

Scottish Further Education Funding Council

Performance management of the further education sector in Scotland

Main report / Prepared for the Auditor General for Scotland

September 2003



Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Executive or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Executive and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- departments of the Scottish Executive eg the Health Department
- executive agencies eg the Prison Service, Historic Scotland
- NHS boards and trusts
- further education colleges
- water authorities
- NDPBs and others eg Scottish Enterprise.

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Summary

Page 2

Performance results

Page 3

Further development of
performance information

Page 4

Using performance management to
support continuous improvement

Page 9

Conclusions and recommendations

Page 11

Part 1: Introduction

Page 13

Further education colleges

Page 13

The role of SFEFC

Page 15

Audit Scotland examination

Page 17

Part 2: Performance results

Page 18

Results over time

Page 18

Revised performance indicators for
2000-2001

Page 26

Part 3: Developing performance measures

Page 28

Performance measures in SFEFC
corporate plans

Page 29

Proposals for further improvement

Page 36

The likely impact of SFEFC's
proposals

Page 38

Part 4: Using performance management to support improvement

Page 40

Target setting

Page 40

Benchmarking

Page 42

External comparisons

Page 43

Accountability

Page 45

Appendices

Appendix 1: SFEFC description of
themes underpinning its
performance management

Page 46

Appendix 2: Methodology

Page 51

Summary

1. The Scottish Further Education Funding Council (SFEFC) was established in 1999 with responsibility for securing the adequate and efficient provision of further education in Scotland, primarily through the distribution of grant-in-aid. SFEFC distributes some £400 million in grant-in-aid funding to the colleges each year in accordance with Ministerial priorities but it has no specific powers to intervene in the direct running of the colleges. As accountable officer, SFEFC's chief executive has a duty to promote and monitor economy, efficiency and effectiveness in the way colleges use the resources allocated to them.

2. SFEFC operates under a policy, managerial and financial framework set out in a management statement issued by the Scottish Executive Enterprise and Lifelong Learning Department. The statement requires SFEFC to produce a corporate plan, which is to be updated annually and reviewed every three years. The corporate plans, which are approved by Ministers, should include appropriate qualitative and quantitative measures for monitoring performance against SFEFC's key aims and objectives. Plans produced since SFEFC's inception in 1999, have included performance indicators covering SFEFC's internal processes and the overall performance of the further education (FE) sector.

3. SFEFC does not directly manage individual colleges but seeks to improve the responsiveness of individual colleges to the needs of the communities they serve and to wider policy objectives. It does this by:
 - requiring colleges to provide regular returns on aspects of further education activity;

- setting a college funding model based on expected activity levels for each college;
- applying robust quality assessment procedures and requiring colleges to meet quality standards; and
- monitoring college responsiveness to initiatives designed to improve the provision of further education.

Performance results

4. SFEFC inherited a suite of quantitative performance indicators for FE. These indicators provided measures covering the level of student activity, the quality of FE provision through measures of student achievement and student retention, the financial health of the FE sector and a unit cost measure of college efficiency. Further information on the quality of FE provision was provided in reports of college inspections undertaken by Her Majesty's Inspectorate of Education (HMIE).
5. SFEFC has continued to use the indicators covering student activity and financial health. It suspended publication of quantitative indicators covering quality and delayed publication of the unit cost measure of college efficiency. This reflected weaknesses in the underlying information. SFEFC has worked with the sector to improve the robustness of the data and as a result published up to date information on both sets of indicators in August 2003. SFEFC has also developed measures of quality and efficiency which are complementary but not included in its corporate and operational plans.
6. The results recorded against the indicators of student activity and financial health present a picture of continuing improvement within the FE sector:
 - the number of students participating in FE has exceeded expectations. In July 1998, Ministers set a target of 40,000

additional places in FE by 2001-2002, a 10% increase. By 2001-2002 student enrolments had increased by 25% and course activity had increased by 16%.

- the level of operating deficit recorded by the sector fell from £16 million in 1999-2000 to a surplus of £2 million in 2001-2002. In the same period, accumulated deficits recorded by the sector were reduced from £15 million to £12 million. SFEFC continues to monitor college financial health in some detail and is introducing measures to improve financial security in the sector. Further information on these measures is included in my overview reports on the FE sector.

Further development of performance information

7. In March 2000, the Minister for Enterprise and Lifelong Learning asked SFEFC to *“review the range of performance indicators considered necessary, and then to put in place appropriate mechanisms to establish, measure and publish these”*. Exhibit 1 (page 6) shows changes to the performance indicators for the sector used by SFEFC since 1999. These developments include the improvement of inherited indicators covering quality and efficiency whose publication had previously been delayed or suspended, and new indicators providing a better link between sector performance and Ministerial priorities.
8. SFEFC considers that the results of HMIE reviews of colleges provide the most comprehensive and reliable information on the quality of FE provision. Revised procedures, introduced in October 2000, require HMIE to visit colleges on a four-year cycle. HMIE publish reports on each review which include assessments of college performance against important aspects of college management and teaching. SFEFC publishes aggregate results of the assessments made by HMIE although this information is not included in SFEFC’s corporate plan. By 2001-2002, 77% of HMIE

grades of college management were good or very good and 1% were unsatisfactory; for reviews of college teaching 83% of grades were good or very good with 1% unsatisfactory.

9. SFEFC is developing information to monitor customer satisfaction through regular surveys of students and employers. Two surveys of students' experience of further education have been undertaken. The second, published in July 2003, found that over 90% were satisfied with the quality of learning experience. SFEFC plans to repeat the survey at regular intervals to measure performance against a target that at least 85% of students are satisfied with the quality of their courses. A first survey of employers' views of the skills available in Scotland, published by Futureskills Scotland in November 2002, included questions designed by SFEFC which found that 80% of employers considered that recruits from FE had the general and core skills to make them well prepared for work.

10. The indicator of college unit costs was used to identify scope for improvements in college efficiency. However, colleges did not always provide information on their costs on a consistent basis and robust information on college efficiency has taken time to develop. Following a report by the Scottish Parliament's Audit Committee, SFEFC is committed to continue to improve information on unit costs. SFEFC did not publish unit cost results for 1999-2000 because of a change in accounting year, information for 2000-2001 was published in January 2003, and information for 2001-2002 was published in August 2003. SFEFC seeks to influence college efficiency by using a funding method based on a standard unit price for delivering FE. It recognises, however, that wider measures of college costs are important and has commissioned a sector-wide benchmarking exercise to enable colleges to compare their costs in detail on a robust and consistent basis. SFEFC also further developed financial performance indicators through joint work with the sector completed in July 2003.

Exhibit 1

Changes in SFEFC's published performance indicators, 1999-2002

Ministerial priorities	SFEFC corporate goals	Indicators inherited in 1999	Indicators in 2000/2003 corporate plan	Indicators in 2001/2004 corporate plan	Additional indicators planned for future use
Skills for tomorrow's jobs	A sector where the pattern of provision meets Scotland's needs				Demand and supply of FE programmes Employer satisfaction - first results in Futureskills Scotland report November 2002
Quality improvement and modernisation	A sector offering high quality provision which is learner, employer and enterprise focussed	Student retention ratio Student Programme Achievement Ratio (SPAR) Student Achievement Ratio by Unit of Learning (SARU) Post Course Success Ratio (PCSR)	Number of HMIE follow-up reports which record unsatisfactory progress % of full time permanent staff with the teaching qualification in FE award % of part time staff with at least introduction in FE award % of estates needs classified as high priority Number of colleges where main campus is rated as more than 60% accessible to students with disabilities/special needs Median ratio of full time equivalent learners to internet-connected computers	Number of HMIE follow-up reports which record unsatisfactory progress % of full time permanent staff with the teaching qualification in FE award % of part time staff with at least introduction in FE award Decrease in estates investment classified as high priority Number of colleges where at least 60% of main campus can be accessed by disabled/special needs students Ratio of full time learners to computers Reduction in number of college plans assessed by Council as weak	Student retention ratio - Aug 2003 Student Programme Achievement Ratio (SPAR) – Aug 2003 Student Achievement Ratio by Unit of Learning (SARU) – Aug 2003 Student/employer satisfaction Estates indicators: efficiency, space utilisation, condition - no date set Use of IT - target dates for initiatives set in IT strategy

Ministerial priorities	SFEFC corporate goals	Indicators inherited in 1999	Indicators in 2000/2003 corporate plan	Indicators in 2001/2004 corporate plan	Additional indicators planned for future use
Widening access	A sector that achieves wider participation and promotes social inclusion	Volume of student activity (SUMs) Number of enrolments	Volume of student activity (SUMs) Increase in % of entrants to HE from under represented areas (joint target with SHEFC) Number of additional learners	Volume of student activity (SUMs) Number of enrolments Increase in % of entrants to HE from under represented areas (joint target with SHEFC) Annual growth in student numbers from 20% most deprived postcode areas Annual growth in student activity (SUMs) covered by fee waiver grant	Participation indicators - no date set
Improving financial health	A sector that demonstrates sound management, governance and planning and is financially viable	Sector average cost of fundable activity per weighted SUM (unit costs) % of colleges reporting cumulative historic cost surpluses Outstanding balance of advances made to colleges by SFEFC to decrease	Sector average cost of fundable activity per weighted SUM (unit costs) % of colleges reporting cumulative historic cost surpluses Balance of advances made to colleges by SFEFC	Number of colleges with outturns differing by more than 10% of forecasts % of colleges reporting cumulative historic cost surpluses Outstanding balance of advances made to colleges by SFEFC to decrease	Annual unit costs

Source: Audit Scotland

11. The performance indicators included in SFEFC's current corporate plan provide a link to three of the four Ministerial priorities for further education. They reflect the information currently available to SFEFC for monitoring performance and are a mixture of input, output and outcome indicators. The indicators provide performance information on Ministerial priorities for widening access, improving quality and financial stability. None of the indicators directly link to the other, increasingly important, Ministerial priority of 'skills for tomorrow's jobs'. This reflects the fact that much of the work to date to address this priority is undertaken in partnership with other organisations where it is difficult to assess performance through quantitative measures.

12. SFEFC aims to develop qualitative information to assess progress in matching skills with jobs through research to identify the supply and demand for further education. SFEFC plans to refine the measurement of supply and demand, and to repeat the exercise every two years, to provide a comprehensive measure of whether or not it is securing adequate and efficient further education in Scotland.

13. In order to develop information to support other indicators for monitoring performance, SFEFC has:
 - introduced a more systematic approach to the analysis of colleges' strategic plans;
 - introduced a national student satisfaction survey and refined processes for surveying student satisfaction at college level. These results have been complemented by information on employers' views through the Futureskills Scotland survey; and
 - developed improved information for existing performance indicators published in August 2003.

14. The plans SFEFC has in place should result in a more rounded suite of indicators than those currently used. The indicators should ensure a closer link between Ministerial priorities for the sector and actual performance for quality improvement, widening access and financial health priorities. It will also provide SFEFC with a body of information which can be used to form judgements on progress on the more complex priority relating to skills for tomorrow's jobs on a consistent basis.

Using performance management to support continuous improvement

15. SFEFC's approach to influencing the performance management of the sector addresses the key features normally associated with best practice. There is, however, scope to improve SFEFC's and the sector's use of targets, benchmarking and external comparisons and for greater transparency in how SFEFC seeks to influence and hold colleges to account for economy, efficiency and effectiveness achieved from funds provided by SFEFC.
16. Since 2001, SFEFC has attached specific targets to college grants for activity and quality. Where colleges fail to meet targets for levels of student activity or if colleges fail to meet quality standards, SFEFC may claw back grant payments. SFEFC also requires all colleges that have accumulated deficits to produce action plans to improve their financial position. Similar targets are not, however, set for performance in other areas such as improvements in college efficiency.
17. SFEFC makes limited use of benchmarking. SFEFC has improved the information held on its central database, and regularly updates the nature and type of report made available to colleges. Data is

directly accessible through SFEFC's website to allow individual colleges to generate benchmarking information relevant to them.

18. The three further education funding councils in Scotland, England and Wales, collect and present further education performance information in different ways. This makes comparisons of relative performance across different parts of Great Britain difficult. Given these difficulties, SFEFC has no plans at present to further explore comparative performance indicators but is concentrating on developing performance indicators within a Scottish further education context.

19. Statutory responsibility for day-to day management of colleges rests with their boards of management. SFEFC staff meet annually with each college to discuss strategic and financial planning and other issues. These discussions cover individual colleges' contributions to key sector objectives. Where a college's performance is below expectations SFEFC will hold a formal accountability meeting, with both the SFEFC and the college chief executives present. In some key areas, such as the volume of student activity and the quality of FE provision, grant conditions and other guidance set out targets and standards which may trigger off action by SFEFC. However, for other areas, such as college efficiency and colleges contribution to strategic objectives, the framework for influencing colleges and holding them to account is less clearly articulated and there is scope for SFEFC to improve this in its corporate plan and other documents.

Conclusions and recommendations

20. Since its inception in 1999, SFEFC has done much to encourage and support individual colleges to respond to the needs of the communities they serve and to wider policy objectives. The performance results presented in its corporate plan provide a record of continuing improvement in key areas such as student activity and financial management. The development of procedures for assessing the quality of FE provision has also produced further information that colleges are delivering expected standards.
21. Further development of performance indicators will enhance this process. The information supporting quantitative measures of quality and efficiency has been improved and information on customer satisfaction is coming on stream. Further research on the supply and demand for FE, essential for measuring how well colleges satisfy local demands, is also well under way.
22. The enhanced information will provide SFEFC with a sound base for demonstrating to Parliament and others whether funding to colleges, exceeding £400 million each year, is delivering the benefits expected. It should allow SFEFC to meet the requirement to provide information on its performance through its corporate plan and to gain the most benefit from its performance management model for influencing colleges' performance. To ensure these benefits are maximised SFEFC should:
 1. Ensure the full range of performance information is clearly set out in its corporate plan
 2. Further encourage colleges to use the improved information on student retention and achievements and on unit costs to benchmark their performance

3. Develop supply and demand information as planned as a base for assessing progress on the Ministerial priority for matching skills with jobs
 4. Give further consideration to widening the use of target setting and benchmarking in areas such as efficiency and quantitative quality indicators
 5. Consider working with other FE bodies to overcome the difficulties which prevent the introduction of a set of meaningful comparative figures at the UK level.
23. The accountability arrangements covering the FE sector reflect the statutory duties of Ministers, SFEFC and colleges' boards of management. Within those arrangements, SFEFC sets clear standards for performance in areas such as student activity and the quality of FE provision. Where performance falls short of these standards SFEFC may take action. For other areas of performance, such as college efficiency, SFEFC seeks to influence performance through its funding and other mechanisms although the extent to which SFEFC may take action is less clear. These could be more clearly and systematically articulated through its corporate plan.

Part 1: Introduction

- 1.1 Further education provides vocational education and basic skills which play an important role in the delivery of a range of the Scottish Executive's policies, including strategies for combating social exclusion, unemployment and skill shortages (Exhibit 2). In 2001-2002 the Scottish Executive, through SFEFC, paid £409 million in grant-in-aid to Scotland's 46 further education colleges to support the provision of training and education opportunities for people from school-leaving age upwards.

Exhibit 2

Ministerial statement on the role of the further education sector

Ministers have identified the key role further education is expected to play in the delivery of Scottish Executive policies.

"Colleges have a key role to play in promoting our agenda on skills and inclusion by opening up learning to everyone. The Executive's objectives of a smart, successful Scotland and an inclusive and just society go hand in hand. Scotland may be a small player on the world stage but, with quality, skills and learning right at the heart of our policies, we can continue to make a global impact"

Source: Mr Iain Gray, Minister for Transport, Enterprise and Lifelong Learning, ASC Conference, June 2002

Further education colleges

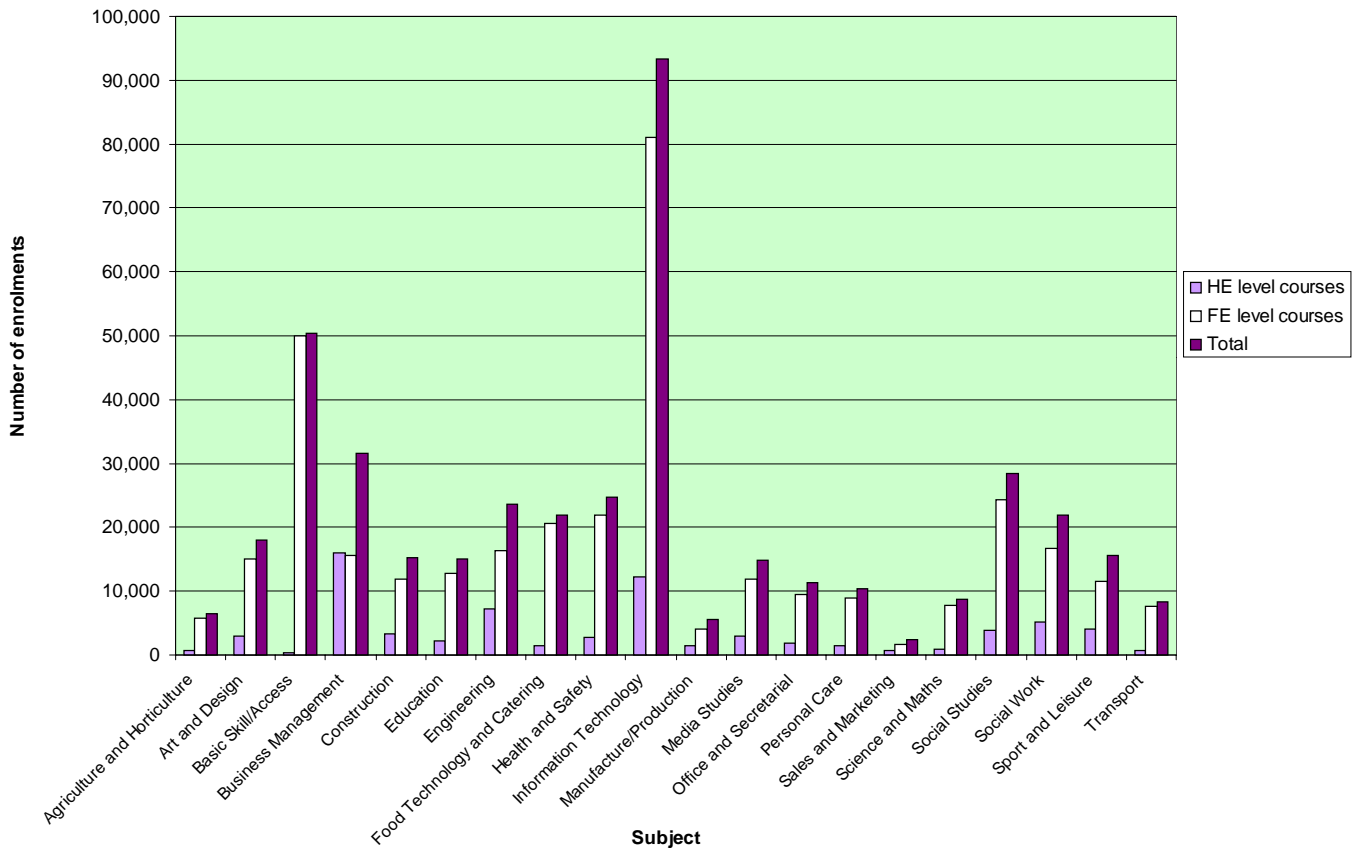
- 1.2 Further education (FE) colleges are independent bodies providing different mixes of courses to meet the needs of their local communities. Courses range from adult basic education to higher education and continuing professional development. In 2001-2002 the colleges enrolled 515,000 students. Around 90% of college students enrol on vocational courses at further and higher education level in vocational subjects (Exhibit 3). Other enrolments relate to access courses and non-vocational courses often provided

through evening classes in areas such as car maintenance, pottery etc.

Exhibit 3

Student enrolments on vocational courses, 2001-2002

Most students enrol on vocational courses on subjects ranging from agriculture and horticulture to transport, with the biggest numbers studying information technology.



Source: SFEFC

- 1.4. Each college has a board of management with statutory responsibility for setting the policies and overall strategic direction of the college and for its control and financial health. This should ensure the college provides suitable and efficient further education to its students. Each college has a standard financial memorandum agreed with SFEFC governing the use of SFEFC funds and specifying the general conditions under which funding is provided. Subject to this, and an annual funding agreement between SFEFC and each college, individual boards of management have discretion

over the use of funds received and are ultimately responsible for proper stewardship of those funds. This includes ensuring that resources are used for the purposes intended and delivering value for money in the use of all the college's resources.

The role of the Scottish Further Education Funding Council

- 1.5 SFEFC was established in 1999 as a non-departmental public body responsible, under authority delegated by Scottish Ministers, for securing the adequate and efficient provision of further education in Scotland. SFEFC distributes grant-in-aid funds to colleges in accordance with Ministerial priorities but has no specific powers to intervene in the direct running of colleges. As accountable officer, SFEFC's chief executive has a duty to promote and monitor economy, efficiency and effectiveness in the way resources are used.
- 1.6 The broad policy, managerial and financial framework under which SFEFC operates is set out in a management statement and a financial memorandum issued by the Scottish Executive Enterprise and Lifelong Learning Department (the Department). The management statement commits SFEFC to regular measurement of its performance and evaluation of its effectiveness against its overall aims and strategic objectives. Appropriate quantitative and qualitative measures for monitoring performance are expected to be included in SFEFC's corporate and operational plans and these are used as a basis for monitoring performance against key aims and objectives. The Minister for Enterprise and Lifelong Learning approves the plans, and their annual updates.
- 1.7 Each year the Minister for Enterprise and Lifelong Learning sets out priorities for the further education sector. There are currently four:
 - providing skills for tomorrow's jobs;

- quality improvement and modernisation;
- widening access; and
- improving the financial health of the sector.

The emphasis attached to priority areas has changed over time.

Ministers initially gave greatest priority to the delivery of the volume of further education for which funding was provided but, as this has been achieved, priority has increasingly focussed on the need for further education to be involved in the drive to match skills with jobs.

- 1.8 SFEFC produced its first corporate plan covering the period 2000-2003 in summer 2000 and an updated plan covering the period 2001-2004 was produced in summer 2001. Both plans identified corporate goals for the organisation broadly in line with Ministerial priorities and identified performance indicators for monitoring progress towards them. Most of the indicators relate to SFEFC's internal processes (such as progress in developing a strategy to monitor quality improvements and time taken to deal with public enquiries) but 12 indicators in the first plan, and 15 in the update, address overall performance of the FE sector. A new corporate plan, covering 2003-2006, was issued for consultation in May 2003.
- 1.9 Colleges are independent bodies and SFEFC has no powers to intervene in the day-to-day management of college activities. This reflects the view that because FE is essentially a local service and local circumstances vary the best outcome is achieved where there is effective local management with a duty to respond to local needs. SFEFC does not directly manage individual colleges but seeks to promote college management and improve individual college responsiveness to the needs of the communities they serve and wider policy objectives. It does this by:
- requiring colleges to provide regular returns on aspects of further education activity;

- setting a college funding model based on expected activity levels for each college;
- applying robust quality assessment procedures and requiring colleges to meet quality standards; and
- monitoring college responsiveness to initiatives designed to improve the provision of further education.

Further details of SFEFC's performance management approach are set out in Appendix 1.

Audit Scotland examination

- 1.10 The Auditor General for Scotland publishes periodic overview reports on the further education sector in Scotland. These reports have highlighted significant improvement in the financial health of the sector and recorded progress SFEFC is making on initiatives addressing the adequacy and efficiency of the provision of further education in Scotland.
- 1.11 This report complements the information on financial results covered in the overview report. It provides a broader picture of SFEFC's influence over management of the sector's performance, against which Audit Scotland will monitor and report future progress. The report covers:
- the performance results reported by SFEFC (Part 2)
 - the development of performance measures for the sector (Part 3)
 - how SFEFC uses performance management to support continuous improvement in the sector (Part 4).
- 1.12 Details of the methodology used, including the colleges visited, are set out in Appendix 2.

Part 2: Performance results

- 2.1 The management statement setting out the policy, management and financial framework under which SFEFC operates identifies a clear need for regular measurement and evaluation of its performance against its aims and strategic objectives. This section examines the results reported by SFEFC to establish whether performance is improving over time and annual targets are being achieved.

Results over time

- 2.2 Prior to the establishment of SFEFC in 1999, the (then) Scottish Office Education Department was responsible for monitoring the performance of the further education sector. It used a set of performance indicators devised in conjunction with Her Majesty's Inspectorate of Education (HMIE) (Exhibit 4) and the results of HMIE inspections of colleges to provide information on the performance of the sector.

Exhibit 4

Performance indicators inherited by SFEFC

These indicators provided information on how the sector was performing in some key areas covering the level of student activity, the quality of FE provision, the financial health of colleges and college efficiency.

Student activity	No of student enrolments
	Volume of student activity measured in SUMs ¹
Quality	Student retention ratio
	Student programme achievement ratio
	Student achievement ratio by unit of learning
	Post Course Success Ratio
Financial Health	% of colleges reporting cumulative surpluses
Efficiency	Average cost of fundable activity per weighted SUM (unit costs)

Source: Audit Scotland

- 2.3 SFEFC has continued to publish information on indicators covering student activity and financial health. But, because information was unreliable, publication of indicators of student retention and student achievement was suspended and publication of the unit cost indicator was delayed. In these circumstances it is not yet possible to produce any picture of continuous improvements in sector performance in these areas over time.

Level of student activity

- 2.4 The level of student activity has been an important measure of the expansion of further education. In July 1998, the Minister for Enterprise and Lifelong Learning set the sector a target to provide an additional 40,000 places between 1998-1999 and 2001-2002. At that time colleges recorded 421,000 student enrolments and the

¹ SUMs – Student Units of Measurement. Core funding to colleges is allocated through a formula assessment based on expected activity levels. Colleges forecast activity levels using SUMs which represent a combination of teaching hours and the mix of courses offered by the college. They are weighted to reflect the cost of delivering the courses and the priority attached by SFEFC.

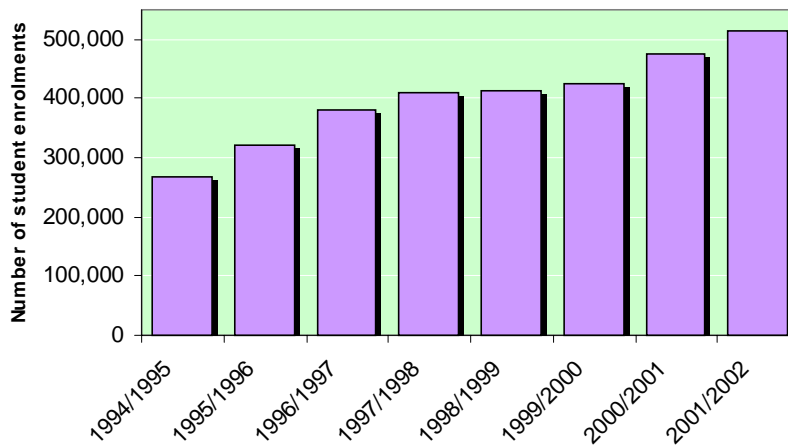
target was interpreted as an increase of 10% in the volume of student activity in colleges.

2.5 SFEFC inherited two indicators of student activity from the Department – numbers of student enrolments and weighted SUMs delivered by colleges. Both show increases in excess of the Ministerial target. By 2001-2002, student enrolments had increased by 25% over the 1998-1999 level and SUMs delivered had increased by 16% (Exhibits 5 and 6). SFEFC also monitors student activity in terms of a headcount of students. Between 1998-1999 and 2001-2002 headcount increased from 343,000 to 399,000 (16%).

Exhibit 5

Student enrolments in the FE sector in Scotland, 1994-1995 to 2001-2002

Student enrolments have grown steadily since the early 1990s.

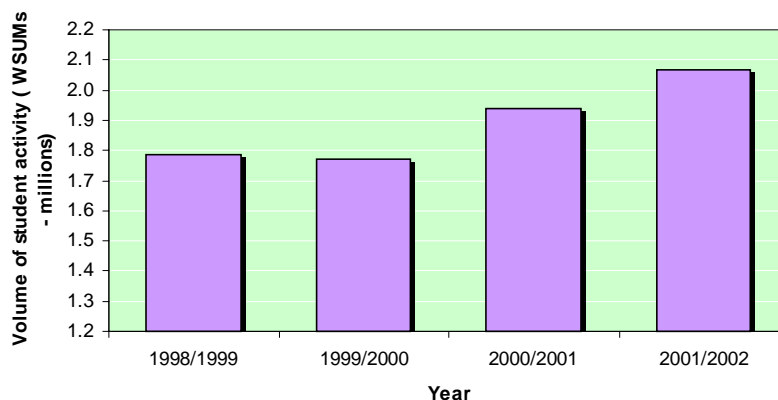


Source: SFEFC

Exhibit 6

Delivery of SUMs over time

The level of student activity measured as the delivery of SUMs by colleges has also increased.



Source: SFEFC

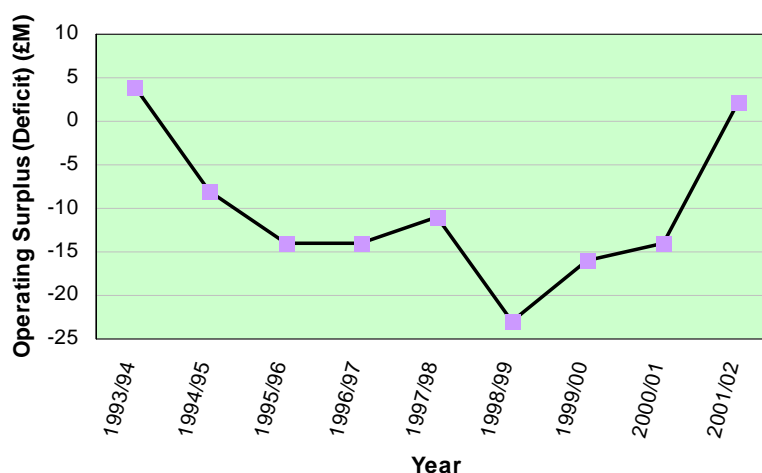
Financial health

2.6 Financial forecasts and audited financial statements provide information on the financial health of colleges. The level of operating deficit in the sector grew throughout the 1990s but the position is now improving (Exhibit 7). Since SFEFC was established the annual operating position recorded by the sector has moved from a deficit of £16 million in 1999-2000 to a surplus of £2 million in 2001-2002. In the same period, accumulated deficits were reduced from £15 million to £12 million. The overview reports examine the financial position of the sector in more detail, including SFEFC's work to monitor college finances and to improve financial security.

Exhibit 7

Further education operating surplus/(deficit)

Between 1998-1999 and 2000-2001 the level of operating deficit reduced by 40% (from £23 million to £14 million).



Source: SFEFC

Quality

2.7 Quantitative performance indicators for education generally include measures of the qualifications gained by students (eg for schools these indicators concentrate on proportions of eligible students who gain numbers of standard or higher level passes at different grades). The range of courses provided by further education colleges is wider than that available at schools and some do not lead to formal qualifications. In addition, students attending college are more diverse than school pupils eg varying ages, mode of attendance (part-time, full-time), extent of previous education. For these reasons the then Scottish Office devised a set of ratios covering student retention, student achievements and student post course success to provide an indication of the effectiveness of FE provision.

2.8 However, SFEFC found that colleges had been interpreting guidance on the statistical returns for ratios of student achievements and retention in a variety of ways. The extent of

variation meant that college comparisons and the information produced at a national level were not statistically valid. SFEFC has, however, continued to provide colleges with heavily qualified national data while work to improve supporting information was undertaken. This work resulted in SFEFC publishing more robust information on these indicators in August 2003.

- 2.9 SFEFC assumed responsibility for quality assurance of the provision of FE on 1 July 1999. Prior to that date, responsibility rested with the Department who monitored the quality of provision through inspections undertaken by HMIE. Initially SFEFC continued to use HMIE inspection reports as a key measure of the quality of provision. Between 1999 and 2000 HMIE produced inspection reports on five colleges. The reports each provided an overview of each colleges' performance covering: its services to the community; student teaching and support; student success; resources to support teaching programmes and college management.
- 2.10 SFEFC considers the results of HMIE reviews of colleges to be the most comprehensive and reliable information on the quality of FE provided by colleges. In July 2000 SFEFC introduced a new framework for assessing the quality of further education with HMIE. The framework is based on HMIE reviews of individual colleges, with the review process split into two distinct but complementary elements: 'subject review' and 'college review' (Exhibit 8). HMIE publish reports on each review which include a graded assessment of college performance against a range of aspects covered by the review and an action plan for the college to address areas for improvement. SFEFC expects colleges to be reviewed on a four-year cycle and that HMIE will conduct follow-up visits to the colleges some 18 months after the initial reviews. By July 2003 HMIE had conducted reviews of 33 colleges (72%). The latest analysis shows that for college reviews 77% of the grades awarded by HMIE were good or very good and 1% were unsatisfactory, and

for subject reviews 83% of grades were good or very good with 1% unsatisfactory.

Exhibit 8

Definitions of reviews of FE colleges undertaken by HMIE

HMIE reviews of colleges are split into two complementary elements.

Subject review focuses on evaluating the student experience in a number of defined curriculum areas and is designed to provide information on how good the programmes are; how effective the learning and teaching is; and how successful the students are in achieving their learning goals.

College review examines the cross college aspects of college activity which impact directly on the quality of the student experience. College review is designed to provide information on how effective the college's educational leadership and direction is; how inclusive the college is and how well it supports learners; how well the college uses its accommodation, resources, services and staff to support learning; and how effective the college is in improving the overall quality of the student experience.

Source: SFEFC

- 2.11 The results of HMIE reviews of individual colleges are published and SFEFC publishes an annual summary of HMIE's findings. The summary information has not been included in performance results in SFEFC's corporate plans although the plan does include an indicator relating to the number of colleges where HMIE follow-up reviews record unsatisfactory progress. For 2000-2001, reported results recorded satisfactory progress in seven of the eight colleges where follow-up reviews had taken place.

Efficiency

- 2.12 In 1999, a report by the National Audit Office² highlighted significant variation in the level of unit costs recorded by individual colleges. It also made a number of recommendations on how colleges might

² Further Education Financial Management, National Audit Office 1999

improve their management of unit costs and on the need for improved performance measurement of the sector as a whole.

- 2.13 The unit cost indicator can be used to identify scope for efficiency improvements across the FE sector. Colleges with higher unit costs may have them because they are less efficient than others, or may have them because they are better at gaining external funding than others. Unit cost data assist measuring efficiency as they open up these questions for further examination.
- 2.14 When SFEFC calculated unit costs for 1999-2000 it identified significant weaknesses in the base information used. These mainly related to colleges' financial figures being presented for a 16-month period when academic activity covered a 12-month period. Importantly, however, SFEFC found that the definition of costs to be included in college returns was poor and had led to inconsistencies. SFEFC did not publish the indicator for 1999-2000 and delayed subsequent publication until sufficiently reliable information to measure unit cost performance could be made available. In January 2003 SFEFC published unit cost information for the 2000-2001 academic year and information on the 2001-2002 academic year was published in August 2003.
- 2.15 Following a recommendation from the Audit Committee, SFEFC is committed to further develop unit cost indicators which SFEFC expects will provide colleges with information to benchmark their own efficiency and quality against other colleges.
- 2.16 Since 2000-2001 SFEFC has considered that the main way to influence college efficiency was through its funding model. The model is based on a standard price for each weighted SUM delivered by the college. The price is set taking account of efficiency targets for public funding set by the Scottish Executive each year. SFEFC monitors each college's performance against its

target and may claw back funds for under-performance. SFEFC publishes the unit prices but does not include them in the set of performance indicators it uses in its corporate plan. The price per unit has increased from £150.95 in 2000-2001 to £153.21 in 2001-2002 and £157.81 in 2002-2003.

Revised performance indicators for 2000-2001

- 2.17 A new set of performance indicators was introduced for 2000-2001. SFEFC's first corporate plan (August 2000) identified 41 targets to meet the priorities set by Ministers. Twelve of these targets addressed expected achievements for the sector, and provided a set of indicators for measuring performance. The remainder related to SFEFC's internal processes and performance (such as developing a strategy to support continuous quality improvements and the level of public enquiries answered within agreed deadlines).
- 2.18 Targets were set for 10 of the 12 sector indicators (Exhibit 9). The targets for student activity and computer access were achieved and the percentage of entrants to HE from under-represented areas is on course to meet the target of a 10% increase by 2004. Performance results show that the target for student activity was met and performance for follow-up on HMIE reports and staff with teaching qualifications were close to targets. For other targets, including unit costs, actual performance fell below expectations. Performance on the two indicators with no target (percentage of estate needs classified as high priority and percentage accessibility for students with special needs) will act as benchmark figures for monitoring future progress.

Exhibit 9

2000-2001 performance results

Performance results for 2000-2001 show that the target for student activity and computer access were met but that in other areas outturn fell short of expectations.

Ministerial priorities	SFEFC Measures	Target	Actual
Quality improvement and modernisation	Number of HMIE reports which record unsatisfactory progress	None	1
	% of full time permanent staff with the teaching qualification in FE award	70%	67%
	% of part time staff with at least introduction in FE award	35%	26%
	% of estates needs classified as high priority	No target	42%
	Number of colleges where main campus is rated as more than 60% accessible to students with disabilities/special needs	No target	20
	Median ratio of full time equivalent learners to internet-connected computers	9:1	5.8:1
Widening access	Volume of student activity (SUMs)	2.2m	2.2m
	Number of additional learners	20,000	22,000
	Increase in % of entrants to HE from under represented areas (joint target with SHEFC)	10% from 1998 to 2004	5.1% increase by March 2001
Improving financial health	% of colleges reporting cumulative historic cost surpluses	65%	55%
	Balance of advances made to colleges by SFEFC	Not more than £3.1 million	£4.8 million
	Sector average cost of fundable activity per weighted SUM	Not more than £169*	£189

* Target subsequently withdrawn.

Source: SFEFC

Part 3: Developing performance measures

- 3.1 In March 2000, the Minister for Enterprise and Lifelong Learning asked SFEFC to “*review the range of performance indicators considered necessary, and then to put in place appropriate mechanisms to establish, measure and publish these*”. The request reflected the weaknesses SFEFC had found in existing performance data, and the need for new measures to assess performance against changes in Ministerial priorities for the sector.
- 3.2 In July 2000, the Scottish Parliament’s Audit Committee published its report on *Managing Costs in the Further Education Sector in Scotland*. The report contained a number of recommendations to improve the management of further education, including action by SFEFC to develop benchmarking of performance indicators including a “balanced scorecard”, and to improve college costing systems. In October 2001, SFEFC reported to the Committee that:
- improved definitions of performance indicators had been introduced and that, consequently the robustness of the indicators had been improved, and
 - further enhancement of the definition of performance indicators was being introduced on an incremental basis.
- 3.3 This section of the report examines the progress SFEFC has made in developing new performance measures. It assesses whether indicators included in SFEFC’s current corporate plan provide a complete picture of performance achievement against expectations for the sector and how SFEFC’s plans for further development of

performance indicators will address specific weaknesses in performance measurement.

Performance measures in SFEFC corporate plans

3.4 SFEFC's updated corporate plan for the period 2001-2004 included a set of indicators to provide information on performance for the 2001-2002 academic year. Eleven were continued from the previous year and four new ones were added (Exhibit 10). One of the new indicators relates to the quality of college management (reduction in college strategic plans assessed as weak), another two address widening access (annual growth in students from deprived areas and annual growth in student activity covered by fee waiver) and the fourth covers the quality of college financial planning. Each of the 15 indicators has an associated target. For indicators continued from previous years, targets are generally higher than previous achievement but for the ratio of learners to computers the target is lower. SFEFC expects to publish performance results against these indicators in its next corporate plan in October 2003.

Exhibit 10

SFEFC performance indicators, 2001-2002

New indicators dealing with management and access were added to those used for 2000-2001.

Ministerial priorities	SFEFC indicator	2001-2002 Target
Quality improvement and modernisation	Reduction in number of college plans assessed by Council as weak	40% reduction by 2003
	Number of HMIE reports which record unsatisfactory progress	0
	% of full time permanent staff with the teaching qualification in FE award	80%
	% of part time staff with at least introduction in FE award	50%
	Decrease in estates investment classified as high priority	reduce to 40%
	Number of colleges where at least 60% of main campus can be accessed by disabled /special needs students	25
	Media Ratio of full time equivalent learners to internet connected computers	7:1
Widening access	Volume of student activity (SUMs)	2.3m
	Number of enrolments	452,000
	Growth in student numbers from 20% most deprived postcode areas	3,800
	Growth in student activity (SUMs) covered by fee waiver grant ³	4,100
	Increase in % of entrants to HE from under represented areas (joint target with SHEFC)	10% from 1998 to 2004
Improving financial health	% of colleges reporting cumulative historic cost surpluses	70%
	Outstanding balance of advances made to colleges by SFEFC to decrease	to £2.8m
	Number of colleges with outturns differing by more than 10% of forecasts	10% or less by 2002-2003

Source: Audit Scotland

Coverage of performance indicators

3.5 Performance indicators help to show whether a body is achieving its aims. Ministers have a statutory duty to secure the adequate and efficient provision of further education in Scotland although many of the powers have been delegated to SFEFC⁴. There is no definition of the terms *adequate* and *efficient* but Ministerial guidance sets out

³ Fee waiver grant: Students on low income are given grants to cover fees.

⁴ The Further and Higher Education (Scotland) Act 1992 (S1) and SFEFC (Establishment) (Scotland) Order 1998.

priorities which should then be reflected in SFEFC's operational objectives.

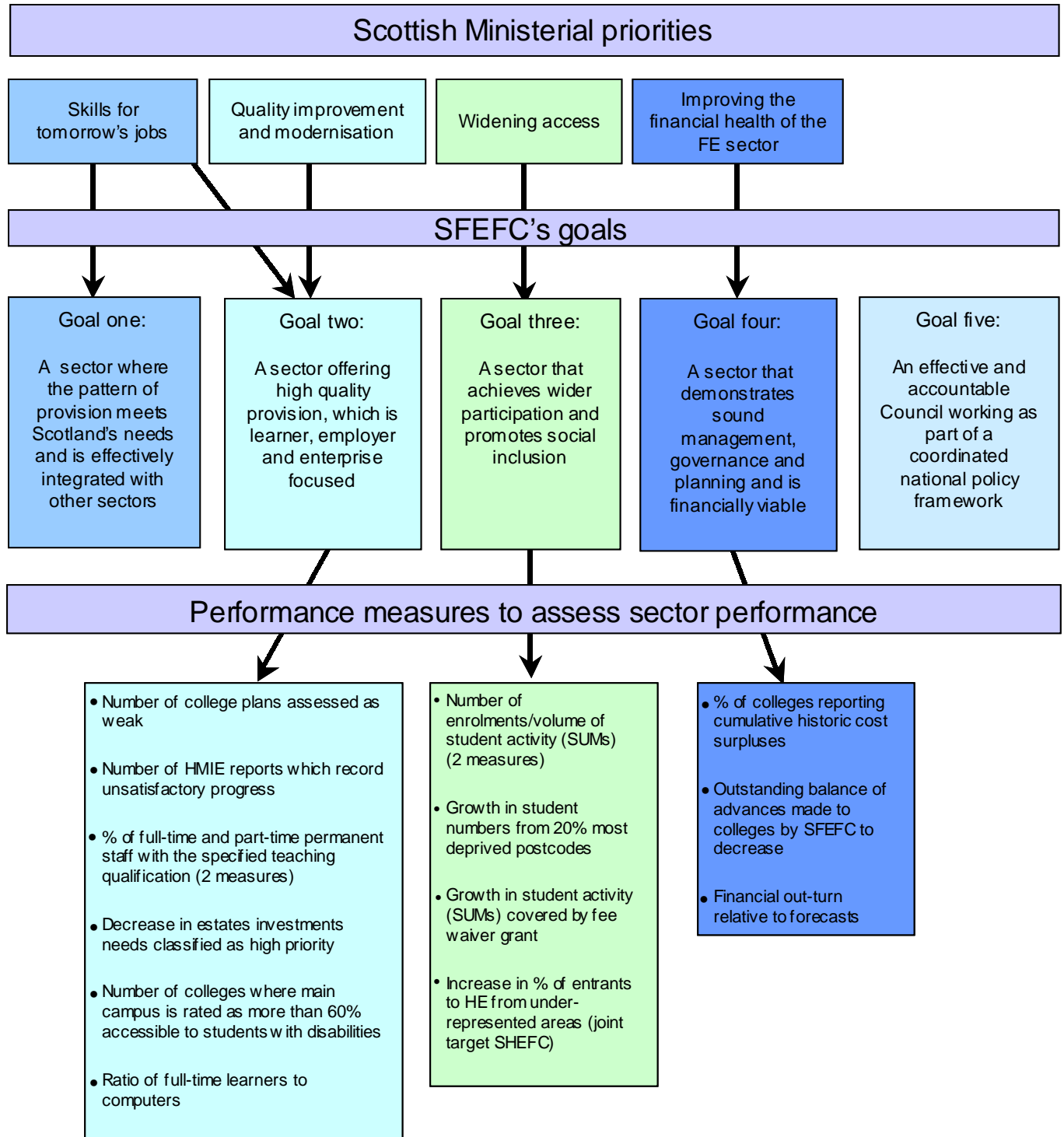
- 3.6 The Ministerial guidance is not prescriptive as to how the sector should achieve the priorities identified, nor does it normally set quantifiable aims and objectives for the priorities. SFEFC's corporate plan (2001-2002 to 2004-2005) does this. It identifies five corporate goals directly related to the Ministerial priorities, and sets a series of targets (including the targets relating to the 15 indicators used in 2001-2002) for assessing achievements.
- 3.7 The targets for the 15 indicators provide a link through the corporate goals to three of the four Ministerial priorities. The indicators provide some information on performance against Ministerial priorities for widening access, improving quality and financial stability. None of the indicators directly address the increasingly important priority for 'skills for tomorrow's jobs' (Exhibit 11). This reflects that much of the work to date to address this priority is undertaken in partnership with other organisations where it is difficult to assess performance through quantitative measures.
- 3.8 SFEFC is developing information to provide qualitative assessments of progress in matching skills with jobs. The HMIE reviews of colleges already provide comments on how well colleges meet the needs of communities. In addition, SFEFC has commissioned research to identify the supply and demand for further education. Two separate exercises have been undertaken to map information on supply and demand on a geographical basis and on an industry basis. The geographical mapping is complete and SFEFC are discussing with colleges how the results should be reflected in college strategic plans. The industry mapping exercise was abandoned due to contractual difficulties and in future will be embedded in an improved supply and demand exercise. SFEFC plans to refine the measurement of supply and demand, to involve other key stakeholders such as Scottish Enterprise in the exercise,

and to repeat it every two years. The exercise will become the most comprehensive and reliable measure of whether or not it is securing adequate and efficient further education in Scotland.

Exhibit 11

Priorities for the further education sector

Performance measures reflect all Ministerial priorities except skills for tomorrow's jobs.



Source: Audit Scotland

Types of performance indicators used

3.9 Good practice for performance management in public sector bodies requires the use of measures of:

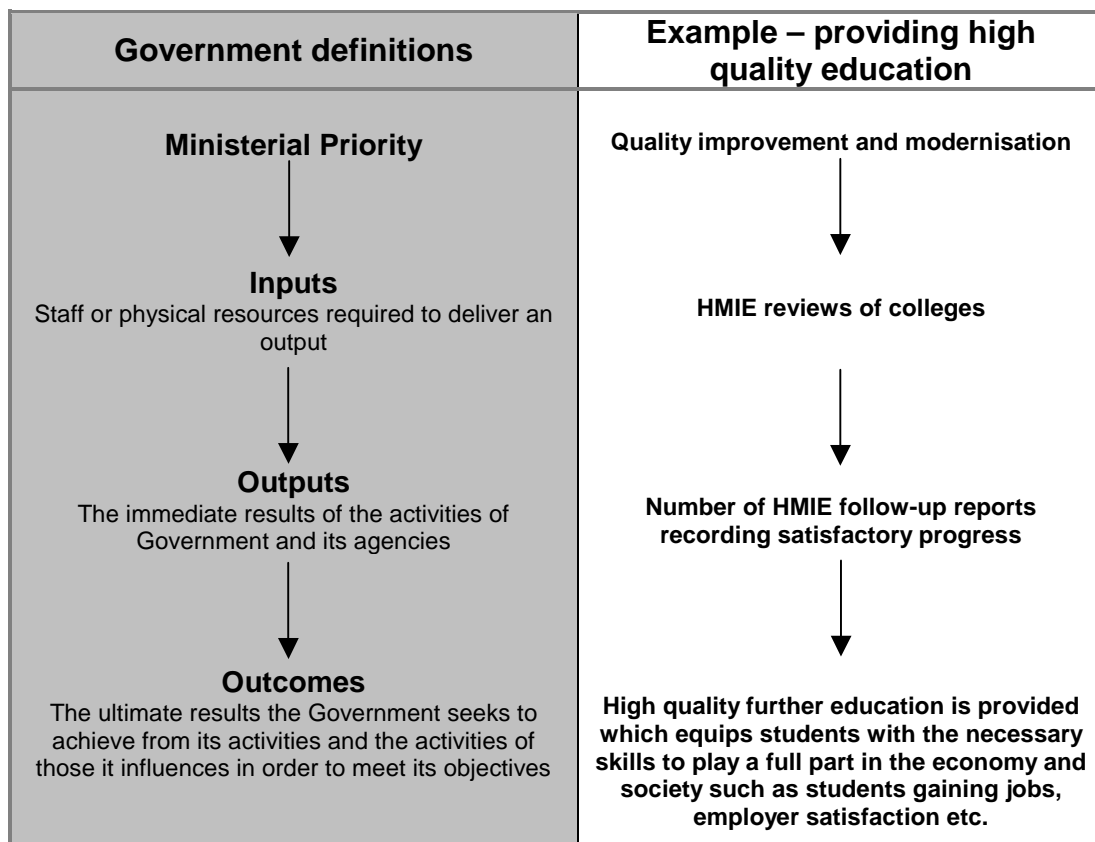
- the resources used in pursuit of specific objectives (inputs);
- the level of activity delivered from those resources (outputs and their relationship to inputs) and;
- the impact against policy objectives (outcomes).

3.10 Exhibit 12 sets out government definitions for inputs, outputs and outcomes⁵. It also provides an example of this interrelationship for the ministerial priority of providing high quality education.

Exhibit 12

Definition of inputs, outputs and outcomes and their relationship

Performance measures should include input, output and outcome measures.



Source: Audit Scotland

⁵ Executive Agencies: A guide to setting targets and measuring performance (HM Treasury 1992)

3.11 The indicators for 2001-2002 reflect the information currently available to SFEFC for monitoring performance. They provide a mixture of input, output and outcome indicators for three of the four ministerial priorities; but they do not provide a rounded picture of achievement.

- **On inputs:** The level of resources applied to the provision of further education in each college is clear. SFEFC provides each college with grant-in-aid as the major contribution to the cost of the staff, buildings and equipment necessary to deliver further education in specific areas. SFEFC and the colleges are currently developing strategic plans detailing how colleges use their resources, which will provide additional input information over time. The current indicator of college plans assessed as weak is an important measure of progress on this.
- **On outputs:** The current indicators include a number of useful measures of further education outputs (such as student enrolments, participation levels from target groups for widening access, and the quality of further education provision as monitored through HMIE review work). Information on important indicators where publication has been suspended or delayed (such as student achievement ratios and unit costs) was published in August 2003, further enhancing the picture of sector outputs.
- **On outcomes:** Outcomes are always the most difficult area to measure. The extent to which outcomes are achieved can be gauged from the customers at whom services are aimed (students and the business community), and their assessment of how well the service provided has met their needs. SFEFC has begun to address these issues. The results of its latest student satisfaction survey were published in July 2003 and work under way in areas such as the supply and demand for further education and the introduction of HMIE follow-up reviews should provide further good bases for recording progress made in terms of outcomes against the Ministerial priorities for matching skills with jobs and quality improvement.

Proposals for further improvement

3.12 SFEFC has identified a number of areas where further development is required to provide a more complete set of indicators of sector performance. Some of these developments will specifically address the priority area of matching skills with jobs and others will improve the balance between measures of input, output and outcome. The work will also lead to the re-introduction of important indicators previously suspended as being unreliable.

3.13 Following consultation with the sector on how performance against Ministerial priorities should be assessed in a way that also provides the sector with relevant and meaningful information, SFEFC has:

- introduced a more systematic approach to analysing strategic plans prepared by colleges;
- refined processes for surveying client satisfaction to provide a fuller and more rounded view of student experience of sector performance and to complement these with surveys of employer views;
- developed improved information to support new performance indicators for student achievement and student retention (which were published in August 2003), and for estate management and also introduced a new campaign for the financial security of colleges;
- commissioned a sector-wide benchmarking exercise to enable colleges to compare their costs in detail on a robust and consistent basis and to develop financial performance indicators.

3.14 Each of these initiatives will take time to develop. Key indicators for student achievement and student retention were published in August 2003, but performance information on some other indicators will not be available until after 2004 (Exhibit 13).

Exhibit 13

Initiatives to develop performance information on further education
SFEFC has initiatives in hand which will provide fuller performance information after 2004.

Ministerial objectives	Areas	Details	Date by which performance information will be available
Skills for tomorrow's jobs	Student achievements	Information on achievements is to be phased in two stages: At course level: and At course unit level	August 2003
	Supply and demand area mapping	Consultation with sector on small set of indicators for "adequate and efficient" provision including indicators for demand and supply of FE programmes.	Action plans agreed during 2002 Follow up exercise to evaluate improvements during 2003-2004
	Employer satisfaction surveys	National level surveys.	Results of first national survey published by Futureskills Scotland, November 2002
Quality improvement and modernisation	Strategic planning assessment	Assessment matrix used to assess the strength of a college's strategic planning capability.	Applicable from 2002-2003 plans
	Student satisfaction surveys	Sample surveys. Reviewing the potential for using a common survey methodology across FE and HE and the possibility of national HE surveys across the UK. SFEFC plans to take account of emerging work from the ELL Committee on the SCQF which focuses on serving individual student needs	Results of second survey published in Summer 2003
	Student retention PI	PIs on student retention/completion.	August 2003
	Estate management PIs	Pilot project considered a range of estate management performance indicators, including a building condition indicator. The pilot included 9 Scottish FE colleges and will roll out to all Scottish colleges.	Summer 2003
	Impact of estates funding	Assessment of the impact of estates funding on the condition of the estate. Carried out with sector representation.	From 2002-2003
	Researching "distance travelled" PIs	Plan to research further a learner based "distance travelled" PI i.e. an indication of the value of education to the individual learner.	Pilot exercises undertaken during 2003-2004
	ICT Strategy and review	Review how ICT is being used i.e. is the IT strategy improving performance? Different colleges are currently piloting different things e.g. diagnostic material; on line enrolment; career guidance on line; on line assessment.	Targets set for each initiative within the ICT strategy
Widening access	Development of funding mechanism	Change to funding mechanism to make it as attractive to colleges to have part time students as full time students.	No earlier than 2003-2004
	Researching categories of under-participation	Review of categories of under-participation in order to define appropriate indicators and future targets for widening participation at non-advanced FE levels.	2003-2004
Improving financial health	Financial PIs	Introduce more refined financial indicators including efficiency indicators i.e. an assessment of resources used to provide services e.g. unit cost indicators. Ensure reliable information is available to support them.	July 2003

Source: SFEFC

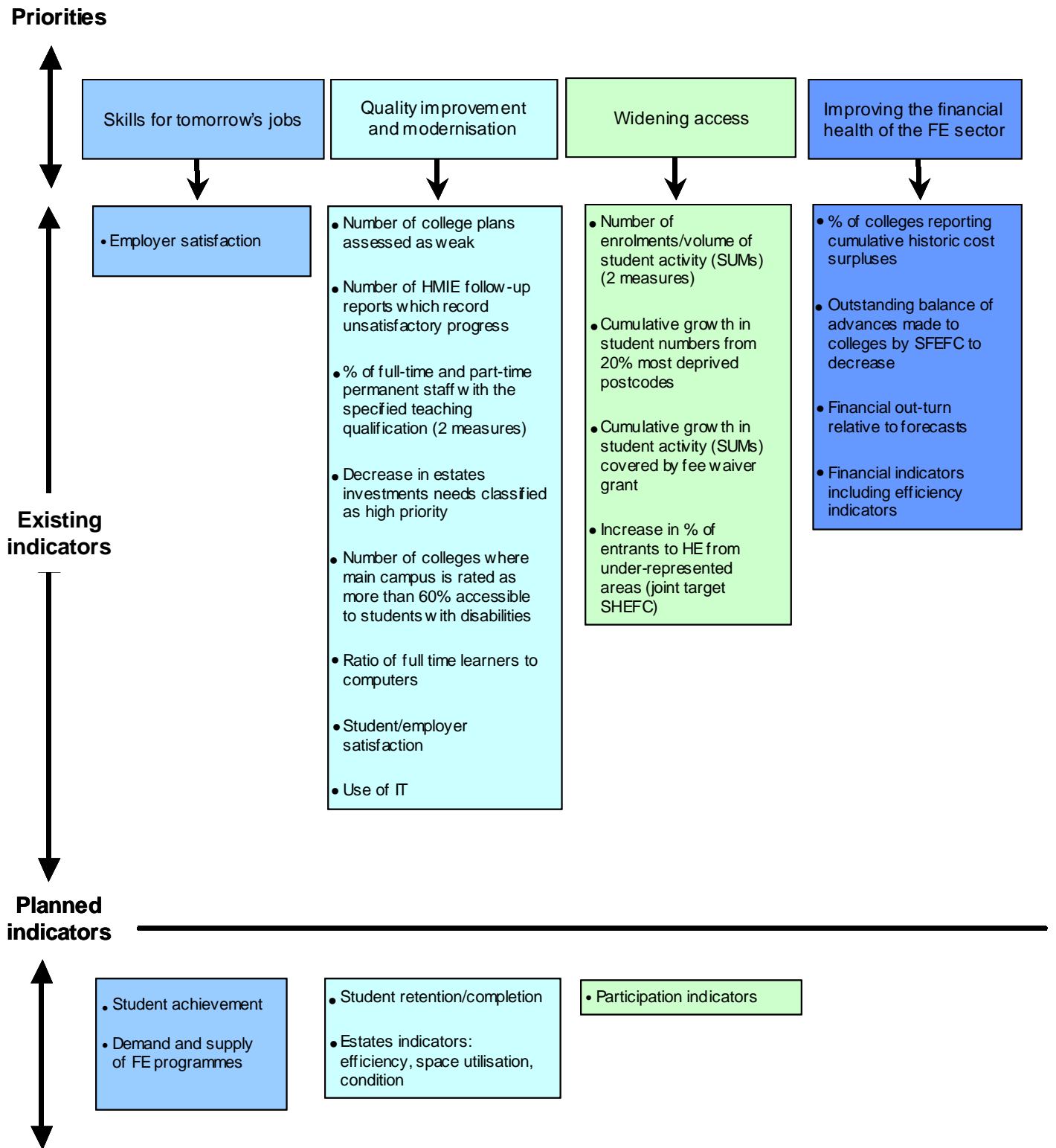
The likely impact of SFEFC's proposals

3.15 The plans SFEFC has in place should result in a more rounded suite of indicators than those currently used. The indicators should ensure a closer link between Ministerial priorities for the sector and actual performance for quality improvement, widening access and financial health priorities. It will also provide SFEFC with a body of information which can be used to form judgements on progress on the more complex priority relating to skills for tomorrow's jobs, on a consistent basis (Exhibit 14).

Exhibit 14

Fit between proposed new indicators and ministerial priorities

SFEFC's proposals should result in a more rounded set of indicators.



Source: Audit Scotland

Part 4: Using performance management to support improvement

4.1 This section examines the extent to which SFEFC's arrangements for influencing performance management meet expected practice for using performance management to support continuous improvement by:

- setting targets and monitoring performance against them (variance analysis);
- comparing performance achieved over time within the sector (internal benchmarking);
- making comparisons with external bodies (external benchmarking);
- holding managers to account for their performance.

Target setting

4.2 Target setting is important as it concentrates attention on desired outcomes and priorities, and provides a standard against which performance can be assessed. Monitoring of performance against targets can be a useful management tool for identifying where results are not as expected so corrective action can be taken.

4.3 The targets set for the indicators used by SFEFC for 2001-2002 have been generated in different ways. In general they represent SFEFC's view on the level of improved performance the sector can achieve. They are discussed with the colleges through consultation

meetings on the development of SFEFC's corporate plan. In some instances (such as the student to computer ratio) SFEFC has taken account of targets set for the further education sectors in other parts of Great Britain. In other instances (such as volume of student activity) targets reflect Scottish Executive expectations. Other targets (such as the expectation that no college will receive an unsatisfactory HMIE progress report) reflect SFEFC's view of what the sector should achieve. Ministers approve the plans and their targets.

4.4 SFEFC sets targets for colleges in a number of ways. Grant conditions attached to recurrent funding provided by SFEFC commit colleges to meet targets for student activity levels, measured in SUMs, and to achieve quality standards as measured in HMIE reviews. Colleges are also expected to produce financial results in line with their financial forecasts and to use specific grant funding to produce improvements in target areas (such as grants to develop IT facilities). SFEFC monitors in-year audited estimates and end of year audited figures, college strategic plans and HMIE reports, to ensure activity targets are achieved. Colleges also provide information on student achievement and retention and on unit costs. This also provides SFEFC with a mechanism for monitoring college performance which will be enhanced as the reliability of the information is improved.

4.5 SFEFC has not set college targets for other sector-wide targets in its corporate plans. As responsibility for college management rests with the college board, SFEFC reviews college strategic plans to ensure that they reflect local circumstances and any specific actions individual colleges need to take to improve quality or financial health. But SFEFC do not use expectations set out in college plans as targets for college performance and neither aggregate college expectations to provide national targets nor disaggregate national

targets to the college level. Consequently, SFEFC does not monitor or report college performance against these targets during the year.

Benchmarking

- 4.6 Benchmarking involves a structured approach to comparing performance across an organisation or sector. These comparisons prompt investigation of the reasons for performance variations. Variations may be justified, but they may also point to good performance or under-achievement. An analysis of why performance varies helps assist target setting at colleges, prompts corrective action, and highlights areas of good practice.
- 4.7 Variations in college circumstances may make it appropriate for comparisons to be made between groupings of similar colleges (family groupings). In practice different groupings could be used depending on the aspect of performance being compared. For example, efficiency indicators may use a grouping based on college size, whereas an indicator of student retention may take account of college location.
- 4.8 SFEFC uses benchmarking to group colleges on the basis of financial health. SFEFC tailors support to colleges in line with this categorisation, with those categorised as in poor financial health receiving greatest attention from SFEFC's financial appraisal and monitoring teams. The overview reports for the FE sector show this process has been used successfully to encourage improvement in the financial health of 19 colleges where SFEFC had identified concerns⁶.
- 4.9 SFEFC is encouraging colleges to undertake benchmarking in some areas. Additional resources have been made available for a rural

⁶ Overview of further education colleges in Scotland 1999/2000, 2000/01 and 2001/02 (Audit Scotland)

colleges benchmarking study. SFEFC is also developing features of its online database so that colleges can interrogate it using certain college clusters.

- 4.10 Colleges would welcome more analysis of information on their performance in relation to other colleges. They consider that more benchmarking information would assist their own performance management, and that the data SFEFC gather in statistical and other returns is under used. This is partly due to reliability concerns and partly because colleges do not have sufficient resources in-house to fully interrogate the data.
- 4.11 SFEFC is planning to improve the information held on its central database and to allow colleges the opportunity to undertake more local benchmarking. From summer 2002, data held by SFEFC was directly accessible to colleges via database files and standardised reports. SFEFC expects colleges will generate local benchmarking information pertinent to them, and plans to regularly update the type of report available in response to their feedback. In addition SFEFC has set up a joint sector-SFEFC working group to consider appropriate financial benchmarking.

External comparisons

- 4.12 Comparisons of what other organisations do, their performance levels and how they achieve them can be enormously helpful in identifying better ways of doing things.
- 4.13 SFEFC has direct links with a wide range of bodies and organisations. It shares its executive staff with the Scottish Higher Education Funding Council (SHEFC) and therefore has close connections with the higher education sector in Scotland. SFEFC is also involved in working groups and project teams concerned with further education matters across the UK. For example SFEFC is a

key player in a UK project tasked with developing estate management statistics for further education (FEEMS) (Exhibit 15).

Exhibit 15

Objectives and outputs from the estate management working group

SFEFC is a key player in a UK project tasked with developing estate management statistics for further education.

Reasons for the project:	The further education sector across the UK does not have robust measures to assess estate performance
Objectives of the project:	The development of a standardised data infrastructure across a range of key estates issues.
Outputs from the project:	144 estates ratios and measures were generated from which colleges can develop and track their own performance
Next steps:	SFEFC have set up a working group with a remit to develop estate performance indicators for the FE sector in Scotland by summer 2003.

Source: Further Education Estate Management Statistics Pilot Project Report, spring 2002

4.14 The further education funding councils in Scotland, England and Wales, collect and present performance information in different ways. This makes comparisons of relative performance across different parts of Great Britain difficult. For example SFEFC measure student activity on the basis of course hours, whereas the Learning and Skills Council in England measures it on the basis of full time equivalent students.

4.15 SFEFC has looked to the experience of the higher education sector for shortcuts in developing comparative indicators. In 1999 the three UK higher education funding councils agreed to introduce a range of performance indicators for all publicly funded institutions of higher education. The aim was to *“provide consistent and reliable information on the nature and performance of the higher education sector in the UK, with a view to contributing to greater public*

*accountability by the sector and providing performance assessments to help inform policy decisions”.*⁷

- 4.16 The higher education sector has developed indicators that relate primarily to full-time under-graduates, with progression indicators restricted to first time degree students, for whom the data is most comprehensive. SFEFC considers that the indicators developed to date by the higher education sector are limited in their coverage and have encountered difficulties in establishing comparative indicators. Given these difficulties, SFEFC has no plans at present to further explore comparative performance indicators but is concentrating on developing performance indicators within a Scottish further education context.

Accountability

- 4.17 Statutory responsibility for day-to-day management of colleges rests with their boards of management. SFEFC staff meet annually with each college to discuss strategic and financial planning and other issues. These discussions cover individual colleges' contributions to key sector objectives. Where a college's performance is below expectations SFEFC will hold a formal accountability meeting, with both the SFEFC and the college chief executives present. In some key areas, such as the volume of student activity and the quality of FE provision, grant conditions and other guidance set out targets and standards which may trigger off action by SFEFC. However, for other areas such as college efficiency and colleges contribution to strategic objectives, the framework for influencing colleges and holding them to account is less clearly articulated and there is scope for SFEFC to improve this in its corporate plan and other documents.

⁷ HEFCE: Higher Education Performance Indicators, 2001

Appendix 1

SFEFC description of the four themes underpinning its performance management work with the FE sector

Measurement of FE by SFEFC

When SFEFC was established in 1999 it recognised that it would be vital for it to have quantitative information about the sector as a whole and individual colleges in order to inform funding and other SFEFC policies, and to monitor quantitative aspects of further education delivery. To this end the SFEFC needed to improve the statistical information systems which it had inherited from the Scottish Office. Changes to statistical information take time, with minimum lead times of often three years from an outline proposal, to changes in colleges' internal forms and systems, to changes to Council data collections, to the Council eventually receiving the new data. Also changes which are not thoroughly planned can prove to be costly in terms of the burden on colleges and SFEFC's running costs, and there is a general requirement on SFEFC to keep to a minimum the administrative burden on providers of statistics. SFEFC's aims for its statistical information have been to make the necessary changes to achieve fitness for purpose through: improving coverage; improving quality; and improving timeliness, and to do so in an effective and efficient manner.

Funding methods applied by SFEFC

Prior to SFEFC's inception, core funding was allocated to colleges in proportion to retrospective shares of student activity. This was not predictable and it was extremely difficult for colleges to plan ahead in a meaningful way. SFEFC has changed the funding method to be forward-looking with core funding based on an agreed level of student activity, taking account of past performance and any strategic change necessary to delivering "adequacy" at national level, and has earmarked growth to those colleges most able to

address the Scottish Executive's social inclusion agenda. The method is expected to give colleges more predictable planning horizons, to manage changes to overall student activity targets for each college, and to manage the balance between seeking general economies in cost and maintaining and enhancing the quality of provision. At the centre of the new funding method is an agreement with each college about the volume and quality of provision which the college is expected to deliver for the funds provided by SFEFC, with penalties for material failure in performance.

Assessment of quality of FE by SFEFC

One of the Council's first actions after taking up its responsibilities in 1999 was to develop a new framework for quality assurance with HMIE. Quality reviews under this new framework began in autumn 2000. The SFEFC/HMIE quality framework under which HMIE conduct reviews splits the review process into two distinct but complementary elements: 'subject review' and 'college review'. Subject review focuses on evaluating the student experience in a number of defined curriculum areas and is designed to provide information on how good the programmes are; how effective the learning and teaching is; and how successful the students are in achieving their learning goals. College review examines the cross-college aspects of college activity which impact directly on the quality of the student experience. College review is designed to provide information on how effective the college's educational leadership and direction is; how inclusive the college is and how well it supports learners; how well the college causes its accommodation, resources, services and staff to support learning; and how effective the college is in improving the overall quality of the student experience.

Responsiveness by colleges

Under the empowered college management model for the delivery of FE services, SFEFC's focus on the measurement of student activity, appropriate funding methods, and the quality of provision are not sufficient by themselves to manage the performance of the sector. It is important that college managements are responsive in various ways in order that they effectively meet the needs of their communities and contribute towards adequacy and

efficiency for Scotland as a whole. SFEFC has been active in several ways in stimulating good college management and thereby stimulating college responsiveness, but in taking such action the Council has been careful to avoid undermining the obligations of college managements to their local communities as set out under the Act. SFEFC's main activities in the area of responsiveness are:

- **Management review.** Shortly after the SFEFC was established, SFEFC responded to Ministers' concerns by conducting a major management review of the Scottish FE colleges. The purpose was to make recommendations and practical suggestions on good management practice and how those recommendations could be implemented throughout the sector. SFEFC submitted its report to Ministers in May 2000 and this was endorsed by Ministers.
- **Financial security.** Management of the financial health of colleges is important in the management of the performance of the sector. Colleges which lack financial security will be devoting significant management time and resources towards financial issues to the detriment of FE service delivery, and the sustainability of the FE service may be at risk. SFEFC has therefore been working to gradually improve college financial security.
- **Strategic Planning by Colleges.** Effective strategic planning by colleges is a vital component of college responsiveness since it demonstrates how a college is integrating the planning for all major aspects of the college, and taking full account of national policies, local circumstances and other relevant aspects of the general environment within which a college operates. Since 1999, SFEFC has been developing the way in which colleges' management boards address strategic planning through annual guidance followed by feedback and visits by the Executive of the Council. The latest guidance, issued in December 2001, seeks to stimulate colleges to plan effectively in order to best meet their obligations to provide suitable and efficient FE for the local communities they serve.

- **Area mapping of FE supply and demand.** In an attempt to find a rational way of fulfilling the duty to secure adequate and efficient FE in Scotland, SFEFC has conducted a mapping exercise for the whole of Scotland to measure and evaluate how the supply of FE is in practical terms matching up to the demands for it. Reports of this work have been issued for consultation with the sector, and consultation meetings have been organised on an area basis during 2002-2003. These reports will provide a vital basis for discussion within and between areas, as to how the provision of FE could be further improved by, for example, sharing staff, buildings and other resources and integrating aspects of the curriculum.
- **College performance indicators.** Quantitative college performance indicators (PIs) that allow comparisons to be made across colleges are important tools for benchmarking and the promotion and sharing of good practice among colleges. Such PIs are therefore an important part of the management of college performance and the management of the performance of the sector.

The Scottish Executive's March 2000 letter of guidance to the Council acknowledged that the existing PIs were not fully comparable between colleges, and invited the Council to review the range of PIs considered necessary, and then to put in place appropriate mechanisms to establish, measure and publish these. The Scottish Executive recognised that the work was complex and would need to be taken forward in stages, involving the sector.

- **Support from Council's FEDD to tackle deep-rooted college problems.** All of the above noted processes in this section should stimulate and promote colleges in developing themselves into organisations which are more effective in carrying out their business and fulfilling their statutory duty to provide suitable and efficient FE for the communities which they serve. However, SFEFC recognises that there will be instances where a college has a problem which is so deep-rooted that

college management acting in isolation is unlikely to resolve it. SFEFC has therefore developed, in discussion with the sector, a way of supporting colleges facing difficult management issues, whether financial or to do with their strategic development. The outcome has been the creation of a FE Development Directorate (FEDD) within SFEFC from July 2002. Mainly experienced and successful managers from the sector seconded part-time to support colleagues in other colleges on a project basis will staff the new Directorate. This approach will allow credible best practice to be brought to bear where it is most needed. As well as tackling difficult management issues, it will help develop management capacity across the sector in Scotland.

Source: SFEFC

Appendix 2

Methodology used in the examination of the sector's performance

Methodology	Information gained
Examination of papers and data held by SFEFC including ministerial guidance, corporate plans, board papers, correspondence with colleges and performance related data.	This examination was used to gain a clear view of: <ul style="list-style-type: none"> • expectations for the FE sector • how the current performance framework has developed • performance results to date • how SFEFC validate performance information, and • how that information is used.
Interviews with senior staff at the Scottish Executive, SFEFC and Her Majesty's Inspectorate of Education (HMIE).	The interviews were used to discuss how well performance measures currently used link with key expectations for the sector and what plans SFEFC has for developing the performance measurement framework.
Visits to six colleges to interview senior staff and review papers (Angus, Cardonald, Elmwood, Falkirk, Inverness, Reid Kerr)	Interviews explored college views on SFEFC's role in monitoring the performance of the FE sector and views on the performance information SFEFC make available.

Consultative panel

A consultative panel, made up of sector representatives provided feedback on the proposed methodology and emerging findings. It comprised:

Mr John Burt	Principal	Angus College
Dr Brian Hay	Chair of Board of Management	Edinburgh's Telford College
Ms Ros Micklem	Principal	Cardonald College
Mr Douglas Paxton	Director of Finance	Reid Kerr College
Mr Laurence Howells	Director of Strategic Planning	SFEFC

Scottish Further Education Funding Council

Performance management of the further education sector in Scotland



Audit Scotland
110 George Street
Edinburgh EH2 4LH

Telephone
0131 477 1234
Fax
0131 477 4567