

# Scottish Further Education Funding Council

Performance management of the further education sector in Scotland

Summary report / Prepared for the Auditor General for Scotland

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# 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 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 to 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
<b>Skills for tomorrow's jobs</b>	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
<b>Quality improvement and modernisation</b>	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
<b>Widening access</b>	A sector that achieves wider participation and promotes social inclusion	<p>Volume of student activity (SUMs)</p> <p>Number of enrolments</p>	<p>Volume of student activity (SUMs)</p> <p>Increase in % of entrants to HE from under represented areas (joint target with SHEFC)</p> <p>Number of additional learners</p>	<p>Volume of student activity (SUMs)</p> <p>Number of enrolments</p> <p>Increase in % of entrants to HE from under represented areas (joint target with SHEFC)</p> <p>Annual growth in student numbers from 20% most deprived postcode areas</p> <p>Annual growth in student activity (SUMs) covered by fee waiver grant</p>	Participation indicators - no date set
<b>Improving financial health</b>	A sector that demonstrates sound management, governance and planning and is financially viable	<p>aSector average cost of fundable activity per weighted SUM (unit costs)</p> <p>% of colleges reporting cumulative historic cost surpluses</p> <p>Outstanding balance of advances made to colleges by SFEFC to decrease</p>	<p>Sector average cost of fundable activity per weighted SUM (unit costs)</p> <p>% of colleges reporting cumulative historic cost surpluses</p> <p>Balance of advances made to colleges by SFEFC</p>	<p>Number of colleges with outturns differing by more than 10% of forecasts</p> <p>% of colleges reporting cumulative historic cost surpluses</p> <p>Outstanding balance of advances made to colleges by SFEFC to decrease</p>	Annual unit costs

**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 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.





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