



Securing strategic leadership for the learning and skills sector in England

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PREFACE



1 The learning and skills sector is central to delivering the government's objectives of combating social exclusion and improving the skills of the workforce as a means of driving up economic performance. Of the Learning and Skills Council's £8.8 billion budget for learning and skills in 2003-04, more than half (£4.8 billion) went to the 397 colleges comprising the further education sector in England. At any one time, up to four million further education students are studying for one or more of around 17,000 qualifications.

2 In April 2002 the government launched its change programme "Success for All", which sought to extend the opportunities for lifelong learning, rationalise provision and improve quality. One strand of the changes is to iron out anomalies in accountability and funding of further education colleges that had arisen from their evolution since becoming autonomous bodies in 1993. Funding arrangements now place a much increased focus on delivering the national objectives of the Department for Education and Skills, and the Learning and Skills Council has developed a new relationship with colleges as part of this focus. In return, plans are being implemented for colleges to be subject to less onerous audit and inspection.

3 This report is about securing the strategic leadership for the learning and skills sector which will enable the key stakeholders (learners, employers, education providers and government) to get value for the time and money they put in. Our report illustrates that the learning and skills sector is increasingly complex. Through setting out our understanding of the sector, we expect our report to provide a helpful resource for new and inexperienced college governors and other people wishing to comprehend the sector better, in addition to other important information sources such as the recently published Good Governance Standard for Public Services.¹

4 Part 1 looks at the implications for colleges of the changing landscape of the learning and skills sector. Some college governing bodies see the changes as a diminution of their role, and many governors are not comfortable with the degree of complexity, ambiguity and change. Key principles, priorities and targets need to be communicated clearly and directly to governors, so that important messages are not 'lost in translation'.

5 Part 2 looks at planning to meet learning needs and provide choice. The Learning and Skills Council has been developing a systematic and more information-based approach to planning the provision for learning and skills that is an improvement on what went before. However, local areas have to resolve a range of challenging conflicts involving national policies, initiatives and targets, regional priorities and the needs and demands of the local community

and businesses, and the judgements are hard. There is an inherent risk that elements of the approach may become over-complex and costly, though we identified examples of local Learning and Skills Councils creating opportunities for rationalising the workload. It will take skill to make sure that the outcome of the planning will be products that meet the needs of the majority of employers and make learners want to learn. Collaboration increasingly looks like a key to success at local level – by seeking to reduce duplication and bureaucracy at the same time as increasing choice through more diverse opportunities for learners.

6 Part 3 of our report examines how the people responsible can make sure that the further education sector delivers learning of the type and quality that people need and want. Inspections of colleges and of local areas provide much useful information and independent assurance about college performance and the effectiveness of collaboration between organisations like colleges, local Learning and Skills Councils and local education authorities. There are indications that the quality and usefulness of local Learning and Skills Council's annual reviews of colleges are improving, but not all colleges see them as consistently helpful. The Learning and Skills Council has recognised the need to develop further the skills and expertise of staff engaged on this work. Parts of the audit regime for colleges are also changing, and colleges need guidance to help them judge what levels of audit and assurance they need to put in place themselves.

7 Increasing use of self-assessment is helping colleges to focus on their primary responsibility for quality and performance. For the future, self-regulation is being considered, which could be developed into a holistic review that would take greater account of the environment that colleges operate in than inspections can easily do. In our view, self-regulation would need to be based on some form of regulated peer review, starting with development among the very best colleges, in order to build in rigour and gain a necessary level of public confidence, before it could safely replace independent inspection.

8 Our overall conclusion is that the frameworks that the Department and the Learning and Skills Council have developed and put in place to plan and monitor the further education sector are likely to support systematic planning and provide reasonable assurance. As the frameworks develop, more evidence is emerging about how they can be implemented more efficiently and effectively, both for further education and the learning and skills sector as a whole, and what complementary changes to support providers need to be made. Our recommendations on pages 14 to 15 set out possible next steps for the Department and the Learning and Skills Council to consider.

¹ Independent Commission on Good Governance in Public Services, 12 January 2005 <http://www.opm.co.uk/ICGGPS>.

EXECUTIVE SUMMARY



Introduction

1 The learning and skills sector is central to the government's policy for combating social exclusion and improving the skills of the workforce. The vision is that:

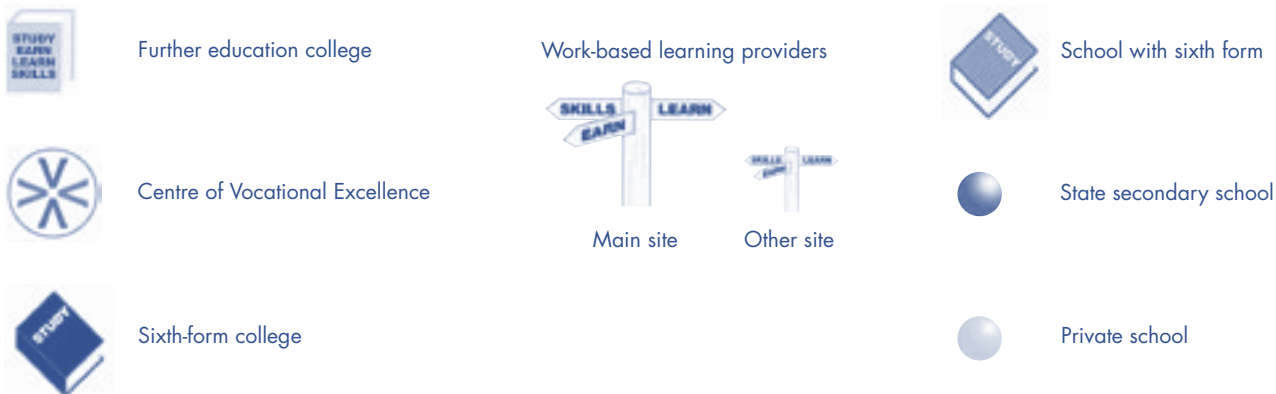
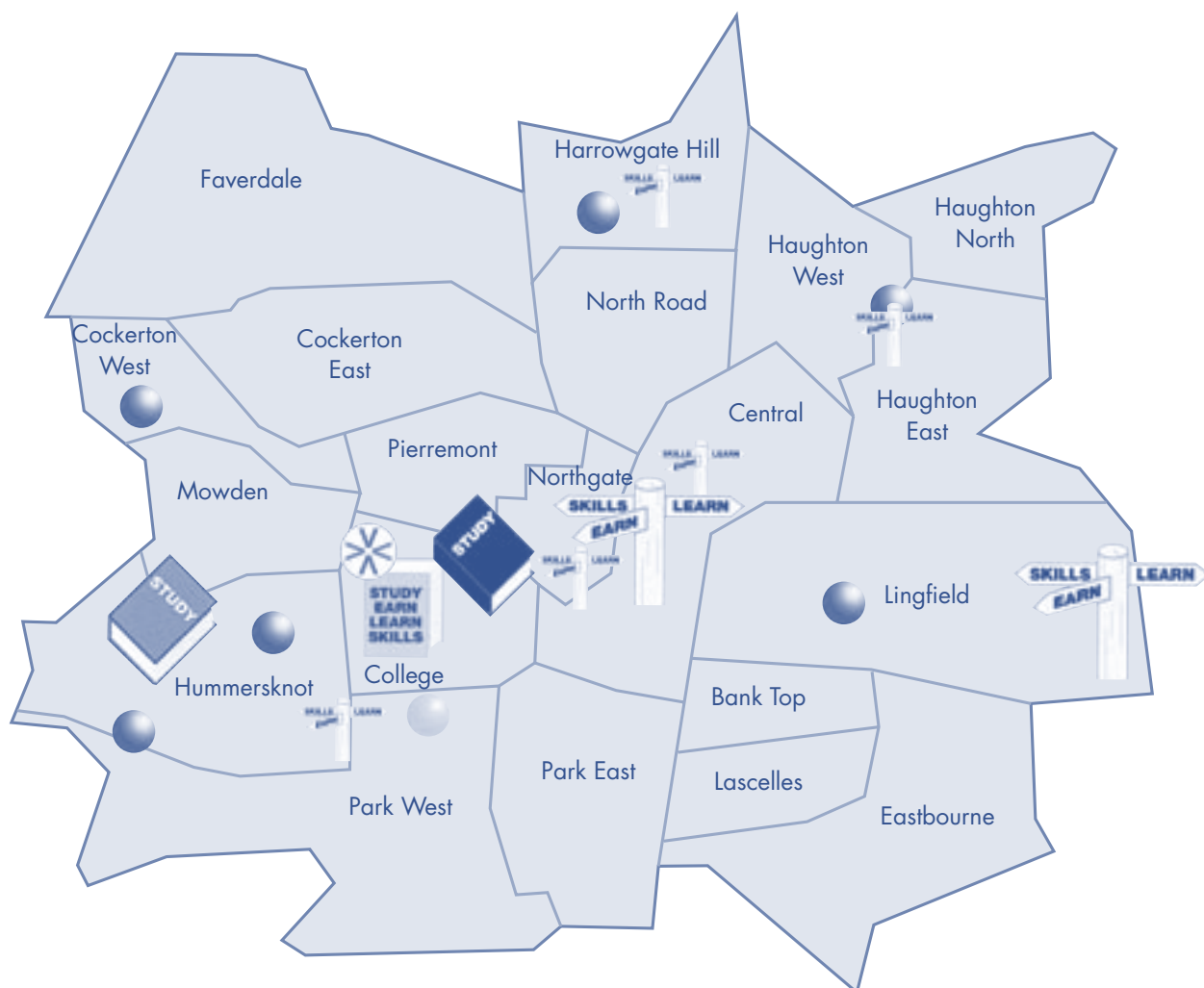
- everyone should have the chance to learn new skills, fulfil their potential, and improve the quality of their lives at home and at work; and
- businesses should benefit through recruitment of better trained, talented and motivated staff, who enable them to compete more effectively and confidently.

2 The learning and skills sector is very complex, comprising the further education sector (further education colleges, sixth-form colleges and specialist colleges), school sixth forms, adult and community learning and work-based learning. Learners and employers can go to a wide range of providers – colleges and providers in the private, voluntary and community sectors. The complexity creates obstacles – to potential learners wanting to understand how to access the right course for them, and to those trying to manage the sector in a simple and effective way. But it is also its strength, because of the innovation and variety of provision available.

3 People aged over 16 – and increasingly young people aged 14 and over – participate in further education for a range of reasons. Young people wishing to continue their education can choose to attend a school sixth form, go to a general further education or specialist college, a sixth-form college, seek an apprenticeship or take up employment with training. Older adults also have a wide range of options. **Figure 1 overleaf** illustrates a map of the different types of provision in a particular geographic area. Factors influencing personal decisions include the availability of a chosen course of study, geographical location, the quality of the learning environment and how a particular option for learning fits in with lifestyle. For 16-19 year olds, for example, the choice may be between the more structured feel of school, or the more adult atmosphere of college.

4 This report is about securing strategic leadership for the learning and skills sector. In view of the size and variety of the sector, we looked at the planning, management and monitoring of learning provision from the perspective of the largest providers – the 397 colleges comprising the further education sector in England, including 103 sixth-form colleges and 39 specialist (e.g. agricultural) colleges. At any one time up to four million students are studying with further education institutions, from people studying full time to those attending a course for as little as one hour a week. They can be working towards any one of around 17,000 qualifications. The further education sector takes up more than half of the £8.8 billion public funding routed through the Learning and Skills Council. The £8.8 billion equated to about 17 per cent of public funding for education in 2003-04 (**Figure 2 on page 5**).

1 Choice of learning providers in Darlington



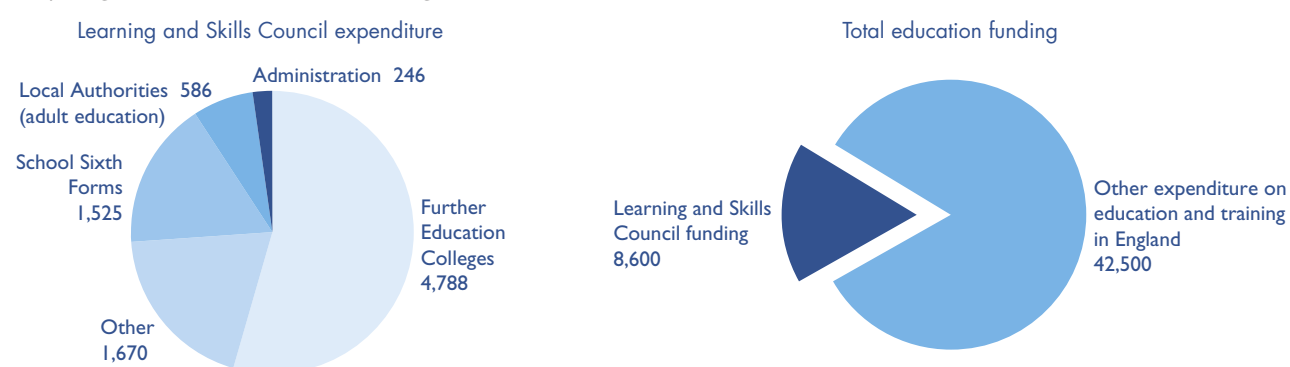
Source: Tees Valley Learning and Skills Council

5 Though we focused on the further education sector, some of the processes we examined span the learning and skills sector as a whole. Colleges themselves range widely in size (Figure 3), so the regime applied to them requires a degree of flexibility, and many of the principles that apply to providing learning in colleges – such as the importance of reviewing the quality of learning – apply equally to

non-college providers. Our report makes recommendations about improving strategic leadership designed to enable the key stakeholders in learning and skills – learners (and for younger learners, their parents), employers, education providers and government – get value for the time and money they put in (Figure 4 overleaf).

2 Learning and Skills Council funding of the further education sector relative to total education funds in 2003-04 (£ million)

Of the Learning and Skills Council's £8.8 billion budget for learning and skills in 2003-04, more than half went to the 397 colleges comprising the further education sector in England.



Source: Learning and Skills Council Accounts 2003-04 and Department for Education and Skills Annual Report 2004

NOTE

Learning and Skills Council expenditure is higher than the learning and skills element of total education funding because the Council receives some income from other sources.

3 The size of colleges varies widely

	Minimum	Maximum
Number of full-time full year students (2003-04)	Several colleges under 100 (with 80 – 1,000 full-time part-year and 400 – 3,700 part-time students)	7,400 (with 1,800 full-time part-year and 19,500 part-time students)
Number of full-time part year students (2003-04)	Several colleges under 10 (with 400 – 2,000 full-time full-year and 350 – 1,900 part-time students)	8,200 (with 3,800 full-time full-year and 26,000 part-time students)
Number of part-time students (2003-04)	Several colleges with under 10 (with 800 – 2,200 full-time full-year and zero to 20 full-time part-year students)	92,000 (with 35 full-time full-year and 1,500 full-time part-year students)
Income 2002-03 ²	£1.2 million	£51.3 million

Source: Learning and Skills Council

2 2003-04 data not currently available centrally.

4 Key stakeholders in the learning and skills sector

Stakeholders	What they are looking for from the learning and skills sector
Learners and parents of younger learners	<ul style="list-style-type: none"> High quality learning and value from any fee payment Choice of provision that fits in with employment and/or personal needs and lifestyle Increase in skills and knowledge to be employable and/or personally fulfilled Academic and/or vocational qualifications Good tutorial support Safe environment with good access to care and welfare services
Employers	<ul style="list-style-type: none"> High quality learning and value from any fee payment and employee time spent learning Increase in skills and knowledge of people already in their employment A sufficient pool of potential employees with the right skills and qualifications
Providers	<ul style="list-style-type: none"> Success in providing the high quality and cost-effective learning that learners and employers will want Adequate funding with 'light touch' monitoring Reasonable certainty about what providers are/will be expected to provide
Government	<ul style="list-style-type: none"> High quality and cost-effective learning Improved social cohesion Increase in workforce skills – to increase economic achievement and sustain a competitive, productive economy Greater flexibility so that the economy can respond quickly and efficiently to changes in economic conditions Widening participation and increasing access to higher education

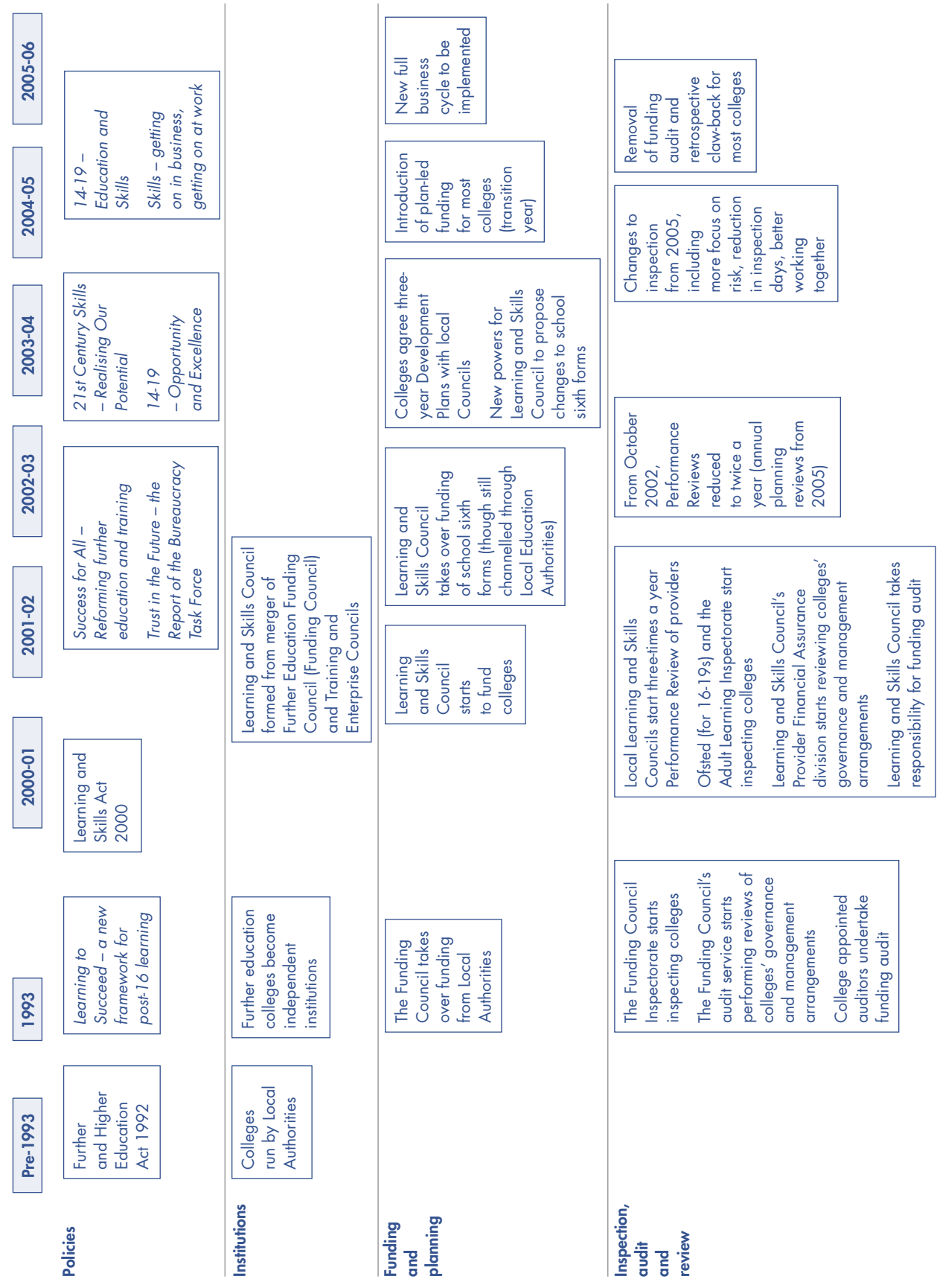
Source: National Audit Office

Overview of key developments since 1993

6 The Department for Education and Skills (the Department) sets the policy and strategic direction for the learning and skills sector. Over recent years, the further education sector has been substantially reformed in response to a number of major policy initiatives (Figure 5), which started in 1993 with the incorporation of colleges as autonomous institutions and the creation of the Further Education Funding Council. The most recent key development was the establishment in April 2001 of the Learning and Skills Council, replacing the Further Education Funding Council and the Training and Enterprise Councils. This was the first step towards a more planned approach to ensure that public funding is focused on meeting the Department's and wider government objectives.

7 As autonomous bodies, each college in the further education sector has a governing body, supported by a Clerk, which is accountable for the educational character and financial solvency of the college, the proper use of public funds, and the quality of services to learners. The constitution, roles and responsibilities of governing bodies are set out in the Instrument and Articles of Government contained in secondary legislation. Their responsibilities include overseeing the management of the college, to ensure that it operates within statutory authority and delivers against agreed strategic objectives.

5 Major organisational and policy changes affecting the further education sector since 1993



8 The Learning and Skills Council is responsible for funding and planning all education and training for over 16-year olds in England other than higher education, including that provided in all publicly-funded school sixth forms (except academies) and in adult and community learning. Reforms set out in *Success for All* (Figure 6) included the introduction of plan-led funding, under which colleges were asked to collaborate on planning and making any necessary changes in the courses they provide, in exchange for reduced bureaucracy and increased investment.

9 The Learning and Skills Council has a management group comprising the chief executive, four national directors and nine regional directors.³ A total of 3,780⁴ staff are based in its national office in Coventry, or operate through 47 local Learning and Skills Councils based in all parts of England, which are responsible for carrying out its functions in their areas. Each of the local Learning and Skills Councils has an Executive Director, reporting through one of the Regional Directors to the Chief Executive. Each local Learning and Skills Council has up to 16 council members who, like college governors, are volunteers. The Learning and Skills Council is governed by a national Council and two statutory committees, one for adult learning and one for young people.

6 Four main strands of *Success for All*

- **Meeting needs, improving choice** by improving the responsiveness and quality of provision in each area to meet learner, employer and community needs
- **Putting teaching, training and learning at the heart of what we do** by establishing a new Standards Unit to identify and disseminate best practice which will guide learning and training programmes
- **Developing the leaders, teachers, lecturers, trainers and support staff of the future** including setting new targets for full and part-time college teachers to be qualified and developing strong leadership and management through a new leadership college
- **Developing a framework for quality and success** by establishing a new planning, funding and accountability system, based on greater partnership and trust, including three-year funding agreements

Source: Department for Education and Skills, Success for All: Our vision for the Future, November 2002

³ There are nine regional directors, but London also has a Regional Operations Director.

⁴ As at September 2004.

Our methodology and report

10 During our fieldwork, we visited six further education colleges and one sixth-form college, six local Learning and Skills Councils (each with responsibility for at least one of the colleges visited), and four Regional Development Agencies. In colleges, we spoke extensively with the Chair of governors, the Principal, the Clerk to the governing body, and in some cases with the Chair of the audit committee. In local Learning and Skills Councils we had in-depth interviews with the Chair of the Council and the Executive Director, and spoke with the Secretary to the Council. Two of these Executive Directors also held joint posts as newly-appointed Regional Directors, and in addition, we spoke to one further Regional Director. We obtained written or telephone responses from six local education authorities.

11 At the planning stage of our study we engaged experts in the learning and skill sector from KPMG to provide advice on the focus for our work. Later, we engaged consultants (IFF Research) to undertake in-depth telephone interviews with a sample of college governors and local Learning and Skills Council members. We discussed our study and reviewed documents at the Department for Education and Skills and the Learning and Skills Council, and identified and reviewed relevant research. We convened a reference panel on two occasions to talk through our plans for the study, our preliminary evidence and findings. Panel members also read and commented on our draft final report. A more detailed outline of our methodology is given in Appendix 1.

12 Our report comprises three parts:

- Part 1: Implications for colleges of the changing landscape of the learning and skills sector;
- Part 2: Planning to meet learning needs and providing choice;
- Part 3: Making sure that further education delivers learning of the type and quality that people need and want.

Findings

Implications for colleges of the changing landscape of the learning and skills sector

13 There are now many more influences on colleges' strategic decisions than previously, and these have eroded colleges' perceived autonomy to set their own strategic direction. The Learning and Skills Council has formal planning responsibility for ensuring that colleges in the further education sector and other learning providers supply good quality learning that contributes towards meeting government targets and wider policy objectives, such as improving participation among people with low skills. Colleges and other providers determine their own strategy and educational character, identify local needs, and negotiate with the local Learning and Skills Councils on what learning will be funded. The local Councils promote collaboration between providers, for example to remove unnecessary duplication of courses and help develop new provision to fill gaps. Some colleges consider that whereas in the past they were largely free to decide what courses they would provide in return for public funds (except that the courses and learners had to be legally eligible for public funding), they are now expected to formulate a strategic response rather than, as formerly, a local strategic direction that drew heavily on colleges' own assessments of local needs.

14 Some governing bodies see the changes as a diminution of their role, and some perceive that they are carrying the same responsibility as before, but with less authority. College governing bodies and members of local Learning and Skills Councils increasingly find themselves among a large number of people and organisations all equally interested in what public money for the learning and skills sector is spent on. Many governors saw great value in their college having the freedom to identify and respond to local communities' needs – for some that was a key reason for devoting their time, as a volunteer, to the work of the college. Governors continue to carry heavy responsibilities, for example in relation to the financial stability of the college. Many are concerned about carrying financial responsibilities when people who are not part of the college may have substantial influence on the college's strategy and, therefore, its potential viability. Some are not comfortable with the degree of complexity, ambiguity and change, and there is a risk of them becoming disengaged. The recently published Good Governance Standard for Public Services highlights the importance of clarity in the role of governance and the role of the governors. The Department for Education and Skills has recognised governors' concerns, which

were raised during the Department's own review and consultation on possible changes to the Instrument and Articles of Government.

15 Perceptions of imbalance between the risks and rewards are making it increasingly difficult for some colleges to attract and retain effective governors. As volunteers, many of whom undertake their governor responsibilities alongside employment and other personal commitments, governors can be deterred by the sheer weight of their responsibility. Colleges would appreciate greater flexibility in the appointment of governors. Currently they are constrained by the requirement to ensure representation from various categories, and some colleges find business members particularly hard to recruit and retain.

16 To help governors fulfil their responsibilities in the changed environment, they need consistently better information, customised for them, on the policy imperatives and expectations on their colleges. As our report shows, governors need to be familiar with at least the key principles, priorities and targets if they are to perform their role well. However, information generally comes to them having been 'translated' through various levels. The Learning and Skills Council's communications are generally to college Principals. Even Chairs of governors receive little from the Council directly. This is a sensible arrangement for routine communications. However, some key decisions that could have a potentially heavy impact on colleges' strategy and viability – for example the precise arrangements by which colleges not fully meeting the plan they agreed with the Learning and Skills Council may not receive all of their initial allocation of funds – need to be communicated briefly, clearly and directly to governors, so that important messages are not 'lost in translation'.

17 Training and support for governors are improving, especially with the development of the Leadership Skills for Governance programme. In addition to being well-informed, governors need to be able to think strategically and challenge management proposals. Most colleges are supportive of governor training, but governors would appreciate more opportunities for events jointly for them and Learning and Skills Council members, which would help them to appreciate better their respective roles. The Clerk to the governing body is also a vital source of support and advice for governing bodies, and colleges should ensure that the Clerk is sufficiently independent to provide truly objective advice to support the governing body in challenging the college's management if necessary.

Planning to meet learning needs and providing choice

18 The Learning and Skills Council has managed huge organisational changes within its own organisation since it was set up in April 2001. The merger of the former Further Education Funding Council with the Training and Enterprise Councils to form the Learning and Skills Council was a big challenge. To start with, many staff from the Training and Enterprise Councils had limited experience of much of the learning provided by colleges. Staff from both former organisations had to develop skills to take on new roles, such as negotiation and contract management.

19 Learning and Skills Council staff need to be able to challenge providers – and vice versa – in a constructive way, which is possible only if relationships are based on mutual trust and respect. For staff in local Learning and Skills Councils, responsibility for planning – and sometimes substantially changing – local provision for learning and skills is onerous, requiring them to show a high level of diplomacy in achieving a balance between conflicting but often legitimate interests. At the same time, some colleges are concerned that an emphasis on contracts to meet the government's priorities could take insufficient account of what they perceive local learners and employers want, and thus put the college's viability at risk. In these circumstances, both colleges and local Learning and Skills Councils need to make positive efforts to build a culture of mutual respect and trust, in which they feel able to challenge each other in a constructive way about how best to meet the needs of learners and employers.

20 Building colleges' confidence in the staff of their local Learning and Skills Council is taking time. Relationships have been improving, but there is high demand for good staff in the sector, and colleges are worried that good staff who leave their local Learning and Skills Council cannot always easily be replaced. Some colleges also expressed concern about the potential impact of recent staff reductions at local Learning and Skills Councils on their capacity to fulfil the full range of their responsibilities. Especially when colleges get into difficulty, they look to local Learning and Skills Councils to give appropriate support – an example of how this was well done and improved relationships between a college and the local Learning and Skills Council is given in **Box 1**.

BOX 1

The Isle of Wight College

By 2001 the Isle of Wight College had been in 'exceptional support' for an unusually long period of time. Relations with the new local Learning and Skills Council were strained, particularly with the island's former Training and Enterprise Council leaving to join the local Learning and Skills Council on the mainland.

A review by the local Learning and Skills Council clearly showed that too many providers were chasing too few students. Concerted action in the College, supported by the Council, subsequently led to the fortunes of the College being turned around in one year. The factors leading to the fundamental change included:

- a clear exposition of the nature of the problem;
- good quality, understandable management information;
- detailed involvement of a Principal who had experience in turning round failing colleges;
- a new curriculum model, including new opportunities for e-learning to increase student numbers;
- a transparent, open and honest relationship with the College's staff;
- development of a constructive and supportive relationship between the College and the local Learning and Skills Council, which included the local Learning and Skills Council providing one person to be a member of the College's governing body, and another to observe the governing body;
- formulation of a detailed recovery plan, owned at all levels of the College's staff, management and governors, which formed the basis for significant financial (cash) support from the Learning and Skills Council; and
- monthly monitoring meetings between the College and the local Learning and Skills Council – open and transparent communication.

21 The Learning and Skills Council has been developing a systematic and more information-based approach to planning that is an improvement on what went before. For example, the Strategic Area Reviews, due to reach conclusions in March 2005, are drawing together the information and views needed to decide local options for providing post-16 education in the future. These Reviews, and earlier work on the initiative of individual local Learning and Skills Councils, have helped to start a change in culture in which people and organisations are becoming more willing to collaborate to reduce duplication and fill gaps in the learning opportunities available locally. Increased attention has been focused on identifying demand from individual learners and employers. People are also increasingly conscious of national targets and priorities, and the need for local action to contribute towards meeting them.

22 However, there is a risk that in striving for perfection, elements of the approach may become over-complex and costly. The Strategic Area Reviews are ambitious, and we judge it likely that the costs of the Reviews – often done with the help of external consultants with expertise in using mapping and other techniques to assess demand – are already very high, and there are signs of fatigue among some partner agencies involved in the Reviews. Planning incurs its own costs – the administrative costs for the Learning and Skills Council in 2003-04 amounted to £246 million, about 2.8 per cent of its total budget. In addition, there is a cost to doing the planning ‘times 47’ through the 47 local Learning and Skills Councils across England, though relationships with Regional Development Agencies are maturing and have helped to prompt and support some rationalisation to regional level. It is good that opportunities are being taken to share the burden – for example by one local Learning and Skills Council doing research (such as on the need for a specific type of vocational training) beyond its boundary, on behalf of other local Learning and Skills Councils. Opportunities of this kind need to be identified and more widely taken up.

23 Local areas have to resolve a range of challenging conflicts involving national policies, initiatives and targets, regional priorities and the needs and demands of the local community and businesses. The judgements are hard. There is a risk that some people see the Strategic Area Reviews as the process for coming up with the perfect consensus. But there are big tensions – for example, the government’s concern to have formal qualifications that employers recognise has to run alongside a priority for encouraging socially excluded people into learning, who may be put off entering initially if they see learning that is largely qualification-based. Our recent report on Skills for Life⁵ highlighted the importance of structures and funding that support rather than create barriers to the kinds of flexible provision that encourage adults to take up learning well after they have left compulsory education.

24 There are tensions between some of the Learning and Skills Council’s national targets and priorities of particular Regional Development Agencies. But local Learning and Skills Councils’ access to the results of research done at regional level has helped them to develop and assess options and proposals for local provision. Regional Skills Partnerships are being established to provide a focus for developing regional strategies for skills development.

25 It will take skill to make sure that the outcome of the planning – to meet targets, imperatives, priorities and demands – is local products that meet the needs of the majority of employers and make learners want to learn. Though the Learning and Skills Council has a very wide remit, it has to take account of other major interests – for example local education authorities’ and schools’ aspirations for their sixth forms. Making sure that plans help meet employers’ priorities is especially challenging, because it needs to be done nationally, regionally and locally. The best colleges – and other providers – have a long history of marrying a range of demands. We were not surprised to find that many of the areas that had made good progress in identifying options that help deal with some of the tensions had seen local Learning and Skills Councils, colleges and other organisations working together to develop options for some time.

26 The best instances of collaboration reduce duplication and bureaucracy at the same time as improving performance and increasing choice through more diverse opportunities for learners. There are strong emotional incentives to collaboration – for example, the desire to do meaningful work that adds real value to people and the local community. But organisational imperatives and financial rewards can sometimes point in the opposite direction. The Learning and Skills Council’s monitoring and the college inspections by Ofsted and the Adult Learning Inspectorate necessarily focus on colleges as institutions; they place less emphasis on risk taking and risk sharing between different colleges and between colleges and their funders. Productive collaboration needs to be recognised, celebrated and rewarded so that others will want to do it too.

5 C&AG’s report, Skills for Life: improving adult literacy and numeracy, HC 20 2004-05, 15 December 2004.

Making sure that the further education sector delivers learning of the type and quality that people need and want

27 Inspection is an important, independent mechanism to support accountability and quality improvement. Joint four-yearly inspections of colleges by Ofsted and the Adult Learning Inspectorate, together with the Learning and Skills Council's provider financial assurance reviews that are run in parallel, provide independent information and views on whether colleges are well run and provide a satisfactory service to learners. They give vital support to the Learning and Skills Council's remit not to contract for or fund consistently unsatisfactory provision. Inspection reports are useful to governors and other people who have an interest in the quality of what the college provides. Similarly, area inspections provide information to help assess whether different providers and other organisations in an area are collaborating effectively.

28 'Lighter touch' inspection should continue to provide important comparative information and judgements on colleges' performance. Changes currently being planned in college inspections will reduce the amount of information available, especially on those colleges judged to be the best performers based on an analysis of risk. Further information will, however, be available from colleges' self-assessments, and Ofsted and the Adult Learning Inspectorate will be conducting annual self-assessment visits to every college. In the past, the inspectorates have produced reports on selected topics such as literacy and numeracy skills, which bring information together in a helpful way. There will continue to be about five subject-based reports a year. Provider financial assurance reviews are still intended to lead to separate reports to colleges, though their subject matter (governance and financial management) overlaps with the content of inspections (leadership and management). Colleges would welcome better explanations of the need for separate inspection and performance review reports and how their respective roles and findings complement each other.

29 Increasing use of self-assessment helps colleges to focus on their primary responsibility for quality and performance. Colleges have developed their own self-assessment, sometimes using the tools that support inspections⁶, though there are no specific self-assessment criteria similar to those developed for schools. Self-assessment helps to reinforce expectations among

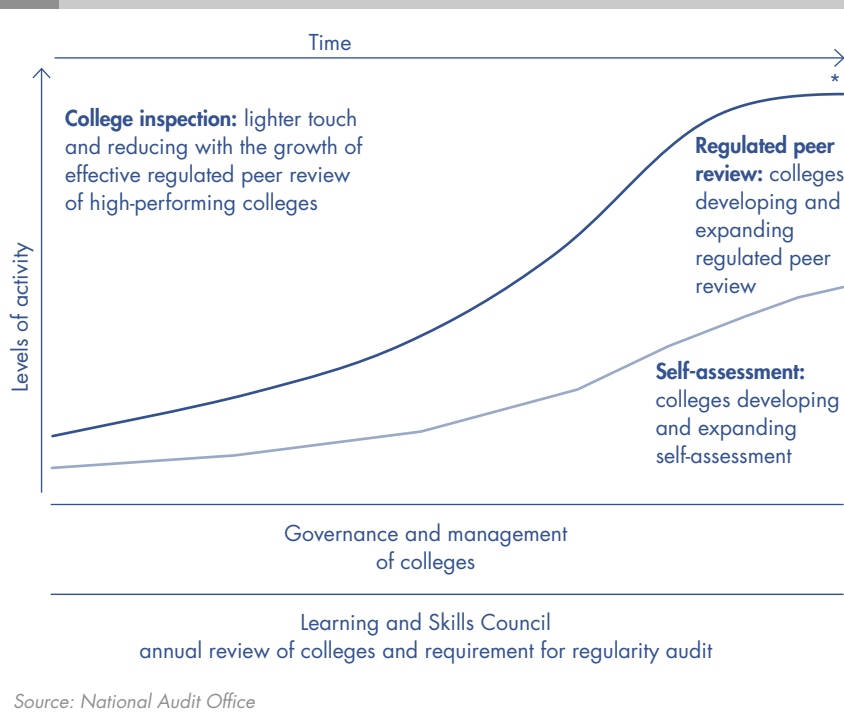
governing bodies and college managers that they have the main responsibility for their college's performance and the quality of the learning it provides. In many colleges self-assessment is working well, but in others there is room for considerable improvement – in 2003-04 inspectors judged 29 per cent of quality assurance systems, including self-assessment, as unsatisfactory.

30 Self-regulation is under consideration but some way off being implemented. Some self-regulation has been in existence for a number of years, and further development of self-regulation is being considered as part of the Department's current review of further education (paragraph 1.14). One option for self-regulation might be a robust form of peer review that would initially involve a small number of the very best colleges and run alongside the current inspection regime. Development of this option over time is illustrated in **Figure 7**. Through involving people with experience in colleges in similar circumstances as part of the review teams, the aim would be to devise a form of review that could take greater account of the environment that colleges operate in than inspections can easily do. It would be likely to take some years for such an arrangement to develop the robustness necessary to secure public confidence. If the development were to run in parallel with the already planned development of risk-based inspection there might, at some stage in the future, be a case for replacing the current requirement to be inspected with a regulated peer review of high-performing colleges.

31 There are indications that the quality and usefulness of local Learning and Skills Councils' annual reviews of colleges are improving, but not all colleges see them as consistently challenging and fair. As part of its new business cycle, the Learning and Skills Council recently reduced the frequency of its reviews of colleges to once a year. Research by the Department indicates that the reviews have been improving, but colleges are continuing to question whether the staff of some local Learning and Skills Councils are sufficiently capable to undertake the reviews in a way that is both challenging and fair. The Learning and Skills Council has recognised the need to further develop the skills and expertise of staff engaged on this work.

6 Common Inspection Framework for inspecting education and training, March 2001.

7 Option for developing regulated peer review for colleges



* This illustration assumes that inspection will continue to be required for at least a group of colleges that do not have sufficiently well-developed governance, management and quality assurance.

32 Financial assurance checks are changing, and some colleges have been uncertain how much additional audit they need to commission from their own internal auditors to compensate for ending the funding audit. The former annual ‘funding audit’ that the Learning and Skills Council commissioned is no longer necessary because of changes to the way colleges are being funded. For most colleges (selected according to assessed risk) the Council will rely instead on enhancing the existing ‘regularity’ audit for assurance that its grant is being spent appropriately. Although most colleges viewed the funding audit as too detailed and bureaucratic, the audit did provide them, and the Learning and Skills Council, with a high degree of certainty about the reliability of their student records (on which funding will still be broadly based). In February 2005, the Learning and Skills Council issued guidance to colleges on the additional work they need to commission from their financial statements auditors on the regularity of college expenditure.



RECOMMENDATIONS

33 Our overall conclusion is that the frameworks that the Department and the Learning and Skills Council have developed and put in place to plan and monitor the further education sector are likely to support systematic planning and provide reasonable assurance. As the frameworks develop, more evidence is emerging about how they can be implemented more efficiently and effectively, both for further education and the learning and skills sector as a whole, and what complementary changes to support providers need to be made. Our recommendations set out possible next steps for the Department and the Learning and Skills Council to consider.

- 1 The Instrument and Articles of Government for colleges needs to be updated to reflect the environment within which colleges are now operating.** The Department has consulted widely on the current Instrument and Articles of Government, and some limited changes are proposed as an interim measure. Reflecting the Good Governance Standard for Public Services, there is a widely acknowledged need for further changes to clarify who college governing bodies are accountable to and what their responsibilities are, particularly in respect of their college's strategy. Any update should also consider whether the current prescriptions on governing body membership are still necessary, or whether they could be relaxed to give governing bodies more flexibility to attract the members who they believe can provide the greatest support by filling identified gaps in expertise.
- 2 The Learning and Skills Council should promote collaboration between local Learning and Skills Councils and colleges (and indeed other providers) in commissioning training that aids mutual understanding.** Much training of governors and members of local Learning and Skills Councils is well appreciated, but tends to focus on the organisation. For example, we found no instances of joint college governors/Council member training, which was surprising given the synergy of the two groups' objectives. By grouping together to arrange training opportunities, colleges, other providers and local Learning and Skills Councils could share costs as well as achieving a deeper understanding of perspectives and ideas.
- 3 The Learning and Skills Council should reflect the importance of the decision-making role of college governors in its communications strategy, for example by communicating directly with governors on the most important areas of policy and development.** Governing bodies need concise information on the key decisions and policies that affect their colleges' strategy. 'Translating' important messages from the Department and the Learning and Skills Council through layers of other people and organisations, often using language and at a length more designed for senior managers than voluntary non-executive members of governing bodies, is unlikely to ensure that the messages are consistently conveyed. The Learning and Skills Council should consider producing short, customised communications for governors – and for council members of local Learning and Skills Councils – in respect of its most important areas of policy and development.

- 4 The Learning and Skills Council should explore the most efficient and effective ways of keeping the outputs from the Strategic Area Reviews up-to-date, drawing on experience of the reviews.** Some local Learning and Skills Councils have found ways – for example through collaboration at regional level within the Learning and Skills Council and with Regional Development Agencies – of combining work that is best done at local level with activities that can be done more efficiently on a larger geographical scale. The Learning and Skills Council needs to review experience systematically, establish best practice and convey its expectations of how local Learning and Skills Councils should seek to work in future.
- 5 Local Learning and Skills Councils need to promote a culture with colleges that values mutual constructive challenge.** To meet the Learning and Skills Council's key objective of focusing funding only on good quality provision requires effective quality assurance at several levels, starting with robust self-assessment by colleges, supported by the Council, for example by encouraging links between colleges so that they can share good practice in self-assessment methods. Constructive challenge should start within colleges and extend into their relationships with the Council, so that concerns about quality and tensions between conflicting priorities can be discussed openly. The local Learning and Skills Council needs to have a protocol for notifying any concerns about quality to college governors. In such circumstances, there should also be a clear agreement on how long the college has to improve those aspects of its provision before it is given notice that funding for them will be withdrawn.
- 6 All local Learning and Skills Councils need to make the most of the current opportunity for enhancing their quality review procedures.** The Learning and Skills Council's decisions to reduce the frequency of performance reviews of colleges to an annual basis, and to develop further its risk-based approach to college performance review, provide a good basis for ensuring that all review and monitoring activity is well focused. Reviews need to be of high quality and based on good information. The reduced frequency also presents the opportunity to ensure that only Learning and Skills Council staff with the authority and skills to engage constructively with senior managers of the colleges run the reviews. The reviews should include consideration of how colleges have responded to the Learning and Skills Council's broadest aims, for example to increase collaboration between learning providers.
- 7 There are risks and opportunities in the inspectorates' plans for 'lighter touch' inspection, and the Learning and Skills Council needs to maximise the opportunities by ensuring that these plans and its own review arrangements are complementary.** In future, inspections are likely to provide less detailed information about college performance, but this reduction could bring benefits through the inspectorates and the Learning and Skills Council drawing more extensively on each other's views on what information it is most useful to collect, and the Council focusing on making best use of information provided through inspections. Whilst the inspectorates must maintain their independence, there would also be value in them taking the views of the Council and the Department into account in deciding where to focus their subject-based reports.
- 8 The Learning and Skills Council's provider financial review team and the Inspectorates should consider how to improve colleges' understanding of their respective roles.** The provider financial assurance reviews are carried out at the same time as inspections to help reduce the burden on colleges and so that the inspectors and reviewers can draw on each other's knowledge. This is a good arrangement but is not well understood by colleges, who do not necessarily appreciate the different objectives of inspection and audit, and the independent role of the inspectorates. Inspectors and reviewers should explain their separate roles and reports and how their respective findings complement each other.
- 9 The Department and the Learning and Skills Council should continue to look at options for eventual self-regulation of colleges in the longer term.** Self-regulation – i.e. in place of the inspections and reviews – is a feasible option, but any programme to move towards it would need to be carefully planned to achieve the equivalent assurance currently gained from the independent inspections and the reviews. One option (illustrated in Figure 7 on page 13) would be to start to develop a methodology and process for a robust, regulated peer review involving a small number of the very best colleges, which have evidenced their excellence for a number of years.

PART ONE

Implications for colleges of the changing landscape of the learning and skills sector



1.1 Changes in the organisation and policies for public funding of the learning and skills sector have big implications for the way colleges manage their affairs. Changes since the Learning and Skills Council was set up in April 2001 have had the most impact (Figure 5 on page 7). In this part of our report we explain how:

- college governance has historically focused on the college as an institution;
- governance is now required to have a broader focus that includes government priorities; and
- the governance framework needs to be updated, to take account of the changed environment.

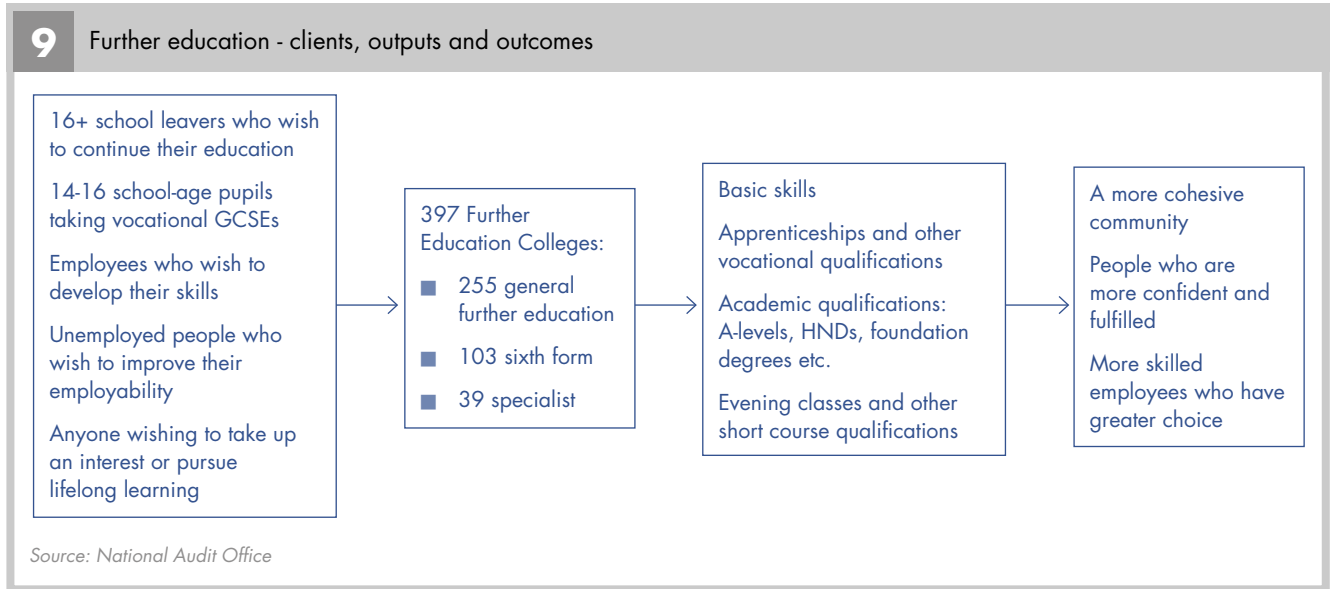
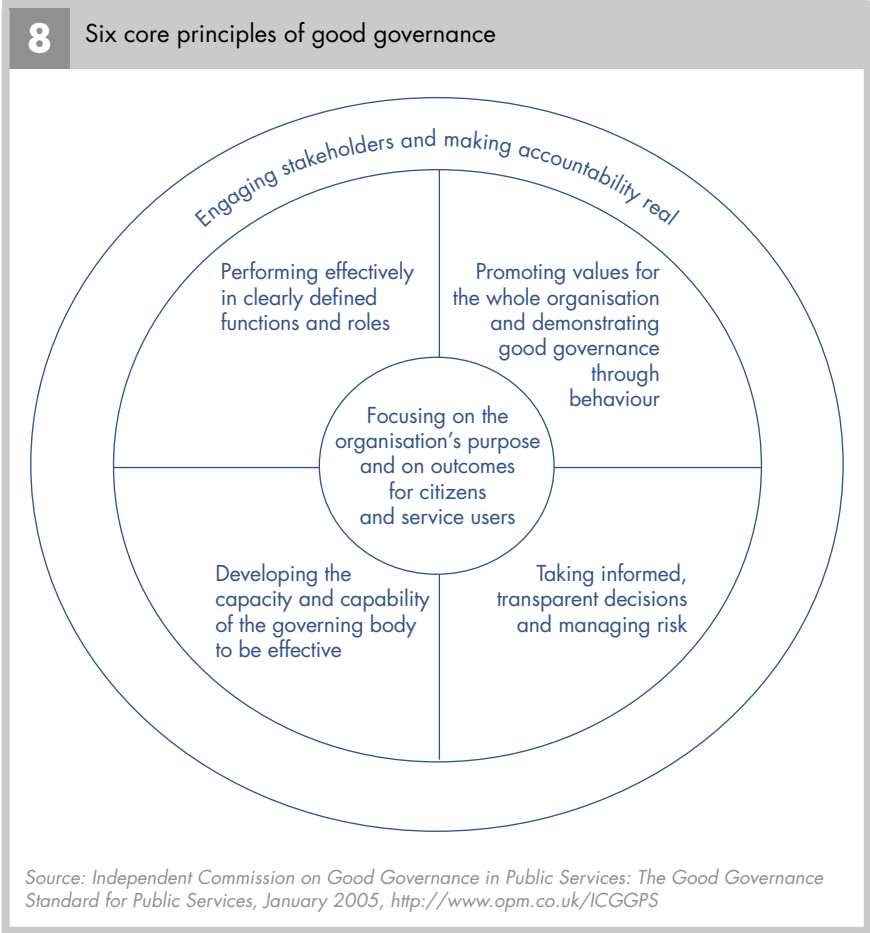
1.2 We conclude that translating national priorities into learning opportunities that people will value at local level is difficult. In the complex and demanding environment of further education, it is becoming harder to recruit and retain the right mix of people as college governors. More than ever before, it is important that governing bodies are clear about what they are responsible for and who they are accountable to, and to have access to good quality independent advice. The Learning and Skills Council needs to find ways of getting clear, accurate information on its key decisions to governors if it is to win local hearts and minds.

College governance has historically focused on the college as an institution

1.3 Governance is the system of control for overseeing the management of an organisation to ensure that it operates within its statutory authority, and delivers against its agreed strategic objectives. The six core principles of good governance in public services, as set out by the Independent Commission on Good Governance in Public Services, are set out in **Figure 8 overleaf**. In the learning and skills sector good governance has traditionally been regarded as depending on clarity of roles, responsibilities and expectations, and sound reporting and review processes which include measurement of performance, monitoring and challenge to the executive when necessary.⁷

1.4 A general further education college offers a wide range of programmes in three broad categories: general, vocational and higher education (which can be vocational). Courses can be based within the college, in smaller centres away from the main campus, or on employers' premises. Many colleges also provide leisure and recreational courses which may not lead to a qualification. Sixth-form colleges principally offer academic qualifications for 16-19 year olds. 24 of the specialist colleges provide education in agriculture and horticulture, and art, design and the performing arts. Further education outcomes are wide ranging, covering skills and knowledge designed both to improve the nation's economic performance and to help build social cohesion (**Figure 9 overleaf**).

7 The College Governor, Further Education Funding Council, March 2000.



1.5 Under the Further and Higher Education Act 1992, further education and sixth-form colleges were removed from local authority control. Their governing bodies have full legal responsibility for colleges as autonomous institutions. The governing body appoints its own members (business and co-opted members), or specifies other bodies who nominate members (all other categories) (Figure 10).

1.6 Further education funding, as administered by the Further Education Funding Council (the Funding Council) and, from April 2001, the Learning and Skills Council, was intended to provide institutions with the freedom to innovate and manage their own affairs. Incentives offered for achieving growth in student numbers were intended to expand participation and secure greater efficiency.⁸ Over the 10 years to 2003, numbers rose by more than 100,000 full-time equivalent students (Figure 11).

10 Composition and responsibilities of governing bodies

The number of members of a governing body (also known as 'the Corporation' or Board) is between 12 and 20, made up of:

Up to 7 business members	Not more than 3 co-opted members	1-3 staff members	1-3 student members	1-3 local authority members	1-3 community members	Not more than 2 parent members
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The Principal or Chair and Vice-chair are appointed from among the membership.

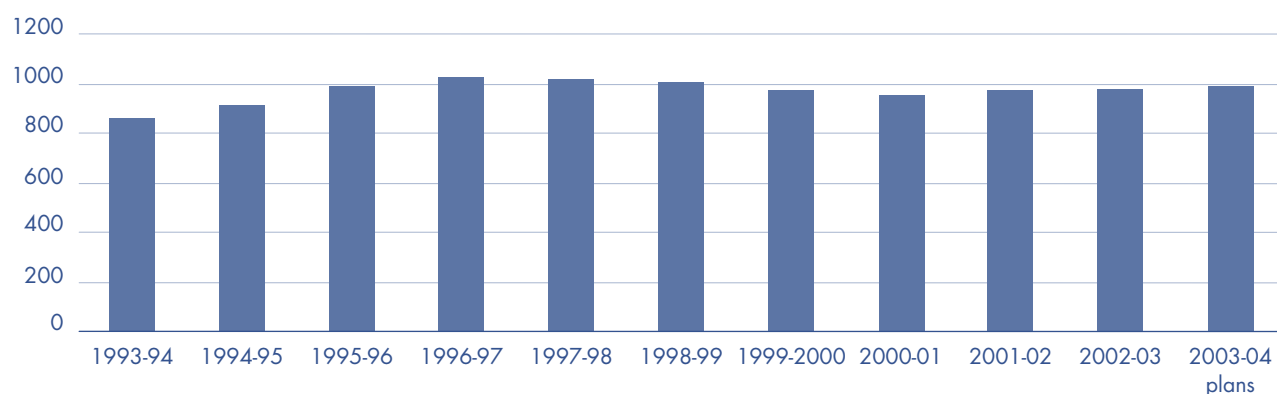
The governing body is responsible for:

- determining the educational character and mission of the institution and oversight of its activities;
- effective and efficient use of resources, the solvency of the institution and the Corporation and safeguarding their assets;
- approving annual estimates of income and expenditure;
- appointment, grading, suspension, dismissal and determination of the pay and conditions of service of the holders of senior posts and the Clerk to the Corporation; and
- setting a framework for the pay and conditions of service of all other staff.

Source: *Instrument and Articles of Government (2001)*

11 Full-time equivalent number of students in the further education sector ('000)

Over the 10 years to 2003, numbers rose by more than 100,000 full-time equivalent students.



Source: *Office of National Statistics 'Statistics of Education', issue no. 04/03 (August 2003) and bweb03-2004 (October 2004)*

NOTES

1 Includes students in further education colleges (further and higher education students), specialist designated institutions, dance and drama institutions, and further education students in higher education institutions.

2 Final number for 2003-04 was not available at time of publication.

8 Department of Education and Science, 'Education and Training for the 21st Century', Cm 1536, HMSO, May 1991.

1.7 Colleges were made accountable for the funds they received from the Funding Council under the terms of financial memoranda. Specifically, as a college’s accounting officer, the Principal of the college was – and still is – subject to the potential requirement to appear before the Committee of Public Accounts of the House of Commons, on matters relating to the use of funds. Colleges also have responsibilities to other ‘stakeholders’, such as customers (students and employers), and the wider community. However, the Funding Council had only a remit by exception to intervene in what colleges did; and policy decisions about strategic planning and direction lay with the college governing body itself.

Governance is required to have a broader focus that includes government priorities

1.8 The creation of the Learning and Skills Council marked a substantial change for the sector, bringing planning for colleges within the same mechanism as that for sixth forms, work-based learning and adult and community learning (Figure 12). The Council has to ensure that colleges and other major suppliers provide good quality learning that contributes towards meeting government targets and wider policy objectives, such as improving participation among people with low skills. The

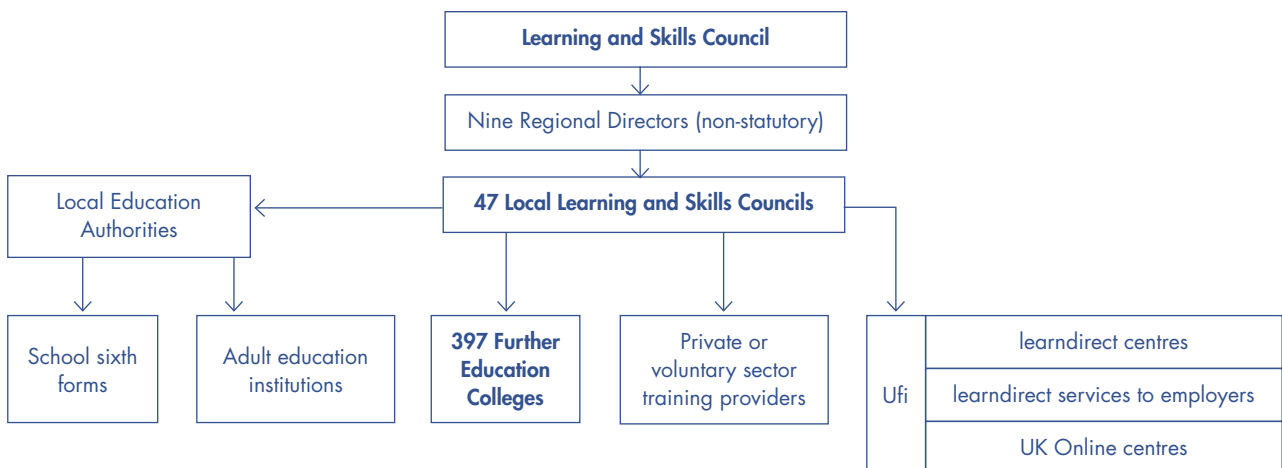
Council expects colleges and all other major providers of learning opportunities to determine their own strategic direction and educational character. It relies on them to identify local needs and develop three-year plans which then form the basis for negotiations with the local Learning and Skills Councils. Local Councils decide on a three-year plan of provision which they will buy from providers in their area. Each college’s plan is expected to demonstrate how the college will contribute towards the government’s broad aims of combating social exclusion and improving workforce skills as a means of driving up economic performance.

1.9 A further important change relates to raising standards in the further education sector. Before the Learning and Skills Council came into being in 2001, if an inspection of a college rated any curriculum area as ‘unsatisfactory’, the college was not allowed to increase student numbers in that area of the curriculum. It is now much clearer that the Learning and Skills Council will not contract for or fund provision that is consistently unsatisfactory – it will cease funding if a college does not improve the quality of provision after reasonable notice.

1.10 Former funding systems and the present planning and funding system are illustrated in Figure 13. The latter arrangements are known as ‘plan-led funding’, and are discussed further in Parts 2 and 3 of our report.

12 The Learning and Skills Council and its providers

Local Learning and Skills Councils work with a range of providers comprising further education colleges, private and voluntary sector training providers, school sixth forms, adult education institutions, and Ufi for learndirect provision.



Source: National Audit Office

NOTE

Arrows in this figure relate to the flow of funds.

13 Outline comparison of plan-led funding with the system it replaced

	Pre 2001-02		Starting from 2001-02	
Policy context	Expansion of student numbers and competition for learners		Government priorities for specific types of provision in context of high demand	
Planning	College Strategic Plan	College decides three-year plan which Further Education Funding Council approves	College Development Plan (from 2003-04)	College negotiates three-year plan with local Learning and Skills Council
Funding	Funds	... follow learners – payment by results, annual claw-back if not achieved	Funds	... follow Development Plan – more stable three-year funding with claw-back rarely used
Monitoring and audit	‘Funding Audit’		‘Regularity Audit’	
	Mechanistic and detailed examination of learner records	Colleges and LSC assured as to extent of provision and eligibility of funding	‘Lighter touch’: less detailed examination of spending with greater trust for those who earn it	Colleges still need to assure themselves that records are accurate

Source: National Audit Office

The governance framework needs to be updated, to take account of the changed environment

1.11 The composition and responsibilities of governing bodies, outlined in Figure 10 on page 19, have been updated from time to time, mainly in respect of the governing body membership. However, they have not been substantially revised since colleges became independent of local authority control in 1993. The framework focuses on the college as an autonomous institution, serving local people and surviving in competition with other providers in the area.

1.12 A survey by the Association of Colleges illustrated a concern of many governors regarding the perceived power of the local Learning and Skills Councils to determine the character and nature of their college’s strategy and policy.⁹ Some governors and college Principals felt that

there was a risk that the arrangements could result in a loss of flexibility to provide a locally responsive service. In our discussions with governors and college Principals we nevertheless found a high level of acceptance that their institutions needed to adapt to increase their contribution to achieving the government’s plans.

1.13 Problems with unclear governance are not unique to the further education sector. The Office of Public Management¹⁰ consulted governors and senior managers from the NHS, police authorities, executive non-departmental public bodies, schools and housing associations for a review published in May 2003.¹¹ It found a widespread absence of understanding about whom governors were accountable to and what they were responsible for. The most common focus for governors’ accountability was ‘the local community’ with central government generally perceived as less significant.

9 Department for Education and Skills and Association of Colleges, ‘Dialogue with Governors: A strategy to support strong and effective governance’, Final Report, July 2004.

10 The Office for Public Management Ltd (OPM) is an independent, not-for-profit, public interest company working with people to develop high quality management, professional practice and public engagement in organisations that aim to improve social results. OPM and the Chartered Institute of Public Finance and Accountancy (CIPFA), with funding from the Joseph Rowntree Foundation, established an independent commission to develop a common standard for good governance across all public services. The report of the Independent Commission on Good Governance in Public Services ‘The Good Governance Standard for Public Services’ was published by OPM and CIPFA in January 2005.

11 J Steele and G Parston, ‘Rubber Stamped? The expectations and experiences of appointed public service governors’, Office of Public Management, London, May 2003.

1.14 The Department is aware of the accountability tensions in the further education sector, and during 2004 launched a stream of work that included consideration of whether changes to colleges' Instrument and Articles of Government are required. Some relatively minor amendments, mainly reflecting legislative changes, were consulted upon and are about to be ratified. The Department also consulted on more substantial changes, including possible clarification of governing bodies' accountability. This work is continuing. In November 2004 the Secretary of State launched an independent review into the role of the further education sector. The review is looking at key strategic issues, challenges and opportunities facing the sector over the next five to ten years and should be completed by autumn 2005. Any further changes to the Instrument and Articles of Government will be considered alongside the conclusions of this review.

Achieving a balance between different priorities is difficult

1.15 The government's broad aims of combating social exclusion and improving workforce skills currently are reflected in a number of specific priorities, namely:

- literacy, language and numeracy for adults;
- first-time formal vocational qualifications at levels two and three in the national qualifications framework (equivalent to five good GCSEs and A-level passes respectively);

- improving the stay-on rate for young people beyond the age of 16, whether at school, college or as part of an apprenticeship scheme; and
- widening participation and increasing access to higher education.

1.16 These three broad priorities have a higher call on public funds than, for example, informal adult education for leisure or personal interest, or higher level National Vocational Qualifications, both of which are to be paid for increasingly by the learners themselves, or their employers. **Figure 14** shows how spending on two of the priority areas has increased over the past four years. For example, spending on literacy, language and numeracy for adults has risen from 3.7 per cent of the total Learning and Skills Council expenditure in colleges in 2001-02 to 5.8 per cent in 2003-04.

1.17 In planning their provision, colleges need to take account of the fact that public funding will be focused on those areas of education that contribute most positively to the government's social and economic priorities. While this does not prevent colleges from offering a wide range of provision, it can raise tensions. For example the emphasis on formal qualifications – which have the obvious benefit of enabling achievement to be measured objectively – carries the risk that vulnerable and socially excluded people will be less likely to take up learning because they feel that formal qualifications are beyond their reach. The Association of Colleges' survey (paragraph 1.12) indicated that a number of colleges felt particularly constrained in responding to the needs of people in older

14 Changes in proportion of Learning and Skills Council funding allocated to government priorities¹

Year	Literacy, language and numeracy in further education colleges ²	As a proportion of total funding of further education colleges	Level 2 qualifications in further education colleges ³	As a proportion of total funding of further education colleges
	£m	%	£m	%
2001-02	154.9	3.7	388.8	9.3
2002-03	211.4	4.8	397.0	9.0
2003-04	275.1	5.8	460.5	9.7

Source: Learning and Skills Council and Office of National Statistics 'Statistics of Education', October 2004

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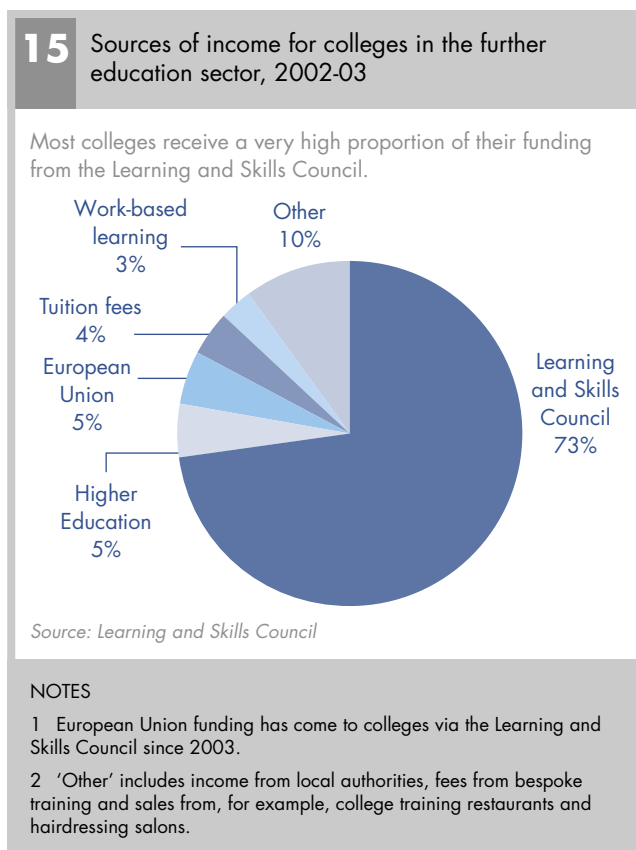
1 Excludes Ufi and its provider arm, learndirect, which provides e-learning to enable learning to take place at work, home or in one of over 2,000 learndirect centres.

2 Figures given are for spending related to government targets only.

3 Excludes part Level 3.

age groups, other than those with literacy, language or numeracy needs.¹² Our recent report on the programme Skills for Life¹³ concluded that there are substantial barriers to many of the lowest skilled adult learners taking up learning later in life. We suggested that colleges and other providers were more likely to succeed in encouraging adults to participate in learning if they were able to blend academic subjects with vocational skills and leisure interests to make their courses attractive.

1.18 Most colleges receive a very high proportion of their funding from the Learning and Skills Council – around three-quarters of total funding on average (**Figure 15**). The proportion of colleges' income from different sources has changed little in recent years, except that the small percentage of funding from the European Union more than doubled between 1996 and 2003.



1.19 Colleges are required to offer courses free of charge to 16-18 year olds, adults who are unemployed, on means-tested benefits, or adult basic skills learners. For some provision that does not match national priorities, colleges may either have to look at charging full fees for people who can afford it, or may have to seek alternative sponsorship. In 2002-03 colleges collected £155 million in tuition fees as contributions to Learning and Skills Council-funded further education provision delivered to their adult learners.¹⁴ This amount represents nine per cent of the funding for adults in further education, and four per cent of total income (Figure 15). The Learning and Skills Council is proposing that colleges increase their targets for income from fees, and that the proportion of course costs assumed to be chargeable to non-exempt learners should also rise. One college told us that it was attempting to charge more to students or employers, but they and other colleges (which provided very little to learners on a full cost basis) said that there was little scope for making increases without also running the risk that demand for learning would fall.

It is becoming more difficult to recruit and retain the right mix of governors

1.20 Each college governing body is responsible for recruiting its own membership and electing one of its members as Chair. The full governing body must meet at least once a term. Governors serve in an entirely voluntary, unpaid capacity, though they are entitled to receive expenses for travel and subsistence. The aim is to get a balance of people with a wide range of experience and skills and who can represent the views of the local community. Governing bodies have a committee responsible for identifying potential governors in accordance with procedures outlined in the statutory Instrument and Articles of Government. Good succession planning includes maintaining a waiting list of potential governors, together with newspaper and media advertising.

12 Department for Education and Skills and Association of Colleges, 'Dialogue with Governors: A strategy to support strong and effective governance', Final Report, July 2004.

13 C&AG's Report, *Skills for Life: improving adult literacy and numeracy*, HC 20, Session 2004-05, 15 December 2004.

14 'Investing in Skills: Taking forward the skills strategy. An LSC Consultation Paper on Fees, Funding and Learner Support in Further Education', Learning and Skills Council, July 2004.

1.21 Some colleges have difficulty recruiting governors. Surveys have indicated that 41 per cent of governors say their colleges have difficulty in recruiting members, and 75 per cent say their college does not have a waiting list.¹⁵ Our discussions with college Chairs of governors and Principals, and our telephone survey of college governors, indicated that the main reasons are first and foremost the inherent burden of the governors' role, and secondly the limited pool of potential governors in the specified categories.

1.22 The requirement to appoint minimum numbers of people in different categories can restrict colleges' flexibility to recruit the person they see as the most appropriate new governor. Community organisations and local authorities sometimes fail to propose nominees swiftly. Chairs and Principals welcome the absence of fixed time limits on the length of appointment. Time limits would increase recruitment difficulties and succession planning, and could in some cases deprive governing bodies of valuable experience that could not easily be replaced.

1.23 Research by the Association of Colleges endorses the views expressed to us by a number of Chairs of governors that colleges are now sufficiently well established to understand their own requirements for governors. The new planning environment is putting pressure on colleges to adapt; new types of governors may be appropriate in these circumstances. It may be more important to enable governing bodies to have the flexibility to appoint governors by mix of skills (including members who can advise on the response to local employer needs, pricing policy and approach to strategic planning) rather than being required to adhere to prescriptive membership requirements.

More than ever before, it is important that governors have access to good quality independent advice

1.24 Induction and training are an important part of ensuring that governors are able to discharge their responsibilities effectively, and colleges are generally supportive in meeting governors' training needs. Most governors told us they had received a useful induction when they were first appointed and some training thereafter, but they felt that they would benefit from more training to help them understand key terms, policies and organisations. Training has to be flexible and imaginative if governors, who usually have many other commitments, are to find time to attend. Examples of training available are given in Appendix 2, and **Box 2** provides an example of people in one area working together to provide training and opportunities for governors to share experiences and ideas.

BOX 2

Governor development initiative in the Tees Valley

Training and development for governors across Tees Valley is organised collectively by clerks of the institutions under the auspices of FE+, the title used by the Principals of Tees Valley further education colleges to promote collaboration between institutions. The group is responsible for planning and holding joint governor events, including induction for new governing body members and other development events, which have at times included input from the local Learning and Skills Council and the Association of Colleges. The participants find that these are efficient and cost effective arrangements for delivering training, which also provide governors with good networking opportunities.

¹⁵ Department for Education and Skills and Association of Colleges, 'Dialogue with Governors: A strategy to support strong and effective governance', Final Report, July 2004.

1.25 Developing training events at which both college governors and local Learning and Skills Council members attend would be an efficient way of offering them an opportunity to understand better their respective roles. However, we found no examples of the two memberships coming together to train. New programmes in the Leadership Skills for Governance programme, designed by the Centre of Excellence in Leadership in partnership with the Association of Colleges, are being developed for governing body members and their Clerks (Figure 16 sets out the role of the Clerk). These programmes could be targeted beyond colleges to include others working in the learning and skills sector.

16 Role of the Clerk to the governing body

Governing bodies have to appoint a person who is not a governor or the Principal to serve as Clerk to the governing body. The Clerk should be an independent, authoritative and trusted source of advice. The Clerk's roles and responsibilities include ensuring that the business of the governing body is conducted smoothly and efficiently, and that the governing body:

- operates within its powers;
- follows agreed and proper procedures;
- receives and considers appropriate information on the college's finances, curriculum and student performance;
- sets and regularly monitors targets for student enrolments, retention and achievement; and
- carries out financial forecasts and financial monitoring in line with the financial memorandum agreed with the Learning and Skills Council.

There should be no conflicts of interest in the role of the Clerk if the governing body is to discharge its duties effectively. The independence of a Clerk who combines a senior management post jointly with the clerking role may be viewed as compromised even if the person is of the highest integrity. This is particularly the case if the other post is as finance director of the college or as another senior manager with substantial responsibilities for managing costs.

Source: 'Clerks training materials', Learning and Skills Development Agency, 2001 and National Audit Office

1.26 The business of the governing body is carried out in a similar way to that of the board of directors or committee of any other organisation. Most items are supported by papers, including regular monitoring reports and briefings about other matters requiring their attention. Chairs of governing bodies considered that their main source of information was the Principal of the college – both informally and through college managers' reports to the governing body. Executive Directors of local Learning and Skills Councils told us that they passed national guidance on key policies such as plan-led funding on to colleges, and three of the six Executive Directors we met had also arranged meetings to discuss the new arrangements with colleges' senior managers. However, few governors reported any direct contact with them by staff in local Learning and Skills Councils – just one Executive Director of a local Learning and Skills Council referred to direct contacts with governors of local colleges. In practice, governing body meetings on most topics use information and briefing mainly from the Principal and other members of the college's senior management team.

1.27 Chairs of governing bodies also relied heavily on circulars from the Association of Colleges, which is the representative body of college management – both governing bodies, and Principals and their senior management teams. But the circulars provide a large amount of material and Chairs admitted they did not read all the circulars and said that they were written with a different audience – college senior managers – in mind. Governors need focused, easy-to-read briefing which enables them to grasp the key points quickly.

1.28 Learning and Skills Council circulars are generally sent to the Principal who, along with the Clerk to the governing body, decides what information to pass to the Chair and other members of the governing body. We concluded that there is an absence of concise, authoritative briefing specifically for governors, and that too much of the communication of important principles is left to the initiative of – and for translation by – others. In our view there is little chance that governors will understand, let alone embrace, colleges' changed relationship with their funders unless the key elements are clearly communicated to them in a consistent way.

PART TWO

Planning to meet learning needs and providing choice



2.1 Some 4.6 million people have no qualifications and nine per cent of 16-18 year olds are not in education, employment or training. The learning and skills sector has a crucial role to play in improving qualifications, employment prospects, and helping people to feel fulfilled and able to take a positive outlook on life. Some degree of planning is needed to help develop learning to address the various demands upon it. At the same time it is important to avoid costly bureaucracy that can get in the way of innovation and people simply wanting to get the job done.

2.2 This Part of our report looks at the key policies, processes and imperatives around planning and deciding what learning and skills provision the Learning and Skills Council will fund. It refers to a large number of organisations and some of their many relationships – as in other parts of our report we use diagrams to help make the processes and relationships clear. We examine:

- the development of the Learning and Skills Council and its relationship with colleges in the further education sector;
- a current programme to identify learning needs and current provision across the whole learning and skills sector, known as Strategic Area Reviews;
- activities to identify and prioritise the needs of employers, including Regiona I Skills Partnerships as a focus for skills development; and

- the barriers and opportunities in developing options for future provision.

2.3 Though college governing bodies and members of local Learning and Skills Councils were the main focus of our study, they are mentioned only occasionally in this part of our report. The planning developed by the Learning and Skills Council covers the whole learning and skills sector, and therefore governing bodies and members of local Learning and Skills Councils are just two groups among many that can potentially influence the decisions about what types of learning should have the highest priority.

The Learning and Skills Council has had to reinvent itself

2.4 The Learning and Skills Council, created in April 2001, has a wide remit to plan and fund all post-16 learning other than higher education, including all publicly funded school sixth forms (except academies) (Figure 17). The Learning and Skills Council replaced the Further Education Funding Council and took over the functions previously contracted to the Training and Enterprise Councils. It established a network of 47 local Learning and Skills Councils to undertake detailed planning and contracting at the local level, based on local needs and taking account of national policies and targets.

17 Composition and responsibilities of the Learning and Skills Council

The national Council

12-16 members

Appointed by the Secretary of State

Main responsibilities

The Council must secure the provision of:

proper facilities for the education (other than higher education) suitable to the requirements of persons who are above compulsory school age but have not attained the age of 19; and

reasonable facilities for education (other than higher education) suitable to the requirements of persons who have attained the age of 19; and

- training suitable to the requirements of such persons;
- organised leisure-time occupation connected with such education and training.

The Council appoints the Chief Executive, who is also one of its members.

Local Learning and Skills Councils (47)

12-16 members

Appointed by the national Council with appointments approved by the Secretary of State

Main responsibilities

A local council must perform such of the national Council's duties as the national Council specifies, and the national Council must prepare guidance for each local council including:

- objectives which a local council should achieve in seeking to carry out its functions;
- time limits within which it should achieve the objectives;
- a local council's budget for the financial year.

Source: Learning and Skills Council; Learning and Skills Act 2000

2.5 In January 2004, the Learning and Skills Council created nine¹⁶ Regional Director posts that mirror the geography of the Regional Development Agencies. The new posts were intended to provide for more manageable reporting than the 47 local Learning and Skills Councils to one national Council, and to allow the Learning and Skills Council to move its work in the regions forward more efficiently and develop relationships with key partners at a regional level. The Regional Directors have been required to hold regular meetings of Executive Directors and Chairs of local Learning and Skills Councils, but such groups do not form any statutory part of the Learning and Skills Council's governance and do not have any formal decision-making powers.

2.6 A recurring theme that people raised in the course of our interviews and research was whether the local Learning and Skills Councils have the capacity and expertise for the new planning function. College personnel perceived they were experienced in planning to meet the education and skills needs of a locality, and were concerned the equivalent experience was not always evident in the staff of local Learning and Skills Councils. About half of the workforce in April 2001 came from the Training and Enterprise Councils and had little experience of working in the further education sector, though

many had been involved in negotiation and contract management of work-based learning and provision funded through the European Social Fund. And former staff of the Further Education Funding Council did not have experience of developing contractual relationships, now involving substantial engagement and negotiation between local Learning and Skills Councils and colleges. More recently, between September 2003 and September 2004, the Council has had to press ahead with the planning process at the same time as accommodating a reduction in the workforce of more than 14 per cent (4,520 staff at September 2003 compared with 3,870 at September 2004).

2.7 The Learning and Skills Council told us that to help minimise the disruption, staffing changes had been overseen by a senior management group chaired by the Chief Executive, which reviewed progress and impacts. The focus was on improving efficiency by relocating locally provided support services to a regional, cluster or national level. The types of posts released were based within human resources, finance, marketing and communications, research, health and safety, property and facilities, work-based learning and research. At the same time, the Learning and Skills Council has a programme to retrain large numbers of staff (**Figure 18**).

18 National Learning and Skills Council training programmes since 2002

Programmes of retraining have been developed nationally in the following areas (number of managers attending in brackets):

Leaders Programme	<ul style="list-style-type: none"> Development centres (1,037) Leading Organisational Change workshops (35) Networking and Relationships workshops (148) High Performance Teams training (8 Senior Management Teams) Emotional intelligence (62)
Management Development	<ul style="list-style-type: none"> Introduction to Management, Managing Performance and Interpersonal Skills workshops (186)
Success for All initiatives	<ul style="list-style-type: none"> Three-year Development Planning workshops (100) Positive Relationships with Providers workshops (80) Quality Management Training (297) Data management Training (139)

Source: Learning and Skills Council

16 London Region also has a Regional Operations Director.

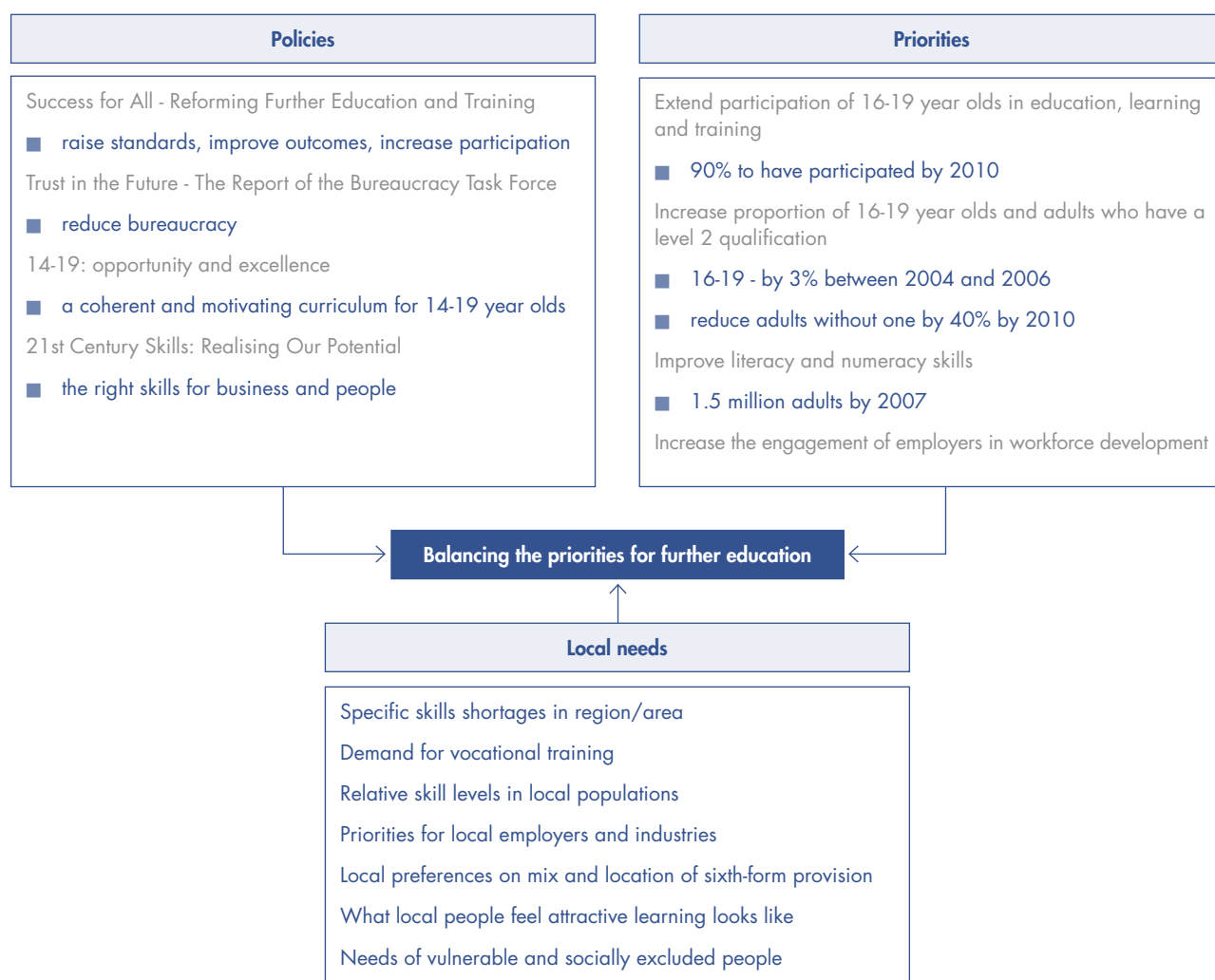
Relationships between colleges and the local Learning and Skills Council are based around a three-year development plan

2.8 The planning remit makes the Learning and Skills Council a very different organisation from the former Further Education Funding Council, or the Higher Education Funding Council which funds higher education institutions.

2.9 The Learning and Skills Council was given the planning remit to enable it to match learning provision more closely to demand, for example by improving the response to changing needs of learners and employers, rather than

placing too much reliance on what was provided in previous years. Just as the Learning and Skills Council's planning and contracting at local level must take account of national policies and targets (**Figure 19**), colleges' development plans should also explain how their proposals tie in with the local and national priorities. Working through tensions between local needs, as assessed by colleges, and delivering the government's – and regional – priorities, requires colleges and the local Learning and Skills Councils to build relationships based on openness and trust. It requires a good level of mutual understanding that is best achieved through a culture that values constructive challenge, starting within the college itself, and extending into college's relationships with their local Learning and Skills Council.

19 Balancing the priorities for the learning and skills sector: policies, priorities and local needs



Source: National Audit Office

2.10 Devising the planning framework and ensuring that Learning and Skills Council staff have the skills to implement it has been a major undertaking. The larger remit is reflected in the administrative costs of the Learning and Skills Council, which in 2003-04 amounted to £246 million, or 2.8 per cent of its total budget, compared with the £16 million administrative costs at the Higher Education Funding Council, representing 0.3 per cent of the budget for higher education and research.

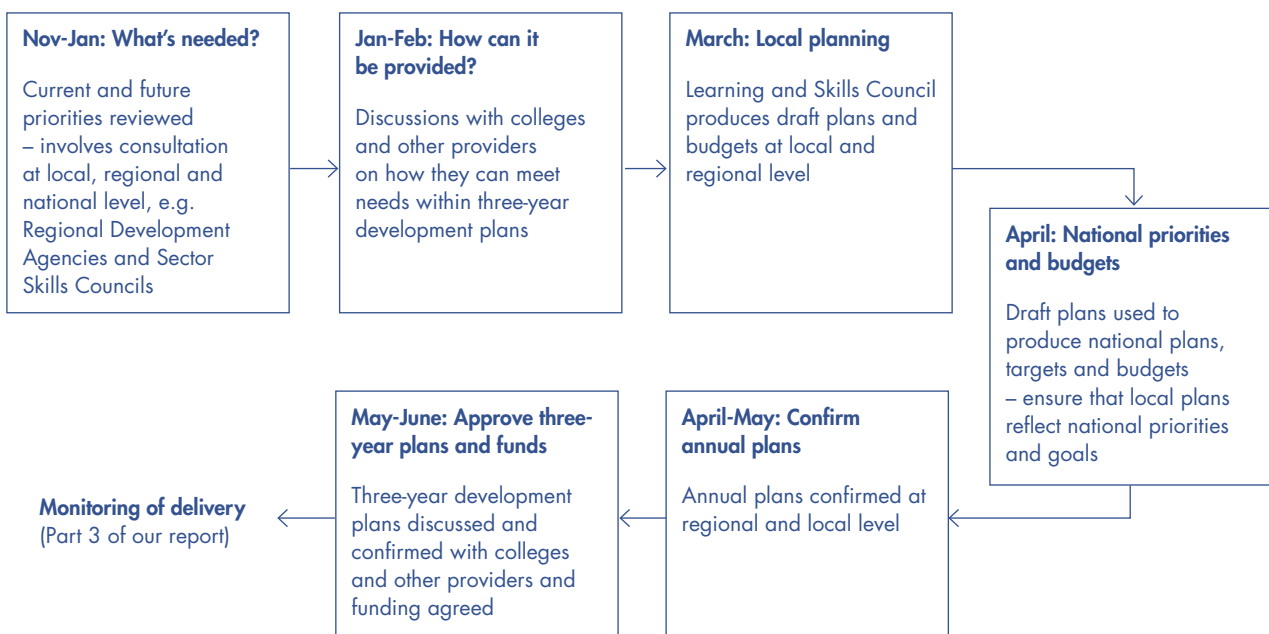
2.11 For the first three years from its inception in April 2001, the Learning and Skills Council undertook planning using separate systems for planning, funding and raising standards for colleges and other providers. In April 2004, the Council published a new annual business cycle (Figure 20) that brings these formerly separate strands together. Colleges had previously produced their own strategic plans, and now their three-year development plans are central to the business cycle and their relationship with the Learning and Skills Council. The plans and the establishment of a clear business process are intended to give colleges the confidence to plan ahead. The business cycle was tested in two regions – East Midlands and West Midlands – before being used on a national basis from autumn 2004.

2.12 In Part 1 we explained that governors have an important role in overseeing the management of the colleges as an organisation. The colleges’ senior managers deal with the day-to-day planning and liaison with local Learning and Skills Councils. College governors’ involvement in planning focuses primarily on review and approval of the college’s three-year development plan. Absorbing and understanding the context for these plans is very challenging (Figure 21), and a small number of governors may become involved in the wider area planning outlined later in this part of our report. Chairs of the governing bodies in the colleges we visited felt that their governors had sufficient opportunity to contribute to their colleges’ three-year plan.

The planning framework for colleges was complemented by real-terms increases in budget

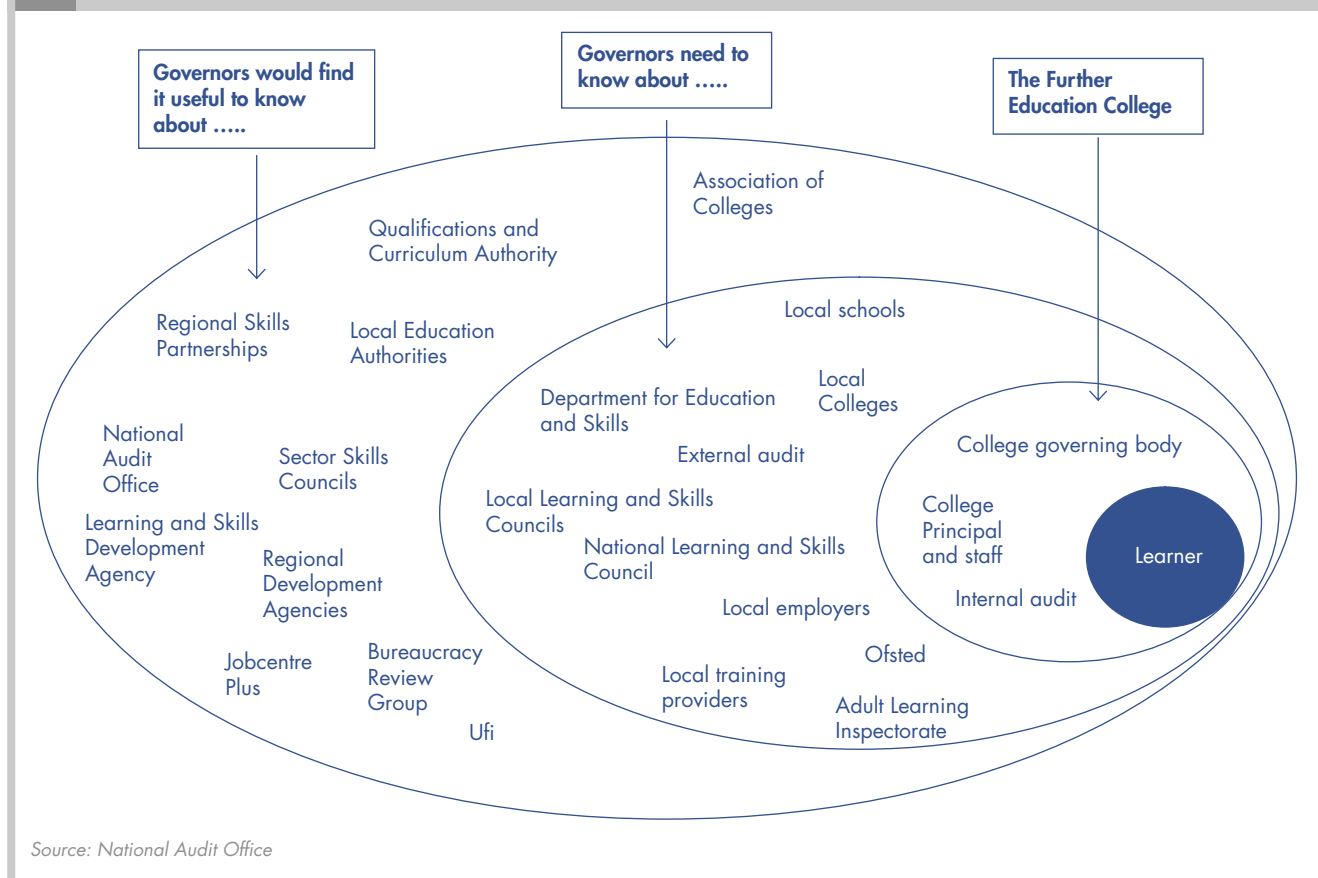
2.13 The reforms set out in *Success for All* were accompanied by a commitment to reduce bureaucracy and increase investment in the further education sector. Figure 22 on page 32 illustrates the Learning and Skills Council’s actual and planned expenditure in the further education sector, in total and per student, in the ten years to 2003-04, showing that total expenditure over the most recent five years rose by about 30 per cent in real terms.

20 The Learning and Skills Council’s Business Cycle



Source: Based on 'Shaping a better future: the new Learning and Skills Council business cycle', Learning and Skills Council, April 2004

21 A wide range of organisations are involved in planning and delivering provision for learning and skills



2.14 For the Learning and Skills Council's financial year ending 31 March 2005 the Council announced in the summer of 2004 that it was going to postpone part of its payment of funds to colleges. In the past, colleges received by 31 March about 67 per cent of their funding for the academic year ending 31 July. However, for the year ending 31 March 2005 they will receive only 60 per cent of the annual amount. As a consequence, some colleges may experience cash flow problems in the first quarter of 2005 and may even have to borrow money to see them through. Colleges we visited and the Association of Colleges were concerned that colleges had only learned of this major change just before the start of the 2004-05 academic year.

Strategic Area Reviews are an ambitious programme to identify learning needs and current provision around the country

2.15 Following consultation at the end of 2002, the Learning and Skills Council set out how a new process, known as Strategic Area Review, would be undertaken. The Council initially identified local Learning and Skills Councils that would make an early start on the Reviews to identify the challenges and learn lessons that could be shared before all 47 embarked on them. The early starters comprised one local Learning and Skills Council in each English region and all the five London Learning and Skills Councils, which undertook their Review together.

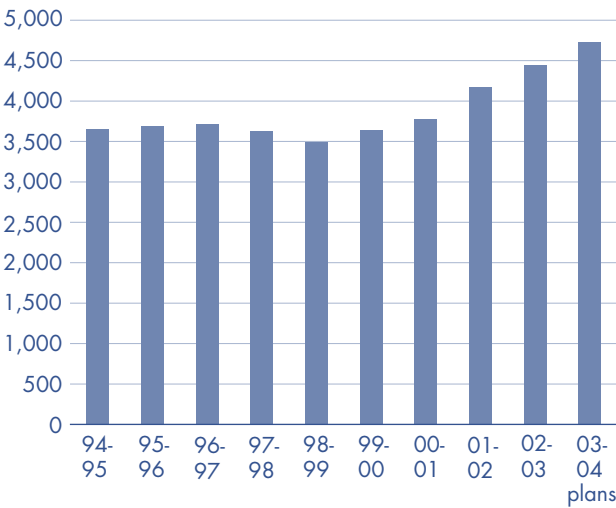
2.16 The Strategic Area Review process is complex, involving several different stages (**Figure 23 overleaf**). Each local Learning and Skills Council was required to establish its own arrangements for ensuring the process is effectively managed, stakeholders engaged, the timetable met and the required outcomes achieved.

22 Expenditure by the Further Education Funding Council and the Learning and Skills Council on the further education sector (in real terms, 2003-04 prices)

Total expenditure over the most recent five years rose by about 30 per cent in real terms and total expenditure per full-time equivalent student followed a similar pattern.

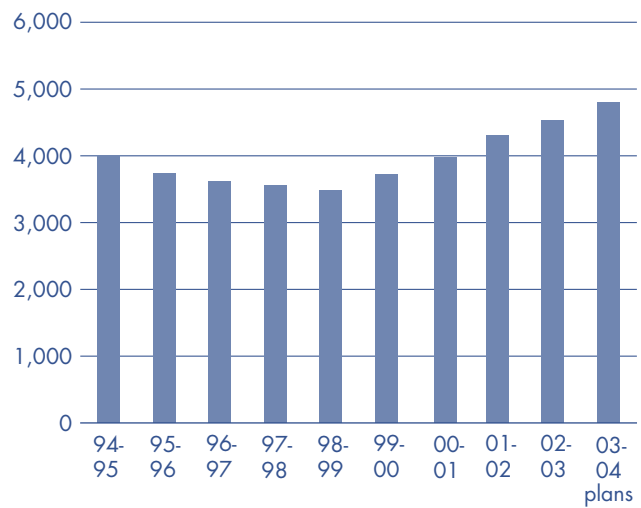
Total expenditure

Expenditure (£ million)



Total expenditure per full-time equivalent student

Expenditure (£)



Source: Office of National Statistics 'Statistics of Education', issue no. bweb03-2004 (October 2004)

NOTE

Final outturn for 2003-04 was not available at time of publication.

2.17 Strategic Area Reviews are being developed as a vehicle for matching local provision of learning opportunities to local and regional needs. They are intended to provide fundamental reviews in the context of:

- the need to drive up quality and increase success rates in many areas and to improve cost-effectiveness;
- the priorities and needs of learners, employers and local communities;
- the volume and type of education and training required to meet the Learning and Skills Council's targets; and
- major policies for education as set out in the 14-19 Strategy, Success for All, the Higher Education Strategy and the Skills Strategy.

2.18 Local Learning and Skills Councils were required to take the lead in developing Strategic Area Reviews, but in doing so needed to achieve a balance between pushing the Reviews forward with a clear sense of purpose while valuing the views of a wide range of groups and other

organisations. Local Learning and Skills Councils were given considerable discretion on how they managed the process – for example they could consult and develop options on a geographical basis, by business sector or by theme, such as a curriculum area or learner group.

2.19 Just identifying and documenting the wide range of existing provision required the local Learning and Skills Councils to engage in detailed contacts across a very large number of organisations (**Figure 24**). For example, in the areas we visited, the providers to be consulted included between four and twelve colleges, up to 56 school sixth forms, up to 5 local education authorities, between 11 and 47 work-based learning providers and large numbers of other organisations. The focus of the Reviews was provision funded by the Learning and Skills Council, but they also needed to take account of other provision, such as that funded by local authorities, local education authorities, employers and Jobcentre Plus. The Reviews had to consider the needs of a wide range of learners seeking (or needing help and encouragement to seek) an equally wide range of learning opportunities.

23 Key review areas, activities and milestones for Strategic Area Reviews

Key areas to be reviewed	<ul style="list-style-type: none"> ■ sixth forms in foundation, voluntary and community schools ■ colleges including general further education, designated, specialist, sixth forms and associated sixth-form centres ■ higher education institutions offering further education ■ adult and community learning and voluntary sector provision ■ former external institutions ■ work-based learning including apprenticeships and other vocational routes ■ all learnirect provision 	
Key activities	<ul style="list-style-type: none"> ■ preparatory planning ■ information gathering and analysis ■ developing and appraising strategic options ■ appropriate local consultation ■ publishing outcomes ■ implementing outcomes ■ evaluating the process and the outcomes 	
Key milestones	<ul style="list-style-type: none"> ■ Local stakeholder group established and terms of reference determined ■ Local arrangements and timetable in place in the form of a project plan ■ Mission review arrangements established with each provider ■ All mission reviews completed ■ Strategic Area Reviews completed and reported 	<p>By 31 May 2003</p> <p>By 31 July 2003</p> <p>By 31 July 2003</p> <p>By 30 April 2004</p> <p>By 31 March 2005</p>

Source: Learning and Skills Council Circular 03/06 Strategic Area Reviews, March 2003

24 People and organisations to be consulted as part of a Strategic Area Review



Source: Learning and Skills Council

2.20 Keeping local Learning and Skills Council members informed and engaged throughout a process as complex as a Strategic Area Review is a challenge, though five out of the six Chairs of Councils whom we met thought that the members had had sufficient opportunity to discuss and provide input to the area’s Strategic Area Review. Some members were concerned that they had only been involved once a draft report had been produced. Most welcomed the Reviews as an opportunity to clarify a local picture that they hoped would be recognised in national policy and priorities.

Identifying the priorities and needs of employers has to be done on three dimensions – national, regional and local

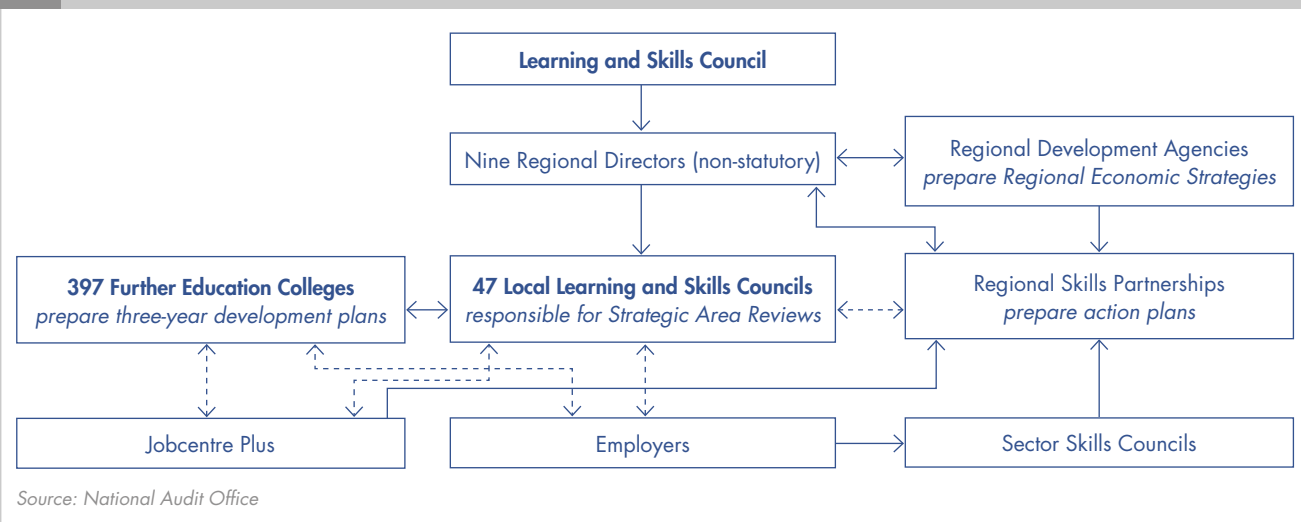
2.21 In July 2003 the government launched the national Skills Strategy, *21st Century Skills*¹⁷, with the aim of ensuring that employers have the right skills to support the success of their businesses, and individuals have the skills they need to be both employable and personally fulfilled. A range of organisations have responsibilities that relate to the Skills Strategy, and the relationships between those particularly concerned with improving the employability of the workforce are shown in **Figure 25**. It shows the main (but by no means the only) liaison points and the main strategic documents that each organisation is responsible for.

2.22 Gathering and analysing information on employers’ priorities and needs is particularly challenging because it requires work to be undertaken at a national level (through Sector Skills Councils), at a regional level (through Regional Development Agencies and Regional Skills Partnerships, which include regional representatives from Sector Skills Councils) and at a local level (through local employers and employers’ organisations). There are also different dimensions to employers’ perspectives – depending on whether they are customers (seeking learning and skills training for their staff), partners (working with colleges to improve the prospects of local people), or providers (of development training for their own workforce or for the staff of other employers). Failure to get it right means that improvements in the skills of the workforce may be patchy, or that some industries are left behind. Liaison with Regional Development Agencies is particularly important because their remit is primarily concerned with economic regeneration.

Identifying the priorities and needs of employers – national level

2.23 Sector Skills Councils, of which there are currently 21, are independent UK-wide organisations developed by groups of influential employers in industry or business sectors of economic or strategic significance (**Figure 26**). They are employer-led and involve trade unions, professional bodies and others concerned with the skills

25 Key partners, contact points and documents relating to employability and employers’ needs



Source: National Audit Office

NOTE

The dotted lines indicate liaison relationships.

17 Department for Education and Skills: 21st Century Skills: Realising our Potential.

26 Sector Skills Councils have been set up covering a range of different industries

Asset Skills	Property, housing, cleaning and facilities management
Automotive Skills	Retail motor industry
Cogent	Chemicals, nuclear, oil and gas, petroleum and polymer industries
ConstructionSkills	Construction
Energy & Utility Skills	Electricity, gas, waste management and water industries
e-skills UK	Information technology, telecommunications and contact centres
Financial Services Skills Council	Financial services industry
GoSkills	Passenger transport
Improve	Food and drink manufacturing and processing
Lantra	Environmental and land-based industries
Lifelong Learning UK	Post-16 learning
People 1st	Hospitality, leisure, travel and tourism
SEMTA	Science, engineering and manufacturing technologies
Skillfast-UK	Apparel, footwear and textile industry
Skills for Health	All staff groups working in NHS, independent and voluntary health organisations
Skills for Justice	Custodial care, community justice and police
Skills for Logistics	Freight logistics industry
SkillsActive	Active leisure and learning
Skillset	Broadcast, film, video, interactive media and photo imaging
Skillsmart	Retail
SummitSkills	Building services engineering (electro-technical, heating, ventilating, air conditioning, refrigeration and plumbing)

Source: Sector Skills Development Agency

and productivity needs of their sector. Their purpose is to ensure that the supply of education and training meets the demand for skills by employers and the sectors in which they operate. Part of their rationale is to provide a forum in which employers can discuss and agree priorities for reducing skills gaps, increasing opportunities to boost skills, and improving the productivity of the sector as a whole. A sector skills council for post-16 learning itself – Lifelong Learning UK – covers employers who deliver and/or support the delivery of lifelong learning, including community-based learning and development, further education, higher education, library and information services and work-based learning.

2.24 Sector Skills Councils have so far had limited involvement in Strategic Area Reviews, since many are still very new organisations. Contacts with the local Learning and Skills Councils are still being established. They will need to be developed to address the challenges that inevitably arise from each national Sector Skills Council potentially having to manage contacts with up to 47 local Learning and Skills Councils – and equally from each local Learning and Skills Council potentially having to manage contacts with up to (currently) 21 Sector Skills Councils. Such one-to-one relationships would be impractical in the real world, and would be likely to be wasteful of resources if attempted. Executive Directors at the local Learning and Skills Councils we visited told us that they have a range of opportunities for contacts with Sector Skills Councils.

Identifying the priorities and needs of employers – regional level

2.25 Regional Development Agencies, established in 1999¹⁸, provide a regional focus for the priorities and needs of employers for the development of skills relevant to regional employment. Representatives from the Regional Development Agencies are entitled to sit as members on the local Learning and Skills Councils in their area. We found indications that contacts between the Agencies and the local Learning and Skills Councils were frequent and increasing in most areas. The Agencies have been working with partners to develop Regional Skills Strategy Plans, which are being further developed as Frameworks for Regional Employment and Skills Action that aim to ensure that skills training matches the needs of the region's labour market.

2.26 The Regional Development Agencies welcomed the Learning and Skills Council's decision in 2003 to set up a regional tier (paragraph 2.5). In preference to separate contacts with up to six local Learning and Skills Councils in their regions, contact with Regional Development Agencies increasingly occurs through the Learning and Skills Council's Regional Directors or through meetings of the Regional Skills Partnerships, which we discuss below. The Regional Development Agencies have still needed to find efficient ways of contributing to the Strategic Area Reviews and the Learning and Skills Council's Business Plans – **Box 3** gives an example of work done by one Regional Director of the Learning and Skills Council to help improve co-ordination and communication with the Regional Development Agency.

2.27 The level of funding for research into employment and skills gaps varies considerably between regions. Local Learning and Skills Councils have some funds available, and the Regional Development Agencies also have discretionary funds. Access by local Learning and Skills Councils to the results of research done at regional level has left them much better placed than previously to develop and assess options and proposals for local provision as part of their Strategic Area Reviews.

BOX 3

Learning and Skills Council's West Midlands Region

The West Midlands Regional Director of the Learning and Skills Council has been developing a regional approach to planning for his region. As part of the approach, he asked the Executive Directors of the local Learning and Skills Councils to take the lead on issues, which require a regional focus, such as higher education, data analysis, skills and workforce development. Also where a regional perspective is required as part of the Strategic Area Review process, some curriculum areas such as hospitality and catering have been reviewed across the whole region, rather than just in their local area. Other agencies have welcomed the co-ordination, which has had practical benefits for the Regional Development Agency, Advantage West Midlands, in the consistent methodology used across the whole region for reviewing each type of provision.

2.28 Work at a regional level on Strategic Area Reviews has highlighted tensions between some of the Learning and Skills Council's national targets and priorities of particular Regional Development Agencies. For example, the Learning and Skills Council's national priority for level 2 provision (equivalent to GCSE A*-C) conflicts to an extent with the London Development Agency's high priority for level 3 qualifications (equivalent to A-level). Similarly, the South West of England Development Agency was happy to help fund training that met the Learning and Skills Council's national targets (for example, in construction and retail), but wanted to extend the target to include its priority for the marine industry. Advantage West Midlands commented that the Learning and Skills Council's priorities represented "only one step on their escalator", and for its region considered it important to target learning up to and including level 4 (equivalent to a degree).

2.29 The Department for Education and Skills, the Department of Trade and Industry, the Regional Development Agencies and the Learning and Skills Council at national level have agreed a "Concordat on Future Working between Regional Development Agencies and the Learning and Skills Council" which sets out the principles that will govern the future working between the Agencies and the Council within Regional Skills Partnerships.

¹⁸ Jointly funded by the Office of the Deputy Prime Minister, and the Departments of Trade and Industry, Environment Food and Rural Affairs, Education and Skills, Culture Media and Sport, and UK Trade & Investment. Funding includes £42 million from the Department for Education and Skills, representing 2.5 per cent of the overall budget.

Identifying the priorities and needs of employers – local level

2.30 Our research and recent findings by Ofsted¹⁹ suggested that as part of their planning process, colleges do contact local employers to discuss their needs. Ofsted found that half the general further education colleges they surveyed undertook a significant amount of work with and for employers, and in most cases this was relevant and well received. However, Ofsted found that few colleges engage with more than a small number of employers. One of the Regional Development Agencies we visited suggested that some colleges tend to limit their contacts to the same local employers every year, rather than seek alternative new perspectives and views.

2.31 The National Employer Skills Survey 2003 found that a quarter of all employers had been contacted by a local college for their views on the courses provided. Where they had been contacted, 81 per cent were very satisfied or fairly satisfied with their dealings with the college. Ofsted's review found that employers appreciated the flexibility of provision, the responsiveness of colleges willing to work with them, and the value for money of many of the courses provided. The review identified possible improvements in colleges' marketing and possible reductions in bureaucracy, for example in the procedures for registering for courses.

2.32 The Learning and Skills Council established Centres of Vocational Excellence, starting in 2002, which are primarily focused on delivering skills at level 3 in specialist vocational areas. They are characterised by close links between colleges, other providers, business partners, other employment interests and communities, which are designed to support the development and delivery of industry-relevant, economically important vocational training. The Centres are generally established at county rather than regional level. So far there are 290, located either in colleges or with private sector providers.

Regional Skills Partnerships – regional strategies for skills development to help drive productivity

2.33 In response to earlier concerns that there was insufficient effective collaboration between the various organisations at the regional and local level, in July 2003, as part of the Skills Strategy²⁰, Regional Development Agencies were required to set up and lead Regional Skills Partnerships. The Partnerships, all to be set up by April 2005, are intended to help drive productivity in the regions, with skills as one element. They should include the Learning and Skills Council's relevant Regional Director, as well as representatives from Small Business Service, Jobcentre Plus and the Skills for Business Network to which all the Sector Skills Councils belong. The Regional Development Agencies we visited expected the Partnerships to make a positive contribution to understanding regional conditions and to provide useful data and information to help inform proposals for local provision of learning and skills.

2.34 The Partnerships are expected to set their own targets and agree programmes of activities in line with regional needs. Responsibility for each activity will remain with one or more of the appropriate partners, each of whom will still be accountable for the expenditure.

And now the hard part – developing options for future provision

2.35 One of the key activities for the Strategic Area Reviews is the development and appraisal of strategic options. In planning reforms to their provision, local Learning and Skills Councils have to work with key partners to develop clear choices, including radical options for change to determine the scale and shape of provision. In developing those options they have to bear in mind stakeholders' concerns – extending choice of good quality provision, tackling skills gaps in the workforce and securing good value for money for government. Each of the local Learning and Skills Councils we visited told us that they were developing options and were planning to conclude their Strategic Area Reviews by the target date, March 2005.

19 "The responsiveness of colleges to the needs of employers", Ofsted, HMI 2358, November 2004.

20 Department for Education and Skills: 21st Century Skills: Realising our Potential.

2.36 Research by the Learning and Skills Development Agency²¹ based on progress in nine Learning and Skills Councils found, unsurprisingly, that those among the areas that started early were relatively well ahead with their options development and appraisal. The same applied to those that had recently had an area-wide inspection, since these inspections include an assessment of gaps in provision (paragraphs 3.14 – 3.17). Nevertheless, some local Learning and Skills Councils were finding it difficult to secure the active participation of other organisations in developing options. Those that had made most progress had taken the lead in obtaining agreement on the broad objectives and criteria that should govern the options review. Where preferred options were being established, many appeared to have emerged relatively early, usually out of a review of provision that had been started prior to the Strategic Area Review.

2.37 The Learning and Skills Development Agency found little in the way of rigorous quantitative appraisal of the non-financial benefits of strategic options (though the research was conducted before the timescale for options development and appraisal was complete). Where there was sufficient consensus in favour of a preferred option, the local Learning and Skills Councils did not generally attempt any formal evaluation, though there was no evidence that the lack of formal evaluation had undermined the outcome of these particular Reviews.

2.38 The Learning and Skills Development Agency commented that, in view of the large amount of work required to complete the Strategic Area Reviews, external consultants had provided an essential resource in many local Learning and Skills Councils. However, the Agency reported that in some cases local Learning and Skills Councils indicated doubts about the level of understanding and suitability of some of the consultants. The Learning and Skills Council has not collected information on the costs or outputs of external consultants employed to assist with Strategic Area Reviews.

Increased ongoing collaboration is essential to reduce the structural and policy barriers to making progress at local level

2.39 Some collaboration between colleges pre-dates the establishment of the Learning and Skills Council (**Box 4**). **Box 5** describes two colleges that have worked together for some years to end duplication of provision and competition for the same students. Such co-operation requires a degree of sacrifice in the form of willingness to give up some organisational aspirations and develop new ambitions that build on strengths of each provider for the benefit of local learners. The Association of Colleges suggested that the main obstacle to collaboration is not so much financial and organisational as the way in which monitoring and review of colleges by the Learning and Skills Council and inspections by Ofsted and the Adult Learning Inspectorate (paragraphs 3.4-3.13) focus on the accountability of single institutions. The Association considered that this approach discourages risk taking and risk sharing between different colleges and between colleges and their funders.

BOX 4

Collaboration between further education colleges in Birmingham

In 1995-96 six further education colleges in Birmingham agreed to try and collaborate on the curriculum each was offering so as to avoid unnecessary duplication and allow each college to play to its strengths. The group became known as Birmingham Community College. They agreed to work together in respect of the services each required, such as any requirement for legal advice and have collaborated to gain economies of scale in their purchasing. Since it was established the number of colleges involved has varied due to a merger between two colleges and an additional college joining the group.

21 Strategic Area Reviews: Analysis of approaches to the development and appraisal of strategic options – Report to the Learning and Skills Council, June 2004 (unpublished).

BOX 5**The Oldham College and Oldham Sixth-Form College**

In Oldham in the mid-1990s a general further education college and a sixth-form college were covering similar areas of the curriculum and competing for the same students. Six years ago the two colleges began to collaborate. Now the sixth-form college provides the academic route offering A-levels in 43 subjects. The further education college is focused on providing a wide range of vocational courses and is developing excellence in vocational areas, e.g. a Centre of Vocational Excellence (paragraph 2.32) in financial management. The changes have reduced duplication and increased the choice of further education provision available locally.

2.40 Colleges and other providers are increasingly developing a collaborative approach either as an outcome of local Learning and Skills Councils' work on Strategic Area Reviews, or as a development of earlier relationships encouraged by the Reviews and the Learning and Skills Council's promotion of collaboration. For example, Tees Valley local Learning and Skills Council holds an annual meeting for college Principals and its own executive team, where local priorities are discussed and, as far as possible, agreed.

2.41 Some local Learning and Skills Councils are attempting to take collaboration much further, for example by proposing reductions in the number of colleges and changes in governance. Some feel that bringing several colleges, adult learning and work-based learning within one organisation would improve communication and make it easier to rationalise provision. **Box 6** explains how this was done at Sussex Downs College. **Box 7** gives an example of a college that has developed a good relationship with an Adult Education Centre for the benefit of students of both institutions.

BOX 6**Organisation and governance of Sussex Downs College**

Sussex Downs College is a general further education college formed out of two recent mergers. It is the largest college in Sussex with 5,400 full-time students, 20,000 part-time enrolments annually, 1,400 staff and a turnover of £35 million. To recognise its range and diversity, the College has adopted an organisational and governance model designed to produce a good balance of local and corporate interests.

Curriculum activity is delivered through six 'Learning Brands', three of which are sixth-form colleges, with the three others focused on post-19 and international provision. Governance of the College is devolved to six 'Learning Boards' established or being established in relation to each of the Learning Brands. The Boards include two members of the College's governing body, the head of the particular Learning Brand and local head teachers and employers. They report to the governing body's Curriculum and Standards Committee. At the core of their terms of reference is recommending and monitoring recruitment and quality targets.

BOX 7**South Birmingham College's collaboration with local Adult Education Centre**

South Birmingham College has a site very close to the Spark Hill Adult Education Centre and has developed a close relationship with the Centre. The Centre mainly provides basic skills (literacy and numeracy) and leisure courses and encourages people who attend to consider undertaking courses offered by the College, particularly vocational courses. Similarly, when the College considers that one of its students needs a basic skills course, rather than provide the course, it may suggest the student goes to one already provided by the Centre.

2.42 Local Learning and Skills Councils' authority for deciding provision for under 19-year olds is limited, because responsibility is shared with local education authorities. Funding and responsibility for the education of the 14-16 age group rest with local education authorities – schools pay the college or other provider where they release pupils for college or work-based learning. Increased collaboration on education for 14-16 year olds²² is a high priority for the Department. College/schools' collaboration in providing vocational education to this age group is developing, but there are, as yet, no set arrangements for transfer of funding. Some colleges providing vocational courses are concerned that demand from schools is outstripping supply. Both colleges and schools wish to see safeguards against young people specialising too much or too early and to have clear quality standards for this relatively new provision. Some local Learning and Skills Councils and local education authorities in their area are jointly developing 'collegiates', involving collaboration by schools and colleges, to provide a greater diversity of educational opportunities to 14 to 19 year olds (**Box 8**).

2.43 Though the Learning and Skills Council funds all provision for 16-19 year olds, its authority is constrained by local education authorities' role in schools, in whose sixth forms much 16-19 education is undertaken. Where a local Learning and Skills Council wishes to consider increasing sixth-form college provision, possibly at the expense of local school sixth forms, local education authorities are likely to come forward to represent legitimate interests in school-based provision.

BOX 8

Collegiates in the Birmingham and Solihull Local Learning and Skills Council area

Starting in autumn 2003, the local Learning and Skills Council and the local education authorities for Birmingham and for Solihull have jointly set up a number of collegiates in different parts of the area. These consist of all schools and further education colleges in a particular locality. There are now twelve collegiates in the local Learning and Skills Council's area. Their aim is to give students aged over 14 the opportunity of studying a wider variety of courses than can be offered by their schools alone. In particular, schools are not able to provide the equipment necessary for courses such as motor vehicle maintenance, construction and hair and beauty.

By good planning and co-ordination of timetables, students under 16 are able to study the core curriculum in school and vocational subjects at a college. Post-16 students can also study academic subjects at school and vocational subjects at college. In addition, the local Learning and Skills Council has provided funds to enable vocational centres to be established at some secondary schools within collegiates, so that students can do some vocational courses in school. The heads of the institutions involved in each collegiate meet every month and there is a co-ordinator to ensure good day-to-day liaison. The collegiates are an informal collaboration in the sense that they do not have the legal force of combining the statutory powers of the organisations involved.

22 14-19: opportunity and excellence, Department for Education and Skills, 2002.

2.44 Local Learning and Skills Councils' proposals to rationalise sixth-form provision may also be constrained by the presumption in the Department's *Five Year Strategy for Children and Learners*²³ that, in areas lacking a choice of good school sixth forms, proposals from high-performing schools to create a school sixth form would be approved by education authorities' Schools Organisation Committees. Such proposals would need to show how they fit with existing sixth-form colleges and school sixth forms. In addition, most Academies have or plan to develop sixth forms. Academies are independently managed and receive all funding for their running costs directly from the Department. Seventeen were open by September 2004 and there are plans to have 200 Academies by 2010.

Local solutions need to achieve a balance between meeting specific targets and working towards policy priorities such as personal choice and social inclusion

2.45 Imperatives such as the commitment to a high priority for 16-19 provision have the advantage of providing a clear strategic steer from national to local level. However, by the time such imperatives result in action at local level, they need to have been blended with a range of national aims, for example to increase choice and social inclusion, as well as local priorities as seen from the perspectives of the local community and employers.

2.46 Colleges also told us that they are concerned about the risks to their financial viability in focusing within too short a timescale on national priorities, for example on increasing provision for adult learning leading to level 2 qualifications (the foundation level for employability, for which courses are fully funded by the Council). They set their observations in the context of the need to encourage people to undertake education. Their preference was for incremental changes in the balance of provision, so that colleges would not be destabilised and could use the time to continue to work on raising demand, especially from people in some low-skilled and disadvantaged groups.

2.47 One of the tenets of *Success for All* was to improve success rates. In our report on retention and achievement in further education,²⁴ we drew attention to the need to help students choose the right course. Colleges invest much time and effort into understanding the aspirations of potential students and encouraging them to undertake learning which will help them achieve their realistic goals. For some, acquisition of skills is more important than qualifications. For others, enrolment on leisure courses may encourage them to take up further learning to acquire new qualifications and skills at a later date. Our recent report on *Skills for Life*²⁵ highlighted the importance of structures and funding that support rather than create barriers to the kinds of flexible provision that encourage adults to take up learning well after they have left compulsory education.

23 Department for Education and Skills: *Five Year Strategy for Children and Learners*, Cm 6272, July 2004.

24 C&AG's Report, *Improving Student Performance: How English further education colleges can improve student retention and achievement*, HC 276, Session 2000-01, 2 March 2001.

25 C&AG's Report, *Skills for Life: improving adult literacy and numeracy*, HC 20, Session 2004-05, 15 December 2004.

PART THREE

Making sure that the further education sector delivers learning of the type and quality that people need and want



3.1 The Learning and Skills Council is committed to ensuring that it funds only good quality provision. Keeping track of what is happening in the further education sector requires sophisticated systems for gaining assurance. Learners, employers and the government need assurance that:

- there are high standards for accountability, integrity and transparency; and
- all important aspects are covered, including performance (e.g. whether provision reflects government priorities), quality, and financial management.

3.2 College governors need similar assurance too, if they are to carry out their responsibility for college governance effectively. In addition, they and senior college managers would like to have as much oversight as possible at local level, so that local managers, governors and members who are close to learners and the local economy can take responsibility for their patch. Government bodies such as the Learning and Skills Council share this aspiration, subject to their overriding need for assurance that the money they provide is being well and properly spent.

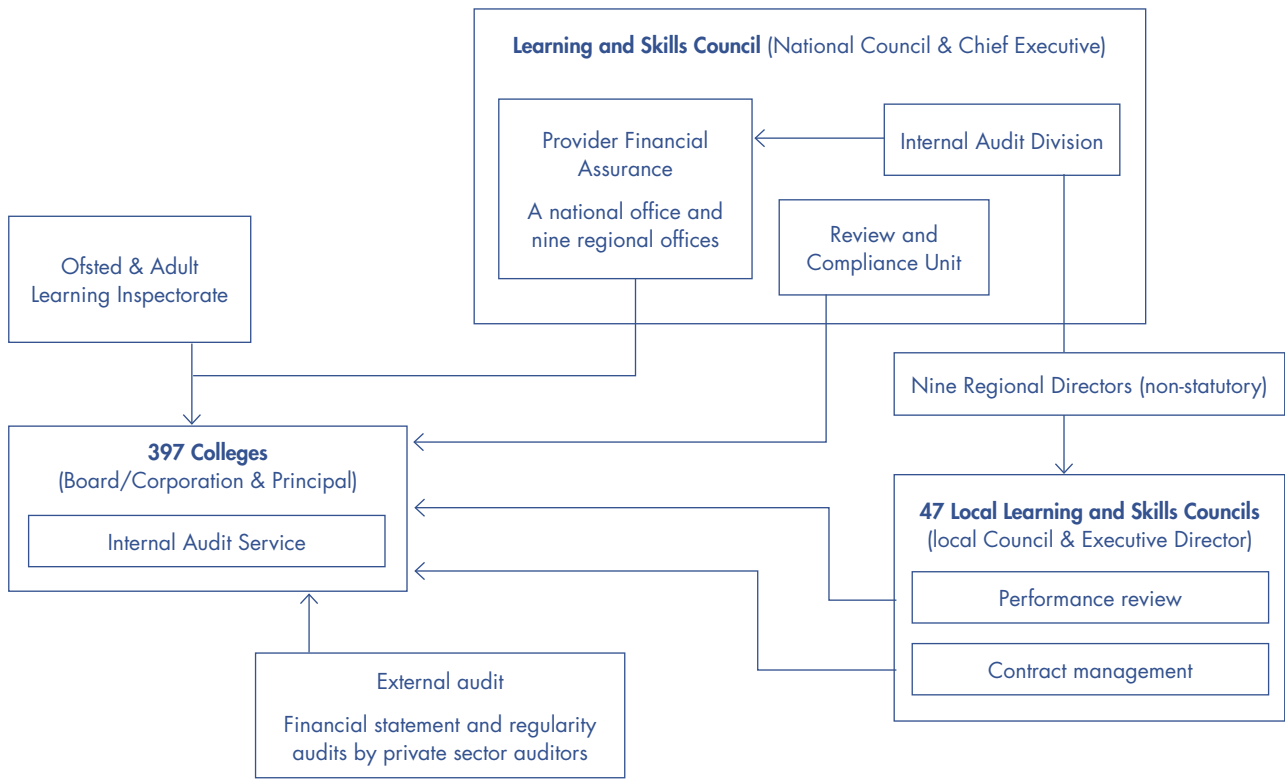
3.3 In this part of our report we examine the key elements of audit and quality assurance for colleges set out within the overall organisational structure, in **Figure 27 overleaf**. We look at the four-yearly inspections of colleges and areas by Ofsted and the Adult Learning Inspectorate, annual reviews of colleges by the Learning and Skills Council, and the prospects for self-regulation and more sophisticated measures of learner achievement. Finally we examine the financial assurance systems for colleges' use of funds.

Ofsted and the Adult Learning Inspectorate provide valuable information and assurance to college governing bodies and the Learning and Skills Council

3.4 Prior to April 2001, the Further Education Funding Council inspected colleges. Under the Learning and Skills Act 2000 the Adult Learning Inspectorate and Ofsted (the Office for Standards in Education) began to undertake joint four-yearly inspections of general further education colleges, sixth-form colleges, specialist vocational colleges, institutions and independent specialist colleges for learners with difficulties and/or disabilities, and further education provision in higher education institutions. These independent Inspectorates are required to keep the Secretary of State for Education informed about:

- the quality of education and training;
- the standards achieved by those receiving that education and training; and
- whether financial resources made available to those providing that education and training are managed efficiently and used in a way which provides value for money.

27 Principal forms of quality and financial assurance for colleges in the further education sector



Assurance activity denoted by arrows

Source: National Audit Office

NOTES

The Review and Compliance Unit undertakes fraud and financial irregularity investigations.

Provider financial assurance teams visit each college once every four years, usually with Ofsted and the Adult Learning Inspectorate, to review financial management and governance. Ofsted and the Adult Learning Inspectorate evaluate the college's provision of education and training.

Once a year local Learning and Skills Councils undertake performance reviews of colleges, which are the principal tool for driving up standards and quality.

Colleges' internal auditors, appointed by the college's governing body, provide assurance to the governing body on risk management, control and governance processes.

Auditors of colleges' financial statements, also appointed by the college's governing body, provide an opinion on the statements, the operation of internal controls, whether funds have been applied for the purposes intended ('regularity'), and whether the college has complied with the financial memorandum between the college and the Learning and Skills Council.

3.5 Usually at the same time as the visit by the Inspectorates, the Learning and Skills Council's provider financial assurance team undertakes a review of financial management and governance at the college (paragraphs 3.34-3.36). By doing the work at the same time, the inspection and assurance teams aim to minimise inconvenience to the college, for example by having joint meetings with those college staff both teams need to see. Otherwise they work independently but share the results of their work with each other. The provider financial assurance reports are unpublished. Some college staff are not clear on the reasons why there are separate inspection and performance review reports and how their respective roles and findings complement each other.

3.6 The Adult Learning Inspectorate inspects the provision for adults in colleges and apprenticeships for learners aged 16-19. Ofsted inspects all other provision for learners aged 16-19 and has the statutory responsibility for reporting, publishing a single inspection report for each institution. Both also inspect non-college learning provision – for example education provision in Youth Offending Teams (Ofsted) and work-based learning (Adult Learning Inspectorate) – and so can draw on a range of experience from different educational contexts.

3.7 The joint inspection reports of colleges are made available to the college and are public documents. They provide independent information to governing bodies on how well their colleges are managing and developing teaching and learning. Prior to reporting, the reporting inspector should provide formal feedback to governors, the Principal and college senior managers between one and two weeks after the inspection, with a representative of the local Learning and Skills Council also invited to attend. The objective is to enable the college to start planning its response to the findings of the inspection and explore priorities for action with the inspectors. It is intended to provide a provisional indication, including specific gradings, of what the inspectors think about the college and whether they judge it to be adequate.

3.8 In 2003-04, Ofsted and the Adult Learning Inspectorate inspected 82 general further education and specialist colleges, and 24 sixth-form colleges.²⁶ Most provision was found to be satisfactory or better (**Figure 28**). The quality of provision was slightly better in the colleges inspected this year than in the previous year. The better provision was in sixth-form colleges, several of which were outstanding in many ways, but more of the general further education colleges were also well managed including some outstanding in this respect. Ofsted acknowledged that quite exceptional qualities of leadership are needed to achieve this in complex institutions.

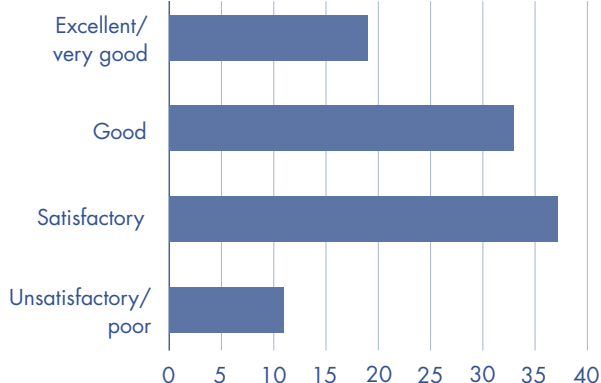
3.9 Ofsted expressed concern that the proportion of inadequate colleges had risen from nine to eleven per cent. Given the critical importance of further education colleges to learning provision within an area, this level of inadequacy was too high and showed no sign of falling. However, inadequate colleges and unsatisfactory provision can be turned around. Of the nine colleges re-inspected during the year which had previously been found inadequate, all but one had improved sufficiently to be judged adequate. In over 100 colleges that had previously had one or more areas of unsatisfactory provision, the vast majority had successfully identified what they needed to do to improve and had done it.

3.10 Within two months of the inspection all colleges are expected to produce and publish an action plan, but this requirement has not been rigorously enforced. Starting with the 2005 inspection cycle, 'lighter touch' inspections are planned to result in reports that focus more clearly on colleges' priorities for improvement. Through these

28 Overall grades for college inspections, 2003-04

For inspections during 2003-04, most provision was found to be satisfactory or better.

Percentage of colleges inspected



Source: *Standards and Quality 2003-04, Annual Report of Her Majesty's Chief Inspector of Schools, February 2005, Figure 29*

changes, there is potential to enhance further the usefulness of inspection reports to governing bodies, but the follow-up of post-inspection actions by colleges will need to be more consistent than in the past. Ofsted and the Learning and Skills Council are currently discussing how the responsibility for ensuring follow-up will be allocated.

3.11 In addition to the 'lighter touch' inspections, each college will be allocated a local managing inspector who will make an annual visit to the college. Curriculum areas that are assessed as unsatisfactory have to be reassessed within two years. On reassessment visits, the local managing inspector will be accompanied by inspectors specialising in those areas. The main purposes of the annual visits are to:

- consider changes in the college's performance;
- consider whether such changes have been recognised in the college's self-assessment report;
- assess the impact of action plans for improvement; and
- note any significant changes in provision or performance and any other issues that might influence the timing of the next inspection.

26 Annual Report of Her Majesty's Chief Inspector of Schools 2003-04: Better Education and Care, February 2005.

3.12 In the course of inspecting large numbers of further education institutions and other providers, the inspectorates collect information and make judgements on a range of types of provision. From time to time they pull this information together to provide a national report – for example in September 2003 Ofsted and the Adult Learning Inspectorate published a joint review of the quality and standards of literacy, language and numeracy provision in post-16 education. The review was extensive, involving examination of the delivery plans of all 47 local Learning and Skills Councils and drawing on over 650 full inspections of a range of providers, including further education colleges, specialist colleges, adult education institutes, community organisations, providers of work-based learning, learndirect, prisons and young offender institutions.

3.13 Such reports provide important independent information and lessons at the national level – for example the report on literacy, language and numeracy found evidence of a need for large increases in the number of qualified and experienced teachers of literacy, language and numeracy. They also provide a national picture that colleges can use as a benchmark when reviewing their provision. The ‘lighter touch’ inspections described in paragraph 3.10 are likely to generate less comparative information about curriculum areas than current arrangements, though from September 2005 there are plans for about five subject-based reports each year that will draw on the information gathered during inspections and further evidence, for example using regular curriculum surveys.

Ofsted and the Adult Learning Inspectorate also undertake area inspections that look at strategies and partnerships

3.14 In addition to their joint inspections of colleges, Ofsted and the Adult Learning Inspectorate undertake area inspections, based on local authority areas, which examine:

- standards and quality of education and training in an area, and the efficiency and effectiveness of its planning and management to meet the needs of learners and employers; and
- the effectiveness of strategic planning and whether provision gives value for money.

3.15 The area inspections cover provision only up to age 19 – part way through 2002-03 the coverage was extended from the age range 16-19 to 14-19. Between autumn 2001 and spring 2003, there were 28 area inspections for 16-19 provision. 25 area inspections of 14-19 provision were undertaken between spring 2003 and autumn 2004 and a further 11 are planned by June 2005. The inspectors analyse statistical and documentary evidence, and evaluate the quality of provision during visits to schools, colleges and training providers. They take account of the views of providers and of learners, and generally interview officers of the local Learning and Skills Council, local education authorities, the Connexions partnership and local learning partnerships, senior staff in schools, colleges, and training providers, local authority elected members, college governors, parents and young people.

3.16 As with the college inspections, area inspections identify what action is required and evaluate measures for improvement. They comment predominantly on quality of provision, gaps and any overlaps, taking account of local needs. However, they also provide views on how well local collaboration is working. In its 2002-03 annual report on standards and quality,²⁷ Ofsted drew the following overall conclusions that have helped inform national policies and priorities subsequently:

- The best-qualified 16 year olds continue to receive the widest choice and the best quality of education post-16.
- The range of provision on offer is improving, but in most areas there is still too little choice at foundation or intermediate level.
- Staying-on rates at 16 are improving, but students who experience disadvantage or belong to some minority groups are more likely to opt out at 16 years.
- Too many students are on courses that are unsuitable for them.
- **Local education authorities and local Learning and Skills Councils are collaborating in relation to provision for 14-19 year olds, but, in the areas inspected, have not yet been able to drive the changes needed.** (our emphasis)

3.17 Under the Children’s Act 2004 and with effect from September 2005, area inspections will become part of the Joint Area Reviews of children’s services.

27 Annual Report of Her Majesty’s Chief Inspector of Schools: Standards and Quality in Education 2002/03, Ofsted 2004.

The Learning and Skills Council's performance reviews of colleges are improving but need to provide a more consistently useful opportunity for communication and information exchange

3.18 Until recently, local Learning and Skills Councils undertook six-monthly performance reviews of providers, including colleges. The reviews were intended to provide an up-to-date picture of colleges' performance, enable weaknesses to be identified early and highlight excellent performance that can be shared. They also help to inform local Learning and Skills Councils' planning and funding decisions, and their assessment of any support that the college might need, for example with planning new capital developments, improving or adding to educational programmes and, where appropriate, financial support.

3.19 The reviews covered three broad areas of performance (**Figure 29**). In a consultation in July 2002 that included colleges and other providers, many respondents commented that they appreciated the fact that the reviews employed criteria that drew on those used for the four-yearly inspections.

3.20 The Learning and Skills Council has sought to improve the quality of the reviews over time, and research undertaken for the Department²⁸ indicates that the reviews have been improving. More than seven out of ten providers agreed that 'performance review is a helpful process which supports continuous improvement'.

3.21 If the reviews are to be sufficiently challenging, it is likely that there will always be a small number of providers that are dissatisfied with them. Nevertheless, it is important that reviews are devised so that colleges can clearly see the benefits for them of having the review, and managers in some of the colleges we visited felt that the college did not benefit. Whilst there is a general perception that the quality of the staff conducting the reviews has been improving – a perception confirmed in the course of the research noted above – some colleges are still questioning whether staff are sufficiently competent and authoritative to undertake the reviews in a way that is both challenging and fair.

3.22 In the most recent circular on performance reviews,²⁹ the Learning and Skills Council itself referred to the need to develop further the skills and expertise of its staff in order to work more effectively with colleges and other providers. It recognised that improvements were needed to support a close and more open partnership with colleges and a shared understanding of the best way to deliver an excellent service to learners. The Department's research also concluded that the Council should develop the reviews as a focus for improving communications and the level of mutual trust and understanding between local Learning and Skills Councils and providers.

29 Areas covered in provider performance reviews

Performance area

Participation and recruitment:

How well is the college widening and increasing participation?

Learner experience and performance:

How well is the college ensuring a positive learner experience and high performance?

Management:

How well is the college managing quality and sustaining organisational viability and stability?

Possible assessments (separately for each area)

- excellent
- strong
- acceptable
- gives cause for some concerns
- gives cause for serious concerns

28 "Evaluation of Post-16 Learning Arrangements – Final Report", Research Report RR542 for Department for Education and Skills, June 2004.

29 Circular 02/19 *Quality and Standards. Reviewing performance: Refined Arrangements for Colleges and Providers*, October 2002.

3.23 From 2005, the Learning and Skills Council is replacing the six-monthly provider performance reviews with annual planning reviews that will combine discussion of a college's three-year development plan with the review of its performance. The whole review will focus on the risks associated with the college's provision and how they are being managed. They will also focus on the support that the college needs from the Learning and Skills Council in the coming year by identifying the minority of high-risk colleges that are likely to require the most support, monitoring and intervention (and, conversely, the low-risk colleges that will require only limited attention). The performance assessment outlined in Figure 29 will no longer be used, because the assessment is to be based on the extent to which each college is meeting the plan it has agreed with the Learning and Skills Council.

New arrangements to reward excellence have raised the stakes for annual review outcomes

3.24 Some colleges' sensitivity about performance reviews increased as a result of arrangements, introduced in October 2003, to reward excellent performance in 2004-05. Colleges were assessed against three criteria: progress against the three-year development plan, excellent performance evidenced through inspections, and a curriculum adjusted success rate.³⁰ For a college to be rewarded for excellence, it had to meet the first criterion and at least one of the other two.

3.25 The results in the first year indicated that colleges providing a narrower range of courses, such as sixth-form colleges and agricultural colleges, were more likely to meet the criteria. Also those general further education colleges with fewer students from deprived areas were more likely to achieve the requirements for premium funding. The third criterion – the curriculum adjusted success rate – was particularly difficult to demonstrate. Research commissioned by the Office of Public Services Reform³¹ found that some colleges were setting conservative targets to help increase their chances of gaining premium funding. Where this happened, it was difficult for the staff of the local Learning and Skills Councils to use the performance reviews as a means of open communication supported by genuine agreement on performance assessment results and areas requiring improvement.

3.26 The Learning and Skills Council recognised that there were some problems with premium funding and commissioned the Learning and Skills Development Agency to do an initial assessment. The assessment found a substantial degree of concern about premium funding, even among those who had received it, that raised questions about the fairness and logic of the scheme.³² Following discussions with sector representatives, the Learning and Skills Council and the Department agreed a reformed performance-related funding policy for 2005-06. Colleges and other providers agreeing challenging development plans will be eligible for standard rate funding of 2.5 per cent above inflation. In addition, the Council is developing arrangements for discretionary awards for those providers who have achieved sustained high quality or significant quality improvements (which may be from a low base). Decisions will be made following annual reviews in January and February 2006. The aim of the revised arrangements, which will be evaluated in due course, is to provide better incentives for improvement across the whole sector.

Use of self-assessment is increasing, and greater self-regulation is being considered for the longer term

3.27 Colleges are increasingly expected to develop self-assessment of their organisations, so that they are fully prepared for annual reviews and inspections. In many colleges self-assessment is working well, but in others there is room for considerable improvement – in 2003-04 inspectors judged 29 per cent of quality assurance systems, including self-assessment, as unsatisfactory.

3.28 Most colleges have developed their approaches to self-assessment independently, drawing on the experience of their own staff with expertise in quality assurance of learning. It is possible for colleges to derive criteria for self-assessment from the Learning and Skills Council's guidance on annual reviews and the inspectorates' inspection framework, but there has been no specific self-assessment tool for colleges along the lines of the self-evaluation form developed by Ofsted for inspections of schools.³³ Ofsted plans to provide advice on constructing a self-evaluation report as part of its briefing to colleges in spring 2005.

30 The rate for each college is adjusted to reflect its curriculum - in the knowledge that different types of courses have different success rates.

31 *Success for All: implementation in colleges and in work-based learning providers*, the Office of Public Services Reform, 2004.

32 *Performance Related Funding in the further education sector: an initial assessment*, Learning and Skills Development Agency, 2004 <http://www.lsd.gov.uk>.

33 *Framework 2003 – Inspecting Schools*, Ofsted, May 2003 <http://www.ofsted.gov.uk/publications/index>.

3.29 A Learning and Skills Council/College Relationships Working Group was established in September 2004, consisting of members from the Learning and Skills Council, the Department, the Association of Colleges, and some college Principals and Chairs of Governors. The group is looking at how increased self-regulation would work in the college sector and its implications for maintaining and improving quality. One local Learning and Skills Council that we visited is supporting a project to promote self and peer assessment in the colleges in its area, which involves the kind of activity that would be needed to help develop a framework for self-regulation (**Box 9**).

3.30 Many people we consulted during our study recognised the value of independent inspection. However, some felt there could be benefits in developing a regulated peer review that took greater account of the environment that individual colleges are working in. Such an approach, starting with high-performing colleges with mature self-assessment processes, might involve review teams made up of people from similar types of colleges or colleges facing similar issues to the college under review. Such arrangements would need to be introduced gradually – perhaps over a period of ten years – parallel with the inspection programme, and with the involvement of the inspectorates in order to ensure that any new processes maintained the rigour and objectivity of the current inspection regime. To enjoy the same degree of public confidence as inspection, the peer review would need to be overseen by some kind of regulatory function that would have the capacity to identify instances where the reviews were not working as they should and to intervene where necessary.

More informed measures of learner achievement are at an early stage of development

3.31 In our report on the performance of secondary schools³⁴, we examined the amount of difference that the schools make once some important external influences on academic performance, such as prior academic achievement, and economic and social background, are taken into account. The Department for Education and Skills provides information to the public on the academic performance achieved in schools, taking account of prior academic achievement. Since our report, it is working to develop its methodology to take account of factors other than just prior achievement. The Department is also

BOX 9

London North Learning and Skills Council – support for introducing self and peer assessment for quality assurance and quality improvement

In order to address local quality issues and accelerate quality improvement, London North Learning and Skills Council committed £500,000 to support the first year of a two-year cross college quality project. The aim of the project is to provide managers and governors of colleges in North London with increased confidence in their quality assurance, self-assessment and evaluation systems. It also seeks to provide the Learning and Skills Council with greater assurance that these systems are being satisfactorily deployed within each college and that the systems and their use are contributing towards improved performance.

Joint working has commenced and some early progress is being made in strengthening and cross-moderating teaching observation and establishing a co-moderating group of ‘critical friends’ to review college self-assessment reports. Importantly, the project has also begun to tackle a number of fundamental issues, not least the extent to which colleges working collaboratively in the same area can provide collective self-assessment and determine accountability. While striving for consistency and minimum standards, the project recognises the quality improvement strategies being pursued by the individual colleges and ensures that there is an interchange between the colleges to build on good practice.

The project builds on strong collaborative working which exists across the area and, while it is still early days, it may eventually provide a base of innovative practice through which to test the arrangements that would be necessary to co-ordinate and manage a self-regulatory framework.

consulting on the development of a new annual School Profile as a means of communicating school performance to parents using a range of performance indicators, Ofsted assessments, and the context in which a school operates.

3.32 For the further education sector, the Learning and Skills Council is working with the Department, Ofsted and the Adult Learning Inspectorate to develop measures that will enable reporting to develop broader measures of success. They will include the use of value added and distance travelled measures for learners on both academic and vocational courses, as well as the use of destinations data showing, for example, what employment or continuing education a learner entered into after completing their course. Measures to judge provider responsiveness to employers’ needs are also being considered.

34 C&AG’s Report, *Making a difference: Performance of maintained secondary schools in England*, HC 1332 Session 2002-03, 28 November 2003.

A new national strategic body to drive quality improvement

3.33 In June 2004, the Secretary of State announced his intention to establish, by April 2006, a new national strategic body to drive quality improvement in learning and skills. The decision was a response to consistent messages from the further education sector that the present arrangements for accountability and quality improvement involve a confusing range of agencies and lack clarity and coherence. The Learning and Skills Development Agency is to be restructured to take on the role of the new body, known as the National Quality Improvement Body, which is intended to bring greater coherence to quality improvement. The main aim of the new body will be to support providers, including colleges, in managing change and improving quality and responsiveness to learners and employers.

Financial assurance systems for colleges' use of funds

3.34 In addition to annual audit assurances about colleges' use of funds, which we describe below, the Learning and Skills Council gains direct assurance through reviews of financial management and governance by its 'provider financial assurance' teams. The reviews are based on colleges' self-assessments and are carried out every four years, usually alongside Ofsted and the Adult Learning Inspectorate (paragraph 3.5). They can take up to five days but are often shorter. For those colleges previously assessed as high performing, 'desk' reviews are undertaken of material provided by the college without a college visit.

3.35 Colleges generally base their financial assurance on work done by their internal auditors, and the provider financial assurance team assesses colleges' internal audit against Government Internal Audit Standards.³⁵ The assessment is risk-based – for example it focuses on new entrants to the internal audit market (most colleges buy in the services of private contractors) and also those internal audit contractors that audit only a few colleges, and so are less likely to build a high level of expertise. The assessment is a professional review of standards and

quality rather than one that looks at issues such as the cost of the internal audit service, which is a matter for the college's audit committee. For 2004-05 the Learning and Skills Council is commissioning a small programme of cyclical risk-based reviews of the following key risks: the financial risk of colleges subcontracting to other learning providers; the risk of colleges misapplying funds to provision that the Learning and Skills Council cannot legally fund; and the risk of funding non-existent learners. These are the key residual risks that the Learning and Skills Council has assessed as continuing to require attention once the funding audit has been removed for most colleges (paragraph 3.37).

3.36 Staff in some colleges we visited expressed concerns about the standard and relevance of the provider financial assurance reviews. Satisfaction surveys by the 24 colleges reviewed in 2003-04 up to July 2004 were, however, fairly positive – 14 felt that the review added value to the college, six expressed no view and four disagreed. A rising proportion of the staff undertaking provider financial assurance are professionally qualified – many are undertaking a professional qualification and some 40 per cent are qualified. A qualified auditor leads on almost all visits (most recently 98 per cent) to colleges.

The former funding regime and the 'funding audit' were bureaucratic

3.37 As indicated in Part 1 of our report, before plan-led funding was introduced, funding rested on a detailed system for 'payment by results' that was developed by the Further Education Funding Council. The funding formula was complex and took account of student numbers, the types of courses they followed, and retention and achievement. Colleges were provided funds each year against a detailed plan of activity, and had to maintain detailed records of the learning and achievements of each student over the year. Data in these records were converted into a financial value that was the basis of the college's funding claim to the Learning and Skills Council. The Council thus needed assurance that colleges applied the funds they received in accordance with the detailed funding methodology, as well as in accordance with its own legal powers to fund eligible learning.

3.38 Funding auditors examined the data supporting a college's claim made after the year end to ensure that the activity claimed against the plan was valid and accurate. They would often find errors that arose for a number of reasons:

- the funding methodology was complex; some colleges found it difficult to apply correctly;
- many colleges' errors arose from them over-estimating what learning they would deliver, which could be compounded if a college had poor learner records and so had an inaccurate view of how it was performing; and
- except for a small tolerance, any part of the allocation found not to have been earned had to be repaid – the Learning and Skills Council increased the tolerance for under-performance in 2002-03.

3.39 In some cases large amounts of money have historically had to be repaid or 'clawed back', often long after the end of the college's financial year, which was not helpful in terms of a college's financial management because of the uncertainty it caused. Where the Learning and Skills Council had to claw back substantial sums, the Council would sometimes have to provide additional financial and other support at a later date to help the college rectify its performance failure.

3.40 Colleges are required to appoint their own internal auditors and financial statements auditors. Until 1999-2000, colleges' financial statements auditors also performed the funding audit as part of their appointment by colleges. From 2000-01 the Learning and Skills Council took over the appointment of funding auditors.³⁶ Many colleges viewed the Council-appointed funding auditors as an unnecessary imposition, though in practice for about two-thirds of colleges the Council was able to appoint colleges' financial statements auditors as the funding auditor, so as to reduce the risk of extra work and overlap. Even so, the various audit activities did not seem to colleges always to be well co-ordinated, and many colleges complained that they found themselves providing the same data to different sets of auditors who were not always willing, or judged that they were unable, to rely on each other's judgements. In its final year (2003-04) the total estimated cost of the funding audit was in the order of £9 million for the 280 colleges still subject to it.

The assurance provided under plan-led funding is risk-based and colleges need to have their own assurance about the quality of their management information about learners

3.41 Following extensive consultation with colleges and other organisations in the further education sector, the Learning and Skills Council launched a major new policy 'Trust in FE'³⁷ (based on the first year's work of the Bureaucracy Task Force³⁸) on which the assurance for plan-led funding was developed. The principles of the policy are trust, transparency, shared responsibility and minimal bureaucracy. A key measure of plan-led funding, introduced in 2004-05, was to end the automatic link between the Council's funding of colleges and colleges' performance in terms of precise results for student enrolment, retention and achievement. With this link removed the funding audit, which had been a necessary element of the previous arrangements, could be withdrawn for some 90 per cent of colleges in 2004-05.

3.42 The funding audit is not being abolished entirely but is being used in inverse proportion to success. Colleges that have a good track record on control over activities eligible for Learning and Skills Council's funding will be eligible for plan-led funding and hence no longer be subject to a funding audit. Some 45 colleges that are currently not able to demonstrate good control will not yet be within plan-led funding for their 2004-05 allocation and possibly longer. These colleges will therefore continue to be subject to a funding audit. Where the control exercised by other colleges deteriorates, they will lose their eligibility for plan-led funding and hence may become subject to funding audit again – thus providing an incentive for colleges to continue to manage their records and performance well.

3.43 The Learning and Skills Council cannot dispense entirely with independent checks over whether its funding of colleges is spent on types of provision the Council is permitted to fund. The Council's own annual accounts are prepared on the basis that sums are spent for the purposes that Parliament intended, so the Council has to know that the organisations it funds keep to this requirement. For these checks the Council relies on 'regularity' audit, which has been in place as part of the external audit of colleges' financial statements since 1993-94, but the Council has not monitored the scope and quality of the regularity audit.

³⁶ Following the C&AG's Report. *Investigation of alleged irregularities at Halton College*, HC 357. Session 1998-99, 12 March 1999.

³⁷ Trust in FE – Working in partnership, Learning and Skills Council, November 2002.

³⁸ The Learning and Skills Council set up the Bureaucracy Task Force in 2001 to reduce bureaucracy in the further education sector in line with Government and Departmental policy.

3.44 Instead the funding audit underpinned the regularity audit opinion to a large extent. But with the funding audit ended for most colleges, the Learning and Skills Council has been preparing the way for a better defined regularity audit of a good standard across all colleges. As part of the preparation, the Council commissioned a leading audit firm, KPMG, to draw up a best practice regularity audit approach. The Council has decided that, for the time being, the audit of existence and eligibility of learners will not be included in the regularity audit that colleges will be required to have. Instead the Council will itself take responsibility for this aspect of its assurance arrangements, using assessments of risks in colleges to help determine how frequently each college needs to be visited.

3.45 While the funding audit undoubtedly involved more detailed documentation and checking than was useful for operational purposes, it did provide very full assurance to the Learning and Skills Council that it was getting what it paid for. For colleges, it provided a high degree of certainty about the quality of their data on learner numbers, their learning activities and achievements, albeit long after the event. Colleges still need this information for their own purposes. The focus of risk for colleges has changed from precise accountability to a need for them to evidence achievement of their plans so that they can negotiate effectively with the Learning and Skills Council. But the requirement for information on learners to be of an acceptable quality has not gone away, and colleges have realised that, with the funding audit gone, there still needs to be some independent validation of their data, which many will pay for through additional work by their internal auditors or other suitable means.

3.46 Getting the right balance between financial statements audit, regularity audit, and the additional work planned by the Learning and Skills Council to validate colleges' data and statutory compliance, will be the responsibility of colleges' governing bodies through their audit committees. In February 2005, the Learning and Skills Council issued guidance on the regularity audit framework for 2004-05. The guidance will be updated annually to take account of changing requirements. The Learning and Skills Council plans to review the quality of the regularity audits to ensure that the evidence to support the audit opinion is satisfactory.

APPENDIX 1

Methodology

- 1 Our report is based upon:
- consultative advice from KPMG to help frame the scope of our study and our study approach;
 - a literature review of documents of the Department for Education and Skills and the Learning and Skills Council and research undertaken or commissioned by them and others;
 - discussions with key stakeholders and officials in the Department, Learning and Skills Council and other bodies;
 - attendance at events run by the Department for college governors;
 - visits to colleges, local Learning and Skills Councils and Regional Development Agencies;
 - a telephone survey of college governors and local Learning and Skills Council members;
 - consultation with an expert reference panel.

Consultative advice

2 During the preliminary stage of our study we worked with experts in the learning and skills sector employed by KPMG to help us develop the scope of the study, for example by ensuring that we made contact with key people with high levels of knowledge and experience of the sector. The experts also assisted us in developing a comprehensive map of the issues, guided us towards sources of potentially good evidence, and helped us to assess options for the methodology for our full study.

Literature review

- 3 We reviewed departmental publications and research by government agencies and social research bodies. This review helped to:
- establish the statutory and rational bases for current policy;
 - incorporate into our work existing research about the learning and skills sector;

- understand better the range of opinions among people working in the sector about how policy is being implemented; and
- analyse and draw our own conclusions from critiques of the system.

Discussions with key stakeholders

4 We conducted interviews with key stakeholders and officials from government departments and agencies, and with people working in colleges and local Learning and Skills Councils prior to our main fieldwork. These included people in the Department for Education and Skills, the national Learning and Skills Council, the Learning and Skills Development Agency, college Principals, and Executive Directors of local Learning and Skills Councils.

Visits to events arranged by the Department and others

5 We attended a number of consultative events organised by the Department in advance of its review of the Instrument and Articles of Government; we also attended two national learning and skills conferences.

Visits to colleges and agencies

6 As part of our main fieldwork, we visited six further education colleges and one sixth-form college, six local Learning and Skills Councils (each with responsibility for at least one of the colleges visited), and four Regional Development Agencies.

7 In colleges, we had extensive interviews with the Chair of governors, the Principal, the Clerk to the governing body and in some cases with the Chair of the audit committee. We had ourselves included as a 'dummy' Chair on the Chair of governors' circulation lists for the Department, the Learning and Skills Council, one local Learning and Skills Council, and the Association of Colleges, in order to get a sense of the written material that a Chair of governors typically receives.

8 In local Learning and Skills Councils we had in-depth interviews with the Chair of the Council and with the Executive Director; we also had a shorter interview with the Secretary to the Council. Two of these Executive Directors also held joint posts as newly-appointed Regional Directors; in addition, we spoke to one further Regional Director not on our list of planned visits.

9 We obtained written or verbal responses by telephone from six local education authorities.

10 The bodies visited or contacted were as follows:

Colleges

Cadbury Sixth Form College, Birmingham
 Derwentside College, County Durham
 Harrow College, London
 South Birmingham College
 Stockton Riverside College, Stockton-on-Tees
 Truro College
 Waltham Forest College, London

Local Learning and Skills Councils

Birmingham and Solihull
 Devon and Cornwall
 Durham
 London North
 London West
 Tees Valley
 plus the Regional Director for the North East, based at Tyne and Wear Learning and Skills Council

Regional Development Agencies

One NorthEast
 South West of England Development Agency
 Advantage West Midlands
 London Development Agency

Local Education Authorities

Birmingham
 Cornwall
 County Durham
 Harrow
 Stockton-on-Tees
 Waltham Forest

Telephone interviews

11 We commissioned IFF Research to conduct a series of in-depth telephone interviews with individual members of college corporations or local Learning and Skills Councils. This helped ensure that we included the views of governors and Council members who were not Chairs and thus potentially not so close to the further education sector. 36 telephone interviews were conducted in total, 24 with college governors across six institutions and 12 with local Council members.

Expert reference panel

12 We convened a panel to act as a sounding board for the development of the study and to comment on emerging findings. The panel met twice during the course of the study, once to discuss our proposals for the scope and approach to the study, and again to comment on our emerging findings. The membership was as follows:

Reference Panel members

Kate Anderson	Learning and Skills Development Agency
Valerie Bayliss	Ex-member of Barnsley College Audit Committee
Catherine Christie	National Learning and Skills Council
Geoff Daniels	Director, Funding Policy and Development, Learning and Skills Council
Bill Grady	Ex-Principal Isle of Wight College
Julian Gravatt	Director of Funding & Development, Association of Colleges
Jay Mercer	Executive Director, London South Learning and Skills Council
Peter Newson	Director, External Assurance - Finance, National Learning and Skills Council
Lena Stockford	KPMG
Vickie Wood	Department for Education and Skills, Learning and Skills Transformation Division

APPENDIX 2

Training for governors

1 The Learning and Skills Council, in association with Association of College Registrars and Administrators (ACRA), the Association of Welsh Colleges, KPMG and the Learning and Skills Development Agency produce training materials for governors. These materials contain a number of modules and are designed to be undertaken as self-study:

- introduction;
- strategy and educational character;
- curriculum;
- quality and standards;
- financial management;
- human resources;
- the Clerk to the governing body;
- the audit committee; and
- the search committee.

2 In addition, the training materials contain guidance for trainers who might work with governing bodies, or a consortium of governing bodies, in a facilitative process.³⁹

3 During 2004 the Centre for Excellence in Leadership, in partnership with the Association of Colleges, developed a set of development and support programmes specifically designed for College Governors, Chairs and Clerks. The Leadership Skills for Governance programme offers a set of initiatives, designed to inform and empower both the individual and the governing body through increased knowledge and understanding of the further education sector.⁴⁰

4 The programme includes workshops to provide up-to-date information on key areas related to governance in the further education sector. Each workshop will highlight what the governing body needs to know and how that information can be used in order for governing bodies to fulfil their responsibilities in setting and monitoring the educational character of the college. Workshops are available on:

- induction for new governors;
- enhancing existing understanding of effective and efficient governance;
- how governing bodies develop their organisation's leadership practices to ensure leaders and aspiring leaders are identified, trained and developed;
- providing participants with an understanding of their financial responsibilities, the remit of the audit committee and an overview of the further education funding methodology; and
- providing an overview of the core business of the college, including how to determine the educational character of the college and its mission in the context of local strategic planning.

In addition the Centre for Excellence in Leadership offers a consultancy package of individual governing body support and advice on all areas of governance in the further education sector.

³⁹ 'Governor Training materials: Trainer guide', Learning and Skills Council, 2002.

⁴⁰ Further information about the programme can be found at www.fegovernance.org.

5 Another element of the Leadership Skills for Governance programme is a new qualification designed specifically to develop the skills and knowledge of Clerks or Deputy Clerks to the governing body within a further education college or equivalent provider institution. This leads to a certificate awarded by the Institute of Chartered Secretaries and Administrators (ICSA) and is intended to:

- increase knowledge and understanding of the corporate governance and legal framework in which colleges work;
- build understanding of the critical links between college governing bodies, senior managers and college staff;
- develop confidence in handling financial information, interpreting data and advising governors;
- analyse group dynamics and develop behavioural skills to develop the Clerk as a manager and leader of good governance; and
- provide a progression route for Clerks wanting to gain full membership of the ICSA.