Scottish Further Education Funding Council: A progress report

Prepared for the Auditor General for Scotland

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AUDIT SCOTLAND

Auditor General for Scotland

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Introduction

1. This report is a follow-up to previous reports by the Auditor General for Scotland (AGS) on the further education sector to assess the progress made by the Scottish Further Education Funding Council (SFEFC).

2. In October 2005, SFEFC was merged with the Scottish Higher Education Funding Council (SHEFC) to form the Scottish Further and Higher Education Funding Council. In this report we have referred to the former council as SFEFC and the new council as the Funding Council.

Summary of key messages

3. The key findings in relation to SFEFC's financial performance are:

- Financial stewardship in colleges is sound, but concerns remain about the financial position of two individual colleges. Seven colleges out of 39 still have accumulated deficits.
- Good progress has been made on the campaign for financial security, with the sector operating surplus continuing to rise and the number of colleges in deficit falling.
- SFEFC has increased the grant-in-aid available to the sector and has targeted additional grant funding of £38 million to help colleges to improve their financial health and address other key priorities.
- SFEFC has continued to develop its monitoring arrangements for colleges whose financial health is of concern.

4. The key findings in relation to SFEFC's initiatives to address the adequacy and efficiency of the provision of further education are:

- Colleges have, for the most part, successfully addressed the issues identified in the SFEFC Management Review.
- The latest supply and demand report provides information on further education provision and on demand from employers and students; one of its conclusions was that demand for further education outstrips supply. It did not address the extent to which current levels of provision meet previous statutory requirements for adequate and efficient further education in Scotland, although SFEFC has made recommendations on the future direction of work in this area to the Funding Council.
- Three college mergers took effect in 2005, and work on collaboration and merger in Glasgow is ongoing. Collaborative work between colleges across the sector has increased.
- The Funding Council is providing colleges with £250 million of capital funding over three years to improve the quality of colleges' estates and substantially address the identified maintenance backlog.

5. The key findings in relation to SFEFC's approach to performance management are:

- The information the Funding Council reports on volume, quality and finance, has improved.

- The Funding Council has developed performance measures which assess colleges' performance in their critical business areas of volume, quality, financial performance and satisfaction. This presents a balanced scorecard of performance through which the Funding Council has begun to examine how the components of college activity interrelate.

- The Funding Council has undertaken a cost benchmarking exercise across all colleges. It is encouraging colleges to use performance indicators and other comparable data, including unit costs, to begin benchmarking to improve their efficiency and effectiveness through the identification of good practice.

- The Funding Council has not carried out any significant benchmarking of further education with sister organisations in the UK because it believes that differences in coverage, structure and funding approaches make this difficult. It intends to consider further how this can be achieved.

Conclusions

6. Since 2002, the level of funding made available to colleges has increased. This has helped them to improve their financial health and, at the same time, accommodate increased costs in a number of areas. The Funding Council has achieved most progress on initiatives to improve the adequacy and efficiency of further education and improve performance management in areas where it has been able to take direct action, such as the funding of estates capital projects. Progress in areas where strategic influence is required has been slower and there is scope for further improvement in:

- eliminating accumulated deficits in seven colleges and addressing concerns about the financial health of two colleges

- agreeing the strategic direction for further education to resolve apparent tensions such as the need to ensure that supply and demand for further education is matched in a manner which addresses the ministerial priorities

- developing strategic leadership to ensure that the benefits of mergers and collaboration in areas such as Glasgow are achieved

- continuing to encourage colleges to achieve benefits from improved performance information and to continue to build on the quality of the information.

Part 1. Introduction

1.1 Further education colleges in Scotland provide education and training opportunities for a wide range of people. There are 39[1] colleges incorporated under the Further and Higher Education (Scotland) Act 1992, and a further four education colleges,[2] two of which (Orkney and Shetland) operate under the control of local authorities. This report covers the 39 incorporated colleges.

1.2 The incorporated colleges receive the majority of their funding through grant-in-aid payments from the Funding Council. Scottish ministers are responsible for providing direction for both the Funding Council and the colleges, based on policy advice from the Scottish Executive Enterprise, Transport and Lifelong Learning Department (SEETLLD).

1.3 The Chief Executive of the Funding Council is the accountable officer for the proper use of funds derived from Scottish ministers and is also accountable to the Scottish Parliament. College principals are accountable to their governing bodies, and, under the terms of SFEFC's financial memorandum to the Funding Council and its chief executive. They may also be called to appear before the Scottish Parliament (Exhibit 1). Colleges' accounts are audited by the AGS and are laid in Parliament. The Public Finance and Accountability Act 2000 gives the principal accountable officer the power to appoint accountable officers to sign statutory accounts. Further education colleges are the exception to this because their accountable officers are appointed by college boards rather than the principal accountable officer.

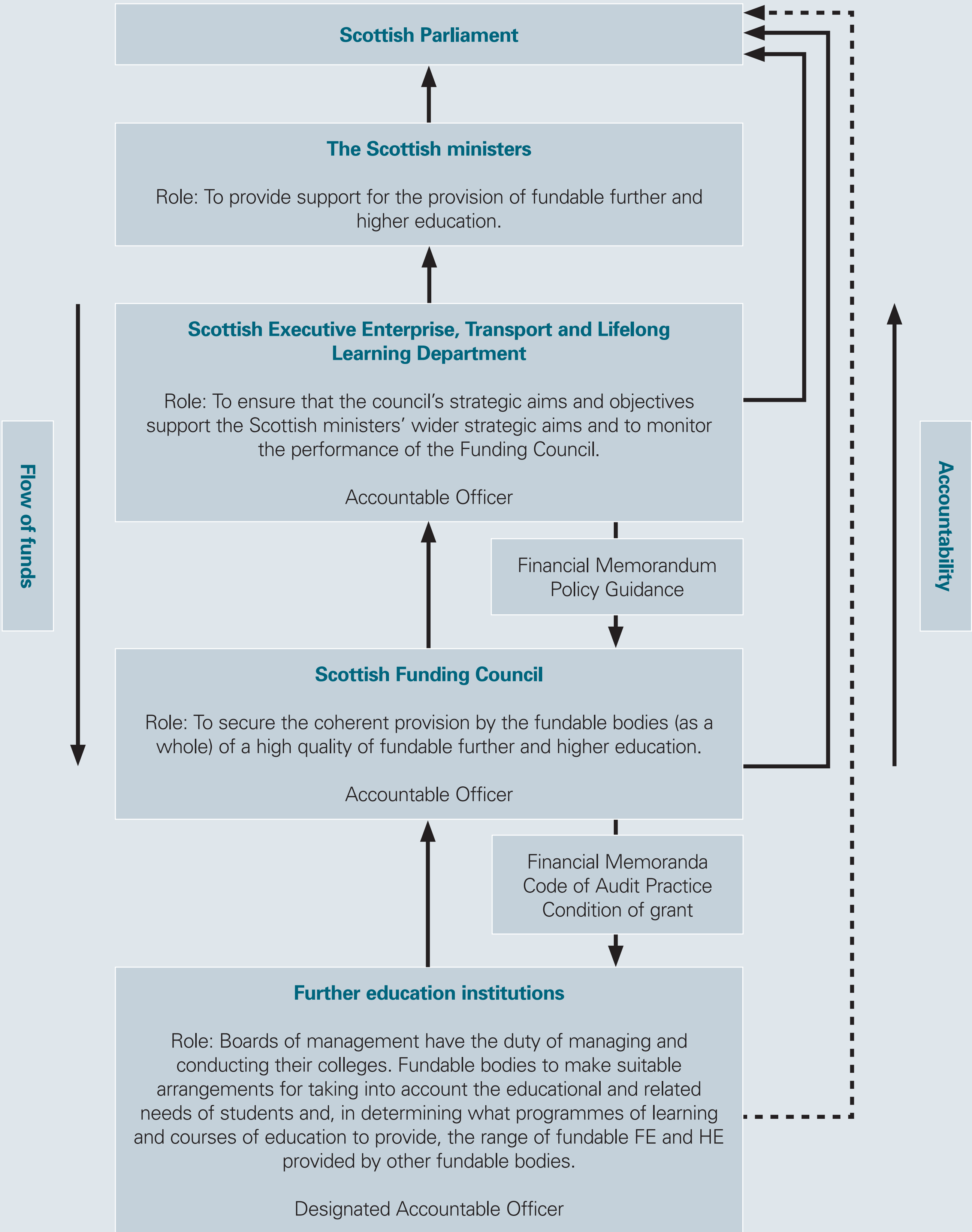
1.4 In October 2005 SFEFC merged with SHEFC to form the Scottish Further and Higher Education Funding Council.

1.5 A ministerial review of Scotland's Colleges[3] was announced in June 2005 to report by February 2007. The review will examine:

- the contribution Scotland's colleges make to Scotland's learners, the economy and wider society
- its strategic future over the next ten to 20 years
- how governance and accountability might be strengthened
- issues related to staffing, learners and the learning environment, including opportunities for the modernisation and improvement of teaching methods, and for supporting the professionalism and development of staff.

1 There were three college mergers in 2005. Falkirk and Clackmannan colleges became Forth Valley College; Fife and Glenrothes colleges became Adam Smith College; the Glasgow College of Building and Printing and the Glasgow College of Food Technology merged to form Glasgow Metropolitan College.
2 The four non-incorporated colleges are Newbattle Abbey College, Orkney College, Sabhal Mór Ostaig and Shetland College of Further Education.
3 The further education sector uses the term 'Scotland's colleges' because further education colleges also provide higher education.

Exhibit 1
Accountability in the Scottish further education sector



Note: The roles of ministers, the council and further education colleges are based on the Further and Higher Education (Scotland) Act 2005. This updates their roles as described in the Further and Higher Education (Scotland) Act 1992.

Source: Audit Scotland

Exhibit 2

AGS reports on further education

Reports on the sector
• Overview of further education colleges in Scotland 1999/2000 – November 2001. • Overview of further education colleges in Scotland – May 2002. • SFEFC – Performance management of the further education sector in Scotland – September 2003. • Financial performance of the further education sector in Scotland – December 2003.

Section 22 reports on the sector	
Year	**Colleges**
2002/03	Glasgow College of Food Technology Inverness Lews Castle Moray North Glasgow West Lothian
2003/04	Inverness Lews College West Lothian

Source: Audit Scotland

The purpose of this report

1.6 The AGS has reported four times on the further education sector. He has also reported on the financial situation of a number of individual colleges (Exhibit 2). The reports on the sector highlighted a range of initiatives by SFEFC to: improve financial health; the adequacy and efficiency of provision of further education; and performance management. The Parliamentary Audit Committee has taken evidence from accountable officers and, in its fourth report of 2004, the committee asked the AGS to produce a report on SFEFC's progress in these areas (Appendix 1, page 25).

1.7 This report is a response to the Audit Committee's request:

- Part 2 (page 7) examines the financial stewardship and financial health of the sector and individual colleges.
- Part 3 (page 12) examines the progress made on four SFEFC initiatives to address the adequacy and efficiency of the provision of further education.
- Part 4 (page 19) reviews the progress SFEFC has made in addressing the issues identified in its performance management action plan.

1.8 Audit Scotland interviewed SFEFC's senior management and reviewed relevant evidence and documentation. We also visited six colleges: Cardonald, Coatbridge, Cumbernauld, Dumfries & Galloway, Jewel & Esk Valley and Lauder.

Part 2. Financial performance

2.1 This part of the report comments on financial stewardship in individual colleges and the actions taken by SFEFC to improve financial health across the sector and assist colleges whose financial performance gives the Funding Council cause for concern.

Main findings

- Financial stewardship in colleges is sound but concerns remain about the financial position of two individual colleges. Seven colleges out of 39 still have accumulated deficits.
- Good progress has been made on the campaign for financial security with the sector operating surplus continuing to rise and the number of colleges in deficit falling.
- SFEFC has increased the grant-in-aid available to the sector and has targeted additional grant funding of £38 million to help colleges to improve their financial health and address other key priorities.
- SFEFC has continued to develop its monitoring arrangements for colleges whose financial health is of concern.

Sources of funding

2.2 For 2004/05, the incorporated colleges are forecasting expenditure of £551 million. This will be funded by income of £557 million, including £392 million grant-in-aid provided by the Scottish Executive via SFEFC. Income has increased by nearly 25% in cash terms or 13% in real terms over a five-year period to 2004/05, largely as a result of a £91 million (30%) increase in grant-in-aid. The balance of the funding for 2004/05, £165 million, came from a range of sources, including tuition fees, European grants and commercial services (Exhibit 3, page 9).

Financial stewardship

2.3 Financial stewardship in the incorporated colleges is sound. Auditors' opinions on college accounts were qualified on only five occasions between 1999/2000 and 2002/03, and none of the auditors' reports on the 2003/04 or 2004/05 accounts were qualified. Audited accounts for the year to July 2005 were submitted to the AGS in December 2005, and will be laid in Parliament early in 2006.

2.4 In previous years, auditors have drawn attention to questions about individual colleges as going concerns. The number of colleges involved has fallen from seven in 2000/01 to one in 2004/05. The AGS has reported this to Parliament under section 22 of the PFA Act.

2.5 For 2003/04, the AGS reported on the accounts of Inverness, Lews Castle and West Lothian Colleges. The reports highlighted that:

- Inverness College would be unable to clear its accumulated deficit of £3.32 million by July 2009, as it had originally forecast in its recovery plan, because of poorer than expected results.
- Lews Castle College's bank had withdrawn an overdraft facility in December 2003 and, as a result,

SFEFC provided the college with an advance of £556,000 during the year. The college has managed to find recurring savings and SFEFC has agreed to provide additional funding in future years to account for costs associated with remoteness.

- West Lothian College faced a likely shortfall in future financial support to enable it to meet contractual commitments for its PFI contract.

2.6 For 2004/05, Inverness College forecast a reduction in its operating deficit, but instead its deficit increased from £526,000 to £967,000. The college also has a historic deficit of £536,000, casting further doubt over its longer-term recovery plans. Lews Castle College broke even and is on target to achieve financial stability. West Lothian College achieved an underlying operating surplus for 2004/05 but longer-term issues over future commitments on the PFI deal remain unresolved.

Campaign for financial security

2.7 In December 2002, SFEFC announced a campaign for financial security in the further education sector based on six elements:

- A definition of the basic level of financial health which all colleges should achieve.
- A three-year target for the sector to achieve financial security by July 2006.
- The establishment of comprehensive benchmarking of costs across the whole sector.
- The strengthening of the strategic financial management of the sector through increasing the effectiveness of the finance manager network and investigating the options for enhancing management information systems across the sector.
- SFEFC's Financial Appraisal and Monitoring Service and a new Further Education Development Directorate to help colleges develop plans for financial security.
- Additional funding allocations of £26 million.

2.8 A financially secure college is defined as 'one that, on a continuing basis, is able to generate operating surpluses reliably and as planned, and through that accumulate a reasonable level of financial reserve'. The definition also stated that 'colleges should distinguish between deficits arising from pension provisions and deficits arising from overspending on recurrent operational expenditure. Deficits arising from pension provisions do not directly threaten a college's financial health. A college can remain financially secure while maintaining a pensions deficit providing it can meet the other requirements of financial security, namely, reliable operating surpluses and adequate cash.'

2.9 In 2001/02, the combined results for all colleges showed an operating surplus of £2.3 million. The financial health of the sector has continued to improve. By 2003/04, the combined surplus had risen to £5.3 million, and it is forecast to continue to rise to more than £8 million for 2005/06 (Exhibit 4).

2.10 The Funding Council has made good progress with the campaign. The number of colleges recording underlying operating deficits fell from 18 in 2001/02 to nine in 2003/04. The Funding Council are in the process of analysing the position for 2004/05. On the basis of college forecasts in July 2005, SFEFC expected all but one college to be financially secure by July 2006. Only one college, Forth Valley, was forecasting a deficit by 2005/06. This arose as a result of the initial set-up costs of the merger, but the Funding Council considers that there is no reason to be concerned about the college's underlying financial security.

Accumulated deficits

2.11 In 2004/05, 12 colleges reported accumulated deficits on their income and expenditure accounts, much of which related to pension provisions for early retirement and previous redundancy costs. The AGS recommended in his last report on the financial health of the sector, that SFEFC should continue to monitor these colleges closely to ensure that additional funding made available during 2002/03 and subsequent years was used to improve the colleges' financial positions. College forecasts suggest that by 31 July 2006, 12 colleges will have accumulated deficits.

2.12 The Funding Council takes the view that the long-term nature of pension liabilities should be recognised.[4] Colleges made a total provision of £37 million for early retirements and enhanced pensions in 2001/02, and, by 2003/04, the combined provision had risen to £47.2 million due to revaluation and additional early retirements. If these provisions are excluded, seven of the twelve colleges would still have

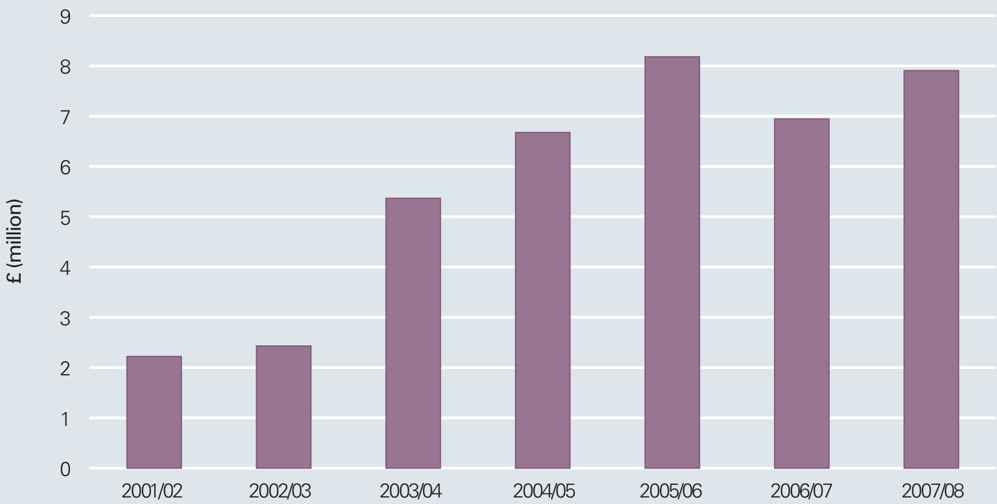
4 Accounting rules require early retirement pension liabilities to be recognised in full in the year that they are committed, which means an annual charge to the income and expenditure account which may affect a college's financial position. Colleges will, however, only pay each liability over a prolonged period: eg, on average, a person retiring now at age 55 might expect to receive payments for 23 years.

Exhibit 3
Sources of FE college income

	2004/05 (£ million)	2003/04 (£ million)	2002/03 (£ million)	2001/02 (£ million)	2000/01 (£ million)
SFEFC grants	392	378	362	342	301
Education contracts and tuition fees	96	95	96	94	85
Other income	69	67	61	60	58
Total	**557**	**540**	**519**	**496**	**444**

Source: SFEFC

Exhibit 4
Further education sector operating surpluses achieved and forecast



Note: Figures for 2004/05 onwards are forecasts.

Source: SFEFC

accumulated deficits and four of these expect to have net accumulated deficits by July 2006. The most significant of these are Inverness and West Lothian Colleges.

2.13 SFEFC has used financial recovery plans to monitor colleges in financial difficulty. In 2003, there were 15 colleges with financial concerns, 11 of which had recovery plans in place. The AGS reported at that time that they were likely to meet their recovery targets.

2.14 SFEFC has continued to develop its monitoring arrangements. The Funding Council continues to work with colleges which it considers to be in financial difficulty through the development of recovery plans. These plans set out the remedial actions to be taken in order to bring the colleges' financial performance back into balance. The Funding Council will use the recovery plans as a basis for monitoring and progress will be reviewed at least quarterly through reports from the colleges and follow-up meetings. Of the colleges with accumulated deficits at July 2005 only Inverness and James Watt have recovery plans in place because of their operating deficits. Exhibit 5 shows the changes in colleges' accumulated deficits, including the forecast gross and net (of pension provisions) position for 2005/06, and the two colleges with recovery plans.

2.15 The Audit Committee's seventh report of 2005 made reference to SFEFC's financial security strategy. The committee acknowledged that the financial health of colleges had improved significantly since 2002, but concluded that it was unclear whether the improvements in financial health were due to additional funding or improved financial management by colleges.

2.16 The Scottish Executive responded by reporting that in general, colleges are improving their efficiency by delivering increased activity in proportion to their funding. Quality has been unaffected and the colleges have been able to deal with above inflation cost pressures such as increased pension costs, legislation and regulatory requirements and the need to maintain estates.

2.17 SFEFC increased its grant-in-aid to colleges. It also made additional grant funding to colleges to support its financial security campaign; £26 million was allocated in 2002; a further £8.2 million in 2003; and £3.7 million in 2004 for the same purpose. Funding was to be invested in improving colleges' financial positions but not for recurrent expenditure. It was allocated to deal with three priorities:

- Priority 1 – improving financial health and achieving financial security by July 2006 (£19.2 million).
- Priority 2 – compliance with the Disability Discrimination Act and Special Educational Needs and Disability Act (£6 million).
- Priority 3 – one-off investments to support local strategic priorities where the first two priorities have been met (£12.7 million).

2.18 By December 2005 colleges had spent £32 million of the £37.9 million allocated. For priority 1, for which £19.2 million has been allocated, the Funding Council has forecast that, by 2005/06, the additional investment will generate £7.5 million in cost efficiencies and £1.3 million in additional income for colleges on a recurring basis (Exhibit 6).

Exhibit 5

Colleges with recovery plans and accumulated deficits

Colleges with financial recovery plans in 2002	Accumulated (deficit)/ surplus July 2002 (£000)	July 2005		July 2006		
		Gross accumulated (deficit)/ surplus (£000)	Net accumulated (deficit)/ surplus (£000)	Gross accumulated (deficit)/ surplus (£000)	Net accumulated (deficit)/ surplus (£000)	Current recovery plan
Clackmannan	(584)	(1,193)	(94)	N/A	N/A	No
Clydebank	(3,453)	(2,455)	(154)	(2,237)	(77)	No
Inverness	(3,707)	(3,667)	(1,712)	(2,632)	(1,204)	Yes
Langside	377	1,153	2,510	1,366	2,712	No
Lews Castle	(519)	(1,057)	(273)	(1,286)	(152)	No
Moray	(1,531)	(1,775)	926	(552)	1,368	No
North Glasgow	(1,266)	893	2,225	(239)	1,305	No
Perth	(240)	1,043	2,422	1,345	2,969	No
Reid Kerr	(2,347)	(983)	567	(515)	1,172	No
South Lanarkshire	(182)	538	1,012	703	1,083	No
Other colleges where financial health was of concern in 2002						
James Watt	(53)	(1,241)	1,409	(102)	3,109	Yes
John Wheatley	(580)	102	225	145	269	No
Lauder	(290)	202	562	623	965	No
Stow	8	946	1,917	1,156	2,011	No
West Lothian	(2,679)	(4,071)	(1,570)	(3,844)	(1,733)	No

Note: Clackmannan College merged with Falkirk College in August 2005 to become Forth Valley College. Figures for July 2006 are forecast.

Source: SFEFC

Exhibit 6

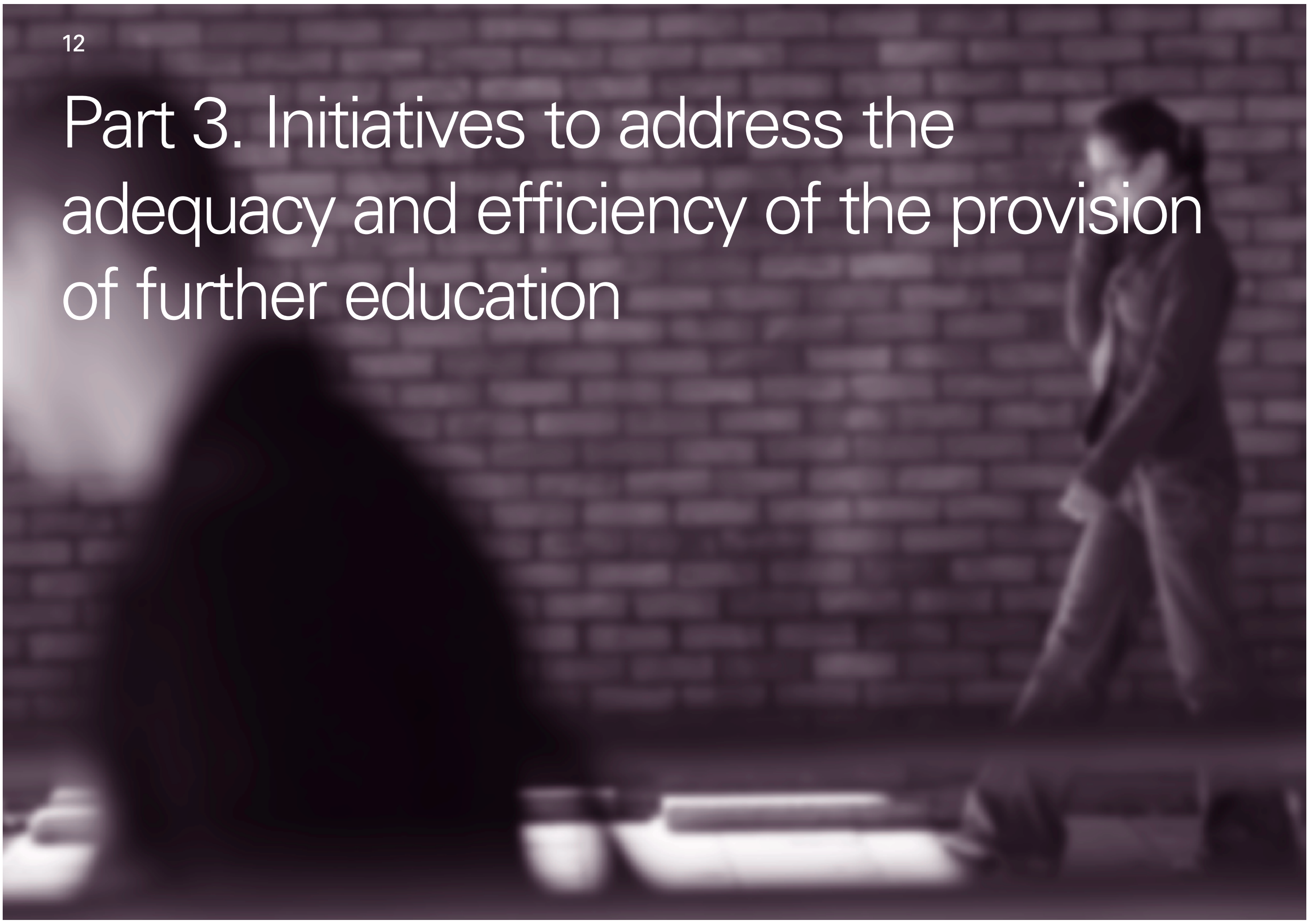
Cost efficiencies and additional income generated from financial security grants

	2002/03 (£000)	2003/04 (£000)	2004/05 (£000)	2005/06 (£000)
Recurring cost efficiencies	1,130	4,535	6,459	7,516
Recurring additional income	163	744	1,058	1,291
Total	**1,293**	**5,279**	**7,517**	**8,807**

Note: Figures for 2004/05 onwards are forecasts.

Source: SFEFC

Part 3. Initiatives to address the adequacy and efficiency of the provision of further education



3.1 In December 2003, the AGS reported on SFEFC's progress with a number of initiatives to address the adequacy and efficiency of the provision of further education. This part of the report updates progress on these initiatives.

Main findings

- Colleges have, for the most part, successfully addressed the issues identified in the SFEFC Management Review.
- The latest supply and demand report provides information on further education provision and on demand from employers and students; one of its conclusions was that demand for further education outstrips supply. It did not address the extent to which current levels of provision meet previous statutory requirements for adequate and efficient further education in Scotland, although SFEFC has made recommendations on the future direction of work in this area to the Funding Council.
- Three college mergers took effect in 2005 and work on collaboration and merger in Glasgow is ongoing. Collaborative work between colleges across the sector has increased.
- The Funding Council is providing colleges with £250 million of capital funding over three years to improve the quality of colleges' estates and substantially address the identified maintenance backlog.

Management action plans

3.2 In 2000, SFEFC engaged consultants to review the management of Scotland's further education colleges. They examined seven themes: governance; strategic and operational planning; quality assurance and enhancement; marketing; human resources; financial management; and estates and facilities management. This established a baseline assessment of the quality and effectiveness of management in each college, and created a mechanism for identifying and addressing development needs.

3.3 As a result of the review, colleges were asked by SFEFC to produce Management Action Plans (MAPs), setting out how they planned to address the seven themes. Colleges' boards of management were required to take forward the MAPs, with the broad aim that colleges should make changes to their strategies, structures and processes to embed good practice, where that was required.

3.4 When the AGS reported in 2003, SFEFC was reviewing the progress colleges had made in implementing the actions described in their MAPs. It will produce a sector-wide report in February 2006 based on a college self-evaluation exercise. The Funding Council believes that the exercise will show that good progress has been made, with colleges for the most part having successfully addressed the key areas for development identified in the Management Review.

3.5 The Funding Council recognises the need to ensure that colleges continue to apply good practice in management. A new financial memorandum, which will come into force in January 2006, places greater emphasis on the responsibility of boards of management to drive continuous improvement and in accounting for their college's performance. SFEFC has provided guidance and funding to support the continuing training of board members, and the Funding Council intends to hold regular meetings with all colleges to discuss their progress against strategic objectives.

Supply and demand

3.6 SFEFC completed its first review of the links between supply and demand across the further education sector in 2000. The primary purpose of the exercise was to provide information to lead a strategic planning process across colleges to assess the adequacy and efficiency of further education in Scotland. SFEFC commissioned two separate exercises to map information on supply and demand, on a geographical basis and on an industry basis.

3.7 In 2002, the Audit Committee's seventh report called on SFEFC to successfully complete its research to establish levels of supply and demand for further education in Scotland. The committee recommended that SFEFC publish a step-by-step programme for the implementation of the process to ensure proper coordination and that, once completed, the projects should form the basis of strategic planning by colleges.

3.8 In 2003, the AGS's performance management report recorded that SFEFC's industry mapping exercise was abandoned after contractual difficulties but that the geographical mapping had been completed. SFEFC had discussed the results with colleges and was planning to refine the measurement of supply and demand to include a wider group of stakeholders.

3.9 In his evidence to the Audit Committee in November 2003, the chief executive of SFEFC confirmed that the Funding Council was commissioning a further supply and demand report. This would help SFEFC to assess the extent to which it satisfied its statutory requirement 'to secure the provision of adequate and efficient further education in Scotland.' The exercise would be repeated every two years to build up reliable information to assess supply and demand.

3.10 The next report was commissioned in April 2004 with a remit to give policymakers and providers a more comprehensive picture of demand, need and supply for policy development, and an improved basis on which the strategic education business decisions of providers and funders are made. It did not set out to provide definitive answers on, although it is a major contributor in assessing, the extent to which previous statutory requirements to provide adequate and efficient further education in Scotland are met.

3.11 The report was published in April 2005 and provides information on provision in all forms of further education and on demand from employers and students. One of its conclusions was that 'demand for further education remains buoyant and outstrips supply'. The report drew together over 40 area-based indicators covering demographic change, current and forecast performance of the Scottish economy, labour market indicators, employer data from the Scottish Employers Skills Survey 2004, schools performance and school leaver data, local authority deprivation indices and SFEFC data on further education learner participation, college activity and strategic change.

3.12 SFEFC provided advice to the new Funding Council on the implications of the report; the advice was issued to colleges in a circular in September 2005. SFEFC based its recommendations on the belief 'that the council's interventions should focus on helping colleges and other stakeholders address educational deprivation by improving the achievement levels of skills and learning in Scotland's deprived areas, in order to improve individuals' potential employability and help more people to become and stay economically active.' The recommendations included specific action in Lanarkshire, Glasgow, the Highlands & Islands and the South, (Exhibit 7, overleaf). In December 2005, the Funding Council discussed the recommendations and it will consider them further in future meetings to make decisions to inform funding allocations for 2006/07.

3.13 The circular points out that the issue of supply and demand is complex and that it is hard to find clear-cut and uncontentious answers. It states that 'there are tensions or perceived tensions between: the role of the council and of colleges; social inclusion and support for growing economies; short-term and longer-term trends; the ability of education to solve societal problems and some of the expectations put upon the system'. The colleges visited during the audit held the general view that issues of supply and demand should be dealt with on a local basis and that the Funding Council has no role in managing supply and demand.

3.14 The latest ministerial letter of guidance in November 2005 expected the Funding Council to work with colleges and universities to secure a coherent and flexible pattern of provision that best

Exhibit 7

SFEFC advice to the Funding Council on supply and demand issues

The circular recommended the following actions for the Funding Council in respect of ongoing work to assess supply and demand:

- Continue to collect and use supply and demand data and engage in area-based analysis.
- Avoid centralised micro-planning.
- Provide growth to all colleges as resources permit (taking account of Scottish Executive policies for school-college provision), giving first call to areas identified in this paper.
- Bring together the key stakeholders in Lanarkshire to draw up a programme of action and support this with strategic funds and growth, if this satisfies the council it is likely to deliver.
- Examine further the evidence in the Highlands and Islands and South and consider offering targeted growth where supply appears to be the constraint.
- Bring together the key stakeholders in Glasgow to draw up a programme and support this with strategic funds and other resources.
- Retain the level of supply in Glasgow.
- Review the current wider access premia.
- Keep demographics and the allocation of funded growth under review.
- Model the impact of changes in European funding.
- Test further and implement these recommendations in partnership with key stakeholders.

Source: SFEFC Circular FE/45/05

meets Scotland's needs, and delivers Scottish ministers' planned volume of high quality provision for learning in Scotland, ensuring there is fair access to further and higher education for all. The Minister expected the Funding Council to respond to the findings of the 2005 report into supply and demand of further education.

Merger and collaboration

3.15 The powers to establish new colleges, merge colleges and close colleges lie with Scottish ministers. The Funding Council has no powers to direct the merger or closure of colleges but in practice ministers seek advice from the Funding Council on merger proposals from colleges and on post-merger evaluations. It also provides guidance to colleges who wish to merge, and financial support when merger proposals are approved. The Further and Higher Education (Scotland) Act 2005 gives the Funding Council the duty to 'in relation to the provision of fundable further education and fundable higher education, promote collaboration between the fundable bodies'.

3.16 The benefits of merger and collaboration in Glasgow were originally considered in September 2000 by SFEFC and the Glasgow Colleges' Group. They commissioned an external review to generate strategic options for the efficient and effective provision of further education in Glasgow. One of the findings of the review was that policy statements supported local collaboration between colleges with an emphasis on the importance of good-quality facilities and teaching. The consultants recommended that SFEFC had a role to play in 'proactively steering the process of collaboration and in providing evidence and funding to underpin it'.

3.17 The AGS's 2003 report on financial performance recorded that although three colleges in Glasgow had proposed a merger in 2002 and two other colleges in Glasgow had commissioned a merger feasibility study, neither had gone forward as planned. The report also recorded that colleges were beginning to work together more closely across Scotland, largely as a result of the initial work on supply and demand information.

3.18 Three mergers have taken place since that report:

- Adam Smith College was formed from a merger of Fife and Glenrothes colleges in August 2005.
- Forth Valley College was formed from a merger of Falkirk and Clackmannan colleges in August 2005.
- Glasgow Metropolitan College was formed from a merger of Glasgow College of Building and Printing and Glasgow College of Food Technology in March 2005.

3.19 In November 2004, the Scottish Executive published *Building a Better Scotland: Efficient Government – Securing Efficiency, Effectiveness and Productivity*. This document stated:

'In the further and higher education sector, the merged Funding Council will secure cash-releasing savings through collaboration between institutions, shared support services, new approaches to estates development and management, better procurement, and pooling of research capacity.'

3.20 In his January 2005 letter of guidance to SFEFC, the minister referred to the expectations detailed in the *Building a Better Scotland* document. He indicated that he would like to receive advice from SFEFC on how the values of Efficient Government could be reflected by the sector, both by SFEFC's operations and by those of the colleges. SFEFC wrote to the Scottish Executive in May 2005 describing the range of actions it intended to implement in relation to the Efficient Government Initiative:

- Redeployment gains from strategic opportunities presented by estates investment, research pooling and institutional mergers.
- Identifying, sharing and replicating new approaches for the delivery of learning, teaching and support functions.
- A national review of the development of new collaborative activities beyond those already in place or planned.
- Reviewing the potential for the existing joint procurement arrangements in both sectors to deliver further savings.
- Seeking co-operation from sister regulatory organisations to identify where external regulatory burdens on institutions can be reduced.

Merger and collaboration across the sector

3.21 The Funding Council estimate that between 1999 and June 2004 SFEFC provided £9 million funding for over 70 strategic change projects in colleges across Scotland relating to national sector or theme-based initiatives, feasibility studies and preparatory work for mergers and other collaborations. Around 30 projects came about as a result of SFEFC's efforts to stimulate collaboration among colleges using the results of the 2002 supply and demand study. Four of the major projects supported as a result of this were:

- collaboration between Elmwood, Oatridge and Barony Agricultural Colleges
- employability and tourism provision between the Tayside colleges
- wider access through blended learning, including e-learning, between the North-east colleges
- joint branding and marketing of community learning in Dunbartonshire.

3.22 Other smaller-scale collaborative projects across Scotland resulting from the 2002 supply and demand study include, for example, construction provision in the Highlands. The 2005 supply and demand report concluded that collaborative projects had led to improvements in colleges' understanding of demand, need and supply issues and had resulted in closer inter-college working. Colleges are also continuing to collaborate on a range of issues without specific funding incentives from the Funding Council.

Glasgow

3.23 A proposal to merge the three central Glasgow colleges co-located in Cathedral Street – the College of Building and Printing, the Central College of Commerce and the College of Food Technology – was submitted to ministers in 2002. In May 2003, the board of the Central College of Commerce decided against the proposal and in February 2005, the other two colleges merged to form Glasgow Metropolitan College.

3.24 In 2003 SFEFC established a joint project based on a proposal by the Glasgow colleges to rationalise further education provision in the city into a hub of specialist facilities in the centre with a ring of local community colleges providing community focussed learning. Some of the city centre colleges were not comfortable with these proposals. After preparatory work in feasibility, curriculum fit and identifying possible site options SFEFC organised a conference in September 2004 for the colleges to try to reach a consensus on the future city centre configuration but no clear consensus emerged.

3.25 In December 2004 SFEFC asked the city centre colleges to submit a joint full business case for the city centre estate. The Glasgow city centre colleges steering group was set up in February 2005 with an independent Chair. Consultants have been appointed to develop the joint business case including aspects of estate and curriculum development. The consultants presented their proposals to the steering group in December 2005 and the outcome was reported to the Funding Council. It will consider a recommendation on the proposals after the business case is considered early in 2006.

3.26 SFEFC has also considered business cases for capital funding from colleges outside the city centre in Glasgow and has agreed significant funding for estates development for Anniesland, Cardonald, North Glasgow and John Wheatley Colleges. Further work needs to be done on the business case before Langside College will be granted similar funding.

Estates

3.27 In 2000, consultants carried out a survey of further education estates for SFEFC. They identified a maintenance

Exhibit 8

Major capital funding for colleges

College	Backlog maintenance assessment (£ million)	Initial SFEFC assessment of estates need[5]	Funding Council committed to provide funding
Anniesland	3.4	High	Yes
Ayr	2.5	High	No
Borders	2.1	High	Yes
Building & Printing (now Glasgow Met)	6.0	High	No
Cardonald	7.1	High	Yes
Central College of Commerce	2.6	High	No
Clackmannan (now Forth Valley)	1.5	High	Yes
Clydebank	6.0	High	Yes
Edinburgh's Telford	5.8	High	Yes
Elmwood	2.2	High	No
Food Technology (now Glasgow Met)	3.6	High	No
Jewel & Esk Valley	5.5	High	Yes
Langside	6.9	High	No
Motherwell	3.7	High	Yes
Nautical Studies	2.4	High	No
North Glasgow	6.6	High	Yes
Perth	2.8	High	No
Reid Kerr	5.9	High	Project complete
South Lanarkshire	2.2	High	Yes
Stow	1.9	High	No
Banff & Buchan	1.3	Medium	No
Coatbridge	0.9	Medium	No
Cumbernauld	1.2	Medium	Yes
Dumfries & Galloway	2.0	Medium	Yes
Dundee	4.5	Medium	No
Fife (now Adam Smith)	3.4	Medium	Project complete
Glenrothes (now Adam Smith)	1.0	Medium	Project complete
Inverness	2.8	Medium	No
James Watt	2.7	Medium	Yes

5 The initial assessment of estates need was based on the 2000 survey of backlog maintenance. The Funding Council's subsequent decisions on capital funding are based on a broader assessment of strategic need including backlog maintenance data and colleges' readiness in terms of developed business cases.

College	Backlog maintenance assessment (£ million)	Initial SFEFC assessment of estates need	Funding Council committed to provide funding
Kilmarnock	1.7	Medium	No
Lauder	2.4	Medium	Yes
Lews Castle	0.4	Medium	No
North Highland	0.6	Medium	No
Oatridge Agricultural	0.8	Medium	Yes
Stevenson	3.5	Medium	Yes
Aberdeen	2.9	Low	No
Angus	0.4	Low	Project complete
Barony	0.0	Low	No
Falkirk (now Forth Valley)	1.8	Low	Yes
John Wheatley	0.3	Low	Yes
Moray	0.4	Low	No
Orkney	0.0	Low	No
Shetland	0.2	Low	No
Totals	**115.7**		**243.7**

Note: Colleges in **bold** are included in the Glasgow city centre joint project.

Source: SFEFC

backlog of over £115 million required to bring college estates up to a satisfactory standard.

3.28 In the Audit Committee's seventh report of 2002 it welcomed SFEFC's development of capital funding models and its focus on strategic need for the sector but stressed that these approaches needed to deliver results before the estate deteriorated. It called upon SFEFC to publish timescales for the finalisation and implementation of its new estates funding model. The AGS reported in 2003 that SFEFC had introduced a new funding model and had revised its capital funding policy and guidance. SFEFC was at that stage working with colleges in the West of Scotland to help them to develop capital investment plans to address their infrastructure needs.

3.29 SFEFC introduced a new capital funding policy in February 2003 which includes detailed requirements for business cases and formal gateway reviews. This has been welcomed by the colleges who believe they are able to apply greater discipline in their applications for capital funding and in their management of the projects.

3.30 The maintenance backlog identified by the 2000 survey provided SFEFC with an indication of the minimum investment required to make good the existing estates. The development of colleges' estates strategies and business cases through the new capital funding policy has helped SFEFC to assess the actual investment required to provide modern, high-quality accommodation. Approximately £250 million has been made available so far for estates investment and the total capital value of the projects supported is more than £400 million. The balance of the funding will come from sources such as asset disposals, college reserves, EU funding and borrowing.

3.31 The Funding Council has committed major capital funding to 21 colleges with six projects at or near completion. All of the projects are due to be substantially complete by 2008.

3.32 For the remaining colleges, excluding West Lothian which has a new estate provided through PFI, the Funding Council intends to undertake a survey to assess their likely capital investment needs. The Funding Council currently estimates that £300 million capital investment will be required and this will include the four colleges in the Glasgow city centre project. Exhibit 8 (page 16) shows the level of backlog maintenance assessed in 2000, how SFEFC initially prioritised this work and whether, to date, the Funding Council has committed capital funding to support projects.

Part 4. Performance management

4.1 The Audit Committee's fourth report of 2004 set out concerns about SFEFC's approach to performance management, relating to:

- accountability
- efficiency
- the development of performance information
- benchmarking.

4.2 SFEFC and the Scottish Executive agreed a 15-point action plan to address the Audit Committee's recommendations. This part of the report covers the way in which SFEFC has addressed the issues included in its action plan.

Main findings

- The information the Funding Council reports on volume, quality and finance has improved.
- The Funding Council has developed performance measures which assess colleges' performance in the critical business areas of volume, quality, financial performance and satisfaction. This presents a balanced scorecard of performance through which the Funding Council has begun to examine how the components of college activity inter-relate.
- The Funding Council has undertaken a cost benchmarking exercise across all colleges. It is encouraging colleges to use performance indicators and other comparable data, including unit costs, to begin benchmarking to improve their efficiency and effectiveness through the identification of good practice.
- The Funding Council has not carried out any significant benchmarking of further education with sister organisations in the UK because it believes that differences in coverage, structure and funding approaches make this difficult. It intends to consider further how this can be achieved.

Accountability

4.3 Information on volume, quality and finance has improved. The Funding Council met the Scottish Executive in October 2005, to report that all actions identified in the action plan had been completed or were ongoing. SFEFC's annual report contains a summary of its performance against its targets in the joint corporate plan.

4.4 The Funding Council now requires colleges to publish targets in their strategic plans that reflect SFEFC's corporate targets and ministerial guidance, and to report progress against the targets in their annual reports. SFEFC's annual report reflects college contributions to national targets for volume, quality and financial security. The Funding Council intends to hold regular meetings with all colleges to discuss their progress against strategic objectives.

4.5 The Scottish Executive holds accountability meetings with the Funding Council on a quarterly basis and also maintains regular contact with officials through working groups. From these meetings and the Funding Council reporting, Executive officials are satisfied that the Funding Council is addressing ministers' priorities.

Performance information

4.6 SFEFC has developed performance measures which help to present a balanced scorecard. These provide a basis for colleges to review their performance by providing indicators of quality, financial performance, volume and satisfaction, which are the critical elements of their business (Exhibit 9).

4.7 SFEFC's performance measures allow further education colleges' stakeholders to assess their performance in critical business areas. The performance measures, as they are currently developed, are clear and focus on the strategic goals and outputs of colleges. This allows the Funding Council, through the development of institutional profiles, to begin to examine how the components of college activity interrelate. Further development of these measures should allow the Funding Council to assess whether the sector is achieving continuous improvement in future years.

Volume

4.8 The Funding Council's funding methodology is based on volumes of student activity to be delivered by colleges. The conditions of grant set volume targets for colleges for each academic year. The Funding Council measures the volume of formal student learning activity in terms of Student Units of Measurement (SUMs), which equate to 40 hours of formal student learning time. These base units are then weighted by subject area to adjust for the differences in the costs of delivering learning across subjects (wSUMs).

4.9 Analysis of the volume of teaching delivered shows that most colleges are delivering in excess of the target wSUMs agreed with SFEFC for the funding they receive. Only seven colleges delivered below the expected levels of wSUMs (Exhibit 10). The Funding Council claws back funding from colleges whose volume falls more than two per cent below target, but this did not occur in 2003/04.

Quality

4.10 The funding agreements between the Funding Council and the colleges stipulate that college activity has to be of an acceptable quality. The Funding Council regards Her Majesty's Inspectorate of Education (HMIE) reviews of colleges as the most comprehensive and reliable information on the quality of further education provided by colleges. HMIE reviews are split into two elements: subject review, which evaluates the student experience; and, college review, which examines cross-college aspects of activity.

4.11 HMIE conducts college reviews on a cyclical basis and the assessments for the most recent cycle, completed in 2004, show the sector to be performing well. For college-wide reviews, 88% of grades awarded were good or very good, with less then 0.4% assessed as unsatisfactory. For subject-specific reviews, 86% were assessed as good or very good, with 0.5% assessed as unsatisfactory.

4.12 HMIE and the Funding Council have agreed that, where it is clear early in an inspection that a college is performing well, the Inspectorate will use some time to look for good practice that can be shared with the rest of the sector.

Financial performance

4.13 The Funding Council publishes 20 financial performance indicators annually, showing the financial health of the sector and progress with the financial security initiative. The indicators are mainly financial ratios but also include high-level unit costs. The information is set out in a way that allows comparison and analysis between colleges and over different years. The Funding Council also produce the indicators in subsector groupings, based on size and location, to allow colleges to compare their performance with other similar colleges as well as against the average for the sector (Exhibit 11, page 22). Unit costs for 2003/04 varied from £119 per wSUM for Dumfries & Galloway College, to £271 per wSUM for Lews Castle College (Exhibit 12, page 22).

4.14 The Funding Council analyses unit costs by requesting explanations from colleges where unit costs vary by five per cent on the previous year and where they appear anomalous, and also through its review of remoteness. Its conclusion is that unit costs, when looked at in isolation, are of limited value in trying to judge the performance of colleges.

4.15 The Funding Council does not set unit cost targets for colleges because it believes that unit costs are purely quantitative measures that do not allow comparisons of qualitative decisions made by colleges that may have cost implications. It does, however, expect colleges to use the improved unit cost information to assess and improve their own performance.

Satisfaction

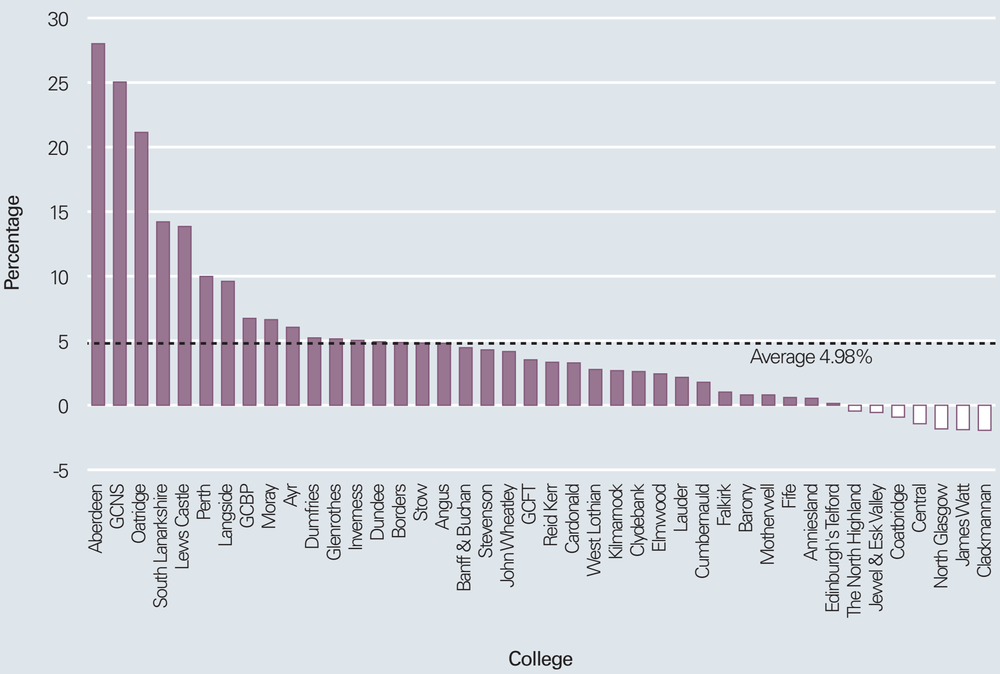
4.16 The 2004 Scottish Employers Skills Survey carried out by Futureskills Scotland, showed that more than 80% are satisfied or very satisfied with the training that colleges provide. The report found that over 80% of

Exhibit 9
Balanced scorecard for further education sector

Quality	Financial performance
The quality of provision of education and academic management in Scotland's further education colleges is assessed by HMIE, through a programme of college reviews over a four-year cycle. On college reviews by HMIE, 88% of grades awarded were good or very good, with 0.5% of grades being unsatisfactory. On aspects of management performance, 86% of grades awarded were good or very good, with one college receiving an unsatisfactory assessment.	The Funding Council monitors colleges' financial performance through: • progress towards the financial security target (31 July 2006) as measured through colleges' financial returns • 20 annual financial performance indicators, including unit costs • 130 diagnostic benchmarks, most of which relate to costs with some non-financial indicators.
Volume	**Satisfaction**
Colleges are funded to a target delivery of wSUMs. For 2003/04, the provision delivered by colleges ranged from 28% more than target to 2% below target. All colleges' achieved at least 98% of their volume targets as required in their funding agreements. The sector as a whole delivered 5% more than the funded target.	Stakeholder satisfaction is measured through surveys of students and employers. The most recent students survey results show more than 80% satisfaction rates for courses and institutions. In the most recent survey,[6] 82% of workplaces were fairly satisfied or very satisfied with training provided by FE colleges.

Source: SFEFC

Exhibit 10
Volume of wSUMs delivered in excess of target from SFEFC 2003/04



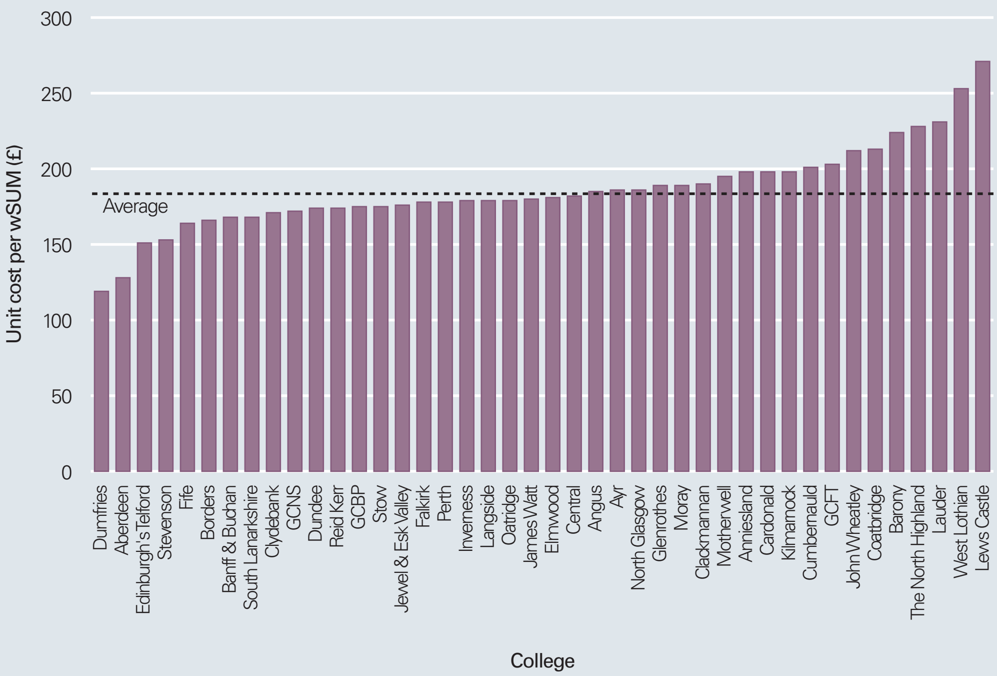
Source: SFEFC

Exhibit 11
Performance indicator subsector groupings for colleges

Income base		
£1-6m	£10-15m	£20m and above
£6-10m	£15-20m	
wSUMs		
Less than 25,000	35,000-45,000	55,000-80,000
25,000-35,000	45,000-55,000	More than 80,000
Urban/Rural		
	Urban Rural	
Area mapping		
Central	Glasgow	South
Dunbartonshire	Highlands & Islands	Tayside
Edinburgh and Lothian	Lanarkshire	West
Fife	North-East	

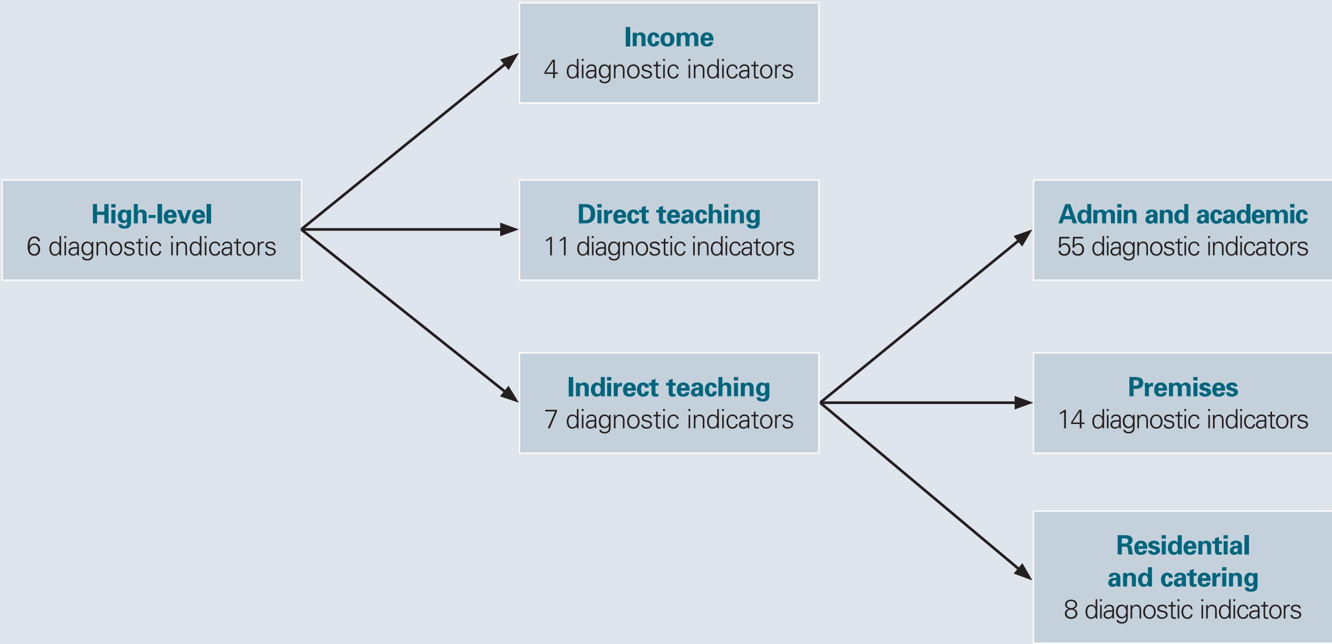
Source: SFEFC

Exhibit 12
College unit costs per weighted SUM 2003/04



Source: SFEFC

Exhibit 13
Overview of the diagnostic model indicators



Note: The model also provides a further 25 supplementary indicators.

Source: SFEFC

workplaces that had recruited college leavers to their first job reported that they were well-prepared in terms of their technical and core skills. The Skills Survey also showed that skill shortages are not widespread from an employer perspective. SFEFC has also discussed employability with other interested organisations, such as the Department for Education and Skills (DfES), HMIE, the Scottish Qualifications Authority (SQA) and SHEFC.

Benchmarking

4.17 Benchmarking provides an important means to examine relative efficiency in delivery and costs and also to identify other comparable colleges' whose operations demonstrate best practice. As part of its financial security campaign SFEFC undertook a cost benchmarking exercise for all colleges, jointly with the Association of Scottish Colleges. Initial development of the exercise was carried out in 2003 and 2004 based on the colleges' financial results for 2002/03. The exercise was repeated using the 2003/04 accounts and will be repeated in future years. Colleges receive reports annually showing the benchmark data for all colleges enabling them to compare their individual performance with other colleges.

4.18 SFEFC's benchmarking model produced 130 diagnostic indicators for 2003/04. These indicators break down the high level unit costs into individual components for teaching and non-teaching elements (Exhibit 13). Most are financial but there are around 20 non-financial indicators such as average contact hours per wSUM.

4.19 SFEFC has set up a benchmarking steering group to try to ensure that benchmarking becomes embedded within colleges. The Funding Council is also providing financial support to establish benchmarking clubs, and has started to gather feedback from colleges on how they are using the benchmark data and the related financial performance indicators. It has held a series of regional seminars to discuss approaches to benchmarking and each college now has a nominated contact. Colleges are expected to benchmark themselves using the diagnostic indicators as well as other comparative information on more qualitative aspects of their performance. The key objective of the cost benchmarking exercise for the Funding Council is to improve efficiency and effectiveness through the identification and sharing of good management practice and through this to help strengthen financial management capacity across the sector.

External comparisons

4.20 In its fourth report of 2004, the Audit Committee recognised that there are inherent difficulties in making comparisons across different parts of the United Kingdom, but urged SFEFC to pursue useful comparisons which might point the way to useful improvements in current practice.

4.21 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. The Funding Council has shared information on colleges'

Exhibit 14
Examples of shared information with other funding organisations

- Annual meeting with the Learning Skills Council (LSC) to discuss financial health monitoring, governance and accountability arrangements.
- Sharing the experience of developing the Funding Council's student and staff performance indicators with the college sector in Northern Ireland, who also have observership on the Funding Council, facilitating the exchange of relevant ideas.
- Sharing of the development of the cost benchmarking methodology with Education and Learning Wales.
- Participation in the UK-wide Estates Management Statistics Initiative (eMandate).
- Shared work with the LSC around the use of IT.
- Involvement with the UK Skills Councils.
- Membership of the LSC technical group.

Source: SFEFC

performance with other funding councils but because of differences in coverage, structure and funding approaches significant benchmarking has proved difficult. The Funding Council intends to build on its cost benchmarking exercise to consider further the opportunities for the benchmarking of colleges' performance across the UK. It also intends to consider how the results of HMIE reviews can be compared with equivalent results in England. The Review of Scotland's Colleges will include research into comparisons with colleges in other countries.

4.22 The Funding Council maintains a close working relationship with its sister organisations including sharing copies of all circular letters and attendance at board meetings. This enables the Funding Council to share and consider existing and emerging policies and strategies. Exhibit 14 gives some examples of this type of comparison.

Appendix 1. Audit Committee recommendations

Audit Committee recommendations made in each of its reports in response to the AGS reports

Report
Seventh report 2002: Report on Overview of further education colleges in Scotland 2000/01.

Audit Committee recommendations
We recommend that the Funding Council takes the concerns expressed by the ASC into account when considering further refinement and development of its financial categorisation model.

In future overview reports the committee will look for positive evidence that 'one-off' additional payments have increased the pace of recovery on the colleges involved.

Even within its ten-year recovery plan, Inverness College cannot state with confidence that its financial targets will continue to be met. We believe that this highlights the fundamental weakness of a recovery plan of such long duration. We recommend that the Funding Council work with Inverness College in particular, and other colleges as necessary, to agree shorter timescales for achieving sustainable financial balance.

We recommend that the Funding Council work with colleges to develop explicit agreements on when and how the results of the council's management review will be realised.

We call on the Funding Council to both publish a step-by-step programme, with appropriate timescales, for the implementation of the mapping process and to ensure that the geographical and industry sector exercises are properly coordinated. Completion of these projects will form the basis for strategic planning by colleges.

We call on the Funding Council to publish the timescales for the finalisation and implementation of the new Estates Funding Model.

Report
Fourth report 2004: SFEFC – performance management of the further education sector in Scotland.

Audit Committee recommendations

Accountability

Accounting for performance and lines of accountability
The committee considers that more transparent performance information, including information about the performance of individual colleges, should be made available to the Parliament and more widely.

While the committee recognises the role of college principals as accountable officers, it considers that SFEFC's corporate plan and annual report should be developed to include information about both the sector as a whole and individual colleges.

The committee therefore recommends that, in discussion with SEETLLD and the sector, SFEFC develops its corporate plan to ensure that it contains objectives, priorities and targets for the sector and for individual colleges. A comprehensive review of performance against these objectives and targets for both the sector and individual colleges should then be set out in SFEFC's annual report.

The committee considers that in responding to this report, following discussion with SEETLLD as appropriate, SFEFC clarifies the lines of accountability within the sector. The implementation of the committee's recommendations in regard to enhancing published performance information will ensure that such information more fully reflects the relationship between colleges, SFEFC, SEETLLD and the Parliament.

Efficiency

Unit prices and unit costs
The committee considers that without an adequate understanding of inputs ie, reliable unit cost measures, SFEFC runs the risk of either asking colleges to do more than they can afford or jeopardising quality of outputs across the sector. Furthermore, unless funding is transparently fair and equitable it will not be possible to identify effectively efficiency savings.

The committee accepts that the use of unit costs is not straightforward but considers that they would, nevertheless, provide a valuable source of performance information if they were sufficiently developed. The committee considers that SFEFC is dragging its feet on the commitment it made following the committee's 2000 report to refine and utilise unit costs. The committee therefore recommends that SFEFC sets out a timetable by which it envisages that it will have data which are of use in setting funding levels in a fair and equitable manner and in accurately examining relative efficiencies within the sector.

Quality and value for money
The committee welcomes the introduction of HMIE inspections and stresses the importance of follow-up work following each inspection. The committee further welcomes the improvements SFEFC has made to its corporate plan to allow information on the quality of further education to be reported to ministers and the Parliament.

The committee was struck by the fact that, despite a wide variation in the financial health of individual colleges, HMIE has found that almost all colleges meet acceptable quality standards. What is not clear is how some colleges can meet quality standards and maintain financial balance while others cannot. From the information available it is not possible to determine whether some colleges achieve the quality standards on the back of more generous funding arrangements or as a result of greater efficiency. In addition, information available does not address what it may 'cost' – that is in terms of funding or efficiency – to exceed quality standards.

In order to assess economy, efficiency and effectiveness across the sector it is necessary to have an accurate measure of what is provided (ie, quality) by colleges and what is spent (ie, accurate unit costs). It is essential therefore that unit costs are quantified so that they can be examined alongside quality measures to assess the value for money provided by individual colleges.

The development of performance information

Ministerial priorities

The committee considers that SFEFC does not appear to be according ministerial priorities, as set out in the letter of guidance, sufficient status. The ministerial priorities set out in this letter should be used as the starting point for setting the performance measure contained in SFEFC's corporate plan and, from the evidence considered by the committee, this does not appear to be the case.

The committee considers that SFEFC's evidence indicates a lack of urgency in relation to meeting ministerial objectives and that there is an inadequate fit between SFEFC's performance measures and ministers' priorities. The committee recommends that SFEFC reviews its procedures to ensure that ministerial priorities are seen as the foundation for the corporate planning process.

The committee is extremely disappointed by the slow pace of work undertaken by SFEFC to address the fourth ministerial priority and match provision of FE with the needs of the Scottish economy. The committee notes and agrees with Mr McClure's evidence on the importance of the mapping exercises in understanding the sector's relationship with the wider economy. The committee is disappointed therefore that SFEFC does not yet appear to have produced tangible results from the various initiatives undertaken.

In its report published in December 2002, the Session 1 Audit Committee stated 'the time has now come for the current Funding Council initiatives to produce tangible results and when we next consider further education issues we will look for clear evidence that they are doing so.' This committee is disappointed to note that this clear evidence in relation to important initiatives to match skills with jobs has not been provided.

The committee considers that matching skills to jobs is fundamental in effectively delivering FE in accordance with ministerial priorities. It therefore recommends that SFEFC produces a timetable setting out how and when they will have robust measures in place that clearly demonstrates whether ministerial priorities in this area are being met.

Benchmarking

College performance indicators

The committee first identified scope for SFEFC to improve the way it used performance information to benchmark the delivery of FE across the sector in 2000. It is very disappointing to note therefore that, despite positive responses from SFEFC to the committee in subsequent years, delays in developing the performance framework means that progress in this area has been very slow.

SFEFC's accountable officer has a clear duty to take an active interest in the economy, efficiency and effectiveness of the funds made available to colleges. To fulfil that duty, it is essential that the best use is made of performance information as it develops. Currently the duty is addressed by making information available to colleges to benchmark themselves.

The committee does not consider the current approach to benchmarking is acceptable and believes that, in order to fulfil the accountable officer's duty, SFEFC needs to play a more proactive role in analysing college performance in order to hold poor performers to account and to share best practice associated with good performance.

While it accepts that there are inherent difficulties in making comparisons across different parts of the United Kingdom, the committee urges SFEFC to adopt a less defeatist attitude to this work and continue to pursue useful comparisons which might point the way to useful improvements in current practice.

Appendix 2. SFEFC performance management action plan

SFEFC Progress report on the action plan to address performance management issues as at October 2005

Action 1

With immediate effect for the year ahead, SFEFC will improve the way in which performance information about individual colleges and the sector is communicated to Parliament and MSPs, and other key stakeholders. This will include wider distribution and publicising of performance information when it becomes available and highlighting this information in briefing meetings with stakeholders.

SFEFC Progress report

We have circulated performance information more widely using a database of about 700 stakeholders and contacts which we established in summer 2004. In August 2004, we distributed the student and staff performance indicators for 2002/03 to about 650 individuals, including all MSPs and our key stakeholder organisations. The publication was distributed in both hard copy and electronic format. We repeated this communication in summer 2005 with the performance indicators for 2003/04.

The SFEFC annual report for 2002/03 for the first time contained information about the performance of individual colleges in three key targets. That report was published in October 2004 and was also circulated to all MSPs and other stakeholders on our database. The final annual report for SFEFC – for 2004/05 – will contain similar information about the performance of individual colleges and will be distributed in the same way.

We distributed the FE financial performance indicators for 2003/04 in June 2005 using the database. The student and staff PIs for 2003/04 were sent to MSPs and other stakeholders in September 2005.

Action 2

In January 2005, SFEFC will refine the strategic planning guidance to colleges so that each college's plans (and reports) contain their targets for key national policies in the local context and are published.

SFEFC Progress report

Revised strategic planning guidance which addresses this action was issued by the council on 4 March 2005 in circular letter FE/05/05. Colleges were asked to provide this information by 30 June 2005.

Action 3

In October 2004, SFEFC will enhance its annual report for 2003/04 to include tables showing individual college contributions towards national targets for: volume of provision; quality of provision; and financial security.

SFEFC Progress report

This action was achieved and the annual report was published in October 2004. We plan to include updated tables in the annual report for 2004/05, which will be published in autumn 2005.

Action 4

The council introduced a more comprehensive publication of overall unit cost information for each college in May 2004, and will continue to publish this on an annual basis.

SFEFC Progress report

The unit costs for 2003/04 were published along with the financial performance indicators in May 2005.

Action 5

The council will hold workshops with colleges at the end of September 2004 in order to discuss the initial outputs from the benchmarking work which were issued to individual colleges in July 2004.

SFEFC Progress report

The workshops were held on 28 and 29 September 2004. They were well attended and feedback about the benchmarking outputs was generally positive. Using the feedback from the workshops, the benchmarking model was further refined for 2003/04. The 2003/04 outputs were published in July 2005.

Action 6

Building on this first major phase of the project the council will work with colleges to review and develop the benchmarking framework in the course of the next 12 months.

SFEFC Progress report

The final meeting of the Benchmarking Working Group was held on 9 November 2004. A (new) Benchmarking Steering Group (BSG) has been established to take forward the further development of the benchmarking exercise. The BSG has met twice (14 July and 3 October 2005) and its work to date has focused on the establishment of benchmarking clubs and groups.

Action 7

Using the output from the project, the council intend to publish in July 2005, further improved high-level benchmarks for all colleges and identify and publish areas of good management practice for the benefit of the sector.

SFEFC Progress report

The high-level outputs and the data for all colleges were published in July 2005.

Action 8
The council will continue to monitor the major aspects of college performance of quality of provision, volume of provision, and financial security, and if there is a serious weakness, the council will take appropriate action to seek to ensure that the college remedies the situation.

SFEFC Progress report
We have processes in place to monitor the performance of colleges in each of these areas. Any weaknesses, problems or potential problems are brought to the attention of the council so that it can consider what action to take, or action is taken by the executive of the council under delegated authority and reported to the council.

Action 9
Using the fuller range of performance and management information available, the council will identify whether there are tangible links between problems of financial security, quality of provision, and volume, so that this may inform future policy development.

SFEFC Progress report
Our Government and Management Appraisal and Policy (GMAP) directorate is now completing profiles of individual colleges ('institutional profiles') using a range of indicators. This will allow us to begin to identify and investigate links and relationships between the indicators. The council's Audit Committee will consider the institutional profiles at its October 2005 meeting.

Action 10
The council will report on achievements of its relevant corporate plan targets in its annual report for 2003/04 due to be published in October 2004.

SFEFC Progress report
This action was achieved and the annual report was published in October 2004. We will report on achievements for 2004/05 in our next annual report in October 2005.

Action 11
The council will update its corporate plan (jointly with SHEFC) and will seek the approval of ministers in October 2004 to ensure that it addresses ministerial priorities.

SFEFC Progress report
The Deputy First Minister approved an update to the councils' joint corporate plan in January 2005. A circular letter was issued to colleges and higher education institutions in February 2005 setting out the changes to the targets. A revised copy of the corporate plan was published on the council's website at the same time.

In his letter of guidance to the new council, the minister asked the council to inherit the final year of the current corporate plan for 2003-06 and to update the plan for the final year. At its first meeting in October 2005, the council agreed updating changes to the plan for 2005/06 and these are being sent to the minister for approval.

Action 12
The council will work with key partner organisations to complete and publish the second supply and demand mapping exercise by spring 2005.

SFEFC Progress report
The supply and demand study was published in May 2005. SFEFC discussed the report and agreed their advice to the new council at their September 2005 meeting.

Action 13
The council, with SHEFC, has completed its fieldwork on employability and will publish this in November. This will form the basis for policy discussions and developments with other partner organisations.

SFEFC Progress report
The employability report *Learning to Work* was published in November 2004. Since publication, we have discussed the findings with all major stakeholders, including the FE and HE sectors, employers' bodies, student bodies and other key organisations, including Scottish Enterprise, Scottish Qualifications Authority, Determined to Succeed, the Scottish Executive, Careers Scotland and Job Centre Plus.

There is widespread agreement with the analysis in the report, and there is evidence that institutions are using the report internally as a point of reference and a driver for further development. In the HE sector this has been strongly supported by the current enhancement theme on employability. In the FE sector, the report's approach has been widely welcomed; and possible actions to take it forward were identified at a workshop held in the summer.

Coming out of this workshop was a proposal for a similar programme of action for development in the FE sector. In addition, both FE and HE quality review methodologies emphasise employability and give institutions an opportunity to self-assess and reflect on how they can improve upon their practices, and use the external review of HMIE and the Quality Assurance Agency for Higher Education (QAAHE) to benchmark their practices.

In November 2005, the new council will consider a strategy to take this forward promoting the further embedding of employability within the student learning experience over the next few years.

Action 14
Building on the college PIs on students and staff published by the council in August 2003 and August 2004, the council will continue to refine these and make them available to a wide range of stakeholders.

SFEFC Progress report
We made further refinements to the performance indicators for 2003/04. These were published in August 2005 and have been made widely available, including in electronic format.

Action 15
The council will ensure that it maintains regular contact with sister bodies with responsibility for further education funding in other parts of the UK, so that it may benchmark its policies and strategies, and learn from others where appropriate.

SFEFC Progress report
The deputy chief executive and colleagues from the council's Corporate Policy and Services directorate met with senior officials from the Learning and Skills Council in October 2004 to share information on policies and discuss how best to develop the relationships between the two bodies. We continue to monitor developments in other parts of the UK.

Scottish Further Education Funding Council: A progress report

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