a direct impact on the collaboration and its performance against targets. All providers need to keep a watchful eye on bureaucracy and the inevitability of increased costs as a result.

In summary, new collaborations and new structures tend to be successful where the decision to change has been taken on logical and evidence based grounds, subject to rigorous assessment and careful implementation. They 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 who have gone through the process to share their views and experiences with others. For those beginning to consider this route, a phone call or visit to those who have come together successfully could pay dividends.

The report by Joanna Gaukroger, John Hogg, Lynn Forester-Walker and Phil Frier will shortly be published on www.gov.uk

With best wishes,

Yours faithfully,



Dr David Collins CBE
FE Commissioner