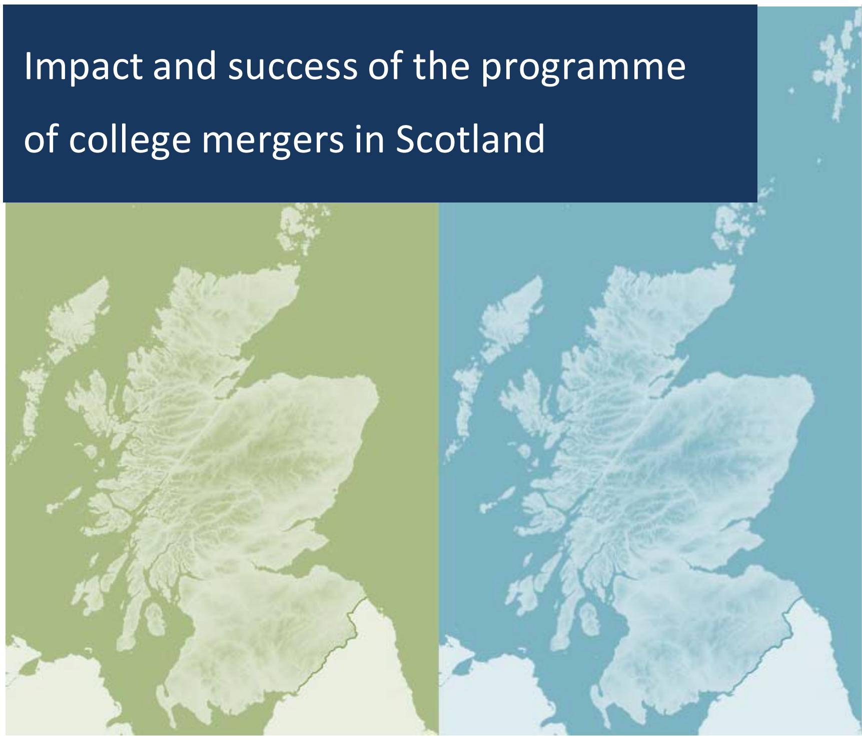
Impact and success of the programme of college mergers in Scotland



August 2016

When SFC published its post-merger evaluation report in August 2016, *Impact and success of the programme of college mergers in Scotland*, we were yet to receive harmonisation data from all colleges. The two colleges for which information remained outstanding (out of the nine included in the report), have now reported and we have added the complete harmonisation costs to the report. The exception is Edinburgh College, where overall costs and savings have not been included in the report for the reasons given on page 25.

This version of the report has now been amended at March 2017 to include these figures and we have also written formally to the Parliament's Education and Skills Committee to confirm that this has now been completed.

Impact and success of the programme of college mergers in Scotland 2012-13 and 2013-14

Contents

This report provides an overarching view of the impact of the college merger programme which was implemented between 2012 and 2013 and evaluates the success in delivering the intended benefits and outcomes for students and other key stakeholders. The evidence reviewed confirms that:

- The merger programme in Scotland has led to the formation of colleges which are more resilient and sustainable for the future, with a focus on achieving efficient and effective business services while continuing to develop and support the staff who are central to this success.

  Through changes to such a substantial proportion of the sector, the mergers have created a landscape better suited to the delivery of skills, engagement with employers and universities, better able to implement the Developing the Young Workforce (DYW) initiative and further improve learner journeys.

- The larger colleges created are working well and are confident and ambitious with a clear focus on putting the learner at the centre, where the priority is the learning and teaching and the achievements of students in study and in work.

SFC and the sector has learned lessons as a result of this evaluation process and in addition to referencing good practice, the report also highlights what would need to be addressed in any future mergers.

Background

Between 2012 and 2014, the Scottish Funding Council (SFC) and the Government approved ten mergers involving 26 colleges and one Higher Education Institution (HEI)[1] ; one of the college mergers involved a two phase merger (New College Lanarkshire). The programme of mergers was prompted by Government policy which outlined the benefits of a regional structure for the college sector[2]. Mergers were chosen by the colleges in most regions with more than one college to be the most effective and financially efficient way to achieve the desired outcomes of improving the delivery of education through coherent provision within the region, with benefits for all stakeholders.

This unprecedented series of mergers was delivered in a compressed period and affected just over 70% of the FE sector (by volume of credits in AY2014-15). The creation of larger colleges of scale, operating mainly on a regional basis, has led to a reduction in the number of publicly-funded colleges from 43 in August 2010 to 25 now[3]. Outside the Highlands and Islands region there are now only 15 general colleges (and Newbattle Abbey College).

At the outset, the Scottish Government indicated that they expected the reform programme to deliver a number of high-level benefits, including reduced duplication, better outcomes for students and high quality learning, enhanced engagement with employers and financial savings for the sector[4]. In addition, it was anticipated that there would be improved planning, co-ordination and delivery of skills provision in a region to meet the needs of employers at a local level but also for Scotland's economy. SFC later confirmed that they anticipated recurring savings of about £50 million each year from 2015-16.

[1] SRUC was formed as a product of merger of the Scottish Agricultural College (an HEI) and three colleges to deliver fully integrated tertiary education for the rural and land-based sectors.
[2] This was set out in the joint Scottish Government/SFC publication College Regionalisation: Proposals for Implementing Putting Learners at the Centre (November 2011).
[3] 2010 and 2016 figures exclude Argyll College.
[4] Putting Learners at the Centre: Delivering our Ambitions for Post-16 Education, Scottish Government, 2011

SFC approach to the evaluation of the mergers

SFC carries out, on behalf of the Scottish Government, a post-merger evaluation of all approved college mergers two years from the point of merger (vesting day). SFC has completed the two year evaluations for all ten of the mergers delivered in 2012 and 2013. We also completed one follow up evaluation at year three post-merger (Edinburgh College). SFC has published all nine reports completed in 2016 on its website. (See Annex B for a full listing with links to the reports.)

Colleges are accountable for implementation of their merger and need to be able to demonstrate the delivery of benefits and performance improvements for all stakeholders including students, staff and employers. The purpose of the merger evaluation is to provide evidence of progress in delivering the intended high-level benefits of the merger, as outlined in the original merger proposal, and also to identify lessons learned that support further organisational development and wider learning for the sector. The formal evaluations are led by SFC board members. (See Annex A for further details of the evaluation process.)

In concluding the evaluation for each merger SFC made a judgement on the success of the college in delivering the intended benefits and the effective implementation of the merger. In doing so we considered all the evidence and also balanced the range of views we heard from staff, students and stakeholders in a series of meetings.

Much of the evidence in this overarching report was gathered as part of these post-merger evaluations of the individual mergers in the programme. Although we refer to the evidence from the merger which formed SRUC in the report the main focus is on the nine colleges which were formed during this period. The evidence considered by SFC included:

- Progress in delivery against key Outcome Agreement measures**,** from consideration of relevant performance indicators.
- Reports relating to governance, financial health and quality, from ongoing SFC monitoring.
- Outcomes of external reviews around one year post-merger, and annual engagement visits undertaken by Education Scotland[5].
- The self-evaluation report and associated evidence presented by the colleges.[6]
- Feedback and testimonies from a range of students, staff, senior management, Board members and external stakeholders on the performance and operation of the college.

[5] All current reports available at http://www.educationscotland.gov.uk/inspectionandreview/reports/othersectors/collegereviews/

[6] Outcome Agreement Managers working directly with the colleges confirmed the accuracy of the reports, and the additional evidence presented which included copies of Board and Committee papers.

In reaching conclusions about the success of the overall programme of mergers we reference the evidence and outcomes in these individual reports. We use specific examples to illustrate and evidence our conclusions and note where there is consistency in key findings.

Overall conclusions and summary of key points

Taking account of the evidence we reviewed and the testimonies we heard during our post-merger evaluations, our conclusion is that the strategic outcomes of the mergers and key benefits for students and stakeholders anticipated in the merger proposals have been, or are in the process of being, achieved. Overall, the implementation and outcome of the merger programme has been a success, though we recognise that some colleges are still addressing particular challenges of merger, including financial and operational issues.

During our meetings with the staff, senior managers and Board members as part of the evaluation process, we heard clear messages that colleges, SFC and Scottish Government should be realistic about the timescales needed to fully achieve all benefits and outcomes from merger. We recognise that two years is early in the life of a merged college and too early to have completed all the priority actions related to merger and fully embedded new ways of operating and working together.

In every case but one, we have been satisfied enough with the progress in delivering the merger to complete our formal post-merger evaluation process at two years. However, we also outlined in our post-merger evaluation reports for each of the colleges the priority issues that will require further attention. We will continue to monitor progress in these colleges routinely through our Outcome Agreement process and through the quality arrangements in place with Education Scotland and the sector.

A key question that we considered is whether these outcomes/benefits would have been achieved by the sector without the merger programme. Some of the benefits – in particular the better linking of college provision and regional priorities and partnerships – were dependent on creating large colleges of scale. It is also our view that the extent of change brought about by the mergers and the speed at which they were implemented means that the changes such as the introduction of regional outcome agreements have been achieved at a faster pace, with a more rigorous approach, and resulted in colleges of scale that are sustainable and more resilient for the future. It is highly unlikely that the savings outlined could have been achieved by the colleges in their previous configuration in the same timescale.

Summary of key points

1. Evidence from the two-year, and in one case three-year, post-merger evaluations suggest that overall the merged colleges are delivering efficiencies and benefits of scale which in turn impact positively on front-line delivery for students. As colleges of scale they are better able to contribute to the planning and delivery of skills at the local and regional level through improved stakeholder relationships and have the capacity to influence policy and strategy regionally and, because it is a sector with fewer, bigger players, nationally.
2. In 2015-16, at the point of the two-year post-merger evaluations of eight colleges there is evidence to show that these mergers, which have been subject to ongoing and rigorous review and assessment (internal and external), have contributed to improving student outcomes; securing improved vocational pathways; ensuring access, progression and articulation routes; improved the student experience and levels of engagement; and are better able to tackle legacy issues of poor quality.
3. The merged colleges have been able to support the development of stronger and more effective Students' Associations than had been usual in the college sector prior to the merger programme, with the help of SFC ring-fenced funding in the early period post-merger, totaling £2.4m. Evidence from across the merged colleges indicates that good progress has been made to ensure that Associations are strong and effective and have a clear place and function in the daily life of the college, but also suggests there is more to be done to ensure ongoing development and sustainability. The future NUS Scotland review will gather additional evidence on progress in this area. Other non-merged colleges subsequently implemented changes, with funding support from SFC, to ensure the whole sector is making a step change in this area.
4. The merged colleges have a clearer, more focused role in delivering a skilled workforce for their regions and have developed new and enhanced relationships with employers around curriculum planning, work experience and employability skills. Ensuring the delivery of the right curriculum in the right place has been critical to this development alongside significantly improved partnership arrangements with Local Authorities, schools, community planning partnerships (CPPs) and other community partners.
5. As at June 2016 analysis shows that the overall recurring annual savings across nine of the colleges in the merger programme is £52.2 million.
6. The cost of delivering these mergers, as reported in the post-merger evaluations and including the ring-fenced funding for Students' Associations, was £71.6m.
7. The context within which the mergers were implemented was complex and included the reclassification of incorporated colleges as public sector bodies from

1st April 2014, which placed additional requirements with colleges. It was also a period where we saw resource constraints across the public sector, the introduction of a new needs-based and simplified funding model, the introduction of regional strategic bodies in some regions and the start of national bargaining discussions. The outcome of the above in some instances was that the business cases for merger were implemented in a different context from the one in which they were planned. This caused additional pressure for the colleges during the early post-merger period. It also makes linking cause and effect more challenging.

8. The key aspects which contributed to the merger successes highlighted in the evaluations, included effective and strong leadership; clarity of vision, strategy and objectives (led from the Board level); the commitment of staff at all levels to ensure no detriment to the student experience during the change process; and a people-focused senior team who placed organisational development, including a renewed focus on learning and teaching, and new ways of working /how things are done(culture shift) at the centre of the merger process.

9. A new way of working is developing across the merged colleges, albeit it at a different pace in each, that takes a more enterprising approach to operations and delivery and accepts that the current environment requires the colleges to constantly review, adapt and change -even more so than previously - and where staff expect to be, and should be, active in the change process.

10. For a substantial proportion of staff in merged colleges the changes since vesting day have been significant and some aspects of merger will take additional time to be fully embedded due to the complexity of issues during the post-merger phase. Operating as multi-campus colleges of scale requires staff to learn new ways of carrying out business impacting on communications, quality and reporting arrangements. Effective communication and engagement with staff remains critical during the change period and beyond.

11. Additional time and resource was needed to create integrated, effective business systems, to train staff to operate systems effectively and to align procedures and processes across all campuses. In a small number of the colleges urgent action was required to ensure the appropriate systems were in place and operating to implement student enrolments, bursary payments and learning support.

12. Robust governance arrangements are critical for the appropriate delivery of severance arrangements flowing from merger. SFC has changed its requirements in relation to the approval of severance schemes as a result of lessons learned in this merger programme. (The reclassification of colleges as part of the public sector also required changes to be made.)

13. Severance programmes need to be strategic if they are to achieve and sustain the associated savings from the strategic funding allocated.

Efficiencies and benefits of scale

Evidence from the two-year, and in one case three-year, post-merger evaluations suggest that overall the merged colleges are delivering efficiencies and benefits of scale which in turn impact on front-line delivery for students. As colleges of scale they are better able to contribute to the planning and delivery of skills at the local and regional level through improved stakeholder relationships and have the capacity to influence policy and strategy regionally and, because it is a sector with fewer, bigger players, nationally. (1)

One of the drivers of the college merger programme was to make region-wide efficiencies and benefits of scale that would flow from larger colleges. It was anticipated that efficiencies would be achieved mainly through reducing duplication of management and backroom costs. We anticipated reduced duplication of provision and competition between previously neighbouring colleges. By making better use of its combined estates, facilities and staff we would expect that a merged college would be in a better position to focus resources on front-line delivery coupled with stronger and more effective regional engagement and partnership working. Each merger has been unique to its geography, context and pre-merger circumstances.

The evidence that we have from the programme of evaluations is consistent and shows that efficiencies and benefits of scale are being realised across all of the merged colleges. Specific examples were highlighted by the colleges in their self-evaluation and in evaluation discussions, and identified by SFC Outcome Managers in their normal engagement with the colleges. This confirms that the merged colleges have achieved, or are already some way to achieving, the following:

- ***Removal of unnecessary duplication in curriculum provision, where numbers may be low, while retaining local access to entry level courses.*** This was a priority for all merged colleges and achieved through a rigorous curriculum review and alignment process. Some colleges completed an initial review prior to merger but this was usually followed by a more in depth exercise in the first year post-merger. Most importantly new curriculum planning processes have been embedded. We are reassured that meeting the needs of students seeking to enter college provision locally remains a priority. Ensuring breadth of access level provision on all main campuses to meet local needs appears as a key commitment in the colleges' corporate/strategic plan and in the Regional Outcome Agreements.

  Colleges, such as Glasgow Kelvin College and Fife College, have also looked to community partners or schools partners to support local delivery. This rationalisation of curriculum provision allows scope to introduce additional courses where there is a need. At West College

Scotland they have retained key provision in all curriculum areas in line with local demand, including extending Science FE provision in one campus and introducing Sport and Business courses in another.

- ***Rationalisation of procurement and move to single contracts to replace those inherited from legacy colleges.***
  As opportunities arose for single contracts this was prioritised to ensure an efficiency saving for the merged colleges. This happened across all of the merged colleges. For example, Fife College noted that the merger presented opportunities for early rationalisation of a number of significant contracted services for planned preventative maintenance, catering, cleaning and waste management. These savings are reflected in the financial information submitted by the colleges and outlined in the section on *Assessing merger costs and savings and the impact of the wider financial context (p* 26)

- ***Specialist teams in place for admissions, advice and guidance, learner support and student engagement allow a student-centred approach.***
  Bringing together two or three groups of staff with specific skills and expertise in student support has allowed the development of specialist teams with greater knowledge and expertise. At the same time it has been a priority to ensure that services are made available across all campuses in line with need. For example at Glasgow Clyde College the presence of an Equality and Inclusion team on each campus site means that students have access to a greater range and variety of mechanisms to support their learning, including access to Disabled Students' Allowance (DSA) assessments on site which were previously outsourced.

- ***The development of improved specialist provision and additional opportunities for cross-curriculum working.***
  Larger colleges of scale have a wider range of subject provision and skills and expertise to draw on. Synergies between subject areas have been identified and some colleges have been able to quickly identify and deliver major cross-curriculum projects. A good example of this was the Glasgow Kelvin College Fashion Show involving learners from a wide range of curriculum areas including fashion, hairdressing, events management, TV production, sound recording and photography, working collaboratively in a real work environment to plan and deliver this event. Students were particularly positive about how this had enhanced their learning experience in the college, and this was corroborated by staff as a direct outcome/benefit of the merger. All merged colleges were exploring similar opportunities, even if on a smaller scale. We will gather evidence in future through our ongoing Outcome Agreement monitoring.

- ***Enhanced employer engagement and the development of a stronger external brand.***
  All colleges reported a major improvement in their relationships with employers, whether this was building on existing partnerships or developing new ones and were able to provide evidence of how this was making a difference for the students and staff in the college. Examples provided included additional work placements, input to curriculum planning and the development of specific skills required by particular employers. Employers, both smaller and larger businesses, reported that working with one large college in a region/area with a one-door approach had made a significant difference and they were more easily able to make connections with key curriculum staff. Staff and senior management in the colleges were able to confirm this.

  Enhancing the college's brand and reputation in its region has also supported engagement with employer partners. Employers confirmed that they are more aware of the college presence in their regions through successful branding and ongoing messaging about the work of the colleges, including through the use of social media. Building the college brand has been a priority and regular coverage of positive stories in local/regional press titles and through social media has helped to demonstrate the impact of the colleges on local communities and industries. We will continue to monitor the media coverage relating to the group of merged colleges.

- ***The development and expansion of provision with local schools.***
  All merged colleges reported improved working arrangements with their local authorities (LAs) and schools that were possible as a result of operating as one larger college. The key difference reported was the single point of contact for LAs and schools and the fact that they may now be working with only one college instead of two or three. Operational working groups have been set up to take forward outcomes and develop an appropriate offering for the Senior Phase Vocational Pathways. Colleges' ability to agree delivery and plan consistently across regions has ensured progress in delivering enhanced options and pathways. This has made a considerable contribution to the delivery of the DYW agenda.

- ***Sharing of best practice and resources and development of all staff.***
  All the colleges provided us with examples of how their staff and students are benefiting from the sharing of best practice amongst staff teams. In some cases this took more time as staff adjusted to cross-campus working and working in new teams. New College Lanarkshire

confirmed that as a larger, merged college they have improved delivery of Continuous Professional Development and the capabilities of the teaching and support staff have been enhanced as a result. We also have clear commitments from all colleges to further develop their staff through a one college approach. We will continue to monitor this in future through quality arrangements.

- ***Improved business processes and integrated systems that support learners.***
  The integration of business processes was a priority for all the merged colleges but the evidence shows that new systems came on stream over a period of time. Legacy structures and systems were very different in some areas and it took time to define what was needed in the new environment of the merged college. Some colleges worked with different systems during the first year post-merger and this raised challenges for staff and students.

  Some colleges reported that where an integrated system was adopted early in the process over time the needs of the college demanded a different system and changes has to be made. Colleges have been clear in their reporting that this remains work in progress. Outcome Managers in SFC have been kept fully apprised on these changes. The integration and development of systems at Dundee & Angus College has focused on the learner experience, with the primary objective to inform, support and enhance their journey from initial enquiry and application all the way through to resulting achievement and award.

- ***Estate rationalisation and development.***
  In most cases critical planning around estates began pre-merger and continued during the merger implementation phase. This work has ensured that specialist provision is offered in the estate with the most appropriate infrastructure and buildings that are no longer fit for purpose are being closed. Colleges provided examples of how this has impacted positively on the student experience, and this was supported in the testimonies we heard from both students and staff. Two of the merged colleges are also currently undertaking major campus developments that will deliver a new learning environment for students.

  One of the anticipated benefits of greater scale - the ability to build up reserves to fund estates developments - has not materialised as anticipated as a result of the reclassification of colleges by the Office of National Statistics (ONS) as public sector bodies which means that colleges are no longer able to build up reserves over a number of years to meet major capital costs.

- ***Colleges are seen as significant partners of scale delivering for students and employers, operating effectively with partners/stakeholders and where appropriate leading on regional developments.***
  All colleges provided examples of how they have strengthened their role in the delivery of skills across their locality/region and enhanced their relationships with all key stakeholders. Where we met with employers and stakeholders as part of the formal evaluation process this view was endorsed. For example, Ayrshire College emphasised that as a single regional college of scale they have greater influence with partners and have often been a catalyst in initiating and supporting collaborative developments across Ayrshire, including the Introduction of Foundation Apprenticeships.

  Also, at Dundee & Angus College, staff were keen to highlight the merger's significant benefits to the region. They reported that the regional college is a more significant "player" within the region and is invited to sit on more influential regional groups. For example, senior staff sit on Local Authority Committees, the college has hosted the Dundee Partnership and the Principal has chaired the Dundee Economic Summit.

- ***The colleges have used their scale to gain a stronger voice for individual colleges but also for the sector, with greater capacity to influence government policy and strategy.***
  We have seen evidence of how the college sector is more engaged with regional partners and with the Government on key policies and strategies such as DYW.

  In their self-evaluation North East Scotland College (NESCol) provided evidence of their capacity to influence at a regional, national and UK level and SRUC provided evidence of their unique position to engage and lead on rural and land-based policy and direction.

When considering what they do better as larger colleges of scale there was consistency in the responses from the colleges and clear examples and evidence to support the impact for all stakeholders. SFC is able to confirm through their Outcome Agreement discussions that these benefits were achieved across the sector for students, staff and stakeholders.

Outcomes for students and wider benefits

In 2015-16, at the point of the two-year post-merger evaluations of eight colleges there is evidence to show that these mergers, which have been subject to ongoing and rigorous review and assessment (internal and external), have contributed to improving student outcomes; securing improved vocational pathways; ensuring access, progression and articulation routes; improved the student experience and levels of engagement; and are better able to tackle legacy issues of poor quality. (2)

During the initial evaluation at six months it was too early to see evidence of performance improvements and wider benefits for students. At the point of the two-year evaluations we were able to make some early assessment/judgement based on performance indicators collected by SFC and through the data provided by the colleges. During our evaluation meetings with staff, students and stakeholders we heard examples of the wider benefits of merger for all stakeholders. Education Scotland has referenced these wider benefits in their follow up from the Annual Engagement visits or the External Reviews.

Performance improvements

All merged colleges point to the impact that the changes resulting from merger have, and will continue to have, on the achievement of their students, particularly through an enhanced learner journey and focus on student success. The measures and performance indicators referred to below are included in the recent SFC publication *College Region Outcome Agreements – Summary of Progress and Ambitions June 2016*.[7] This report evidences year-on-year how the colleges across the sector are delivering improved outcomes for students. This report does not duplicate data included in the earlier SFC report but refers to key aspects/PIs relevant to the merged colleges or the sector overall to identify success. It is one of the areas where SFC can draw on data both pre and post-merger. It includes:

- The proportion of learners who successfully complete their qualifications (taking into account that for some learners there are unavoidable reasons for not completing).
- The proportion of those learners who go on into employment, further learning or training.
- Opportunities to articulate to degree level study.

We can draw some comparisons between merged and non-merged colleges at this stage but we will continue to monitor this in the future.

[7] http://www.sfc.ac.uk/web/FILES/Funding_Outcome_Agreements_2016-17/College_Outcome_Agreements_Summary_2015-16.pdf

Successful completion

Figure 10 in the June 2016 summary report shows that the sector has delivered steady year-on-year improvement on learner success in recent years. However, in 2014-15 there was a 1.9 percentage drop in performance for students enrolled in full-time further education (FE) and a 0.1 percentage point drop in full-time higher education (HE).

The reduction in FE full-time success rates in 2014-15 is not consistent across all college regions. Seven regions showed continued improvement (of which four included merged colleges) while five showed a marked reduction in success rates of over 4% (of which four were merged colleges) and one a minor reduction (also a merged college). Those colleges have suggested various reasons for their drop in student success in 2014-15 including strike action; concerns among some students about access to bursaries; some students starting courses late; specific changes made to assessment rules and regulations for a small number of programmes; changes to regional curriculum; changes to key processes such as student support; and changes to staffing numbers and structures.

Although some of these contributory factors could be said to be linked to merger implementation this would not account for the reductions in the non-merging colleges. Colleges have indicated that it is likely that the reasons for the increases and decreases are independent of the merger programme and colleges are continuing to monitor this closely. SFC will also continue to monitor and will take an overarching view of this across the sector.

All colleges, including the merged colleges, are confident of recovering performance in 2015-16 and have retained ambitious outcome agreement targets for 2016-17. We will continue to monitor student success rates through our normal Outcome Agreement work in future and continue to gather evidence of what contributes to student success.

Positive destinations

In 2013, SFC developed, with the support of the college sector, a national college leaver destination survey to collect and report on leaver destination data from colleges. The first publication of College Leaver Destinations (CLD) for Scotland's colleges was in December 2015 and covers the 2013-14 academic year. The publication reports on the destination of leavers at 3-6 months after qualifying. The vast majority of leavers are in a positive destination six months after graduating. Overall, the percentage of leavers entering a positive destination across the sector is 95.3% for FE and 94.8% for HE (includes the figures for those only in a 'known' destination; covering a positive destination which includes in employment and in further study). The merged colleges deliver positive destinations ranging from 93.9% to 97.6%[8].

As previously noted, it is difficult to establish if this is directly related to merger or not. More detailed work would be required by SFC to determine if this is the case.

Opportunities to "articulate" to degree level study

Close partnership working between colleges and universities has contributed to a steady increase in the number of learners articulating with advanced standing (i.e. full recognition for previous Higher National study). Across the sector close to 4,000 learners articulated with advanced standing in 2014-15, an increase of 900 students from the 2011-12 baseline of 3,099 students.

There is variation in the performance of the merged colleges with most increasing steadily over the four-year period and only one decreasing between 2013-14 and 2014-15. Some of the targets in the 2016-17 Outcome Agreements are ambitious, for example Dundee & Angus College aim to increase their articulation to 350 students in 2016-17 from 255 in 2014-15 while others who have seen earlier increases are seeking to maintain those levels.

These variations may be a result of differences in regional demand and also regional partnership arrangements. However, universities have been positive about the benefits of working with one college rather than two or three in a region and indicated that this has impacted on the speed of change and on the relationships. Enhancing opportunities to articulate to degree level study remains a priority for the sector and is supported by SFC.

Ensuring they deliver on quality commitments and continuing to focus on student outcomes will make a difference to how merged colleges perform in future on critical PIs. Engagement with key stakeholders is also a key element in delivery.

Wider benefits for students resulting from merger

Without exception, all colleges reported that the key benefit for students resulting directly from the scale and impact of the larger college was the focus on efficient and effective learner pathways and opportunities for progression. This included pathways from school to college, community-based learning to college, campus to campus within a larger college, college to university, and college to employment. These developments were underpinned by the review and integration of curriculum provision and a renewed focus on innovation and excellence in teaching and support practices. During the evaluations we heard testimonies from students, staff and

[8] http://www.sfc.ac.uk/web/FILES/Funding_Outcome_Agreements_2016-17/College_Outcome_Agreements_Summary_2015-16.pdf

other stakeholders to support this. It was also supported by the earlier Education Scotland external reviews which SFC took into account as evidence.

Details from the individual colleges are included in their post-merger evaluation reports published on SFC website[9] and included at Annex B. Once again it is important to remember that all colleges would aspire to achieve these outcomes but the feedback suggests that the merged colleges, as larger colleges of scale, have been able to achieve these outcomes within a tight timeframe. In their responses on these issues the colleges have taken a before and after merger view. In summary the benefits for students highlighted during the evaluation exercise included:

- Enhanced senior phase provision through partnerships with secondary schools to support pathways for young people from school to college programmes and into employment.
- Expanded range of community provision and supported learning in the community, extending the reach of the college to those potential students who are furthest from the labour market and who do not currently participate in college education or training.
- Improved opportunities for progression within the larger college as a result of integration of course provision post-merger.
- Increased opportunities for articulation to higher level study based on stronger partnerships with universities.
- Innovative developments in curriculum to increase flexibility and choice, including access level, higher level provision and vocational pathways.
- A single point of access for students to high quality learning opportunities locally.
- Enhanced innovation in teaching and learning and support practices.
- A renewed focus on student/learner engagement both through enhanced student engagement strategies and through the college's support for the development of stronger and more sustainable Students' Associations which was facilitated through SFC funding.

We heard supporting testimonies from our meetings with staff, students, senior managers and stakeholders. The self-evaluation reports also provided evidence of these benefits for students. Some examples of these are highlighted below:

- The partnerships that exist between schools, North East Scotland College, universities and employers in the region are being enhanced further as a result of the joint approach being taken in Developing the Young Workforce. A key aspect of this work is the joint development of a Regional Pathways Map.

[9] http://www.sfc.ac.uk/reportspublications.aspx

- Edinburgh College reported that its partnerships with schools have improved in 2015-16 as a result of the review of Service Level Agreements with Local Authorities in 2014-15. The College has agreed to guarantee a place for every pupil from its region who applies to the College in 2016-17.
- Students at Glasgow Kelvin College highlighted the potential for progression in some subject areas that would not have been available previously while recognising that students may need to move to a different campus to progress to higher level course provision on offer.
- West College Scotland reported that students are benefitting from standardised and improved articulation arrangements with universities which are more desirable, feasible and manageable with the increased scale of the new college.
- Education Scotland commented on the good work that has been done at Fife College to review the College's curriculum across the region. Through the use of a regional environment scan of Fife and neighbouring regions, the College has developed a better understanding of the curriculum priorities for the region.
- Management and staff at Ayrshire College reported that the College was now more proactive and was planning the curriculum more effectively. Service teams are more embedded in curriculum teams and more involved in curriculum evaluation and planning, providing contextualised support to learners, which did not happen prior to merger.
- At Glasgow Clyde College employer feedback during a focus group session confirmed that they have confidence that the College is placing a strong focus on vocational and employment skills and meeting industry needs. This contributes to ensure that students have clear pathways to employment and are prepared with the right skillset. There was agreement from all the employers present in the group on this. Although we recognise that we could only bring together a small number of stakeholders as part of the formal post-merger evaluation we consider the feedback is significant.
- At New College Lanarkshire staff reported that bringing together of staff expertise in curriculum areas and sharing of good practice across all campuses had improved the quality of delivery for students.

Students' Associations and student engagement

The merged colleges have been able to support the development of stronger and more effective Students' Associations than had been usual in the college sector prior to the merger programme, with the help of SFC ring-fenced funding in the early period post-merger totaling £2.4m. Evidence from across the merged colleges indicates that good progress has been made to ensure that Associations are strong and effective and have a clear place and function in the daily life of the college, but also suggests there is more to be done to ensure ongoing development and sustainability. The future NUS Scotland review will gather additional evidence on progress in this area. Other non-merged colleges subsequently implemented changes, with funding support from SFC, to ensure the whole sector is making a step change in this area (3)

As a result of the mergers there has been a renewed focus on ensuring effective student/learner engagement across all the colleges. This has been taken forward through refreshed or new student engagement strategies and through the colleges' support for their Students' Associations.

At an early stage of the merger programme SFC made a commitment to ensure the development of enhanced student engagement with the merger and other key issues through supporting the development of stronger and more effective Students' Associations, thereby influencing student engagement pre and post-merger. This was in line with the Government's commitment in *Putting Learners at the Centre*.

We did this through ring-fencing an element of the merger implementation funding specifically for this purpose in the early implementation phase, in addition to supporting development at a sector level in collaboration with NUS Scotland. SFC committed £2.4m to the colleges merging in this period to support the development of the merged Students' Associations.

Evidence from all the merged colleges indicates that there has been good progress in developing Students' Associations to ensure that they have a clear place and function in the daily life of the college, but also suggests there is still work to be done.
For example, Fife College Students' Association was formed during the merger of three colleges with three very different cultures around student engagement. Despite this, they have succeeded in creating a unified students' association with much more robust policies and procedures and with an excellent working relationship with its partner college, whilst playing a much more central role in shaping the life and work of the college. The Association is now beginning to update its strategic objectives and develop a more sustainable structure.

Through our post-merger evaluation discussions with students and senior staff, we can report that there appears to be a greater awareness and understanding of the role and function of Students' Associations. Early indications suggest that the Associations' work has contributed to student engagement within the colleges on key issues and an increase in scale and effectiveness of the class representative system (where there are more effective arrangements in place for training, development and support). In addition there are early indications that there is a significant increase in students' involvement in the democratic processes of their college, which is indicated by increased numbers of students standing for election and voting in the elections. New College Lanarkshire Student Association, for example, saw a five-fold increase in the number of students voting between 2015 and 2016. Such increases help to affirm the legitimacy of the Students' Association as the voice of students.

Until the end of 2016 SFC will continue to fund NUS Scotland to offer development support to Students' Associations in the merged colleges, and other colleges across the sector... NUS are in the process of undertaking a review of progress on outcomes of this work so far which is due to report in autumn 2016. We will have further evidence at that stage of the impact of the Students' Associations in the merged colleges and ongoing challenges.

Key concerns emerging at this early stage include:

- The importance of sustainable funding from colleges to support the Associations moving forward now that SFC ring-fenced funding has been fully utilised.
- The necessity of culture change in colleges where Students' Associations had not previously played such a central role in the life and work of the college.
- Clarity about the positioning of the Students' Association relative to the college; an effective Students' Association needs to be supported by its college whilst maintaining its autonomy.

Improved delivery of skills at regional level and meeting the needs of employers

The merged colleges have a clearer, more focused role in delivering a skilled workforce for their regions and have developed new and enhanced relationships with employers around curriculum planning, work experience and employability skills. Ensuring the delivery of the right curriculum in the right place has been critical to this development alongside significantly improved partnership arrangements with Local Authorities, schools, community planning partnerships (CPPs) and other community partners. (4)

We anticipated that one of the outcomes/benefits of the reform programme would be improved planning, co-ordination and delivery of skills provision within a region to meet the needs of employers, at a local level but also for Scotland's economy. Two key successes of the mergers programme referred to previously have been central to achieving this:

- The curriculum review work that has been undertaken across the merged colleges to ensure the right provision in the right place, including vocational pathways.
- The closer partnership working with employers.

Curriculum review across the merged colleges

All the colleges have placed high importance on curriculum mapping and review processes as the most effective way of developing a coherent regional curriculum that delivers skills at a regional level and which is aligned to the needs of employers.

All colleges/regions make a clear a commitment in their Regional Outcome Agreement and in their Corporate Plans to provide a breadth of access level provision on all main campuses to continue to ensure they meet local needs. SFC will continue to monitor and review this. The mergers have supported the colleges of scale to continue to deliver specialist curriculum areas in line with the specialist facilities they have available to them over the various campuses to ensure better access to meet identified needs.

The mergers have also allowed colleges to adapt their curriculum to respond more effectively to employer and school demand for STEM provision, for Foundation Apprenticeships, and other commercial provision. The success in adapting to ensure the delivery of appropriate STEM provision is a key success for the colleges and has been the cornerstone of the design and development of the colleges proving that their curriculum is demand driven.

Those responsible for curriculum and estates planning across the colleges have been able to draw on a range of evidence and intelligence through the enhanced stakeholder partnerships to ensure that they provide the right volume of provision in the right place. This has involved discussions with college-led employer skills forums. Given the ongoing and anticipated tight funding position in the public sector, and the implications of ONS reclassification, it will be critical that colleges reconsider and refocus their estates strategy going forward.

Work-based learning activity has been reviewed to take account of industry skills in both local and national sectors. There is greater access to industry and work experience / placements for students

Closer partnership working with employers

As part of the post-merger evaluations SFC has looked for evidence of enhanced relationships with employers as a key outcome of the merger programme. There were good examples provided in the post-merger self-evaluations confirming that, as a result of merger, colleges have developed closer and more effective employer partnerships and regional collaborations. We were also given additional feedback in the evaluation meetings with staff and senior managers.

We also met with a sample of colleges' partners during the college evaluations. Employer partners provided further evidence of how these enhanced arrangements with the colleges of scale in their region are benefiting all stakeholders, and alongside this how they have changed over the period since merger. In the absence of a baseline measure the employers we spoke to were able to provide us with a before and after merger picture. However, it is not possible to chart that change over time or make any direct comparison between colleges. This is an area where SFC could undertake more rigorous review in future and we will consider this as part of our Outcome Agreement monitoring.

In summary, the merged colleges have gained confidence in line with their scale and as a result have enhanced their relationships with employers and become more challenging in the contribution they expect employers to make to curriculum planning and in the provision of work placements and experience of the world of work.

Colleges reported that they place a high priority on employer engagement which is critical in providing students with pathways into employment and exposure to workplace activity. A college of scale offers a one-stop shop for employers and stakeholders and contributes considerably towards decluttering the local landscape. We heard this message consistently from colleges and from stakeholders. Often a business development team may cover the whole of the region and may be led by a Vice-Principal, or other member of the senior team, to develop these links. The responses below, reported during the post-merger evaluations, show the range of steps being taken across the colleges.

- *Employers and industry bodies are playing a key role in influencing the design and delivery of courses, and in contributing resources both physical and intellectual to ensure that students experience relevant learning in an environment reflective of the industry sector they are seeking to enter.* ***(Ayrshire College)***
- *Employers see the college as a resource partner who can help with workforce development as well as helping them with recruitment of talented students. We have seen a marked increase in the number of employers recruiting Modern Apprentices using the college as a partner.* ***(Dundee & Angus College)***
- *The college will establish Employer Councils in every curriculum area, to strengthen the employer contribution to curriculum design and development. Employers will be used to support the identification of skills gaps, advise on qualifications required to fill skills shortages and on how the college can better prepare work ready students on completion of their courses. This is an area of improvement previously identified in the College Development Plan.* ***(Edinburgh College)***
- *A major innovation has been the success of the pathfinder Foundation Apprenticeship programme delivered by College staff in Fife schools. The industry challenge project at the end of year one and many of the college's employer partners are contributing to that work.* ***(Fife College)***
- *The College has further developed strong working relationships with an extensive range of employers across most curriculum areas. Employers contribute positively to programme content and design across a wide range of programmes, which ensures that the delivery of qualifications meets industry standards. Employers provide guest speakers, work placements and live projects which support learners.* ***(Glasgow Clyde College)***
- *Post-merger the college has expanded the number of employers with which it engages in order to provide learners with more sustained and meaningful work placement experiences, more direct links to employment and offering the opportunity to contribute meaningfully to curriculum development in a number of areas.* ***(Glasgow Kelvin College)***
- *The new Lanarkshire Business Hub plays a key role in regional employer engagement. The Hub offers local businesses a free forum to meet and share their business knowledge and experiences through networking and guest presentations. The membership currently consists of 250 individual members.* ***(New College Lanarkshire)***
- *Discussions with employers also ensure that the college's curriculum portfolio meets the needs of the region and can lead to the introduction of new provision e.g. discussions between Scottish Maritime Academy and Peterhead Port Authority and Aberdeen Harbour led to the College beginning the Maritime and Coastguard Agency approval process for Vessel traffic Services and Training.* ***(NESCol)***

- *The Business and Enterprise Directorate has been consolidated and has a cross-campus remit with greater capacity to engage with employers. West College Scotland offer our business partners a named contact within the Directorate. Specialist teams have been put in place including teams focusing on commercial, funding, development funding and international activities.* ***(West College Scotland)***

In summary, there is a clear message that the colleges of scale are taking a lead role in their locality / region and working collaboratively with all stakeholders. Working relationships with employers have changed as a consequence of merger and are delivering additional benefits for all, including the creation of additional opportunities for students to gain experience in the workplace. Feedback from employers to the colleges and direct to SFC confirms that they are getting what they need from colleges as suppliers of training and development.

Assessing merger costs and savings and the impact of the wider financial context

Merger costs and savings

As at July 2016, analysis shows that the recurrent annual savings from the merger programme across the nine institutions is £52.2m. (5)

SFC supported the merging colleges with implementation funding/transformation funding both pre and post-merger. A condition of this funding was that the colleges would be in a position to make savings as a result of this support. SFC's Outcome Managers have maintained an ongoing dialogue with their colleges on finance and funding issues as this is a key element of the Outcome Agreement discussions.

At the point of the recent two-year evaluation SFC required the colleges to provide robust information relating to costs and savings via a common template at the same time as completing their self-evaluation report. The detail in the template supplemented the information and narrative on the financial information included in their report. From the information provided, we can say that as at June 2016 the overall annual recurrent savings generated across the nine merged colleges was £52.2m. The cost of delivering these mergers, as reported, was £71.6m.

It is important to note that while merger costs were for the most part one-off, and incurred over a period of five years (2011-12 to 2015-16), the savings from the mergers represent a permanent reduction in costs, and colleges will see the benefit each year. For example, one-off total voluntary severance costs of £46.9m will generate annual savings on salary costs of £48.1m; over five years this amounts to cumulative savings of £240m.

It is also the case that some of the merger costs, such as IT-related expenditure, would have been incurred without merger, but at a later date. In this respect some merger costs may be overstated, although it is not possible to quantify the amount of this overstatement.

The costs and savings from the Edinburgh College merger are not included in this analysis. This is because although savings were realised through voluntary severance, the impact of the merger is difficult to separate from the ongoing financial challenges faced by the College post-merger. Many of these issues are not directly related to the merger but some will be.

Merger savings

Most of the colleges achieved savings close to or above what they had anticipated at the planning stage of merger. The table below shows the annual recurrent savings resulting from the mergers as set out in the returns submitted by the merged colleges.

College	Ayrshire	Dundee & Angus	Fife	Glasgow Clyde	Glasgow Kelvin	New College Lanarkshire	North - East Scotland	West	SRUC	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Recurrent merger savings										
Severance	6,186	5,362	7,081	6,056	4,769	4,214	3,800	7,600	3,030	48,098
Procurement	458	-	100	850	-	-	-	-	1,000	2,408
Other	-	300	100	252	327	151	100	500	-	1,730
	9,999	**9,999**	**9,999**	**7,158**	**5,096**	**4,365**	**3,900**	**8,100**	**4,030**	**52,236**

The greatest proportion of recurrent savings has come from reductions in staff costs delivered through the various Voluntary Severance (VS) schemes. Had these staff still been employed, gross salaries would have had a higher cost (even ignoring inflation and incremental drift) because of subsequent changes in National Insurance and pension contribution costs. The recurrent savings reported above are therefore possibly understated.

Other common areas of recurring savings identified by colleges include reductions in:

- Administration costs.
- IT support costs.
- IT licencing costs.
- Estates costs (applies only to colleges were there has been some estates rationalisation due to the merger).

Merger costs

The cost of delivering these mergers, as reported in the post-merger evaluations and including the ring-fenced funding for Students' Associations, was £71.6m. (6)

Merger costs reported by the colleges are set out in the table below.

College	Ayrshire	Dundee & Angus	Fife	Glasgow Clyde	Glasgow Kelvin	New College Lanarkshire	North - East Scotland	West	SRUC	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Merger costs										
Severance	5,155	6,258	5,966	5,599	4,997	4,164	3,000	8,700	3,100	46,939
Harmonisation costs	565	750	76	1,189	230	350	500	1,700-	900	6,260
Staff costs/project management	137	89	129	243	118	248	-	-	-	964
IT hardware/software	412	469	2,001	1,899	783	1,617	1,800	1,500	-	10,481
Marketing/branding/stakeholder relations	235	115	74	277	163	185	437	-	-	1,486
Professional advisers including due diligence and legal costs	98	83	125	103	101	87	90	-	-	687
analysis/organisational development	-	20	-	-	-	-	317	-	-	337
Other	-	64	137	36	128	58	56	1,500	2,490	4,469
	6,602	**7,848**	**8,508**	**9,346**	**6,520**	**6,709**	**6,200**	**13,400**	**6,490**	**71,623**
Funded by SFC	4,750	3,500	7,222	4,963	5,006	4,638	3,700	6,800	5,890	46,469
Grant from Arms Length Foundation						1,044				1,044
Funded by College	1,852	4,348	1,286	4,383	1,514	1,027	2,500	6,600	600	24,110
	6,602	**7,848**	**8,508**	**9,346**	**6,520**	**6,709**	**6,200**	**13,400**	**6,490**	**71,623**

There has been some impact on recurrent costs, the main cause being the cost of harmonisation of pay and conditions in the post-merger period. However the majority of merger-related costs are one-off in nature, the largest of these non-recurrent costs being Voluntary Severance costs.

Other common areas of non-recurring costs are:

- Legal costs, due diligence and other professional advice.
- IT harmonisation.
- Branding.
- Estates strategy development.
- Project management.

Other financial issues highlighted

The merger programme took place against a backdrop of other changes that affected the finances of the sector. Other financial issues highlighted by the colleges in the self-evaluation and in evaluation discussions included:

- Commercial income streams were down in many regions as a result of the downturn in the economy but colleges are being proactive in how they work with employer partners and operating as larger colleges of scale is beneficial in seeking to address this.

- In their reporting colleges noted difficulties in accurately splitting savings as a result of merger and general efficiency savings related to real terms changes in funding because of the climate for public spending.
- In the evaluation sessions staff also found it difficult to differentiate whether issues they had experienced might be directly a result of merger or a result of general cost-cutting across the college to address the funding and financial challenges across the sector.
- Where merger took place mid-year this added additional financial reporting challenges.
- For some colleges new business plans were needed soon after merger to accommodate the impact of unforeseen or legacy issues, including the impact of the reclassification of colleges as public bodies (by the Office of National Statistics) - outlined in detail below.

The wider context for merger implementation

The context within which the mergers were implemented was complex and included the reclassification of incorporated colleges as public sector bodies from 1st April 2014, which placed additional requirements with colleges. It was also a period where we saw resource constraints across the public sector, the introduction of a new needs-based and simplified funding model, the introduction of regional strategic bodies in some regions and the start of national bargaining discussions. The outcome of the above in some instances was that the business cases for merger were implemented in a different context from the one in which they were planned. This caused additional pressure for the colleges during the early post-merger period. (7)

We have been mindful of the unique circumstances the colleges have been operating in since 2012 - simultaneously preparing for and implementing a merger alongside dealing with other major changes affecting the sector. In particular the impact of regionalisation and reform, including the development of outcome agreements for the sector, the appointment of new chairs and boards[10] and in multi-college regions new regional strategic bodies; major curriculum reviews in some regions; the reclassification of incorporated colleges as public bodies (ONS changes); ongoing funding constraints across the public sector; the introduction of a needs-based funding model; and national bargaining.

We were aware that some of the issues raised in our evaluation discussions with staff and senior managers were more likely to be a consequence of some of these other changes, which would have had to be addressed even without a merger, but they impacted on the college in the same timeframe. The two issues about which most concerns were raised were ONS reclassification and, for multi-college regions, the

[10] Some chairs and board members were appointed again.

additional work required in implementing the required arrangements for a regional board and changes in autonomy and accountability.

ONS changes

The ONS reclassified incorporated colleges as public bodies with effect from April 2014. This had implications for the way that colleges managed and reported their finances from that date. The impact of ONS reclassification was such that:

- All income and expenditure by incorporated colleges, including that funded from either reserves or borrowing, now counted as part of the Scottish Government's own income and expenditure.
- All expenditure by incorporated colleges (net of income) required budget cover from within the Scottish Government's own budget limits.
- From 1 April 2014 there was only limited scope for incorporated colleges to carry forward surpluses to future years.

To protect existing reserves at 1 April 2014, colleges set up Arms-Length Foundations (ALFs) to and donated surplus cash reserves to them.

The introduction of the new budgeting and accounting requirements and significant increase in the number of financial returns resulted in an increased workload for college finance staff. Developing an understanding of and adhering to the new requirements was particularly challenging for small finance teams where there is little scope for flexing workload. In addition, many merged colleges were still in the process of aligning legacy accounting systems when the new accounting and reporting requirements came into play.

Regionalisation

A college board is primarily accountable to its main funder – either SFC or its regional strategic body. Through the chain of funding, the body is ultimately responsible to the Scottish Ministers who are accountable to the Scottish Parliament.

The Glasgow and Lanarkshire regions remain multi-college regions following mergers in both. Each has different regional structures and arrangements in place.

In Glasgow a new Regional Board (a type of regional strategic body) was established in May 2014 and has since been working to consolidate its operational processes and regional arrangements. The three Glasgow colleges, assigned to the Regional Board in August 2014, retain their own college boards with governance responsibilities. This led to an initial lack of certainty, both in authority and accountability, for the colleges. As the colleges remained funded by SFC, they remained principally accountable to SFC[11]. There was also an immediate need in Glasgow to review the curriculum and estate to ensure that the right provision was offered in the right place to benefit all learners in Glasgow. This was a complex project which, although progressed effectively, made additional demands on the senior management and curriculum managers at the same time as mergers were still in the early stage of implementation.

The Lanarkshire Colleges Order 2014 designated New College Lanarkshire as a regional college and as the regional strategic body for Lanarkshire from October 2014 and made provision for South Lanarkshire College as an assigned college. The Board of Management for New College Lanarkshire operates under the name The Lanarkshire Board. The Board of Management of South Lanarkshire College retains its governance responsibilities for its college.

As well as their accountability to the regional strategic body, assigned colleges will also continue to maintain direct accountability to SFC for a number of areas such as financial reporting.

Both the reclassification of incorporated colleges as public bodies, and the creation of regional strategic bodies as part of regionalisation, has altered accountability and impacted on autonomy for some college boards.

[11] The Regional Board has a duty to monitor their performance. In addition, the Glasgow colleges will become accountable to the Regional Board when they are principally funded by it.

Factors contributing to the success of the mergers

The key aspects which contributed to the merger successes highlighted, included effective and strong leadership and governance; clarity of vision, strategy and objectives (led from the Board level); the commitment of staff at all levels to ensure no detriment to the student experience during the change process an beyond; and a people-focused senior team who placed organisational development, a renewed focus on learning and teaching, and new ways of working /how things are done(culture shift) at the centre of the merger process. (8)

A key lesson learned from earlier college mergers and more widely from the public sector in Scotland, as confirmed by Audit Scotland, is that mergers are complex and need strong, strategic leadership from an early point.

Across the programme of mergers covered by this report we heard positive messages about the focus and commitment of the senior teams, including the Principals, and the Boards to set the strategic direction of the merged college and outline its vision for the future. See Annex C for fuller details on key governance and leadership issues raised during the individual evaluations.

All colleges understood that critical work to implement the merger continues after vesting and clear plans are needed to ensure business continues as usual to avoid detriment to students while at the same time focusing on supporting staff and delivering improvements for the future and new ways of working as one college.

From the outset there was a clear commitment from the Boards of the new colleges, senior management and staff that there should be no detriment to the student experience as a result of the merger. Despite the challenges that may have emerged in individual colleges this remained a priority for all. However, SFC heard in the feedback from staff, senior managers and trade union representatives that often this placed particular strain on staff who were putting in extra time to support students or ensure appropriate systems were in place to support students.

Changes in the way of doing things (culture change) and a sense of belonging were identified as critical to the success of the new college. Each college has responded in different ways to how they develop new ways of working and engage their staff in delivering the vision for the college. The evidence gathered in the evaluations shows progress across the sector although some colleges were slower to respond, and to communicate this vision to staff. Some key issues are identified from the evaluations and these are outlined below alongside examples of good practice. It was clear that often the issues of governance, leadership and culture change are mutually-dependent.

A new way of working is developing across the merged colleges, albeit it at a different pace in each, that takes a more enterprising approach to operations and delivery and accepts that the current environment requires the colleges to constantly review, adapt and change - even more so than previously - and where staff expect to be, and should be, active in the change process. (9)

Culture shift and ensuring a sense of belonging to the college: key issues raised during the individual evaluations

- We should recognise the level, pace and scope of the change that staff have experienced since merger and that cumulative effect of the change can be detrimental to individual well-being and impact on the pace of culture shift. Staff may need additional support through the change process, starting pre-merger.
- Different campuses may develop their own perspectives and narratives to explain and accept merger but unless there is an overarching approach this can impact on the time taken to integrate staff and to develop a sense of belonging to the new college.
- Different experiences in the legacy colleges and the path to merger meant that some staff may have arrived at the newly merged colleges with less commitment and enthusiasm, while others had no such issues.
- If underlying differences in systems, processes or policies remain and are not integrated then this can impact negatively on staff buy-in to the "one college" approach. Similarly the upheaval of moving to new systems and learning new ways of working were demanding on staff and could cause additional pressure.
- External factors impacted negatively on the mood of staff and made it more difficult for them to see benefits in the merger. SFC heard evidence of this and feedback on key issues such as the impact of overall budgets, change to the funding model, ONS changes, and regional issues which may not be directly related to merger implementation.

Culture shift and ensuring a sense of belonging to the college: good practice identified during the individual evaluations

- Staff responded positively where success in the merged college is celebrated and staff and student achievements are recognised.
- Cross-campus collaboration on learning and teaching and/or external events contributed to a sense of belonging to one college.
- Refocusing on learning and teaching at the centre of what colleges do helped staff to buy into the vision for the new college.

- Where staff clearly felt they were at the heart of the college and valued in their role, this contributed to the success of the change process. This required all staff to operate effectively and appropriately in their role.
- Regular consultation with staff and staff surveys on key aspects of change and development was appreciated by all staff.
- Some colleges have been supporting staff in various ways, even prior to the point of merger, through internal occupational health provision, and through holistic staff support programmes focusing on well-being, coping with change and developing resilience.
- Embedding of vision and values work is critical at an early point post-merger.
- Development of programmes to actively engage staff in innovation and change.
- Where new colleges are seen to take best practice from whichever legacy college had the most effective systems/processes/ways of doing things then staff are more likely to accept this change more readily.
- Staff felt more valued where there was a clear commitment to a programme of continuing professional development including:
    - Annual staff conferences and development sessions, alongside the introduction of an inspiring leadership programme for the college.
    - The introduction of an internal management development programme for all staff who line-manage or supervise staff.
    - Introduction of professional development reviews.

During the evaluations we heard evidence from staff and senior managers of the innovative steps taken to engage and consult with staff, shift mindsets and behaviours and change the way things were done across the merged college. We wanted to know how this had been achieved and how successful the actions had been. We asked a set of questions around this to help understand success in implementing new ways of working, thinking and doing. At Annex D we have identified specific activities and approaches which the colleges indicate have been effective in achieving this shift.

Lessons learned (for SFC and the sector)

For a substantial proportion of staff in merged colleges the changes since vesting day have been significant and some aspects of merger will take additional time to be fully embedded due to the complexity of issues during the post-merger phase. Operating as multi-campus colleges of scale requires staff to learn new ways of carrying out business impacting on communications, quality and reporting arrangements. Effective communication and engagement with staff remains critical during the change period and beyond. (10)

Taking account of the evidence and feedback in relation to merger implementation four key issues emerged where it was clear lessons have been learned by SFC and the sector. These are outlined in more detail below:

- The importance of understanding the full range of issues impacting on staff during merger implementation.
- The scale of the challenge and time required to fully integrate business systems.
- The need for very clear guidance on governance issues pre and post-merger and systems for ensuring this is adhered to.
- The need for voluntary severance decisions to always be taken strategically in the light of the future needs of the college.

Issues impacting on staff

Throughout this report we have illustrated the significant changes that merging colleges had to implement within a compressed time period, impacting on many aspects of college operations. This included the provision of learning and teaching, the business operations and systems that support delivery and how colleges are structured and managed. All of these issues effected staff in the colleges on a day-to-day basis.

Where colleges had put in place additional support for staff well-being during the merger implementation process this was viewed positively. We would recommend this is considered for any future mergers.

The following issues and concerns were identified during the two-year evaluation meetings with staff, trades unions and senior management. Some of the issues were particularly problematic early in the merger process, and may since have been resolved. However, these issues should not be underestimated in terms of impact on staff well-being, and ensuring that they are addressed is critical to future progress.

- Operating as a multi-campus college of scale with new structures and teams in place requires staff to learn new ways of carrying out business with implications for communications, quality and reporting arrangements.

- The impact of changes to ICT infrastructure and systems integration can affect many areas of college operations including admissions, student funding, learning and teaching, data capture and reporting. The level of systems change has been difficult and challenging for many staff but the benefits of the new systems are now being recognised, particularly in terms of more effective services for students.
- The required staff restructuring and harmonisation of conditions are complex processes that take time and impact on staff at all levels across the college.
- The loss of staff expertise and experience early in the merger process, particularly some staff who had worked at their legacy college for a long time, impacted on the day-to-day working of remaining staff who may be in a new role and feel under pressure. Even although this had mainly taken place at the point of merger, when we met with groups of staff during the two-year evaluation it was still one of the merger issues they wanted to discuss.
- Developing consistent provision, services and support across campuses is complex and requires flexibility and commitment from all staff.
- Establishing new college-wide policies and procedures requires linkages with quality arrangements and a clear timescale.
- The ability of staff to understand and support the college's purpose and strategic direction supports new ways of working and helps staff develop a sense of belonging to the merged college.
- For merged colleges in multi-college regions the development of the regional strategic bodies and the need to address regional issues presented further demands and challenges for staff in these colleges and contributed to on-going uncertainty where there was lack of clarity.
- Staff we spoke to also highlighted the potential impact on staff morale during a time of funding cuts and uncertainty. They stressed the importance of communicating honestly and openly on a regular basis with staff, providing information about the current financial situation of the college and the vision and plans in place for the future.

Many of these challenges have already been identified by senior management and where appropriate have been, or are being, addressed. SFC will continue to monitor these areas through the normal Outcome Agreement discussions.

In addition SFC has identified that the evidence from employers in the individual evaluations should have been more rigorous and consistent across regions. SFC should look to how it can best engage on an ongoing basis with employers across Scotland to hear first-hand the impact of the larger colleges of scale in meeting employer needs.

The challenges in delivering integrated business systems

Additional time and resource was needed to create integrated, effective business systems to train staff to operate effectively and to align procedures and processes across all campuses. In a small number of colleges urgent action was required to ensure the appropriate systems were in place and operating effectively to implement the application/enrolment process and to deliver bursary/support payments and learning support. (11)

The evaluations highlighted that the time commitment and investment needed to deliver and fully implement integrated, effective business systems for the merged colleges was greater than expected. Although most colleges created a new networked college communication system including web/email and a single cross-campus telephone system from vesting day with few problems emerging, some of the other business and support systems took longer to deliver.

In some cases, urgent action was required to resolve issues and avoid impact on students and their learning experience. The areas of college operations affected included admissions and enrolments, student funding, learning and teaching, and data capture and reporting.

A few colleges reported that the embedding of single systems and procedures has gone well and we heard evidence to support this progress. For other colleges SFC identified several issues during the early six-month evaluations that required urgent attention. We are reassured that these issues were subsequently addressed appropriately by the colleges.

Issues/problems identified

- In some cases the merged college operated in the first year of merger using the legacy systems of the former colleges.
- Where integrated systems went live later in the implementation phase there was additional pressure for staff who may have had to undertake intensive training requirements,
- Where vesting day occurs at a point in year as opposed to the start of the academic year there are additional complexities for systems integration
- The issue arising may not be purely a systems problem and the whole process may need to be looked at end-to-end.
- It took time to consult with staff and develop systems that fully met the needs of the merged colleges.

- For some colleges decisions taken early on in relation to some integrated services have had to be reviewed and changed following ongoing monitoring and consultation with staff.

SFC can report that most college IT and business systems were working effectively at the point of the two-year post-merger evaluations with any initial issues resolved. This was confirmed by students and staff we met with. Staff were able to identify where there were recurrent problems which they were addressing. For future mergers the following potential issues were highlighted by staff:

- The integration of systems across all campuses should have been front-loaded to avoid the challenges that arose for some later in the merger implementation phase.
- Where changes were implemented at a later stage post-merger, piloting of systems prior to the implementation would enable problems to be identified and comprehensive staff training to be undertaken prior to full implementation.
- Prioritise the setting up of the Systems Development Team responsible for implementing a cohesive and robust set of systems throughout the college. These teams have been instrumental in the design, development and deployment of many of the college systems now in place.
- In one college an external facilitator was brought in to assist with continuous improvement in systems integration.

Governance issues pre and post-merger

Robust governance arrangements are critical for the appropriate delivery of severance arrangements flowing from merger. SFC has changed its requirements in relation to the approval of severance schemes as a result of lessons learned in this merger programme (and the reclassification of colleges as part of the public sector has also required changes to be made). (12)

Severance programmes need to be strategic if they are to achieve and sustain the associated savings from the strategic funding allocated. (13)

In two cases the governance of severance arrangements just prior to merger led to section 22 reports by Audit Scotland and further reports by the Public Audit Committee.

- In the case of North Glasgow College there was no evidence to support whether severance packages had been reviewed and/or approved by either the Remuneration Committee or the Board. The college was unable to provide evidence that there had been an assessment of the value for money of the severance payments.

- In the case of Coatbridge College the Section 22 report concluded that the College had failed on a range of issues in relation to its severance payments, including payments that exceeded agreed terms, a lack of evidence to show that the Remuneration Committee had access to appropriate information and advice to fulfil its responsibilities and no evidence of value for money assessment.

On revisiting our revised merger guidance, available to the sector in August 2012, we concluded that we did not set out in enough detail the governance requirements associated with severance arrangements, expecting that the colleges would refer to our other published guidance on severance. We have subsequently published updated guidance in February 2016 on seeking approval for severance schemes and settlement agreements. It specifically outlines the requirements in the Scottish Public Finance Manual in relation to severance schemes and settlement agreements. These requirements are a term and condition of funding from SFC with which colleges must comply. Incorporated colleges must now obtain prior approval from SFC for all new severance schemes, changes to existing schemes and all settlement agreements. We have revisited our merger guidance and will ensure that we take account of this if there is a need to produce updated guidance.

Despite our guidance in advance, and reassurances from the colleges, in a few cases we are not convinced that the severance programmes were as strategic as they could have been. Some colleges let staff in certain areas go prior to or following Vesting day and then had to replace the lost skill set in order to deliver effectively. This impacted on the colleges' ability to deliver the full associated savings from the strategic funding allocated.

Next steps

SFC will continue to assess through its Outcome Agreement process the progress of the merged colleges on the key issues identified in this report and report to the sector and key stakeholders as appropriate. A Summary of Progress and Ambitions is published annually.

Annex A

The evaluation process

Given the scale of the merger programme underway, and the anticipated impact on the sector, SFC recognised that it was critical to be reassured early that merger implementation was progressing well, that strategic direction was clear and that the appropriate governance and management arrangements were in place to support this. We introduced an evaluation at six months post-vesting day to seek evidence of initial progress and success. This was in line with good practice suggested by Audit Scotland.

At the same time we recognised that it was premature at six months to assess the delivery of the expected benefits and outcomes. During the earlier evaluations SFC was able to identify issues and concerns in some colleges which were impacting on students and/or on staff and share these with the senior management and seek assurances on the actions the colleges were taking in response.

This was followed by a more in depth review at the two-year point. We did this by:

- Extending the range of evidence we considered, including PIs, progress with delivering Outcome Agreements, spending additional time meeting with students, staff, stakeholders, senior management and the Board.
- Placing more emphasis on, and producing clearer guidance for, the college self-evaluation.
- Paying particular attention to the external review outcomes by Education Scotland (ES) around one year post-merger.

We discussed the anticipated high level, and wider benefits of the regionalisation programme with the colleges at points pre and post-merger, particularly at the early evaluation point, and we wrote to the eight colleges in July 2015 to remind them of the areas of focus for the two-year evaluations which would be undertaken in AY2015-16. Based on our experience of previous mergers, and what the colleges told us in their merger proposals, we focused on the following key headings:

- Efficiencies and benefits of scale.
- Improved outcomes for students.
- Improved delivery of skills at a regional level and meeting the needs of employers.
- Efficiency/financial savings.

Annex B

Colleges formed following merger in AY 2013-14

Ayrshire College:
http://www.sfc.ac.uk/web/FILES/ReportsandPublications/Ayrshire_College_PME_Report.pdf

Dundee & Angus:
http://www.sfc.ac.uk/web/FILES/ReportsandPublications/Dundee_and_Angus_College_PME_Report.pdf

Fife College:
http://www.sfc.ac.uk/web/FILES/ReportsandPublications/Fife_College_PME_report.pdf

Glasgow Clyde College:
http://www.sfc.ac.uk/web/FILES/ReportsandPublications/Glasgow_Clyde_College_PME_Report.pdf

Glasgow Kelvin College:
http://www.sfc.ac.uk/web/FILES/ReportsandPublications/Glasgow_Kelvin_College_PME_Report.pdf

North East Scotland College:
http://www.sfc.ac.uk/web/FILES/ReportsandPublications/North_East_Scotland_College_PME_Report.pdf

New College Lanarkshire:
http://www.sfc.ac.uk/web/FILES/ReportsandPublications/NCL_College_PME_Report.pdf

West College Scotland:
http://www.sfc.ac.uk/web/FILES/ReportsandPublications/West_College_Scotland_PME_report.pdf

Institutions formed following merger in AY 2012-13

Edinburgh College:
http://www.sfc.ac.uk/web/FILES/ReportsandPublications/Edinburgh_College_PME_Report.pdf

SRUC is part of the higher education sector was formed when the three land-based colleges merged with the HEI, the Scottish Agricultural College.

Annex C

Governance: key issues

- Appointment and role of Regional Lead/Chair important to establish clarity and vision early in the merger process.
- Awareness of the Board members of the changed regional landscape and clarity of their governance role of the assigned college or the regional college.
- Refresh of Board members when appropriate - the reappointment processes ensured “new blood” and gender balance.
- Student and staff representation is valued and there is engagement in appropriate Committees.
- Adherence to the Code of Good Governance.
- Review of Committee Structures early post-merger.
- Development of successful relationships of trust between the Chair, the Principal and the senior management team.
- Governance arrangements that are subject to both internal and external audit.
- Commitment of the Board to transparency in all it does.

Governance: good practice identified

- Establish short-life working groups for the Board to focus on change in critical areas including quality, equalities, estates and curriculum review.
- Additional briefings to keep the Board apprised of key issues.
- Board members pay close regard to the voice of learners and the quality of the student experience is central to all Board decision-making.
- Board members are visible and accessible to students, staff and stakeholders, for example by attending celebration events.
- Appropriate training and development activities to ensure Board members are fully aware of their governance role and responsibilities.
- The Board reviews and where appropriate revises its governance arrangements through a Governance Steering Group.
- An enhanced performance evaluation process for individual Board members.

Leadership: key issues

- Staff indicated that the college benefited where a Principal and senior management team were in place early with clear messaging on direction of travel. Where there were delays, and there were various reasons that this could happen, this was challenging to the implementation of the merger.
- The corporate plan/vision should provide a strong, strategic focus on the purpose and benefits of establishing the new organisation and the

further organisational change and development that is required to secure these benefits.

- Staff should be clear about their role in the new college at an early stage and see how they contribute to delivering benefits for students and stakeholders. Where there were delays in implementing the new structures this impacted on the speed of merger implementation.
- Senior management need to be visible at all campuses of the college on a regular basis with clear ways for staff to engage directly with them.
- Communication from senior managers is critical and there should also be mechanisms for staff to feedback directly to senior management. Staff need clear messaging about the change process and its impact and this communications needs to come in different formats. Recognise that there may be blockages in communication chains that need to be addressed.
- Engaging, communicating and gaining the trust of an often anxious workforce is a key priority for the leadership of the college
- Recognise that for those appointed as senior managers/ curriculum heads it will take time to adapt to the size, scope and responsibilities of the new posts which are considerable in a larger college. These roles are critical in the management and communication chain and any delay in becoming fully functional will have an impact on key staff they manage. The feedback from staff identified this issue as particularly problematic where the line manager that previously line managed them and was perhaps previously physically located nearby was now based in a different campus and not visible every day as a result of managing more people.

Leadership: good practice identified

- Ongoing review of the effectiveness of internal communication and appropriate changes implemented, including regular updates from the Principal, bulletins, email and intranet correspondence, and face-to-face.
- Develop and adopt a corporate/strategic plan for the new college early post-merger. The plan should provide a strong focus on the purpose and benefits of establishing the new college and the further organisational change and development that is required to secure these benefits
- Senior staff need to lead by example on vision and values.
- Senior management attend team meetings at local level, attend staff inductions and accompany the Principal to college-wide meetings.
- Building constructive relationships with the trade unions, the EIS, Unison and Unite contributes to building trust with staff.

Annex D

Promoting culture shift – short case studies to illustrate how colleges are doing things differently post-merger

When we met with staff in the colleges as part of the evaluation exercise we heard examples of some innovative approaches to changing the way things are done post-merger that might encourage a culture shift in the college. Where staff were enthusiastic about these developments and actively participating there was evidence of a more positive approach to the changes still underway and planning for the future of the college. We asked staff and senior manager for additional information on these activities and often they had already been identified in the self-evaluation. We have included four short case studies to illustrate these developments and their impact.

Ayrshire College

Ayrshire College had in place a structured programme of activities prior to and post-merger that focused on valuing the contribution that all staff make to the organisation and focusing on staff well-being. In particular prior to, and during the process of merger implementation, a comprehensive staff support programme focusing on staff wellbeing was developed with a range of external partners, and delivered to prepare staff for the future changes that merger would bring. The initial focus of the programme was wellbeing and included a range of activities to increase resilience, understand and prepare for change.

The programme took a holistic approach to wellbeing and promoted both college and external services that support wellbeing this included counselling services, physical activities, complementary therapies, as well as workshops that aimed to develop confidence, develop strategies to deal effectively with change and build resilience. The programme helped prepare and build confidence as staff were going through restructuring process and offered practical support such as, preparing for interview and also further support to develop resilience throughout the change process. This programme continues and the wellbeing of staff remains a key priority.

The college holds an annual celebration of success event for all staff which highlights the significant contributions from staff and teams during the year as nominated by their peers, colleagues and students. Staff achievement is recognised regularly prior to the Committees of the Board of Management where Board members present certificates to staff who have achieved qualifications or other significant programmes.

Dundee & Angus College

Feedback from staff at Dundee & Angus College highlighted how the college was highly collaborative and collegiate and encouraged them to identify new ideas and approaches in taking the new college forward. This was exemplified through the *Executive's Showcase events*, which were described as an opportunity to share good working practices across the college.

Staff explained that a lot of effort went into delivering the showcase events and that the Principal and Senior team all attended. Overall staff felt that they were encouraged and enabled to influence the direction of the college through these events and their efforts were valued by the senior management.

Glasgow Kelvin College

While considerable work had been done on culture and values in the first year post-merger the College identified a shortfall in moving forward with a shared culture in 2015. Alongside a programme of professional development the College decided to promote three new ways of working that could if successful take forward a cultural shift in teaching practices and project-based learning approach. It has done this through refocusing on learning and teaching at the heart of what the College is about:

Working with the Gazelle Colleges Group to develop initiatives which will identify ways to become more innovative in teaching approaches and enhance the learner experience. This has included training 50 staff in 'entrepreneurial thought and action' which explains practical ways to re-think the design and delivery of teaching, learning and assessment. From this event staff were invited to propose Empowered to Take Action (ETA) projects which were considered by a panel consisting of Senior Management Team (SMT), College managers and teaching staff. In 2015-16 the college supported seven innovative projects to take forward. The level of enthusiasm and involvement by staff to engage in this work has impressed the senior management team and the Board

In advance of this development in June 2015 and October 2015 staff from Preston College delivered sessions on project based learning approaches particularly with regard to the STEM curriculum. A team of 11 staff visited Preston College and as a result have created an action plan which will develop project based learning in the STEM curriculum.

Design thinking methodology has also been delivered at four of the learning and teaching conferences held at the College. Design thinking similar ETA is a methodology to inspire innovative and creativity within learning and teaching at the College providing students with more engaging activities.

West College Scotland

The College was determined that the staff themselves should define the culture of West College Scotland (WCS). They told the senior management that they wanted it to be "student-focused, well led, supportive, outward-looking, with high standards and trusting." This underpins what the College called The Fourth Way, that is, the behaviours and competencies which helped create and sustain a new, single WCS culture.

The College has endeavoured to be true to this culture in all its activities and this is now an integral part of its wider Vision. In autumn 2015 the College embarked on the next stage by inviting staff to participate in a survey and focus groups to better understand and tease out exactly what those behaviours are and whether the college witnesses them on a daily basis

This focus on staff ownership of change was also evident when the College in autumn 2013 launched the Collective Ambition Programme (CAP). This was to develop and promote "a two-way feedback mechanism and to positively support College staff to contribute to the present and future direction of West College Scotland".

CAP team Steering Group was set up to oversee strategy, while a CAP Working Group, comprising managers and staff volunteers initiated and delivered operational aspects of the programme. This included individuals working with relevant departments to organise and develop timetables, internal marketing campaigns and meetings to support major change projects. For example, team members supported and advised HR staff on the introduction of the new HR & Payroll system introduced in autumn 2014.

At the heart of the staff support initiatives was the CAP site on the Staff Intranet. This is where staff were able to ask questions of the Senior Management Team or to find out information about major projects, for example Job Evaluation. At the point of the two-year post-merger evaluation staff had nearly 700 questions answered since merger. In addition, the CAP project has arranged for video-casts with the Executive Team, pod casts with the Principal and other members of staff and has arranged several "Ask Audrey" sessions, where the Principal has taken open meetings with staff across campuses.