



Learning and Skills Council

**Delivering Value for Money
through Infrastructural
Change
Appendices**

Commercial in Confidence

KPMG LLP

May 2010

This report contains 32 Pages



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A1 Consultation list

KPMG consulted extensively with stakeholders across the FE sector. These stakeholders were identified initially by KPMG and agreed, then supplemented, by the LSC. Other organisations, particularly the AoC, were helpful in identifying and putting us in touch with individuals who added value to the consultation. A full list of all those consulted is below.

Organisations participating in the review included
157 Group
A4E
Abingdon and Witney College
Association of Colleges (AoC)
Association of Learning Providers (ALP)
Association of School and College leaders (ASCL)
Bromley College
Campaign for Learning
Capel Manor College
CBI Education & Skills
CBI Public Services
Central Sussex College
CfBT
Chichester College
City of Sunderland College
College of North East London
Department for Business, Innovation & Skills (DBIS)
Department for Children, Schools & Families (DCSF)
Department for Employment and Learning Northern Ireland (DELNI)
Department for Work & Pensions (DWP)
Derwen College
Doncaster College



East Sussex County Council
FE Plus
FE Reputation Strategy Group
FE Sussex
Fforwm (National organisation for FE colleges in Wales)
HEFCE
KPMG Australia
KPMG Canada
KPMG Netherlands
KPMG USA
Landbased Colleges Aspiring to Excellence (Landex)
Lewisham College
LGA
Local Authorities Authorities Forum for the Education of Adults (LEAFAEA)
LSN
OfSTED
New College Durham
New College Nottingham
Newcastle College
NIACE
Northampton College
Prospects Learning Foundation
Royal West of England School and College
Ruskin Mill Educational Trust
SERCO Group PLC
Sixth Form Colleges Forum (SFCF)
SKILL (National Bureau for students with disabilities)

South Kent College
Sussex Downs College
The FE Academies Group
The Henley College
The Manchester College
The Mixed Economy Group of Colleges(MEG)
The National Association of National Specialist Colleges (NATSPEC)
The Specialist School and Academies Trust (SSAT)
The Tertiary Colleges Group
Totton College
VT Group
Warwickshire College
Welsh Assembly Government
West Herts College
West Notts College
Working Links (Employment) Ltd
York College
Yorkshire Coast College

We also thank the large number of individuals who gave of their time and their ideas to this review, in particular, Mick Fletcher, Helena Stockford, Roger Dawe, and the group of USA and Canadian Principals who took time out from their conference to consider the issues of this report.

A2 Literature Review

This is not an academic paper, but the list of the key literature sources reviewed, along with a summary of the focus of each piece, is provided below for reference. Please note that, in addition to these formal documents, KPMG have also incorporated a wide range of less formal sources, including current thinking such as recent political announcements, and information from websites.

No.	Author	Short title	Topic
1	AoC	Shared services	Review of shared services across public services and relevance/benefits costs to FE sector
2	BDO Stoy Hayward (for DELNI)	Future size and structure of FE sector in Northern Ireland – Economic appraisal report	Assessment of costs and benefits of ‘FE means business’ strategy of rationalisation – supportive of the proposal
3	Campus 20-20	Thinking Ahead	Vision for future of post-16 provision in British Columbia (Canada) – focuses on specialist, regional colleges
4	CBI	Response on future of Welsh FE	Future of Welsh FE with focus on employer-responsive provision
5	CBI	Reaching Further: employer-FE college partnership	Series of case studies and good practice recommendations on greater partnership between colleges and business
6	CBI	Response on ABS Pensions	Analysis of pensions as an obstacle to greater private involvement in public service provision
7	CBI	Counting the cost	Competitive neutrality in public services
8	CfBT (Fletcher & Perry)	By Accident or Design?	Study of English FE system with recommendations for improvement
	DCSF	National Challenge Toolkit	Key information on the National Challenge scheme with advice for schools
	DCSF	National Challenge schools by LA	List of schools in the National Challenge scheme

No.	Author	Short title	Topic
9	DELNI	FE means business (and related documents)	Strategy for future of NI FE provision (based on rationalisation from 16 to 6 colleges)
10	DIUS (Payne)	The Evidence on College Size and Mergers in the Further Education Sector	Statistical analysis of link between college size, mergers and quality – found no clear positive correlation
11	DWP	No-one written off: reforming welfare to reward responsibility	Flexible New Deal for welfare to work services involving private, voluntary and public sectors
12	Elsner, Boggs & Irwin (ed.)	Global Development of Community Colleges, Technical Colleges, and FE Colleges	Community colleges across the world and the impact on workforce skill levels
13	Hill	Achieving more together: adding value through partnership	Options for FE partnership
14	Khemka (West Notts College)	A federation of colleges would help our sector ‘to come of age’ (TES article)	Article proposing a ‘federation’ model for groups of FE colleges
15	KPMG	Documents relating to financial benchmarking in the Scottish FE sector	Funding and financial performance across FE in Scotland, produced for the SFEFC
16	LSIS	Response to UKCES simplification consultation	LSIS position on how best to simplify employment and skills services
17	LSN (Calvert)	Understanding FE mergers	Research on factors affecting and driving mergers
18	The Mixed Economy Group	Collected policy responses and statements	Policy responses on issues relevant to the FE and HE sectors
	The Mixed Economy Group (King, Widdowson)	Higher Education and colleges: A comparison between England and the USA	Comparative analysis of collaboration and links between FE and HE in the two countries

No.	Author	Short title	Topic
	& Brown)		
19	QIA	Supporting Quality Improvement in ISCs through Co-location and Partnership	Using collaboration to improve provision in Independent Specialist Colleges
20	WAG	WAG Response to the Webb Review	Welsh Assembly Government's formal response to the Webb Review of FE provision
21	Warwick University (joint with LSC)	An evaluation of college mergers, 1996-2000	Assessment of how effective mergers had been in a defined period
22	Webb	Promise and Performance	Independent review of FE provision in Wales with recommendations for reform
23	Work & Pensions Select Committee	DWP Commissioning and the Flexible New Deal	MPs' study of the DWP's commissioning strategy for welfare to work provision

A3 Example Case Studies

A3.1 College Infrastructural Models

Case Study 1: The College Group Model

Newcastle College is the most widely known example of this model which uses merger, acquisition, internal shared services and market branding to mirror the large group structure most often seen in the private sector. Several of the other models put forward are simply variations on this model. The common feature is that all offer a “segmented” organisational structure which allows them to closely align their provision to a range of individual target markets. Each Division has a Chief Executive/Principal and there is a high degree of local delegation. However, there remains only one Accounting Officer and one Board of Governors, giving overall management and direction to the group. The four divisions are supported by a small central administrative centre which provides internal shared services within the group for economies of scale.

The Newcastle College Group has four “divisions” each with a specific focus and target market. In 2007/08, these were Newcastle College, (turnover £75.5m) In Training (turnover £15.2) and TWL (turnover 7.3) Skelmersdale and Ormskirk College (turnover 9.8m). It has an Academy of Learning for Justice which delivers its Offender Learning and Skills Service (OLASS) Contract (turnover £9.7m)

In both its main operating areas, Newcastle and Skelmersdale, there are significant levels of competition from 11 to 18 schools, and other local FE colleges. The catchment areas of the colleges have high levels of deprivation and large proportions of students at both sites are from high widening participation postcodes. The percentage of pupils gaining at least five general certificate in secondary education (GCSE) passes at grades A* to C, including mathematics and English, is well below the national average in Newcastle and Skelmersdale. Both areas are characterised by poor levels of literacy and numeracy at all ages and the unemployment rates in both areas are well above the national average.

The latest Ofsted report (2008) notes that: *“Newcastle College Group provides academic and vocational education in all sector subject areas. The most significant areas of the college’s work are in the sector subject areas: art, media and publishing; health, public service and care; construction; and preparation for life and work. Work-based learning includes almost 800 apprentices and 1,340 Train to Gain learners. In 2007/08, HE students studied a broad range of over 50 vocational foundation degrees and honours degrees validated by Leeds Metropolitan University. In collaboration with local schools provision is delivered to around 500 students aged 14 to 16, two thirds of whom are at SOC. The proportion of minority ethnic students studying at the college is well above the proportions in the local areas.”*

The Group has been formed primarily by merger and acquisition. The acquisitions have been of training companies which have enabled it to be more employer focused, whilst the merger with a college has provided it with another community facing outlet, albeit some distance from Newcastle. It is currently forming the Newcastle Sixth Form Academy which will open in 2011. It also has an Aviation Academy in partnership with

One North East (RDA), the LSC and Newcastle International Airport. It has an International Centre.

The most recent Annual Report¹ states that Newcastle College Group is a £175m organisation (2008/09) which has in the region of 40,000 learners. It delivers “*quality education and training to learners in England, Scotland, Wales and Northern Ireland. This range from Government Funded and Commercial Skills Organisations through to bespoke professional courses and employability services to national contract management.*”

In July 2008, Newcastle College received a Grade One OFSTED Inspection, the best of any college in the north east. It is one of only 19 colleges in the country with Beacon status. It was Winner of Company of the Year in the North East Business Awards 2005.

Its courses range from transition courses for 14-16 year olds to University awarded Foundation Degrees and Honours Degrees. Its HE courses have been awarded Outstanding QAA results (Quality Assurance Agency). It provides flexible learning - evening, weekend and day-time study to fit around learners’ lifestyle or working commitments. Newcastle College Group has also invested in new technology which means it can reach more learners via blended or on-line learning.

It has ongoing investment programme of £250 million in campus facilities and invites learners to “*study in inspirational buildings and with cutting edge facilities.*”

Skelmersdale and Ormskirk College was a failing college. Since it merged with Newcastle College it has retained its local identity and new investment has been able to put in place a £41m new campus opening in 2010. There is also a new £2.3m West Lancashire Construction Academy. It is now in the top 25% of colleges nationally in terms of its success rates. Ofsted stated “*The merger with SOC has been handled exceptionally well and there have been rapid improvements in the quality of provision in West Lancashire.*”

The analysis of the LSC’s Financial Statements Database 2007/08 identifies that Newcastle College has low administrative costs compared to its teaching and support costs.

¹ 07/08 Published March 2009

Case Study 2: The “hub and spoke” model

This is a variation on the Newcastle College model. It does not make as much use of acquisitions or merger (although the college may originally have been formed by merger), but uses either its own resources, (if it is large enough like Sheffield College) and/or a partnership model with other colleges to reach out to local communities to widen participation.

Capel Manor College was put forward as a hub and spoke model. This is based on the concept of a central “hub” with key administrative functions, supporting a number of local delivery points. The principal’s view is that “small” does not equate always with “weak”.

According to its Ofsted report, Capel Manor College is a specialist land-based college. Its main campus is in the London Borough of Enfield and there are five additional centres across London. This network of centres provides land-based provision across a broad geographical area. Courses are also offered at Edmonton Green in partnership with Enfield College and Southgate College. The main campus is set in an estate and gardens of 12.5 hectares. The gardens are open to the public and attract 80,000 visitors annually. The college also has tenancy of a 73 hectare farm situated a mile from the main campus and owns a further 7 hectares of adjacent land. Unlike many other land-based colleges, Capel Manor provides little residential accommodation for students. Instead, additional financial support is made available for travel

Courses are offered in horticulture, landscaping, garden design, floristry, flower arranging, balloon display, countryside studies, arboriculture, animal care and saddlery. Most subjects are offered from entry to advanced level on a full- or part-time basis. A range of short courses is offered for industry and local communities. A work-based horticulture apprenticeship scheme started in August 2003 and an arboriculture apprenticeship scheme was launched in 2007. The college runs a Foundation Degree in garden design, developed in partnership with Birkbeck, University of London. An initiative for school pupils aged 14 to 16, the HEAVEN Academy, has run since 2002. Capel Manor was awarded Beacon status in 2005. The college has been a Centre for Vocational Excellence (CoVE) for horticulture, garden design and landscaping since 2003, and for floristry and business enterprise since 2006. In 2007/08 there were 1,100 full-time equivalent students on further education courses. Adults account for 76% of the full-time equivalent students. The college was last inspected in May 2008 when the overall effectiveness of provision was judged to be good, as were achievement and standards, the quality of provision and leadership and management. Capacity to improve was graded as satisfactory. The college was judged strong financially and provides good value for money.

The principal considers that his internal structural model is ideally suited to the particular circumstances of the college. It is based in London but unlike other land-based colleges has little residential provision, nor has it the breadth of land-based curriculum that other similar colleges have. Learners use the transport network in London to travel to it. It is a member of the Land- Based Colleges’ sector group, Landex, but feels somewhat isolated at times with its different focus.

It therefore decided to develop an internal infrastructure better suited to its unique environment. It describes this as a hub and spoke model. The centre at Enfield provides administrative support to a number of outreach centres. Some are run in partnership with another college. In one example, the provision was badged as that of the other college; however, the principal has now moved away from that idea more towards the concept of “Capel Manor in x college” thus retaining the identity of Capel Manor. The LSC London regional office supported Capel Manor in its move to specialise by a degree of market management. It commissioned a review of Level 1 and 2 Horticulture provision and stopped commissioning from colleges with poor quality provision and/or very small amounts of provision, choosing instead to commission from Capel Manor as the acknowledged leader in its field.

Case Study 3: Wiltshire College - The County College model

Wiltshire College was formed in 2000 by the merger of the three general further education colleges of Trowbridge, Chippenham and Lackham. On 1 January 2008, Wiltshire College merged with Salisbury College.

With over 25,000 students studying full and part-time courses and 300 full-time teaching staff, Wiltshire College is now the main provider of further and higher education in North and West Wiltshire with a reputation for quality provision, innovation and student care. Wiltshire is generally an affluent county, but a few areas served by the college are considerably less prosperous. The proportion of school leavers in Wiltshire with five or more GCSEs at A* to C is above the national average. Almost all schools in the area have sixth forms. To avoid duplication, and provide better value for money, the college no longer offers general certificate of education (GCE) AS or A levels to full-time students. Merger has enabled the college to create specialisms in arts and media and offer opportunities to expand in science, technology, construction and hospitalities. Both Trowbridge and Chippenham campuses offer similar courses in most areas of learning. The Lackham campus specialises in land-based industries.

As a single college, it can tackle quality improvement across all its campuses so that people in Wiltshire can be sure of access to a wide range of good to excellent provision. It has retained an emphasis on local identity for each of its main sites and a specialist focus for its campuses, but it has been able to effect greater economies of scale than if the colleges had stayed as separate entities.

Case Study 4: Bicton and Exeter Colleges - A modern merger?

Bicton College is a specialist college for the land and environment situated in East Devon. The college provides full- and part-time courses at foundation/entry level and levels 1 to 3, with progression opportunities through to foundation degrees. The college has on-site residential accommodation for 250 learners, most of whom are aged 16-18. In 2007/08 there were some 5,544 further education enrolments, most of which were for programmes at levels 1 and 2. Around 60% of learners are adults.

Exeter College was established in 1970 as the first tertiary college in England. The college was designed to provide all post-16 education and training provision for the city, bringing together the sixth forms from the former grammar schools and the Exeter Technical College. Each of the secondary schools outside the city boundary has a sixth form, providing young people and their parents with a choice of post-16 opportunities. The college has two major campuses in the city centre, at Hele Road and Queen Street, and two specialist training centres on the outskirts of the city.

Between 2005 and 2007, full-time numbers for learners aged 16-18 rose rapidly increasing by almost 500. In 2007/08, the college enrolled 4,000 full-time learners and expects to enrol around 7,000 part-time learners. The college is a major provider of work-based learning and Train to Gain with around 1,700 learners in 2006/07. It also provides vocational courses for more than 500 learners aged 14-16, mainly drawn from the city's secondary schools. Higher education is also growing at the college, with 500 learners, mainly on foundation degrees, studying in 2007/08.

Exeter College offers a wide curriculum, from entry level to level 4 in all sector subject areas except land-based industries. The vast majority of learners aged 16-18 follow level 3 programmes. In recent years, the college has expanded its provision for learners aged 16-18 at entry level and levels 1 and 2. The number of learners aged 19 and over has dropped significantly during the past two years. In 2006/07 the college achieved Investors in People status and achieved the Positive about Disabled Standard.

Bicton and Exeter are proposing to enter in an arrangement that has been described to us by the principal of Bicton as a "Federation". The assets of Bicton will be placed in a company structure and it will become a subsidiary company of Exeter College. The provision will still be badged as Bicton College and it will retain its focus on Land-Based provision. As the corporation of Bicton will be dissolved, in our view, this arrangement is essentially a merger. There will be one accounting officer and one governing body for the merged organisation.

By entering into this arrangement, Bicton wish to provide a firmer base for their curriculum with access to a broader financial base and support to improve standards. Exeter wishes to fill a gap in its curriculum offering to the local population. Both colleges believe that the resulting larger organisation will offer increased VfM to the populations they serve.

A3.3 Lessons from other countries

Case Study 5: Merger of further education colleges improves service in Northern Ireland

1 August 2007: Northern Ireland's 16 Further Education (FE) colleges merged into six larger colleges. Heralded as "the most exciting development in FE's 100-year history", this was one of several changes that aimed to produce a skilled workforce to meet the demands of local employers.

The move promised to increase collaboration between existing campuses, to extend the range of courses available and to improve staff development with a wider curriculum.

It is clear that the move made economic sense. Costs were cut through centralized administration and the new colleges' multi-million pound budgets could provide a wider range of centralized facilities.

Project teams were appointed to plan the transition, and in some cases, these were successfully used post-merger to improve strategic and operational planning across campuses.

A smooth transition was hampered by gaps in senior and middle management structures and industrial action by lecturers. Nevertheless, the Education and Training Inspectorate judged that arrangements were "mostly well managed" and that the improved management information would aid effective decision making.

With only six principals required and six governing bodies to be recruited, the NI office considered that the standard of governance and management had significantly increased.

The plans are to undertake a full evaluation shortly once all the changes are embedded.

Case Study 6: The pattern for the delivery of FE in the Netherlands

About 12 years ago, the Dutch government changed the law on Education and Vocational Learning. It gave new responsibilities to regional agencies and training centres called ROC (Regional Educational Centre).

These work very closely with employers, skills organisations to provide vocational skills training to the population. They also are (co)responsible for a) general adult education and b) 'integration- and language' courses for immigrants. Learners can progress to University but only universities for applied sciences. However, the main progression is into the workforce. Those learners following an academic curriculum attend other types of college from the age of 12.

There are 71 ROC's (including AOC's for Agricultural vocational studies) and a small number educational institutions for very specific occupations in the Netherlands. Each one is independent but funded by central government. Each one can organise itself as it

wishes.

National benchmarks containing information regarding success and efficiency are produced on an annual basis to monitor the performance of each ROC.

The ROC Midden Nederland is a big ROC formed in 2003 from the merger of the ROC Utrecht with ROC Amerlanden. It has annual funding of about 160m Euros. It is one of the largest providers of vocational and adult education and training from the age of 16 in the Netherlands with over 20,000 learners. In addition to its work with young people, it has a very large department of adult education with over 5000 adults. The adult education curriculum consists of Dutch as a foreign Language, Numeracy & Literacy, general education, and integrated courses offering both language and vocational contents, together with re-integration courses for adults returning to the world of work, etc. It has more than 20 centres in the Utrecht area.

The internal organisational infrastructure is designed to release as much funding as possible to the 20 delivery arms. It has five (administrative) centres which provide back office services to the delivery centres in the different communities. The 20 delivery centres have a strong local identity. Each has a core curriculum and a specialism e.g. Nursing, Engineering etc. It is considered to offer very good value for money with high scores on student satisfaction and employer satisfaction.

A3.4 Partnership Working

Case Study 7: College and School Collaboration – Shared Governance

a) The City of Sunderland Shared Governance with Schools Model

City of Sunderland College has developed a model of working with the Local Authority and schools to provide 6th forms in 11-16 Local Authority maintained schools.

The College is located in an area of considerable disadvantage. Sunderland ranks as the 22nd most deprived out of 354 authorities in England. Two-thirds of the College's 16 to 19 full-time learners are in receipt of an Educational Maintenance Allowance (EMA). The College provides an extensive range of courses from entry to foundation degree level. Over 75% of learners come from Sunderland and those remaining almost entirely from the Sunderland travel-to-work area.

The driver for the “shared governance” model it has developed with schools was a 2002 14-19 Area -wide Inspection in Sunderland which identified that the participation rate in post 16 education should be improved. To date, the College is supporting 4 school sixth forms. Each sixth form is linked to a number of partner schools. The majority of the schools are within Sunderland LA, with one school within Durham LA. There are key differences in each LA's response to the development.

One of the obstacles of the proposed arrangement was a governance issue. The first sixth forms were established before the 2006 legislation which allowed for Joint Committees between schools and colleges. Therefore, although the terminology used by the college and schools refer to Joint Committees, in fact, they are Advisory groups with no legal

form of executive function. The mechanism used to establish the governance arrangements was part of the 2003 Education Act, which allowed for a school joint governing body with college representatives assigned as Associate members. Each school has the same number of governors meaning that the College is in the minority. The joint governance arrangements are managed by the LA. One school governor is chair of the shared governance body and another is elected as a member of the College's Sixth Form Committee and the College Board, thus forming a bridge between the two governing bodies. The College Board continues to hold the legal and financial responsibilities for the sixth forms.

The role of the LA is key to making this arrangement work. Each head teacher is paid a supplementary allowance for the responsibilities of day to day management of the sixth form. Each becomes an Associate Principal of the College.

For the Sunderland schools, the College pays the allowance to the LA which includes this contribution in the head teacher's salary. This means that the head teacher accrues increased pension rights. In the case of Durham, the LA will not enter into such an agreement as it is only for one school, and therefore the head teacher is paid an additional allowance for the sixth form directly by the College. This means that the payment is not included in the calculations for the head teacher's pension. Otherwise, Durham LA is supportive of the arrangements.

From information supplied by the College, in 2008/09, from the three sixth forms then operating, there were 2,5000 learners studying 11,000 Learning Aims. Participation rates in the area have increased and success rates have risen.

All learners were funded via the FE funding rates which in 2008/09 were lower than the rates for 6th forms in schools. This means that in terms of the revenue costs, the sixth forms provided in this way provided good value for money for the public purse.

Further VfM is provided by the four sixth forms working collaboratively and sharing staff to maximise economies of scale. This is made possible by the geography and by staff's willingness to travel. Another VfM feature is that one of the sixth forms is built on University of Sunderland Campus.

Case Study 8: College and School Collaboration - A Consortium Approach

b) Abingdon and Witney College : A collaborative sixth form with 3 schools

Three 11 to 18 schools and a college of further education located within a radius of a mile of one another in Abingdon have a long standing collaborative sixth form. The roots of the arrangement go back as far as 1978 when the schools began to share some GCE A levels.

In 1985, the Audit Commission report identified that schools sixth forms of less than 150 were neither economic nor particularly successful. On the basis of this and driven by budgetary constraints arising from the introduction of Local Management of Schools (LMS) Oxfordshire LA undertook a review of all its schools and colleges. In Henley, the decision was to make schools 11-16 and establish a tertiary college. Twenty-five miles away in Abingdon, local pressures from schools and the previous history of collaboration between them, led to the formation of the Abingdon Consortium of 3 schools and the college.

So since 1988 all the schools have provided a basic curriculum of the most popular GCE A levels and subjects in a 'second tier' which are available by negotiation only in particular centres. The college has provided both A levels and a wider vocational curriculum. Subjects are offered in four option blocks agreed by the four centres. Subjects taught in more than one centre are offered in different option blocks to maximise the number of permutations of courses. Students choose which institution will be their home base. The majority choose the school they attended up to the end of their year 11. In the region of 25% from each school chooses the college as their home base, resulting in a fairly even split across all four institutions. Learners can divide their individual learning programmes between all four institutions if their particular combination requires it. In addition to taking part in the Abingdon Consortium, the Abingdon and Witney College Abingdon centre provides full time programmes for 16-19 learners from the wider Oxfordshire area.

The information provided by the College on learner numbers for this review, indicates that school sixth form numbers range between 88 in one school to a maximum of 135 in another in 2009/10. No school acting individually can therefore support its own sixth form to the level of 150 recommended by the Audit Commission in 1985 and again in 2002. The College 16-19 numbers for the Abingdon centre are in the region of 1,183, of which 250 are following AS/A2 within the consortium.

The DCSF allows the consortium to publish its results, both as a consortium and as individual institutions. The success rates for the Abingdon schools and college are lower than those from the tertiary system in Henley. There may be other factors in play other than organisational infrastructure which would need to be explored in a more detailed review than has been possible here.

The plus points for the Consortium arrangements in terms of VfM are that the collaboration has led to more learner choice, shared staff developments, a joint self assessment report and more recently, the individual governing bodies are considering how they may work more closely together. However, since incorporation the arrangement has

not provided VfM for the College finances.

When the arrangement was set up, the single source of funding was the Local Authority. However since 1993, the home institution receives the funding for each student from the LA, in the case of schools, or the LSC, in the case of the college. The flexible enrolment pattern which is admirably learner centred, has the unfortunate consequence for the college of turning many of its learners into part-time learners. Whilst the schools now pass funding over to the college for “their” learners who also attend the college, this is at a lower rate than the college would generate from the LSC if these learners were full time. Whilst the gap has lessened in the last few years since the funding source became the LSC, the College still estimates that it is effectively subsidising the Consortium by around £70 per subject per learner.

Case Study 9: College to College Collaboration for Front Line Delivery

Warwickshire College and Stratford-upon-Avon College have an arrangement whereby the Hospitality and Catering provision at Warwickshire College is delivered by Stratford.

The impetus for this arrangement came when Warwickshire College received a lower grade than expected for its Hospitality and Catering provision. It decided that the fastest and most effective way to improve provision for learners was to invite Stratford-upon-Avon College to deliver it. Stratford-upon-Avon College is the first college in the country to achieve the Training Quality Standard with excellence in hospitality, leisure, travel and tourism, in recognition of its outstanding work with employers.

Stratford College draw down the funding from LSC. The arrangement between the colleges is on the basis of a lease that does not attract VAT. In relation to VFM, in addition to delivering courses at the Warwickshire College Rugby campus, other examples of shared services in this arrangement are for refectory, student services and marketing services.

Warwickshire college is building a new Rugby Centre and moving out of the existing old and inadequate buildings. The development of the new Rugby centre is on track to be open by summer 2010. The partnership with Stratford College on catering will continue and there will be an 800m² catering facility for this provision.

Case Study 10: Involvement of the Private Sector in delivering Education

A Joint Venture Collaboration between a Private Training Provider, a Local Authority, a school and college in Southend. Despite significant barriers, including Governance, VAT etc, Prospects Learning Foundation has become a significantly involved in delivery mainstream secondary education.

Prospects Learning Foundation is a key provider of work based learning in the Thames Gateway, in its own right and as a member of several collaborate ventures with colleges, including Thurrock, Basildon, South East Essex Colleges, Palmers and South East Essex Sixth Form Colleges. The Foundation also has extensive links with other bodies including the Southend, Basildon and Essex Area Planning Groups, The Southend Children & Young Peoples Strategic Board, Basildon Employment & Skills Training Ltd (BEST) and the economic regeneration company, Renaissance Southend. Prospects has a non-executive Board of Directors and Trustees which includes the principal of South East Essex College.

In 2005 Thorpe Bay School in Southend Local Authority (LA) had been in special measures for 6 years – the longest continuous period of any school in the country. The LA considered closure of the school and explored a number of alternatives.

The school is in an area which displays a significant range of social and economic disadvantage and the proportion of students eligible for free school meals is three times the national average. The proportion of girls and boys and the number of students in each year group varies annually. Attainment on entry is well below average. The proportion of students with learning difficulties and/or disabilities is well above average although the percentage of students with a statement of special educational need is just below the national figure. The LSC Essex Strategic Area Review identified a gap in vocational provision from Level 1 to 3 and an over-supply of academic qualifications at Level 3.

Prospects Learning Foundation, which is a charity, came forward with an exciting scheme to combine a school and a work based learning provider, on a single site, as an innovative new educational establishment. They proposed that the school would be rebuilt as a new Trust school with Prospects, who are committed to using their funds for educational/charitable purposes and not for commercial gain, as the sponsors. When Prospects came forward to the LA with their proposal, they had secured funding to relocate to another site, but they proposed to change their plans and transfer their vocational provision to be part of a larger new education provision on the Thorpe Bay site. Both Prospects and the LA agreed that the proposal represented an exciting development to help improve the life chances of young people in Southend. This proposal was strongly supported by the (then) Department for Education and Skills as a Trust School pathfinder.

Futures Community College opened on 1 September 2007. The aim of the school is to blend both vocational and academic learning in the same setting affording both equal status and priority. The 11-19 college is currently operating as an 11-16 school, with a core curriculum of basic skills in the lower school (to 14). The Upper School (14-19) will offer both academic and vocational routes for learners of all ability.

It intends to establish a 300-350 learner, vocationally based, sixth form shortly. It will not compete with local selective schools or the sixth form college by offering A levels. Nor will it compete with the local GFE college which will work with it to be one of the providers of the curriculum strands. A subsidiary company of the Foundation, Prospects College, a private training provider, will deliver craft, engineering and construction skills. The aim is to offer apprenticeships to all its leavers who wish to pursue this route.

The College was established as a Foundation School and the new Governing Body included governors appointed from Prospects Learning Foundation. Futures College subsequently became a Trust known as Futures Community Trust and as such has powers to appoint the majority of the Futures Community College Governing Body. The Trust also holds the land and assets vested in it by the Local Authority. The Trust has sought voluntary registration with the charity commission.

Prospects has contributed £20m² to the building of a new Upper college building with specialist vocational facilities in addition to providing a vocational and commercial influence and ethos to the school. It became concerned that the present governance framework for Trust Schools does not recognise its significant contribution and commitment to the College. Therefore, in order for more formal recognition and influence, it has entered into an agreement with Southend-on-sea Borough Council for the transfer of the freehold interest of 6.9 acres of land on the Futures College site. This land will be used to erect a new Upper college building with specialist vocational facilities to be owned by Prospects Learning Foundation. The new building will clearly raise the status of vocational learning and the aspirations of young people who attend Futures Community College.

Up to 45 per cent of Year 11 students achieved five A* to C grades in 2009 - the best results ever achieved by students at the school. When Ofsted inspectors visited the school in July for their monitoring visit, they judged that the partnership had contributed to the school's improvement and the capacity for further improvement was good

Case Study 11: Federations in the FE Sector

a. A semi-formal Federation primarily for bidding purposes

FE Plus is a federation of the six GFEs in Tees Valley. It came together in 2001 at the demise of the FEFC in order to provide a voice for FE at a time when the sector was opening up to include a wider range of providers. It has a full time co-ordinator and a base in one of the colleges. The colleges agree an annual Memorandum of Understanding and agree the activity which will take place in the following year.

To date its activities have mainly centred around joint bids for ESF and ERDF and similar funds. It has not developed a shared services approach at all, although the present chair considers this might be a further development in the future. The view of some members is that its main role is as a think tank for principals and allows them to keep an eye on the competition. We are told that its costs are outstripped by the income it brings into the colleges in that they can bid for larger funds collectively than they could as individual colleges. We have not validated this claim.

As the original membership is now retiring, or have moved elsewhere, the thought is that the organisation is coming to a cross roads. It is clear that there is much more potential for joint action to increase VfM for each individual college than is currently being

² The Foundation plans to invest £3m of its own resources into this project along with £16.2m of capital funding from government agencies

exploited.

b. County-wide partnership formalised by company structure

FE Sussex is a federation of the 12 colleges in Sussex. This includes 6th form colleges and GFEs. Five years ago the federation was formed into a company. It has a small staffing structure and a base. According to its accounts for last year it had a turnover of over £1m and made a small surplus. Activities include joint bidding for funds and joint procurement. It is considering shared services in the future. One member has suggested that the end result very much further down the line is that this shared activity may be the creation of a 'county college'

Cumbria Colleges Ltd, is another example whereby the four colleges in Cumbria have formed a company limited by guarantee which is designed to enable the four participating colleges to access funding and deliver employer related activity across a geographically diverse county.

c. A college- type partnership

Unlike the FE Sussex federation, this partnership does not include the GFE or other colleges in Hampshire but is restricted to college-type. The eleven colleges in the **Hampshire Sixth Form Colleges' Partnership** work collaboratively to strengthen the services they offer to students. The partnership has been in place since 1997. They have established their own website which provides a shared identity. Working as a collective gives them greater influence and authority. The partnership:

- Encourages and facilitates networks of staff and managers in colleges
- Shares good practice to improve services to students
- Negotiates with service providers for discounts for group purchases
- Provides local training opportunities using external and in-house expertise
- Responds to and influences national educational developments.

The partnership has also provided them with a more effective procurement platform to negotiate better collective terms with an examining body and to purchase other shared resources. Although not a company, the group are considering this as a next step.

A4 Models of Collaboration

A4.1 Franchising and Partnership with external organisations

There is a large volume of official guidance on the sub-contracting of LSC funds to third parties. This was referred to as ‘franchising’ initially and is a delivery methodology now subsumed within the over-arching terminology of “partner provider”. This new terminology refers to a wide range of collaborative working with partners.

Franchising was the sector’s first response to growth after incorporation. Some commentators believe that the concept of sub-contracting funds to other organisations was adapted from the LEA’s practice of allocating grants to a range of community bodies in order to widen participation to education and training.

Some colleges displayed spectacular growth patterns over a very short time through franchising, fuelled by the freedom of additional funds available to them from the Demand Led Element (DLE) of the funding methodology. It became increasingly regulated after the FEFC inspectorate report into Franchising in 1997, and the well-publicised difficulties of Halton and Bilston Colleges. The demise of DLE also slowed growth and in the time of the LSC, a limit of 5% total college income was placed on franchising; this led to a number of colleges diversifying into “collaborative partnerships”. The difference between the two modes of delivery is the level of control that the college exerts over the delivery of the provision. In collaborative provision, the college directly employs the delivery staff, but may lease premises or other supportive services from a partner. Since the decision on what is “franchise” and what is “collaboration” has been subsumed under a general heading of partner providers and the decision as to the sub-category delegated to regions, there is some variation across the country. One organisation can be delivering the same provision across a number of regions and colleges, but it can be badged differently across colleges, according to the definition accepted by the range of regional LSCs. Some external organisations have grown considerably through franchising and collaborative partnership work.

At the request of the LSC, KPMG undertook a survey of franchising across one LSC region in 2004. At that time, the restriction that franchising represent no more than 5% of the total LSC funded provision was not in place. At the time, the reason that the Colleges provided to us for entering into franchising rather than delivering directly, was that this methodology is an ideal way of meeting the widening participation priorities of the Council and engaging with learners who otherwise would not participate in post-16 education and training. This approach supports closer engagement with community based groups, particularly as a first step into learning. In some colleges, it has also provided a vehicle for employer engagement through private sector arrangements

In terms of the agenda of VfM, franchising may be good value for the colleges. They may retain a “reasonable” amount to cover their administrative costs. In some cases, this can be as much as 30% of the funding generated by the provision. Our work on the costs of franchising indicates that colleges are not always aware of their actual cost base, and

simply apply a “reasonable” figure. It is not clear therefore that all franchising represents good VfM to the public purse.

We have been unable within the timescale and scope of this review to estimate the potential cost of other partner provider provision or its potential to deliver VfM.

A4.2 Establishing and/or acquiring companies

Colleges were provided with guidance on their use of *College Companies, Joint Ventures and Overseas Operations* in FEFC Circular 99/14. Since then, their ability to form companies and to take part in collaborative ventures has widened as a result of later legislation. Community Interest Companies (CIC) are a new type of limited company created by the Companies (Audit, Investigations and Community Enterprise) Act 2004 and the Community Interest Company Regulations 2005. The CIC aims to meet the needs of organisations which:

- Trade with a social purpose (“social enterprises”) or carry on other activities which benefit the community;
- Wish to enjoy the benefits of limited company status;
- Want to make it clear that they are established for the benefit of the community rather than their members; and
- Are not able, or do not wish, to become charities.

These are an effective legal form for social enterprises. They are particularly attractive to those wishing to enjoy the benefits of limited company status and to make it clear that they want to be established for the benefit of the community rather than their members but are not able, or do not wish to become charities.

A4.2.1 Why do colleges use companies?

In 1999, colleges provided a number of reasons which colleges gave for the creation and use of companies including:

- A college may have seen benefit in delivering an educational programme by establishing a company with other partners in order to deliver the programme.
- A company may have been created to enable the college to distinguish, in particular to the inland revenue, between charitable educational activities and those on offer for commercial purposes.
- A company may be established for purchasing power – some colleges have set up a company or joint venture as a vehicle for jointly procuring certain services.
- Improved clarity – it is believed, by colleges, that the creation of a special purpose vehicle such as a company gives greater clarity and focus to the activity and provides for improved accountability.

- Marketing advantage – although many colleges undertake commercial activities directly, some colleges perceive that the marketing effectiveness of the activity may be enhanced if the same activity is undertaken through a college company.

In consultation, we noted that colleges appear to be more successful in setting up college companies for their own internal purposes, such as saving VAT on a college building scheme, or to deliver their own bespoke training, than they are in establishing companies or joint ventures between groups of colleges. Whilst the company vehicle has been used by some groups such as FE Sussex, this is rare with more relying on memorandum of understanding arrangements. It has been pointed out to us by a principal that even the 157 group has been unsuccessful to date in setting up a company. The reason provided was that it was a very difficult enterprise given the different agendas of the individual colleges, the competitive nature of the sector and the legal framework.

“Often more trouble than it is worth”.

“Anything I do with partners, I do without getting into legal entities as it is so difficult”

We understand that updated guidance to colleges on the use of companies and joint ventures has been written by the LSC, but has not been published. We suggest that to do so would be of immense benefit to the sector, which has made use of company structures as a means of achieving VFM in a number of ways.

A4.3 Investing in Joint ventures

Many colleges enter into partnerships which they call ‘**joint ventures**’ but are often simply informal arrangements for a specific joint purpose. An example would be a college partnering a university to create a Foundation Degree.

There appear to be few joint ventures which result in the creation of a formal Joint Venture company. The reason we are told is the impact such an arrangement may have on the legal and regulatory framework for FE.

Establishing a formalised joint venture with private sector organisations can be particularly fraught with difficulty as one principal told us inadvertently this nearly led the college to enter into an arrangement which could have led to VAT and other irregularities, which luckily were avoided by timely legal advice. This advice also identified that a college which is a charity may not use its status to gain advantage over other organisations which are not charities, otherwise this could fall foul of the Competition Act.

Many colleges therefore prefer to use the term “joint ventures” to describe activities whereby they use their resources in partnership with another similar organisation such as a Local Authority. Such an example has been provided to us by The Manchester College which has a partnership venture with the Manchester Library Service. In an area of high deprivation (in the 20 most deprived wards nationally) the College has replaced a temporary underused library with a state of the art facility integrated within its own new building programme. The Library Service now run a community facility alongside the college’s library service. This arrangement provides the revenue stream for the venture, whilst both benefit from the capital investment of the college.

Local usage of the library has increased to the point that it now has the highest footfall of any new public library in the country. It is open long hours and as it has internet access, it is popular with local young people who use it as a place to do their school homework. Aligned to this venture, has been the opening up of other facilities within the college to the local community such as the College Restaurant. This now provides Lunch Clubs for the elderly and as it is focused at developing Healthy Eating, has potential in improving the health of the community. Recruitment into college courses is soaring and the area which once was a no-go area is now considered by the police to be much safer. This joint venture is enabling the college and its community partners to meet their individual targets in a way that maximises each other strengths, fills gaps and in so doing provides VfM for all parties.

A4.4 **College and School partnerships**

A major issue for colleges when discussing VfM is the impact that small 6th forms in schools may have on their ability to recruit and in some places may impact on their financial position and the financial viability of the sixth form. No-one wins in that situation. A publication in July 1999 from Ofsted and the Further Education Funding Council (FEFC) inspectorate *Collaboration: School Sixth Forms and the Further Education Sector* identified the variations in collaborative ventures at that time between schools and colleges. Whilst it looked at how this partnership working may improve relationships and extend participation, it did not tackle funding issues. We are aware that at least one of the case study examples, led to an ongoing financial loss for the college which was not picked up as part of this review, reflecting the very different focus at the time of publication.

In the next section on numbers, we consider in more detail the evidence we have assembled on the size at which a sixth form in school delivers VfM. In the section below, and in the appendices, we identify examples of collaborative working between colleges and a number of schools. One of these appears to deliver VfM in a way that individually funded 6th forms in the schools may not do; the other example appears to offer better VfM to the school sector rather than the FE sector and that particular college.

Good relationships between schools and colleges is essential if the diverse needs of 14-19 year olds are to be met. Some colleges perceive a lack of a “common playing field” in terms of impartial Information, Advice and Guidance (IAG) for 14-16 year olds, their carers, parents and employers.

The formation of Trusts - Good relationships with schools are therefore important in a number of ways, and legislation has sought to enable this to be undertaken more effectively.

Colleges are able to form trusts (not for profit charities) and to be members of Trusts, under the Charity Commission rules and the FE&HE Act 1992, but need to take care to ensure they can carry out the trust’s activities under their own legislative framework. For instance, Trust Schools are a new form of self governing school of which FE Colleges and HEIs can be members. They can be incorporated as companies limited by guarantee and / or as charitable incorporated organisations, which are a new form of charitable body introduced in the Charities Act 2006;

An example of a Trust School development would be City of Bristol College working with a primary, secondary and special school, and the University of the West of England to provide a campus for educational provision for 3-19 year-olds. We have also come across an innovative arrangement between a Trust school, Local Authority, college and charitable foundation. In this particular case, the charitable foundation has had to come to an arrangement with the Local Authority outside the Trust status in order for its investment to be recognised.

Academy Trusts are charitable companies and are responsible for the running of Academies. Unlike Trust schools, where the Trust is a separate legal entity from the school and the Trust may or may not appoint a majority of Governors to the Governing Body, the Academy Trust includes the Governing Body as part of the company. **Sponsorship of an Academy** either in full or in part is a growing trend. There is now an FE Academies group led by the principal of Barnfield College. Conversely, **Sponsorship of Academies, support for National Challenge Schools** through participation in Interim Executive Boards (IEB) by colleges are growing in popularity, but it is not clear how much they deliver for FE as opposed to improving for the schools sector. They are very valuable in cementing FE's links with the local communities and may improve progression. Several colleges including Barnfield College and The Manchester College have placed the sponsorship of Academies at the centre of their engagement strategy between themselves and the community.

True Shared governance arrangements between schools and colleges where each is an equal partner do not exist in the English FE sector. Even though enabling legislation in the Education and Inspections Bill 2006 allowed for collaborative activity between schools and colleges through Joint Committees, to date we have failed to find an example.

As an alternative, we have been provided with an example of a "shared governance" arrangement where a college provides a sixth form in 11-16 schools and through excellent collaborative arrangements has developed the concept of "shared governance" through sensitive use of a joint Advisory Committee and the full support of its LA which manages the school governance arrangements. It consulted the Department when the 2006 legislation as to whether it should establish a Joint Committee and was advised this was not necessary we understand.

One principal suggested that the Joint Committee legislation was too cumbersome. The AoC thought it was too early for it to have taken effect. In terms of MOG it may be an important vehicle of collaboration between the sectors.

We are aware that Wales is researching the legality of the concept of 'shared sovereignty' between an FE college and schools in Powys which may offer lessons for the English sector if it can be implemented. Legal advice is being sought as to how this could be effected as an alternative to a tertiary solution which has been developed in other Welsh Local Authorities. We suggest that the LSC and the Departments to be kept informed.

A4.5 Colleges and Adult Education partnerships

As part of this review we have consulted with the Local Education Authorities Forum for the Education of Adults (LEAFEA). This is the national network of senior council officers is responsible for managing the adult learning services in their council. The Local Authority has retained the lead responsibility for what has now become known as Post Compulsory Development Learning (PCDL). The LSC definition of PCDL is:

"Learning for personal development, cultural enrichment, intellectual or creative stimulation, and enjoyment. It is also learning developed with local residents and others to build the skills, knowledge and understanding for social and community action. There is no requirement that learners must necessarily progress to other learning or achieve accreditation."

PCDL is part of a budget for adult safeguarded learning that reflects a “strong” government commitment to support *learning for personal fulfilment, civic participation and community development*, or learning that falls outside the priorities of the *Skills Strategy*, reiterated in the Leitch review

In 2006-08 the total safeguard was fixed at £210 million annually allocated across four programmes:

- Personal and Community Development Learning (PCDL) (£153 million);
- Neighbourhood Learning in Deprived Communities (NLDC) (£20 million);
- Family Literacy, Language and Numeracy (FLLN) (£25 million); and
- Wider Family Learning (WFL) (£12 million).

Whilst some Local Authorities retained a free-standing local service, others chose to commission this from colleges and from other providers. The alignment of PCDL to qualification bearing learning is one proven way of providing learning pathways for learners who have been traditionally non-participative in education and training. PCDL partnerships of local authorities and colleges across the country are very important vehicles which can maximise resources by working together. The partnerships also extent into other public services, such as sports, culture and youth services, and Primary Care Trusts (PCTs) plus other parties interested in PCDL, including community groups and local residents. Learning can be fee based, part funded or free to the end user depending on the target group and the assumed ability of the end user to pay.

The LSC has issued an “Impacts Framework” in which to capture the contribution such partnerships can deliver.

LEAFEA is concerned at the impact that the fiscal crisis may have on such learning. It predicts that there may be Local Authorities which chose to develop a free –standing service which may now decide to outsource the management of the service by commissioning from other providers in order to cut centralised costs, and which may put some of the wider partnerships at risk.

A4.6 Colleges and partnerships with the independent specialist college sector

The independent specialist college sector (ISC) which provides for learners with learning difficulties and/or disabilities where the local colleges is not able to provide, have been very helpful in providing information to this review. The National Association of Specialist Independent Colleges (NATSPEC) has provided evidence of a great deal of collaborative work between mainstream colleges and the ISC sector. Some of this collaboration is of long standing, for instance, Dorton College (Royal London Society for the Blind) and West Kent and Bromley Colleges. Other partnerships are more recent as is the case for the Ruskin Mill Educational Trust collaboration with local colleges in Gloucestershire, Stourbridge and Sheffield. In Nottingham, Whitegates College is partner provider for West Notts College; in Manchester, the Bridge College has a partnership with The Manchester College.

It is clear that closer working between the two sectors is a strong vehicle for providing greater VfM to the public purse, and by reaching out to many more learners who are currently disenfranchised. Mainstream colleges access to the skills and technological expertise of the ISC in helping learners with learning difficulties and/or disabilities access the FE curriculum can be matched by ISC gaining greater access to mainstream college facilities. However, we are told that in some cases, greater collaboration and partnership is being prevented by legal and revenue barriers which relate to the different status between the sectors. The ISC sector is complex in that the organisations within in, have a wide range of status – from individual charitable status to a college being part of a large charity to some colleges being private companies. In some cases where colleges have sought to collaborate, it seems that the tougher interpretation of the Charities Act by the Charity Commission appears to be preventing activities such as the co-location of provision which some FE colleges and specialist colleges have tried to achieve. Some collaborations such as that between Lambeth College and the Shaftesbury Trust for provision for learners with profound and multiple learning difficulties and/or disabilities in London, have fallen into abeyance because of difficulty with capital funding also.

A4.7 College and HE partnerships

As part of our research in to partnership between FE and HE, we spoke to the chair of the Mixed Economy Group of Colleges (MEG). Membership of MEG is open to any college with a minimum of 500 FTE students, sustained for at least three years. MEG membership has doubled in the last two years as some FE colleges have expanded their HE offer on a yearly basis in response to local demand.

The power to award HE qualifications has now been extended to colleges, providing that they can assure Government and the QAA that they are capable of ensuring quality standards. This frees colleges from a number of University-imposed constraints and in particular enables them to deal with employer demands for higher-level training with greater immediacy. Post-secondary vocational education and training is traditionally regarded as the specialism of colleges and the new legislation now extends this remit into vocational higher education.

Some 10% of all HE learners are studying in FE colleges and more than 50% of them are part-time compared with about 35% in HE as a whole. Approximately 140,000 students are taught on prescribed courses at higher education level in Colleges in England. Some 140 colleges are funded directly for their prescribed higher education by HEFCE.

In 2006/07 some 25,000 learners in colleges were studying on Foundation Degree programmes, designed and delivered in partnership with employers, to give a strong foundation for employment in a chosen sector.

FE is particularly effective in providing HE for learners from more disadvantaged groups, backgrounds and communities. Many FE colleges offer flexible, local opportunities which make HE accessible to people who might otherwise face significant barriers to participation. The sector is well placed to promote wider participation in HE.

There are a number of ways in which colleges of FE may partner HE institutions. These include:

- Mergers of FE and HE institutions
- Transfers of FE institutions to HE status
- Mixed economy FE colleges delivering substantial levels of HE provision.

A KPMG Research report for the DfES in 2003 noted that:

- There are good rates of progression from FE to HE within ME colleges and, for marketing purposes, the colleges emphasise the potential for progression through different levels of FE and into HE within the same institution
- ME colleges will encourage certain students (who would/may otherwise drop out of education) to progress to higher education. However, the lack of HEI status and the lack of dedicated HE facilities will probably always be a barrier to recruiting other classes of student who will aspire to a HEI experience.

There is strong evidence that delivering HE via FE is cost effective with lower costs for the learner and the state when compared with the HE sector. The largest member of the mixed economy group (MEG) receives £8.4 million in direct funding from HEFCE and provides higher education learning to 2,500 students. By contrast, some colleges receive direct funding of less than £15k.

QAA has recognised that 99% of the provision is excellent or commendable although the MEG spokesperson noted that there is no inspection of small contracts. There is a perception by MEG that colleges with larger amounts of HE in FE may offer the best VfM and that it may make sense to identify fewer colleges in an area to concentrate on HE in FE delivery than to continue to award very small contracts.

A5 Introduction to VAT and Corporation Tax issues

The provision of further education where no fees are charged is not for VAT purposes a business activity. If fees are charged for further education the supply is exempt from VAT. Whether or not the provision of further education is non-business or exempt the consequence is that VAT on costs is irrecoverable and has to be borne as an additional cost.

A5.1 Eligible body status

Provision of exempt education is limited to eligible bodies (which includes Further Education Colleges and Sixth Form Colleges) but not to private sector providers. The supply of education by a private sector body who charges fees for this service would not qualify for exemption and therefore would be subject to VAT.

As an eligible body certain services related to the education, such as catering for students and supplies of teaching staff when made to another eligible body also qualify for exemption. A private sector body cannot exempt such services and therefore would be obliged to charge VAT on such services supplied to a College and the VAT would be borne as an extra cost.

A5.2 Charitable status

Charitable status does not normally allow any VAT benefits. However, there are a couple of VAT reliefs that can be obtained. One relief is to allow certain new building works to qualify for zero-rating if the building is to be used for non-business purpose (i.e. delivery of fully funded further education) but the conditions are very difficult and most works do not qualify.

One valuable relief available to Colleges is to claim reliefs on fuel and power charges. CCL exemption can be claimed which equates to a saving of approximately 8% on fuel costs and reduced rate VAT of 5% is payable (which is a further saving depending upon the standard rate of VAT).

Another relief available to charities is zero-rating of certain advertising costs.

A5.3 VAT Compliance

Although the main activities of Colleges are non-business or exempt the majority of Colleges are registered for VAT as a consequence of miscellaneous income. Even where Colleges are not registered for VAT they need to manage their VAT affairs by monitoring the level of taxable supplies they make to ensure they register for VAT once they exceed the registration threshold. Colleges who are not registered still need to monitor the VAT liability of goods and services they receive to ensure that they claim the maximum VAT reliefs and obtain exemption wherever possible.

Once a College is VAT registered they have the burden of complying with the VAT regulations and errors can easily lead to penalties being incurred.

A5.4 Introduction to CT issues

From a corporation tax (“CT”) perspective there are a number of key issues and concepts which are relevant to a number of the models and these can be summarised as follows:

A5.4.1.1 *Tax status*

- Any college or other educational institution that is part of a **local authority** [this includes schools and 6th form colleges, I believe] is outside the scope of CT, as local authorities are exempt from all CT.
- Any college or other educational institution that is a **charity**, which should cover most if not all FE colleges, is exempt from CT on the vast majority of its income, and any capital gains.
- An entity which trades only or predominantly with its members can qualify as a **mutual trader**, and it will be exempt on the trading activity with its members, only being taxed on trading with non-members and interest etc, but agreement of HMRC is required.
- A normal trading company, which would include any college or other educational institution which does not fall into one of the above categories, is fully chargeable to CT, but it can shelter its taxable profits by paying a **Gift Aid** donation to a charity. Different rules and time-limits make this easier if the company is wholly owned by a charity.

A5.4.1.2 *Specific tax issues*

- A charity will be exempt from CT on any income in relation to:
 - its educational activity (subject to it being education that is generally open to all – i.e. not a training course for a particular employer’s employees [although Train to Gain is generally accepted as charitable in this regard]);
 - any ancillary activities related to that education (including catering, student accommodation and other services),
 - any trading carried out as part of its educational activity, such as training restaurants, health and beauty/hairdressing salons, motor repair workshops etc..., and
 - any interest or other investment income.as long as that income is applied for charitable purposes.
- A charity is subject to tax on any non-charitable trading activity, such as closed training courses, and any other commercial services provided to the public, subject to an exemption if overall trading income is less than £50,000.
- If a charity makes any investments by way of shares or loans, particularly in subsidiaries or joint ventures, they must be justified as **qualifying investments**, which are for the benefit of the charity (usually interpreted as being a sound commercial investment). Loans to other educational charities do not need to be on a commercial basis. If a charity makes a non-qualifying investment it can be chargeable to CT on the amount of that investment.



- Under **transfer pricing** rules, any entity chargeable to CT (including subsidiaries of charities) should calculate its profits on the basis that all trading with entities with which it is connected (broadly by virtue of ownership and/or control) is on an arm's length basis, even if that position is not represented in the accounts. These transfer pricing rules will not apply to certain "smaller" entities, which may include a large number of colleges and their subsidiaries, but it should be noted that charity law requires charities to do the same.