THE
FURTHER
EDUCATION
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COUNCIL

Mergers in the Further Education Sector

Summary Report

March 2000

Mergers in the Further Education Sector

A summary of merger activity since 1993, factors influencing potential mergers, and a provisional evaluation of nine mergers implemented between May 1997 and August 1998.

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Introduction

1 This report provides a summary report on merger activity since 1993, prepared for the minister of state, Baroness Blackstone. It covers:

- a summary of all merger activity in the sector since 1993
- a description of the Council's role in encouraging mergers
- an analysis of what is likely to drive future mergers
- an analysis of the potential barriers to merger
- an evaluation of nine mergers which were implemented between May 1997 and August 1998.

Merger Activity Since 1993

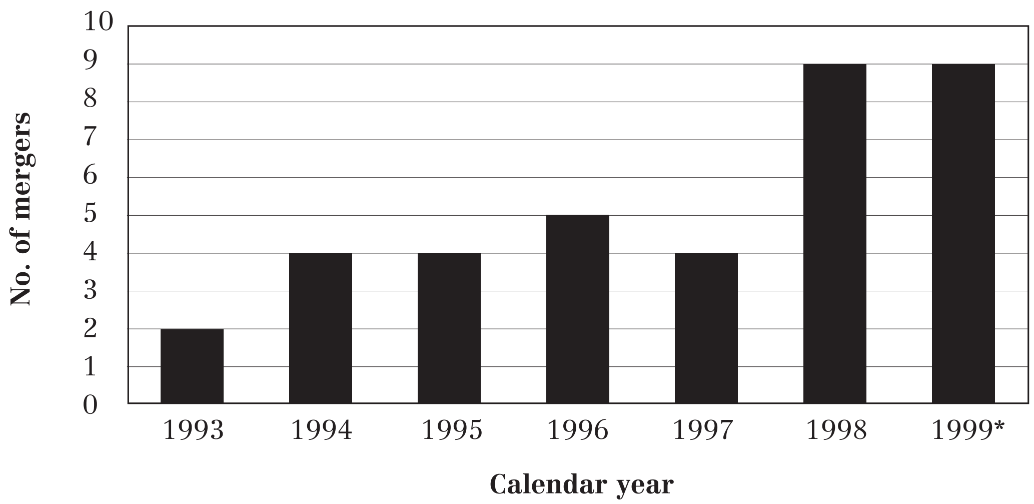
Pattern of mergers

2 Since incorporation in 1993 there has been a total of 37 mergers, as follows:

- 29 mergers between further education colleges (this category also includes three mergers between further education corporations and designated institutions)
- eight mergers between further education colleges and higher education institutions.

3 Figure 1 shows the number of mergers which have taken place in each year.

Figure 1: Mergers between 1993 and 1999

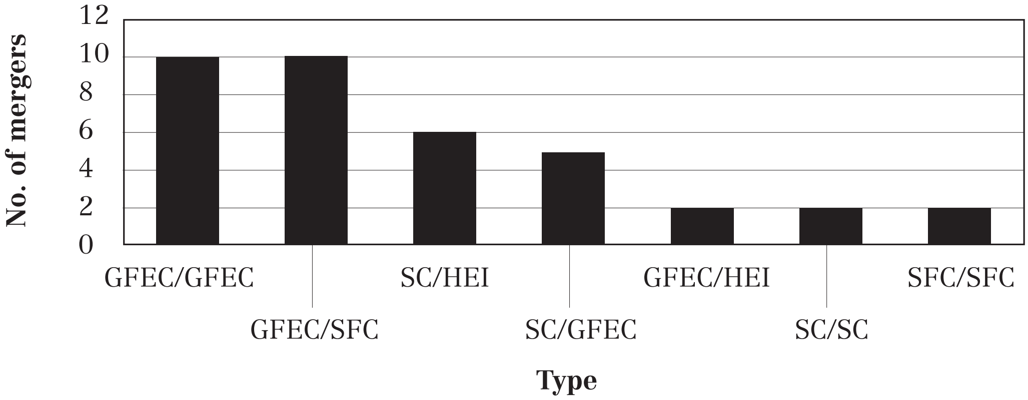


** up to 1 October 1999*

4 Figure 1 also illustrates the increase in merger activity since 1997. This can be explained largely by the clear change in policy steer from the new government, following the general election in May 1997, towards rationalisation and collaboration between post-16 providers. The associated funding incentives for colleges, mainly through the FE collaboration fund in 1998-99 and subsequently the Council's rationalisation fund from 1999 onwards, have provided a stimulus for colleges to consider merger options.

5 The number of mergers, by type of college is shown in figure 2:

Figure 2: Types of Mergers



Key: GFEC = general FE college; SFC = sixth form college; SC = specialist college; HEI = HE institution

6 Figure 2 illustrates that the majority of mergers have taken place either between general FE colleges (10) or between general FE and sixth form colleges (10). There has also been a higher number of mergers between general FE and specialist colleges (5) than between specialist colleges (2). In addition, there has been a relatively high number of mergers between specialist colleges and HE institutions (6). The following conclusions might be drawn from this pattern of activity:

- the high number of mergers between general FE colleges and with sixth form colleges suggests that complementarity, whether in terms of curriculum offer and/or mission and ethos, is considered important by institutions. In addition, the critical mass which many general FE colleges have provides greater opportunities for rationalisation and enhancements to provision
- the low number of mergers between sixth form colleges (2) might be partly due to a perceived lack of complementarity of provision and a desire on the part of the corporations to remain independent. It could be argued, however, that there are advantages in terms of curriculum rationalisation to be gained from further mergers of this type
- the low number of mergers between specialist colleges, and the corresponding higher number between specialist and general FE colleges or HE institutions can be explained at least partially by financial considerations. The high costs associated with delivering specialist provision result in colleges seeking financially robust partners. Often such partners are sought from a wider range of institutions than fellow specialist colleges alone. The rationale for mergers between specialist colleges and HE institutions has been the enhanced progression opportunities from FE to HE.

7 A potentially significant new model of merged institution has emerged in the last two years: the college group model. New College, Nottingham is the product of the merger of Clarendon College, Nottingham with three other colleges in the space of two years: Basford Hall College, High Pavement Sixth Form College and Arnold and Carlton College. Clarendon College (renamed New College, Nottingham) based each of these mergers on its vision of a group of colleges operating under a single corporation, each with a degree of local autonomy, which would reduce

the number of separate providers in the Nottingham area and focus on making more appropriate provision available to the area, at the right locations. The advantages of this model include:

- the ability to address under-participation and under-achievement through the flexibility to tailor provision at the college's many locations to meet the needs of individual communities
- the ability to rationalise and improve facilities
- significant savings in senior management overheads
- the pooling of management and teaching expertise to enable the college to deal more effectively with strategic challenges
- the safeguarding of a sufficiently senior role for the principal of each of the dissolving colleges.

The Council's Role in Encouraging Mergers

8 The secretary of state has asked the Council to be proactive in encouraging mergers. The Council adopts a number of approaches, depending on the situation, which include:

- undertaking proactive discussions with college principals and offering to facilitate discussions between colleges where appropriate
- where colleges' financial health (or other concerns) dictates that they cannot remain independently viable in the longer-term, the Council may make merger a condition of continued funding to the college. In addition, the Council might make accessibility to standards funds dependent upon a proactive approach to merger being taken
- following the establishment of the local learning partnerships, Council staff contribute to discussions around the partnerships' local learning plans, where available, which should provide a framework for potential future mergers.

What is Likely to Drive Future Mergers?

9 The local learning partnerships will play a key role in determining future merger activity. In devising local learning plans and through their responsibility for setting and achieving local learning targets, the benefits of collaboration and ultimately merger will become clearer.

10 The Learning and Skills Council (LSC), which comes into existence on 1 April 2001, will take a proactive role in encouraging further mergers between providers. Following the establishment of the local learning and skills councils in April 2001, the learning partnerships will need to work alongside the local councils to establish those areas where mergers will be most beneficial.

11 There are a number of general factors which might influence future mergers including:

- the need for greater rationalisation across all post-16 education in light of the establishment of the LSC. This might include mergers between FE colleges, school sixth forms and private training providers
- the quality of provision at colleges, that is, colleges with significant weaknesses in their provision may consider merger an opportunity to address these
- the financial health of individual colleges, that is, whether colleges are able to remain independently viable
- the particular benefits of merger to specialist colleges in terms of progression opportunities

- the flexibility within merged institutions to enable principals to retain a leadership role where they have not been appointed as principal of the overarching institution. In this respect, the college group model adopted by New College, Nottingham may encourage other colleges to consider merger
- the retirement of existing principals, which may present a natural opportunity for merger.

Potential Barriers to Future Mergers

12 There are a number of factors which are likely to contribute to the lack of merger activity in certain areas. These are described below.

The impact of merger on the principal and/or the governing body

13 Inevitably there can be only one principal of a merged institution. Experience has shown that unless there are positive outcomes for both or all principals involved, merger discussions are not likely to progress. In a merger situation, *TUPE* regulations require that where there is more than one person for only one position, any dismissal must be fair, even if it is made for valid economic, technical or organisational reasons entailing changes in the workforce. Changes to the Teachers' Superannuation Scheme (England and Wales), together with improved guidance from the Council on the steps colleges should take to secure value for money when terminating contracts of employment, have reduced expectations of substantial pay-offs for principals who lose their jobs as a result of merger. In those mergers which have been implemented to date, the situation has been assisted either by the retirement of one principal (whether planned regardless of merger or as a result of merger) or by positions of sufficient seniority and responsibility being offered within the merged institution.

14 In addition, the model of merger pursued may have an impact on one or other governing body involved. Mergers take effect either by the dissolution of one corporation and the transfer of its property, rights and liabilities to the other corporation (this model is typical where a financially weak college merges with a financially robust college) or the dissolution of both corporations and their transfer to a new corporation. Where a merger is not driven by financial motives, there can be disagreement between governing bodies about the preferred model, perhaps because neither wishes to relinquish its responsibilities or perhaps in the belief that their respective corporation would present the better framework for the merged institution. Governors need to be open to new and possibly radically different corporate structures.

Lack of a 'merger/rationalisation culture' within an area

15 In some areas, the change from a climate of competition to one of collaboration between providers has been a slow and understandably difficult process. This has been reflected in the recent difficulties in some areas to agree the boundaries of lifelong learning partnerships. In some cases, colleges have preferred to remain as part of a much smaller partnership rather than join neighbouring colleges. In some areas of the country, such as Greater Manchester, the current local authority structure could be said to have an effect on the likelihood of mergers being considered. These are areas which might be described as having a 'small borough identity' owing to the number of unitary authorities. The local authority boundaries, to an extent, impose natural barriers to merger.

16 In addition, the existing mix of types of colleges in an area, whether general FE, sixth form, specialist or denominational, can have a bearing on whether mergers are genuine possibilities. The difference in type of college can extend to substantial differences in terms of identity, ethos and mission which might be deemed to be irreconcilable by those involved. For example, many sixth form colleges wish to retain a separate identity, in particular where academic achievement is high and parental perceptions of the institution are favourable. Also, denominational colleges are unlikely to opt to merge with non-denominational colleges except when driven by financial pressures.

17 Evidence suggests that individual mergers can prove to be a stimulus for further mergers within an area. There are a number of possible explanations for this, including (a) that the size and strength of a merged institution can result in other institutions seeking to attain similar 'might' in order to match their counterparts (as appears to be happening in Nottingham), or (b) that a culture of collaboration is engendered which then creates a momentum for merger, particularly as partner colleges witness the benefits which the merged institution is achieving.

The pattern of post-16 school provision in the area

18 Lack of merger activity might also be associated with the existing pattern of post-16 school provision in the area. It would appear that a culture of rationalisation in the sector is more likely to be prevalent where the LEA has gone some way to addressing the need for rationalising its small school sixth forms. Where there is a lack of impetus to review post-16 provision in schools, this might present a barrier to rationalisation within the FE sector, particularly as merger might be perceived as an unwanted distraction within a highly competitive environment.

The lack of incentive for merger rather than close collaboration

19 There are examples where colleges perceive the benefits of close collaboration, such as through sharing central services and curriculum planning, to outweigh the benefits of merger. Close collaboration short of merger is seen as enabling governing bodies and their senior management teams to retain their autonomy whilst experiencing the benefits derived from shared overheads and joint planning. However, specific outcomes in terms of rationalisation of these elements have yet to be identified.

20 The rationalisation element of the FE collaboration fund in 1998-99 supported projects leading to merger; significant levels of funding were, however, also channelled to other collaborative projects between colleges. The Council's rationalisation fund from 1999 onwards has had a much stronger bias towards mergers (in 1999-2000, £6 million of the £8.9 million recurrent funds have been devoted to merger projects and £7 million to capital projects leading to rationalisation). Some colleges have argued, however, that the funding available to support the costs of merger does not reflect the true costs of merger, particularly in terms of staff restructuring costs (this year the Council has made a maximum of £300,000 available to each merger for restructuring).

Financial barriers

21 A number of mergers implemented to date have involved financially weak colleges merging with more financially robust colleges. In those cases, there have understandably been concerns on the part of the financially robust college about the impact on the merged institution of taking on such a liability. From discussions with colleges considering similar mergers in the future there is an expectation that the Council will provide sufficient financial support to alleviate this problem. Whilst the Council's rationalisation fund can go some way towards meeting the costs of merger (up to £750,000 plus capital project support), it is only possible, in exceptional cases, to offset the liabilities, either partially or completely, which would transfer to the merged institution. (The Council set aside £2 million in 1999-2000 as a contingency for those colleges in serious difficulties, where some degree of additional financial support from the Council is necessary for the merger to proceed.)

Evaluation of Mergers

Overview

22 In the late summer of 1999, the Council undertook an initial analysis of nine mergers that took place between May 1997 and August 1998, at the request of the minister of state. The evaluation focused on the following areas which were explored with each of the merged institutions involved:

- any significant changes in recruitment patterns
- the curriculum benefits, including where provision was in the process of being rationalised and where some enhancements to delivery had been achieved
- other perceived developments and benefits
- the impact of the merger on partnership/collaborative working with other post-16 providers in the area
- the impact of the merger on the financial health of the merged institution (taking into account that of the individual institutions prior to merger)
- critical success factors for merger.

23 The evaluation was based on written comments received during August 1999 from the head of each merged institution, providing an individual perception of the impact and benefits of the merger to date, and, additionally, on comments from the Council's inspectorate regarding each merged institution. It should be emphasised that the extent of this evaluation was limited by the short timescales available for the production of this report.

24 The following colleges were the subject of the evaluation:

- Hyde-Clarendon College and Tameside College of Technology (merged to become Tameside College)
- Airedale and Wharfedale College and Park Lane College (merged to become Park Lane College)
- Basford Hall College and Clarendon College, Nottingham (merged to become New College, Nottingham)
- East Birmingham College and Handsworth College (merged to become City College, Birmingham)
- Norfolk College of Arts and Technology and Cambridgeshire College of Agriculture and Horticulture (merged to become The College of West Anglia)

- North Bolton Sixth Form College and South College, Bolton (merged to become Bolton Sixth Form College)
- Harrogate College and Leeds Metropolitan University (Harrogate College dissolved and transferred to Leeds Metropolitan University)
- High Peak College and the University of Derby (High Peak College dissolved and transferred to the University of Derby)
- Newton Rigg College and the University of Central Lancashire (Newton Rigg College dissolved and transferred to the University of Central Lancashire).

Main Findings

25 Whilst the merged institutions' experiences of the effects of merger vary, a number of recurring themes were identified; these are described below.

Recruitment patterns

26 Six institutions indicated that they experienced a decline in student numbers in the first year of merger. The majority of institutions made the point that the uncertainties during development of their merger proposals regarding the future of the constituent institutions was at least partly to blame. In most cases, the institutions were optimistic about recruitment patterns in future years and some mentioned that they were refocusing their marketing strategies to address the issue. Other reasons were given for the fall in enrolments such as declining staying-on rates and poor GCSE results in the same year and industry-specific pressures which led to reductions in numbers.

27 The remaining three institutions indicated that they had experienced an increase in overall recruitment numbers by the end of the first year of merger, most notably in part-time, adult programmes.

Curriculum benefits

28 The majority of institutions indicated that some rationalisation of provision had taken place, although the general feeling was that this would evolve over a longer period of time. A number of the institutions mentioned specific rationalisation of GCE A level and GNVQ provision; for example, in one college's case, some modern language courses had been safeguarded by bringing provision together on to one site to increase class sizes. Several institutions made reference to the added value of larger class sizes for enriching the learning experience for students and the opportunities for enhanced staff development, created by the increased number of teaching staff involved in programme areas.

29 Some institutions indicated that more significant rationalisation and associated cost savings had resulted from economies of scale across college systems and services, as curriculum provision prior to merger had largely been complementary.

30 Reference was made in several cases to enhancements to programmes of delivery. In a number of instances new programmes and/or initiatives had been introduced, such as land conservation and environmental programmes and the establishment of information technology (IT) access centres. In other cases, enhancements to provision for students with learning difficulties and/or disabilities had been made. All of the institutions saw the potential for enhancements in the future, although these had not been quantified fully at the time of this evaluation.

31 Enhancements to quality improvement strategies and systems were mentioned or alluded to by all of the institutions. Many examples were given of the combining of the expertise and good practice held within the constituent institutions of each merger and the more effective systems that had been introduced for target-setting and for establishing internal benchmarks.

Other developments and benefits

32 Other perceived developments and benefits which featured in the institutions' comments included:

- better student support — examples were provided, such as increased childcare facilities, more focused initial advice and guidance and improvements to additional learning support
- better staff development opportunities — in particular, through the sharing of good practice amongst a larger pool of teaching staff and the opportunity for staff to move around the institution to gain wider experience
- stronger relationships with other partners in the locality — for example, one college considered that it had established itself on more equitable terms with a neighbouring college, the local education authority (LEA) and schools in the area. In a few cases, however, there were negative references to relationships with other colleges, largely stemming from historically competitive relationships and fuelled by the fact that the merged institutions were perceived to pose more of a threat locally. A number of the institutions indicated that, since merger, relationships had improved with local schools in particular, enabling collaborative approaches to transition arrangements between the schools and the colleges
- opportunities for capital investment — for example, enhanced opportunities for the expansion of accommodation, improved access for the disabled, refurbishment of classrooms and laboratories and investment in IT facilities.

Critical Success Factors

33 The following key critical success factors for merger were identified by some or all of the institutions:

- effective governance — in a number of cases the importance of the role of the governing body of the merged institution was highlighted. Reference was made to the influence which the governance of the institution had on the implementation of the merger. One institution commented on the advantages of governors being open to change
- effective management — as above, a positive and robust leadership style, and the ability of the two college principals to work effectively together in the period leading to the merger were seen as imperative
- a corporate identity — the need for the merged institution to develop a single college culture and identity as quickly as possible was considered important. Interestingly, in one institution's case it had been intended to keep the constituent colleges relatively autonomous after the merger; however, the merged institution acknowledged subsequently that there was a wish amongst staff in particular for a single corporate identity to be developed as they began to experience the benefits of working collaboratively. A number of the institutions indicated that addressing 'cultural differences' between institutions was one of the most difficult and time-consuming aspects of merger and one with which they were continuing to deal
- a communications strategy — the importance of keeping staff and students informed at every step of the way before, during and after the merger had taken effect was mentioned. For example, one institution had continued with its merger communications programme for 18 months after the merger had taken place.

34 Comments received from the University of Central Lancashire and Leeds Metropolitan University highlighted some difficulties for their respective institutions owing to the fact that Newton Rigg College and Harrogate College were no longer independent further education (FE) colleges. In particular, it was considered that, without recognition as a dual institution of further and higher education (HE), the FE campus at each university was disadvantaged. They refer to the fact that their inability to apply for accredited status and for some specific initiative funds (such as the standards and rationalisation funds) placed them at a disadvantage.

Negative Issues Identified

35 Whilst all of the institutions responded in a very positive light, they inevitably highlighted a number of specific issues (listed below) that counterbalanced the immediate benefits of merger. It was apparent, however, that none of the institutions considered that these issues outweighed the overall benefits of merger:

- cultural differences — even in what seemed to be a straightforward example of merger, the institution highlighted the difficulties inherent in the merger of institutions with different management cultures. A number of institutions made reference to the time-consuming nature of addressing these differences
- costs of merger — one institution indicated that the costs of merger had been greater than originally anticipated, particularly with the work involved in setting up new systems within the institutions. Another institution indicated that it had been necessary to recruit additional staff owing to the depleted numbers of staff in one of the constituent institutions prior to merger as a result of financial pressures
- increased workload — reference was made to the additional workload which staff had to take on as a result of the merger
- relationships with other FE colleges — relationships appeared to be strained in some cases where colleges were still in competition with each other to some extent.

Conclusions

36 It is important to note that eight of the nine mergers had taken place within the year prior to the evaluation and, therefore, the full benefits or otherwise of merger could not be assessed. From the evidence available, however, the following preliminary conclusions can be drawn:

- the mergers had led to the safeguarding of minority areas of provision and the enhancement of the quality and range of provision available to students. There was evidence of some rationalisation of provision having taken place and indications that further opportunities for eliminating duplication of provision were being explored
- as anticipated, improvements to recruitment and retention levels had not been demonstrated. Indeed, six of the nine merged institutions had suffered from a decline in enrolments in the first year of merger, which was attributed to the destabilising effect of the merger process. There was indication from most of the institutions that strategies to address these issues were being developed, such as more focused marketing and improved quality improvement systems across the merged institutions
- the mergers had led to the reduction of the number of providers in localities. This was particularly so in the case of the three recent mergers involving New College, Nottingham (High Pavement Sixth Form College and Arnold and Carlton College subsequently merged with the college) where the ‘college group’ model adopted had reduced the number of colleges in the Nottingham area from eight to five in the space of two years. These mergers had stimulated other colleges to consider merger

- space utilisation was improving, with a view to rationalising and developing accommodation to provide a superior learning environment for students. A number of the institutions indicated that better use had been made of existing accommodation and referred to the development of longer-term accommodation strategies for the merged institutions
- the financial benefits of the mergers had not been demonstrated and were not likely to be realised in the first few years of merger, particularly given the significant costs associated with implementation, including staff restructuring, development and training, capital investment and significant changes to existing systems. Whilst in some cases cost savings through economies of scale across institutions' services and systems were confirmed, in the majority of instances these had not been quantified fully as the process was still ongoing. It should also be recognised that six of the nine mergers involved one partner which was in financial health category C (financially weak) prior to merger and, therefore, any savings made were likely to be offset by the costs of recovery for the merged institutions
- the pooling of management and teaching expertise appeared to be developing towards enabling the merged institutions to deal more effectively with the strategic challenges and opportunities facing the institutions and to focus on quality improvement strategies
- the increased size and nature of the merged institutions appeared to have led to the institutions holding a more favourable bargaining position locally, such as in attracting external sources of funding and in working with other key stakeholders.

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