

The Management of Growth in the English Further Education Sector



This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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Executive summary

1 The 446 further education colleges in England provide a wide range of education and training programmes to over four million students from school leaving age upwards. The colleges became independent corporate bodies on 1 April 1993. They have an income of around £4 billion per annum, three quarters of which is provided by the Further Education Funding Council for England (the Funding Council).

2 The 1991 White Paper, *Education and training for the 21st century*, set out objectives for colleges to widen participation in further education and to boost levels of student achievement. In 1992 the then Secretary of State specified that the key aims of funding for further education were that it should achieve growth in student numbers, expand participation and secure greater efficiency. Emphasis was also placed on securing improvements in student retention and achievement rates. The Department for Education and Employment (the Department), in conjunction with the Funding Council, have monitored the growth being achieved. They have produced regular projections of the expected growth in the numbers of full-time equivalent students funded by the Funding Council. In November 1995, the Department's projections envisaged growth of 25 per cent over the six academic years 1992/93 to 1998/99. Revised National Targets for Education and Training, setting out objectives for levels of foundation and lifelong learning to be achieved by the population of the country as a whole, were announced in the 1995 White Paper, *Competitiveness: Forging Ahead*.

3 This report examines:

- the extent and patterns of growth in the further education sector in England in comparison with the Department's projections; and
- colleges' progress as regards improvements in levels of retention and achievement by students, and the contribution by colleges towards the achievement of the National Targets for Education and Training.

The extent of growth

4 Since incorporation in April 1993, most colleges have responded to the call for growth. **Over the four academic years ending in 1996/97, colleges are estimated to have delivered growth of just under 30 per cent. This already exceeds the Department's projections in November 1995 of the level of growth that would be achieved by the end of academic year 1998/99** (paragraphs 2.2-2.5).

5 The current estimates of expansion in full-time equivalent numbers in academic years 1995/96 and 1996/97 of 8.5 per cent and 6.0 per cent respectively exceed the Department's projections for these years. The high level of growth was partly explained by a rapid increase in the number of part-time students on education and training programmes franchised by colleges on a collaborative basis to private training providers, employers and other bodies (paragraphs 2.2-2.5 and 3.4-3.5).

The funding of growth

6 In response to the Government policy outlined above, the Funding Council put in place in academic year 1994/95 a funding methodology, based on funding units for each type of student activity, which prompted most colleges to adopt a growth strategy. Colleges earn funding units on the basis of the number of students enrolled, the number and type of qualifications aimed for, and in respect of those students who complete their courses and achieve their qualification aims. Each year colleges agree with the Funding Council a funding unit total as the basis for their funding agreement for the forthcoming academic year. Colleges which do not achieve their funding agreement may have funding related to the shortfall clawed back. **Colleges which achieve their funding agreements have been given preference by the Funding Council when making subsequent years' funding agreements and are on average in a better financial position than other colleges. Until the end of academic year 1996/97 colleges that exceeded their funding agreement, for example by enrolling additional students, received a lower demand-led rate of funding for funding units delivered over and above the funding agreement, but this is withdrawn from the start of 1997/98 onwards** (paragraphs 2.6-2.12).

7 Between academic years 1994/95 and 1995/96 the number of funding units claimed by colleges is expected to have increased by 11 per cent, compared with the increase in full-time equivalent student numbers of 8.5 per cent for the same period. **This suggests that, in addition to seeking to recruit more**

students, colleges have also sought ways of maximising the number of funding units they are able to claim in relation to individual students, for example, through improving retention and achievement rates (paragraph 2.14).

8 The part of colleges' funding related to student numbers is initially funded on the basis of claims sent by colleges to the Funding Council in each of the three academic terms. Colleges' claims are subsequently adjusted on the basis of a final audited return for the whole academic year submitted in the following February. Up to financial year 1995-96, the costs of those colleges that achieved over and above their funding agreement were largely offset by the funds clawed back from other colleges which had not achieved their funding agreement (paragraphs 2.8 and 2.15).

9 **The Funding Council and the Department identified in September 1996 that, in financial year 1996-97, there would for the first time be a need for provision for demand-led funding additional to that contained in the Department's Parliamentary Estimate to meet validated demand-led funding claims from colleges.** This was confirmed by the Funding Council at the beginning of December 1996 in line with the Department's timetable. The Funding Council also confirmed that colleges' funding applications for academic year 1997/98 were likely to give rise to at least the same level of additional expenditure in financial year 1997-98. In part this reflects time lags in finalising college claims, though delays in this process have also arisen because of colleges' unfamiliarity with the range of new data requirements put in place by the Funding Council. **While both strategic plans and interim data supplied by colleges indicated levels of student activity above their funding agreement, the monitoring procedures in place within the Funding Council and the Department were not sufficiently developed to ensure that the Department could predict well in advance the likely financial consequences of higher than planned expansion** (paragraphs 2.16 and 2.19).

10 The Department have undertaken to provide the Funding Council with additional funds to meet the greater part of the additional costs of growth up to academic year 1996/97 from prudent management and savings elsewhere in the Department's overall Budget. The Funding Council will find the balance. In financial year 1996-97 the Department incurred net additional costs for further education of £82 million. In financial year 1997-98 they will meet up to £69 million of the £84 million identified by the Funding Council as the additional funding required to meet the costs of additional growth. **The Department have announced that the costs of further education from academic year 1997/98**

onwards must be met from within the planned levels of expenditure for each financial year and that demand-led funding would no longer be available (paragraphs 2.17-2.18).

11 The Funding Council considered in July 1997 that 93 colleges (21 per cent) were in poor financial health. The changes in funding for academic year 1997/98 may increase this number, as the Funding Council estimate that income for the average college in 1997/98 is now set to be three per cent lower than originally expected. Colleges unable to manage on lower income will need to address the implications of this for their financial health (paragraph 2.20-2.21).

Patterns of growth

12 There has been considerable variability in the patterns and trends of growth in student numbers since incorporation. In the period academic year 1992/93 to academic year 1995/96 the key features of growth were:

- **individual college level:** 90 per cent of colleges increased numbers of full-time students and 60 per cent increased numbers of part-time students.
- **source of funding:** most of the growth in student numbers was funded by the Funding Council. The total number of students funded from other sources has declined.
- **mode of attendance:** there was steady growth in the numbers of full-time student numbers. Growth in the numbers of part-time students was slow up to academic year 1994/95, and the number sponsored by employers declined. The picture changed in academic year 1995/96 with a substantial increase in student numbers, mainly part-time, 72 per cent of which came from an expansion in education and training programmes franchised by colleges to other bodies.
- **programme area:** the programme areas showing the largest growth - between 60 to 80 per cent - were health and community care, sciences and basic education. Those showing the lowest rates of growth - between eight and 13 per cent - were construction, art and design, humanities and engineering (paragraphs 3.1-3.17).

Student retention and achievement

13 Growth, measured in terms of an increase in student numbers, is not an end in itself. Maximum value is achieved when growth is accompanied by improved retention and achievement rates. Sector wide data were published by the Funding Council for the first time in September 1996 on full year student completion and achievement rates in academic year 1994/95. Together with results for academic year 1995/96, published in July 1997, they revealed two key messages:

- **course completion rates: 83 per cent of full year students in academic year 1995/96 completed their courses or were continuing their studies (some 1.4 million out of 1.7 million students).**
- **qualification aims achieved: 67 per cent of student qualification aims completed in 1995/96 were achieved. The average student achievement rates for individual colleges varied between 24 and 99 per cent. The achievement rate of all students in the sector studying for National Vocational Qualifications was 54 per cent.**

The achievement rates at some individual colleges and on National Vocational Qualifications generally are matters for concern (paragraphs 3.18-3.21).

Contribution towards the National Targets for Education and Training

14 In academic years 1994/95 and 1995/96, the National Targets for Education and Training did not encompass a substantial element of the work undertaken at further education colleges and funded by the Funding Council. Nevertheless, the further education sector has made a significant contribution towards the achievement of the National Targets. Of those students who achieved at least one qualification in the academic years 1994/95 and 1995/96, around a third achieved a qualification counting towards one of the National Targets. Many other students were part-way through qualifications which would count towards the National Targets if successfully completed. Just over half of students in 1995/96 were studying for qualifications that did not count towards the National Targets (paragraphs 3.22-3.25).

Recommendations

15 The National Audit Office identified the following key lessons for the future management of growth:

- a) The Funding Council and the Department should take action to improve forecasting by ensuring the greater co-ordination of exchanges of data.
- b) Building on the comprehensive data capture arrangements put in place by the Funding Council, the Department and the Funding Council should develop appropriate measures to:
 - monitor detailed trends and patterns in further education provision so that any gaps in provision can be identified and appropriate action taken; and
 - identify as early as possible in advance any likely future expansion by colleges in student numbers which could cause their levels of expenditure to exceed the amounts for which they will receive funding, to enable colleges to address the implications of this for their financial health.
- c) The Department and the Funding Council should continue to monitor carefully the implications of future increases in franchised provision.
- d) The Funding Council and the colleges concerned should undertake further analysis of low student achievement rates, including those for National Vocational Qualifications, and colleges should be encouraged to take steps to improve them.

Part 1: Introduction

The context for growth in the further education sector

Establishment of the new sector

1.1 The 1991 White Paper, *Education and training for the 21st century*, announced the establishment of a new further education college sector for post-16 education and training. It set out objectives for colleges to widen participation by young people in further education and to boost levels of student achievement. The Further and Higher Education Act 1992 (the Act) removed colleges from local education authority control from 1 April 1993 and established them as independent corporate bodies. The Act also established the Further Education Funding Council for England (the Funding Council) to administer the grant from the Department for Education and Employment (the Department) for further education.

1.2 The Funding Council were given the responsibility of developing and implementing a new system of funding colleges which would reward expansion. In his letter of guidance to the Funding Council in July 1992 the then Secretary of State specified that the key aims of funding for further education were it should achieve growth in student numbers, expand participation and secure greater efficiency. Emphasis was also placed on securing improvements in student retention and achievement rates. He made clear that the key aims of funding should be to provide a direct incentive to colleges to expand participation by relating an element of colleges' funding to actual student enrolments. He gave an undertaking that the total resources available to the Funding Council and hence to colleges would be determined in part by the actual numbers of students recruited in the year in question. The Funding Council responded to this by introducing a funding methodology containing a demand-led element (paragraphs 2.7 to 2.11).

Targets and projections for growth

1.3 In 1992 the then Secretary of State set a target for the new sector to achieve 25 per cent cumulative growth in numbers of full-time equivalent students* funded by the Funding Council over the three financial years from 1992-93. No particular groups of people or curriculum areas were identified within the target for overall growth. The Department have subsequently made updated projections of full-time equivalent student numbers each year. The National Audit Office have used the projections made in November 1995 as the basis for analysing the sector's performance in this report. These projections envisaged growth of 25 per cent over the six academic years 1992/93 to 1998/99.

Steps taken by the Funding Council to encourage colleges to manage growth

1.4 Over the last five years the Funding Council, in consultation with the sector, have put in place three mechanisms which are significant to the management of growth:

- a funding methodology which has been used to stimulate growth and promote improved student retention and achievement. A summary of the funding methodology is contained in Part 2;
- a national student data collection system, the Individualised Student Record, which requires colleges to maintain for each student a comprehensive and standardised set of data; and
- a strategic planning framework which encourages colleges to identify the local needs for education and training and the potential for growth.

1.5 The strategic planning framework introduced by the Funding Council makes it clear that colleges' strategic plans are owned by colleges. The Funding Council asks colleges to share their strategic plans with them but does not approve them. It is up to each college to determine its strategy. Since incorporation, a significant element of many colleges' strategies has been to grow. This reflects colleges' response to the incentives for growth contained in the funding

* A measure of student numbers in which full-time full-year students are simply counted as one full-time equivalent, but part-time and part-year students are included as fractions in a manner that broadly reflects their attendance as a proportion of full-time full-year provision.

methodology introduced by the Funding Council from academic year 1994/95, although many colleges were growing prior to this date. Box 1 sets out the key dates and activities linking funding and strategic planning in each academic year.

**The annual funding and
strategic planning cycle
for colleges**

Box 1

August	Start of colleges' academic and financial years.
November	First of three census dates for student numbers and funding unit activity.
November	The Funding Council receive notification from the Secretary of State of their funding for the following financial year.
December	The Funding Council determine the total additional units to be funded in the following college year and issue guidance to colleges on funding applications for the following year.
February	Second of three census dates.
February	Colleges apply to the Funding Council for additional funding for the following academic year, on the basis that 90 per cent of the previous year's funding is already guaranteed under the funding methodology. The application process is the opportunity for colleges to bid for growth and includes details of a college's planned student numbers, broken down by programme area, mode of attendance, and whether or not the provision is to be funded by the Funding Council or from other sources.
April/May	Colleges are notified by the Funding Council of their funding allocation for the following academic year. The funding allocation is also expressed in terms of a number of funding units which becomes the college's funding agreement with the Funding Council.
May	Third of three census dates.
end July	Colleges provide the Funding Council with a copy of their full strategic plan (every three years) or annual strategic plan updates (two interim years). This should be in line with the information supplied in February's funding application and compatible with the funding allocation notified to them by the Funding Council in April/May.

Source: Further Education
Funding Council

1.6 Appendix 1 to this Report sets out additional background information on the further education sector. It covers the legislative framework, the various reporting mechanisms which apply and the initiatives taken by the Funding Council aimed at widening participation in further education.

Colleges and students in the further education sector

1.7 Colleges are independent bodies governed by governing bodies of between 10 and 20 members of which business members, including a nominee of the local Training and Enterprise Council, must make up at least half of the membership. The governing body is responsible for determining the educational character and mission of the college and for oversight of its activities. In this context, the governing body normally approves the college's strategic plan which sets out how the college intends to fulfil its mission. When colleges were under local education authority control, they were subject to a degree of local planning of post-16 education and training provision. With the removal of local education authority controls and boundaries, colleges became free to attract students from different and wider catchment areas, in competition with schools, other colleges, and private training providers.

1.8 Colleges provide education and training opportunities for a wide range of people from school-leaving age upwards. They have an income of around £4 billion per annum, three quarters of which is provided by the Funding Council. Colleges enrol students onto courses throughout the year, some 4.2 million forecast in academic year 1996/97.

1.9 Of the 446 colleges in the sector at May 1997:

- 222 general further education and 63 tertiary colleges provide a wide range of education and training courses for full-time and part-time students of all ages (some 3.7 million students);
- 110 sixth form colleges provide mainly full-time education for 16 to 19 year olds, though many are now broadening their appeal to a wider range of students (some 0.2 million students); and
- 51 institutions offer specialist provision: 30 colleges specialise in agriculture and horticulture and eight in art, design and the performing arts; (some 0.1 million students); and 13 specialist designated institutions make provision mainly for adults (some 0.2 million students).

The above numbers - totalling some 4.2 million students - relate to all institutions in the further education sector. Our analysis of student numbers in the remainder of the report excluded students enrolled at the 13 specialist designated institutions. Appendix 2 sets out data on the numbers of students attending the various types of colleges other than specialist designated institutions.

1.10 The wide variety of courses offered by colleges include:

- general education courses leading to qualifications at General Certificate of Secondary Education and General Certificate of Education AS and A level;
- vocational education, including courses leading to General National Vocational Qualifications;
- training for jobs, including courses leading to National Vocational Qualifications; and
- higher education, including courses leading to professional qualifications and degrees.

1.11 In addition, many colleges offer courses for students with learning difficulties and/or disabilities and courses designed to improve basic skills in, for example, literacy and numeracy or to prepare students for entry into a course leading to one of the above qualifications. Many also provide leisure or recreational courses, primarily designed for adult learners, which do not lead directly to a qualification, and which are funded mainly by student fees and local education authorities. They also provide bespoke courses, mainly to employers, but increasingly in response to demand from overseas markets, on a full-cost basis.

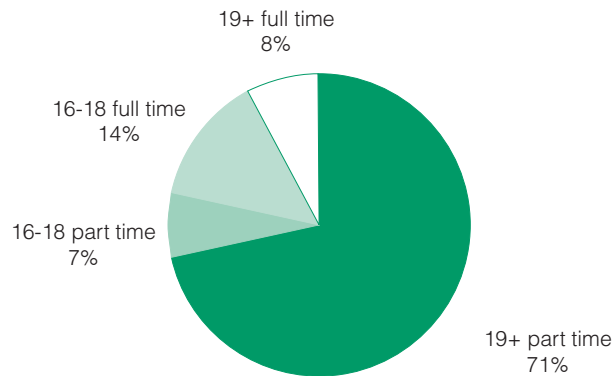
1.12 Figure 1 shows that, in terms of total numbers, most students are over 19 years old and attend a general further education or tertiary college on a part-time basis. The majority are attending a course in the 'Other' category, as described in paragraph 1.11.

1.13 Counting the total numbers of students is a useful indicator of the extent to which each type of college is attracting students to the various types of courses on offer. But it gives an inaccurate indication of where colleges concentrate their resources, as it over-emphasises the significance of part-time courses to the overall operation of colleges. Students following part-time courses may only attend for a few hours each week, or for a few weeks in total, while those on full-time full year courses attend for at least 450 guided learning hours per year. An alternative analysis involves converting the numbers of students into full-time equivalents in order to give a clearer indication of student activity. Figure 2 shows that, on a full-time equivalent basis, almost half of student activity involves 16-18 year olds on full time courses, mostly at general further education and tertiary colleges. Young people and adults on full-time courses make up around 70 per cent of

Figure 1

The age and mode of attendance of students (actual student numbers basis)

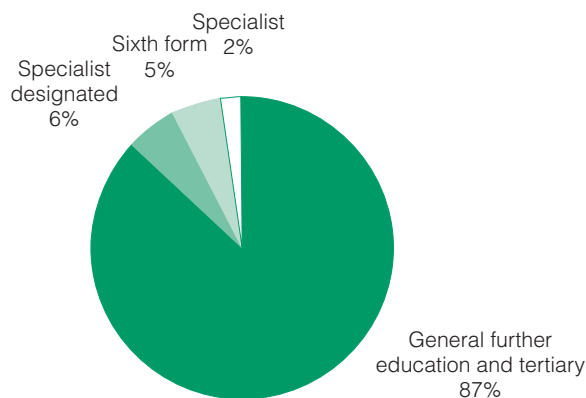
Academic year 1995/96



71 per cent of students (numbers basis) are adults studying part time. Most full-time students are aged 16-18.

The type of college attended by students (actual student numbers basis)

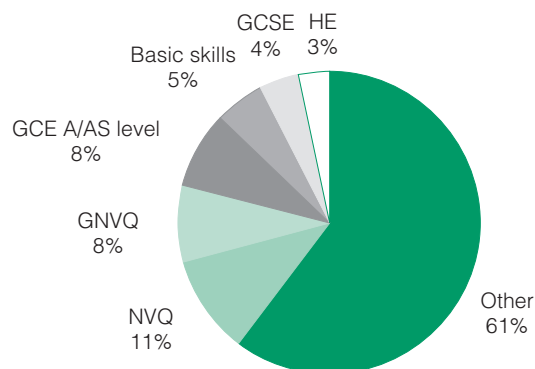
Academic year 1995/96



The majority of students (numbers basis) attend general further education and tertiary colleges

The types of courses attended by students (actual student numbers basis)

Courses funded by the Further Education Funding Council in academic year 1995/96



Further education students (numbers basis) are preparing for a wide variety of qualifications. The majority of qualifications come under the category 'other'.

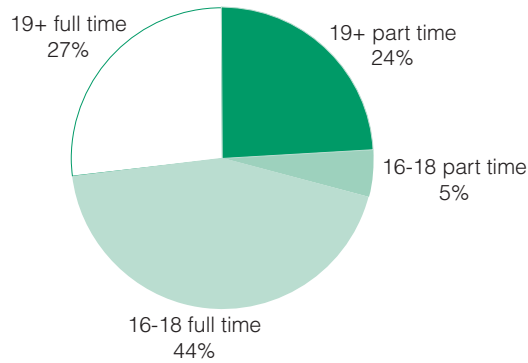
Source: Further Education Funding Council

Note: 'Other' includes the courses described in paragraph 1.11 above, with the exception of 'basic skills' which is shown separately.

Figure 2

The age and mode of attendance of students (full time equivalent basis)

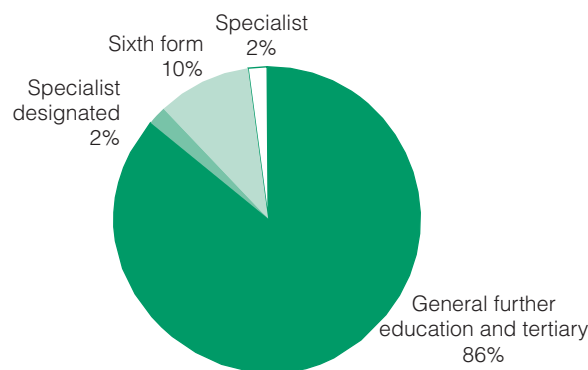
Academic year 1995/96



Around 70 per cent of students (full time equivalent basis) attend college full time.

The type of college attended by students (full time equivalent basis)

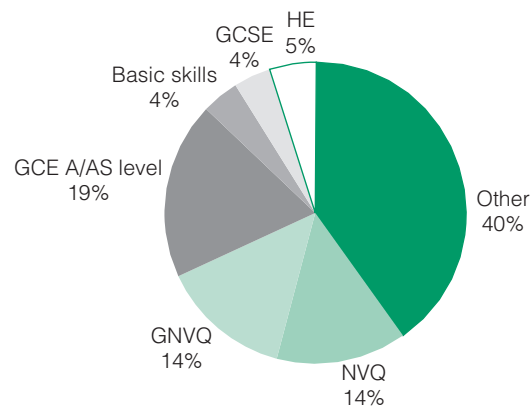
Academic year 1995/96



General further education and tertiary colleges account for 86 per cent of students on a full-time equivalent basis.

The types of courses attended by students (full time equivalent basis)

Courses funded by the Further Education Funding Council in academic year 1995/96



In terms of full time equivalents, the majority of student activity is connected with courses leading to academic and vocational qualifications.

Source: Further Education Funding Council

student activity. Nearly two thirds of student activity is connected with attending courses leading to the academic and vocational qualifications listed in paragraph 1.10. College resources are concentrated on these kinds of students and courses.

Recent developments affecting growth and funding

1.14 At the beginning of December 1996 the Funding Council confirmed to the Department that growth in the sector was additional to Departmental projections, and that this amount of growth would exceed the Department's planned expenditure levels for further education. A summary of the developments in funding arrangements for academic years 1996/97 and 1997/98 is provided in Part 2 of this report.

Scope and methodology of the National Audit Office examination

Scope

1.15 The Comptroller and Auditor General's report, *The Further Education Funding Council for England* (HC 223, Session 1996-97), examined the impact of the Funding Council's funding methodology in encouraging overall growth in the further education sector; the effectiveness of their arrangements for promoting improvements in the quality of further education; and the financial health of colleges.

1.16 This further report:

- determines the extent, and analyses patterns, of growth in the further education sector in comparison with the Department's November 1995 projections; and
- examines colleges' progress as regards improvements in levels of student retention and achievement, and the contribution by colleges towards the achievement of the National Targets for Education and Training.

1.17 The Comptroller and Auditor General has also published a report, *Further education colleges in England: strategies to achieve and manage growth* (HC 260, Session 1997-98), which examines the strategies adopted by a sample of colleges to achieve and manage growth and to widen participation in further education.

Methodology

1.18 The National Audit Office examined the role of the Funding Council on the areas covered in the report, including funding, strategic planning, franchising (or off-site collaborative provision), student number data, and financial reporting. We undertook fieldwork at the Funding Council's Coventry and regional offices, where sector-wide statistical and financial information was examined. We also examined student number statistical data and projections collated by the Department. In examining sector-wide data, we drew upon statistical information already developed by the Funding Council and the Department where available and appropriate. Our analysis excluded students enrolled at the 13 specialist designated institutions (paragraph 1.9).

1.19 The National Audit Office visited 24 colleges for the report, *Further education colleges in England: strategies to achieve and manage growth*. Some of our findings at colleges are relevant to this report, especially the way in which colleges approach their strategic planning and seek to maximise their income from the Funding Council.

Part 2: The extent and funding of growth in the further education sector

Introduction

2.1 The National Audit Office examined the extent of growth in the further education sector in both actual student numbers and full-time equivalent student numbers. We also examined how growth and increased student activity has been funded in the context of recent developments in the funding of further education.

By how much has the sector grown?

Key messages

The National Audit Office found that:

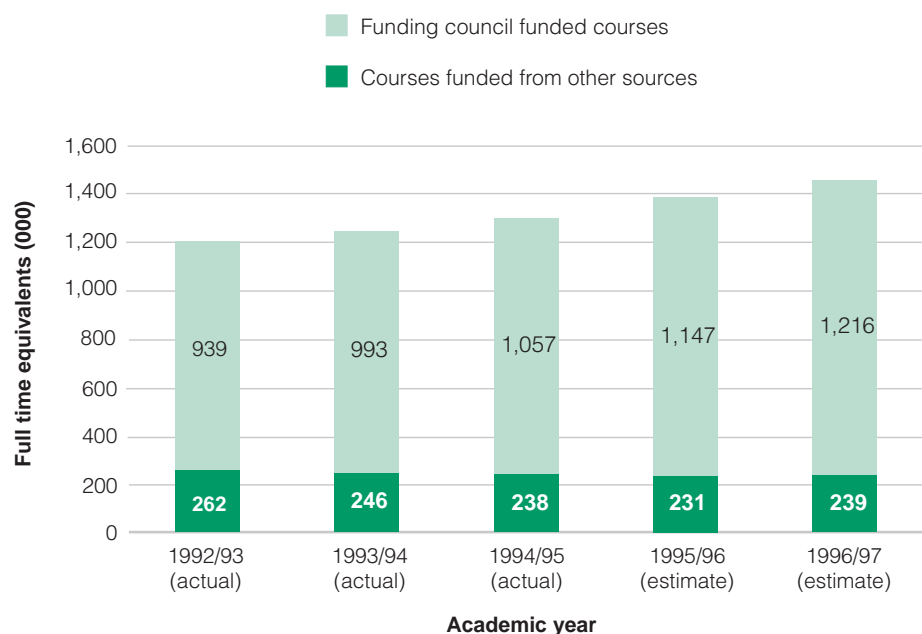
- Between academic years 1992/93 and 1996/97, colleges are estimated to have delivered growth of just under 30 per cent in full-time equivalent numbers funded by the Funding Council. This already exceeds the Department's projections in November 1995 of the level of growth that would be achieved by the end of academic year 1998/99.
- The degree to which growth has exceeded the Department's projections suggests the need for the Department and Funding Council to review their mechanisms for projecting and monitoring growth.
- Colleges have achieved growth against a background of improved efficiency. Full-time equivalent numbers have grown at a considerably higher rate than the real terms increase in the resources allocated by the Department to further education.
- Growth in actual student numbers has not been evenly distributed since incorporation. It is forecast that some 90 per cent of the growth in the period took place between academic years 1994/95 and 1996/97.
- Growth has been almost entirely in students funded by the Funding Council.

Growth in full-time equivalent numbers

2.2 In each academic year from 1992/93 to 1996/97 there has been, or is estimated to have been, growth in full-time equivalent student numbers funded by the Funding Council, as shown in Figure 3 below. Table 1 shows how the latest estimates of actual growth in full-time equivalent numbers compare with Departmental projections of growth for the same year.

Growth in further education (full time equivalent student basis)

Figure 3



Note: Projections of full-time equivalent student numbers cover all further education provision delivered by sector colleges including specialist designated institutions, by external institutions and higher education funded by the Funding Council.

Each academic year since 1992/93 there has been, or is estimated to have been, an increase in the number of full-time equivalent students in further education. Growth is estimated to have accelerated in 1995/96. The great majority of the growth in full time equivalent numbers has been funded by the Funding Council.

Source: Department for Education and Employment and the Further Education Funding Council

2.3

The National Audit Office found that:

- Cumulative growth of 22 per cent in full-time equivalent numbers funded by the Funding Council over the three academic years ending in 1995/96 was considerable, but short of the original target of 25 per cent envisaged by the Department over the three financial years from 1992-93 (paragraph 1.3).

Projected ⁽¹⁾ and actual ⁽²⁾ growth in Funding Council-funded full time equivalent numbers

Table 1

Academic year	Projected growth ⁽¹⁾	Actual Growth ⁽²⁾
1993/94	+6.9 %	+5.8 %
1994/95	+ 6.7 %	+6.4 %
1995/96	+ 4.7 %	+ 8.5 %
1996/97	+ 4.9 %	+ 6.0 %

Notes: 1. Projections are arrived at as follows. For example, projected growth for academic year 1996/97 is the Department's March 1996 estimate of expected growth from academic years 1995/96 to 1996/97. The projection for growth in 1996/97 is based on an early provisional estimate of the outturn for 1995/96. The same pattern of timing for the calculation of projections applies in each of the earlier years.

2. "Actual" growth is derived from estimates based on the latest available information. Estimates for 1995/96 and 1996/97 are based on provisional outturn figures.

In academic years 1993/94 and 1994/95 growth in full-time equivalent numbers was less than projected by the Department, whereas in 1995/96 and 1996/97 it exceeded Departmental projections. However, care needs to be taken in interpreting the scale of the differences - see paragraph 2.3.

Source: Department for Education and Employment

- Growth in academic year 1995/96 is estimated to have been substantially above the Department's November 1995 projections. Growth in 1996/97 is also estimated to be in excess of Departmental projections. The latter is partly explained by the fact that the revised projections for 1996/97 were calculated some time before the higher than expected growth in 1995/96 became apparent. The projections were also based on the assumption, derived from experience in academic years 1993/94 and 1994/95, that college strategic plans, which underpinned their applications for funding, were overambitious. In these years college strategic plans indicated high levels of growth which were not delivered. It now appears that in academic year 1995/96 colleges did, in aggregate, overestimate growth in both full-time and traditional part-time student numbers, but that this was offset by rapid growth in part-time student numbers on provision at a minority of colleges delivered through franchising.
- Growth between academic years 1992/93 and 1996/97 is now estimated at just under 30 per cent. As a result the Department's November 1995 projections of growth by the end of 1998/99 are likely to have been achieved two years early. The degree to which actual and estimated growth have

exceeded projections indicates the need for the Department together with the Funding Council to review the mechanisms for projecting and monitoring levels of growth.

- Colleges have achieved growth against a background of improved efficiency. Over the financial years 1993-94 to 1996-97, full time equivalent numbers have grown by 22 per cent, while the real terms increase in funding has been seven per cent. This represents a reduction in unit costs of 13 per cent in three years in addition to other efficiency gains, for example, the cost of pay awards and other funding pressures that the Funding Council have identified.

Growth in actual student numbers

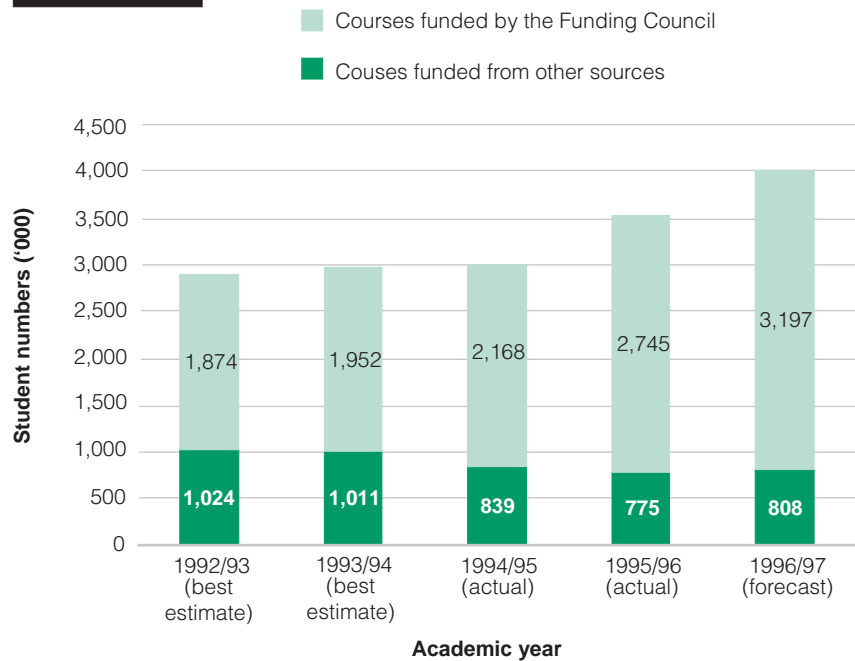
2.4 The National Audit Office's analysis at Figure 4 shows the changes in total actual student numbers at further education colleges, on an academic year basis since 1992/93, broken down by source of funding.

2.5 The National Audit Office found that:

- Total student numbers are forecast to have increased by about one third between academic year 1992/93 and 1996/97, from around three million to four million students.
- Some 90 per cent of the growth in student numbers is forecast to have taken place between academic year 1994/95 and 1996/97.
- There has been a marked increase each year since academic year 1992/93 in the number of students following courses funded by the Funding Council (a forecast increase of some 68 per cent up to 1996/97, from 1.9 million to 3.2 million students).
- Between academic year 1992/93 and 1996/97 the number of students funded from other sources is forecast to have declined by 21 per cent to some 0.81 million students. The extent of decline in student numbers funded from other sources is subject to some uncertainty for the reasons outlined in the note to Figure 4.

Growth in further education (student numbers basis)

Figure 4



Note: Changes in the volume of student numbers funded from sources other than the Funding Council have to be treated with some caution due to: some uncertainty over the completeness of recording of student number data by colleges in academic years 1992/93 and 1993/94; and a change in methods of collecting student number data between 1993/94 and 1994/95 following the introduction of a new student recording system.

Source: National Audit Office analysis of student number data. See Appendix 2 for further details on the methodology adopted

From a base of around three million students in academic year 1992/93 initial growth in total student numbers at further education colleges was slow. Growth accelerated in 1995/96, and by 1996/97 total student numbers are forecast to have reached around four million. The great majority of growth in student numbers has been funded by the Funding Council.

The funding of growth

Key messages

The National Audit Office found that:

- The funding system prompted most colleges to adopt a growth strategy in order to avoid a reduction in the income they received from the Funding Council.
- Colleges which achieved the level of student activity implied in their funding agreements with the Funding Council have been given preference by the Funding Council when negotiating subsequent years' funding agreements, and are on average in a better financial position than other colleges.

continued ...

-
- In addition to seeking to recruit more students, colleges have also sought ways of maximising the number of funding units that they are able to claim in relation to individual students, for example, through improving retention and achievement rates. The average number of qualifications studied per student has increased between academic years 1994/95 and 1995/96.

 - The Funding Council and the Department identified in September 1996 that in financial year 1996-97 there would for the first time be a need for provision for demand-led funding additional to that contained in the Department's Parliamentary Estimate. The Funding Council confirmed the need for additional funding in the financial year 1996-97 in December 1996 in line with the Department's timetable. At the same time, the Funding Council also confirmed that colleges' funding applications for the academic year 1997/98 were likely to give rise to similar levels of additional expenditure in the financial year 1997-98.

 - The Department have undertaken to provide the Funding Council with additional funds to meet the greater part of the additional costs of growth up to academic year 1996/97 from prudent management and savings elsewhere in the Department's overall Budget. In financial year 1996-97 the Department incurred net additional costs of £82 million. In financial year 1997-98 they will meet up to £69 million.

 - The Funding Council considered in July 1997 that 93 colleges (21 per cent) were in poor financial health. The changes in funding for academic year 1997/98 and those implied by the setting of an annual cash limit in future may increase this number. The Funding Council estimate that, on average, colleges' income from them is set to be three per cent lower than originally expected. Colleges unable to manage on lower income will need to address the implications of this for their financial health.
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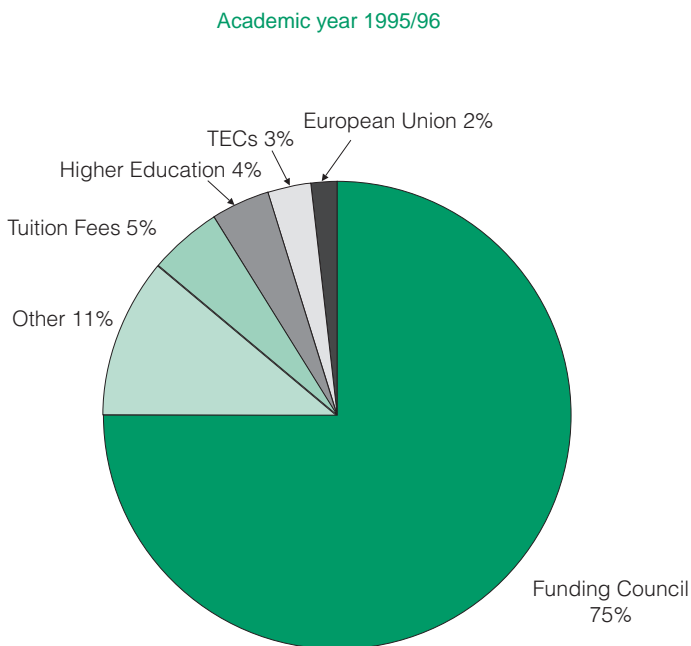
The funding methodology

2.6 The Funding Council provide further education colleges with around 75 per cent (£3 billion in academic year 1995/96) of their funding (Figure 5). The proportion of total college funding that comes from the Funding Council has risen from around 70 per cent just after incorporation to some 75 per cent in academic year 1995/96. This increase is in part explained by colleges focusing on the incentives for growth provided by the Funding Council and the Department, but also because funds from other sources have declined.

2.7 For the first 16 months of the new sector, the Funding Council operated an interim funding methodology. The planned levels of funding provided for a projected increase in full-time equivalent student numbers of eight per cent. Further encouragement to growth was provided by the availability of a demand-led element, initially for full-time students only in 1993/94 (but extended to part-time students in 1994/95), over and above the planned level of funding. The Funding Council met the cost of the latter by savings from elsewhere.

Income distribution of further education colleges

Figure 5



Note: 'Other' includes income from: local authorities, bespoke training, and sales from, for example, college training restaurants and hairdressing salons.

Source: Further Education Funding Council

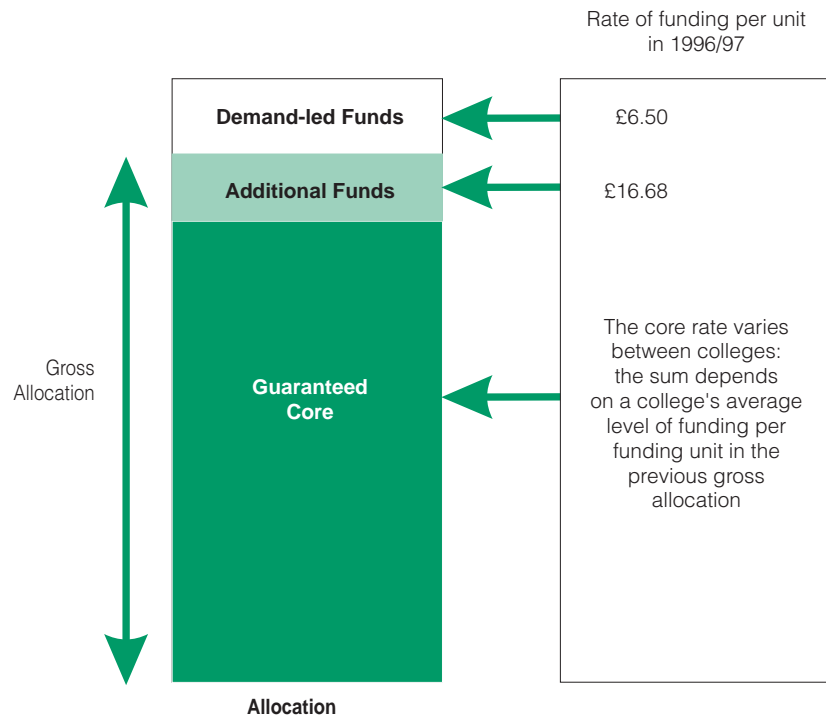
Further Education Funding Council funding represents about three quarters of total college income.

2.8 Since academic year 1994/95 the Funding Council have operated a new funding methodology based on funding units. Colleges are funded on an academic year basis. Part of their funding is related to student numbers. Initially this is funded on the basis of claims sent by colleges to the Funding Council in each of the three academic terms. Colleges' claims are subsequently adjusted on the basis of a final audited return for the whole academic year submitted in the following February. Since the Funding Council are funded by the Department on a financial year basis, the overlap between financial years and academic years, and the time-lags involved in receiving and finalising college claims, means that funding for growth in one academic year may be met out of cash provided for further education in subsequent financial years.

2.9 The new funding methodology contains three elements, as shown in Figure 6. The largest element, known as core funding, guarantees colleges 90 per cent of their previous year's gross allocation from the Funding Council. The other two elements constitute the incentives for growth, wider participation and improved rates of student success:

Elements of a college's allocation of funding from the Funding Council

Figure 6



Source: Further Education Funding Council

- In order to grow or to maintain a stable funding situation, most colleges need to apply for an additional funding element, not only to cover the 10 per cent reduction in their gross allocation of the previous year, but also to achieve the efficiency gain implicit in Departmental funding for further education since incorporation. The additional funding element is allocated at a rate determined each year by the Funding Council (£16.68 per funding unit in academic year 1996/97). Core plus additional funding is known as a college's gross allocation from the Funding Council. It also constitutes a college's funding agreement with the Funding Council.
- In addition, prior to the changes in funding described in paragraphs 2.15-2.18, colleges could enrol students over and above their planned numbers and receive a demand-led element of funding. The funds to meet colleges' demand-led element claims were provided from a non-cash limited Parliamentary Vote. The demand-led element may be seen as playing a similar role to the mandatory tuition fee in higher education. It was available for both full-time and part-time students and has been funded at a much lower rate per unit of student activity (£6.50 in academic years

1994/95 to 1996/97 inclusive). It was not cash limited because of the difficulty in predicting the degree to which colleges would achieve their planned recruitment.

2.10 By basing the funding methodology on funding units, the Funding Council have been able to build into it a variety of further encouragements to colleges to aim for growth, wider participation and improved rates of student success. The funding methodology rewards colleges for ensuring that students :

- receive initial guidance and counselling as to what is the right course for them;
- complete their courses; and
- achieve their qualification aims.

It also enables colleges to:

- waive tuition fees to people in a number of categories, for example, 16-18 year olds on full time courses and adults in receipt of Jobseeker's Allowance;
- contribute towards childcare costs of certain groups of people; and
- provide additional learning support to students who need it.

2.11 The funding methodology recognises that some types of courses are more expensive to deliver than others, for example construction related courses. It allocates a higher number of funding units to such courses than to ones that require fewer hours of guided learning or are otherwise less expensive to deliver. The funding methodology also allocates a slightly higher number of funding units to qualifications achieved by students that count towards the National Targets for Education and Training.

2.12 Each academic year since 1994/95 colleges have applied under the arrangements summarised in paragraph 1.5 for more funding units than the Funding Council were able to fund under their planned provision from the Department. In reaching funding agreements with colleges the Funding Council have employed a rationing mechanism that gives preference to colleges which have achieved their funding agreements and have demonstrated cost effectiveness by their average levels of funding per unit. If colleges fail to achieve their funding

agreement, the Funding Council may claw back funds. The National Audit Office's analysis at Table 2 illustrates that colleges which achieved their funding agreements in academic years 1993/94 and 1994/95 were generally in a better financial position than other colleges.

Achievement of funding agreements, growth and financial performance

Table 2

Colleges ranked by performance against funding agreements for 1993/94 to 1994/95	Performance against funding targets for 1993/94 to 1994/95	Average growth in Funding Council - funded FTEs 1992/93 to 1994/95	Average operating deficit 1994/95 as a proportion of income	Liquidity ratio* at 1 August 1995
Top 25 per cent	More than 110%	20.8%	1.6%	1.9
Middle 50 per cent	Between 96% and 110%	11.4%	2.5%	1.8
Bottom 25 per cent	less than 96%	1.7%	4.7%	1.6

* A measure of financial health, defined as current assets/current liabilities, indicating how easily an organisation can repay its debts. A ratio of greater than one is desirable.

Source: National Audit Office analysis of college accounts and student data. Academic year 1994/95 data shown as 1995/96 final accounts were not available at the time the analysis was undertaken. All figures are on an academic year basis

Note: The table can be interpreted as follows. For example, the top 25 per cent of colleges exceeded their funding agreements by more than 10 per cent, grew on average by 20.8 per cent and were in a slightly better financial position on average than the middle 50 per cent of colleges. On average, colleges which failed to achieve their funding agreements were in a worse financial position.

Colleges which exceeded their funding agreement are on average in a better financial position than other colleges.

2.13 As shown in Table 3 there has been little change over time in the type of funding unit claimed by colleges as a proportion of total funding units claimed. There has been growth in all types of units claimed, in particular for student achievement, a trend forecast to continue in academic year 1996/97.

**Changes in type of
funding unit claimed by
colleges**

Unit type	As a proportion of total units claimed (1)			Increase in units claimed 1994/95 to 1996/97 (forecast)
	1994/95	1995/96	1996/97 (forecast)	
Entry	9.7%	10.1%	10.1%	24%
On-programme	69.5%	68.9%	68.9%	18%
Achievement	3.4%	4.0%	4.0%	40%
Fee remission	13.6%	13.1%	13.2%	16%
Additional support	3.7%	3.7%	3.7%	19%
Childcare	-	0.1%	0.1%	-
Total units claimed (million)	145.5	162.0	173.4	19%

Note: 1. By academic year

Source: Further Education
Funding Council

There has been a year on year increase in the total number of funding units earned by colleges. Though they represent a relatively small proportion of total funding units, there has been a large percentage increase in the number of units earned for student achievement.

2.14 Between academic years 1994/95 and 1995/96 the number of funding units claimed by colleges is expected to have increased by 11 per cent, compared with the increase in full-time equivalent student numbers of 8.5 per cent in the same period. This suggests that whilst growth in full-time equivalent in student numbers is a significant factor in the growth in funding units, it is not the only reason. It seems likely that, in addition to seeking to recruit more students, colleges have also sought ways of maximising the number of funding units they are able to claim in relation to any individual student, for example, through improving retention and achievement rates. A further example is that colleges may have encouraged students to gain an additional qualification for an element of their programme which was previously not assessed formally. Table 4 summarises changes in the number of qualifications students were working towards in academic years 1994/95 and 1995/96. For each student who succeeded in gaining an additional qualification, the college was able to claim extra funding units. This trend is likely to have continued in 1996/97.

**Changes in the number of
qualifications for which
students are working**

Funding Council-funded students	1994/95	1995/96
16-18 year olds		
Student numbers	630,000	640,000
Number of qualifications	1.4 million	1.6 million
Average number of qualifications per student	2.2	2.5
Adults (19+)		
Student numbers	1.5 million	2.4 million
Number of qualifications	2.0 million	3.2 million
Average number of qualifications per student	1.3	1.3

Note: Student numbers include those at external institutions

The total number of qualifications, and the average number of qualifications studied per 16-18 year old student (predominantly full-time), increased between academic years 1994/95 and 1995/96.

Source: Further Education
Funding Council

Recent developments in funding

2.15 In the early months of 1997 there have been a number of significant developments in the way in which growth is to be funded. In academic year 1994/95 the cost of meeting through demand-led funding the additional growth achieved by some colleges in excess of the levels of student activity in their funding agreement with the Funding Council was largely offset by cash clawed back from other colleges which failed to fulfil their funding agreement. Colleges marginally exceeded their collective funding agreement at a net cost of some £6 million. Owing to delays in the receipt of audited student activity returns from colleges for academic year 1994/95, the final outturn position was not known until financial year 1996-97.

2.16 As shown in Table 1 above, growth in student numbers in academic years 1995/96 and 1996/97 is estimated to be above Departmental projections. The Funding Council and the Department identified in September 1996 that, in financial year 1996-97, there would for the first time be a need for provision for demand-led funding additional to that contained in the Department's Parliamentary Estimate to meet validated demand-led funding claims from colleges. This was confirmed by the Funding Council at the beginning of December 1996 in line with the Department's timetable. The additional provision required totalled some £82 million. The Funding Council also confirmed that

colleges' funding applications for academic year 1997/98 were likely to give rise to at least the same level of additional expenditure, around £84 million, in financial year 1997-98.

2.17 In January 1997, the Department informed the Funding Council that they would provide the £82 million cost of expansion in excess of planned provision in financial year 1996-97 out of savings within other areas of Departmental spending. The Department asked the Funding Council to consider what steps would be consistent with the containment of total expenditure in future years within planned levels of expenditure, while allowing the sector to achieve reasonable and well-managed growth.

2.18 In February 1997, the Department announced that they would provide the greater part, some £69 million, of the additional £84 million to be met in financial year 1997-98 by prudent management of their overall budget. They notified the Funding Council that all future expenditure would need to be met within planned provision and confirmed that the Department expected to meet the greater part of the cost of growth incurred up to and including academic year 1996/97. The Funding Council announced that from academic year 1997/98 colleges would no longer be able to receive demand-led funding for students enrolled above their planned numbers. The costs of growth additional to the Department's projections up to the end of academic year 1996/97 and the financial year they affect are summarised in Table 5.

Cumulative costs of additional growth in academic years 1994/95 to 1996/97

Table 5

Academic year in which costs were incurred	Net costs of expansion to be met by the Department in financial year 1996-97	Net costs of expansion to be met by the Department in financial year 1997-98	Net costs of expansion to be met by the Funding Council in financial year 1997-98
1994/95	£ 6 million	-	
1995/96	£47 million	-	
1996/97	£29 million	£69 million	£15 million
Totals	£82 million	£69 million	£15 million

The Funding Council estimate that the net costs of additional growth up to academic year 1996/97 is over £166 million. The Department will provide to the Funding Council an additional £151 million in financial years 1996-97 and 1997-98. The balance will be found by the Funding Council.

Source: Department for Education and Employment and the Further Education Funding Council

2.19 The National Audit Office examined whether the Funding Council and the Department could have identified at an earlier stage the financial consequences of growth in the further education sector. In part it reflects time lags in finalising college claims, though delays in this process have also arisen because of colleges' unfamiliarity with the range of new data requirements put in place by the Funding Council. A further factor was that the Department took the view, on the basis of experience in 1993/94 and 1994/95, that college strategic plans indicating high levels of growth were overambitious. Finally, measures at interim stages in each academic year were not sufficiently developed to ensure that the Department and the Funding Council could predict well in advance the likely financial consequences of expansion.

2.20 The changes in funding for academic year 1997/98 and those implied by the setting of an annual cash limit in future years may have implications for the financial health of colleges. The Department's spending plans are based on the expectation that efficiency gains of some five per cent per annum would be achieved. The Funding Council estimate that, on average, colleges' income from the Funding Council in 1997/98 is now set to be three per cent lower than originally expected. This implies that colleges unable to manage on lower income will need to address the implications of this for their financial health.

2.21 Part 5 of the Comptroller and Auditor General's report *The Further Education Funding Council for England* (HC 223, Session 1996-97) covers the financial health of the sector. The Funding Council considered in July 1997 that 93 colleges (21 per cent) were in poor financial health. This figure may increase, as colleges unable to deliver the required efficiency gain are likely to suffer deteriorating financial health.

Part 3: Patterns of growth and student achievement

Introduction

3.1 The National Audit Office analysed the changes in total student numbers since academic year 1992/93. Our examination focused on:

- mode of attendance, including changes at an individual college level, the use of franchising as a method of delivery and trends in employer-led part-time provision; and
- programme areas^{*}.

Our examination covered students funded from all sources and by the Funding Council only. Where significant differences emerge between student numbers funded from all sources and those funded by the Funding Council only, they are highlighted in the findings. For our analysis of changes in the sector as a whole we included the forecast figures for academic year 1996/97. To ensure greater reliability we restricted our analysis of changes in specific types of courses and modes of attendance to the period up to the end of academic year 1995/96. Our analysis included an independent assessment of changes where the Funding Council had already undertaken their own research. An analysis of changes in student numbers in the Funding Council regions appears in Appendix 3.

3.2 The National Audit Office also examined colleges' progress as regards improvements in levels of retention and achievement by students, and the contribution made by colleges towards the achievement of the National Targets for Education and Training.

3.3 The following sections provide an audit overview for each of the areas indicated above including: background information; the National Audit Office's findings; and a commentary on patterns of growth.

* The Funding Council have categorised the curriculum into 10 programme areas. These are listed in the glossary under the entry for 'programme area'.

Are there identifiable patterns of growth?

Key messages

The National Audit Office found that:

- Numbers of students attending on a full-time basis grew steadily between academic years 1992/93 and 1995/96, and continued growth is forecast in 1996/97.
- Total numbers of part-time students grew slowly up to academic year 1994/95, and declined in some areas such as employer-led provision.
- In academic year 1995/96 there was a marked increase in total part-time student numbers, largely explained by a rapid increase in the number of students on education provision franchised by colleges to other bodies. This trend is forecast to have continued in 1996/97. From 1994/95 increased rates of growth in part-time student numbers funded by the Funding Council indicate the responsiveness of colleges, regardless of mode of attendance, to the incentive for growth provided by the funding methodology.
- There was considerable variability in year on year changes in student numbers at the individual college level, largely explained by the volatility of trends in part-time attendance. This also highlights the predominance of local factors in explaining year on year changes.
- Most colleges have grown. Between academic years 1992/93 and 1995/96, over 90 per cent of colleges increased total full-time numbers and some 60 per cent of colleges increased total part-time numbers.
- Between academic years 1993/94 to 1995/96 there was rapid expansion - between 60 to 80 per cent - in the total number of students participating in courses within the health and community care, sciences and basic education programme areas.
- In the same period the construction, art and design, humanities and engineering programme areas all exhibited relatively lower rates of growth - between eight and 13 per cent.

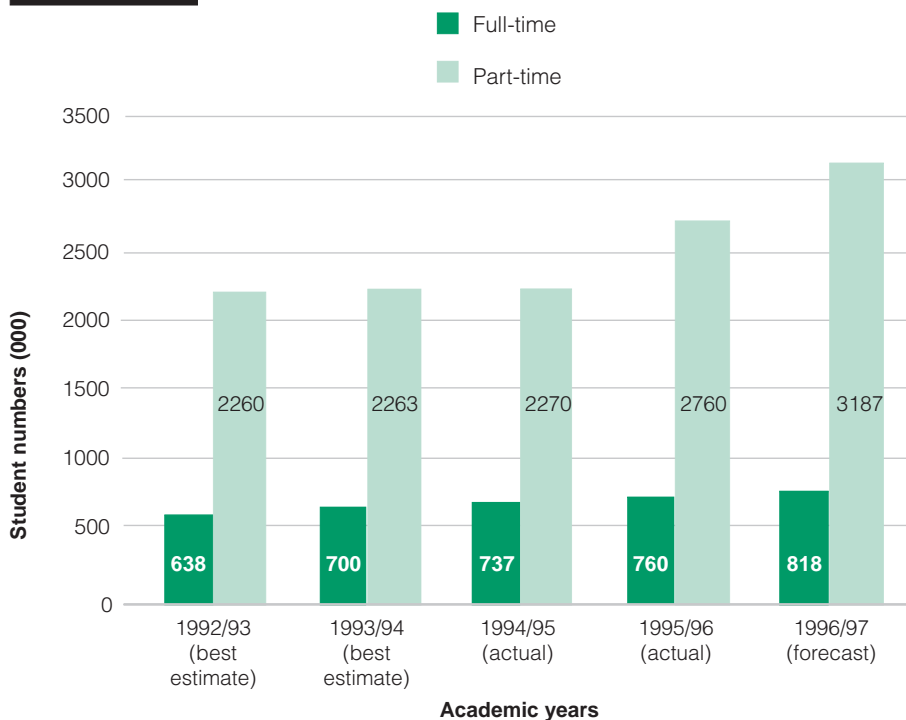
Mode of attendance

Background

3.4 The National Audit Office examined changes in student numbers by modes of attendance from academic year 1992/93 onwards. Figure 7 shows the picture across the sector up to 1996/97, whereas Figure 8 shows the extent to which growth up to 1995/96 varied between individual colleges. We also examined the increased use of franchising as a method of delivering part-time provision and trends in employer-led part-time attendance.

Mode of attendance of students

Figure 7



Source: National Audit Office analysis of student numbers

There has been steady growth in the number of full-time students. Between academic years 1992/93 and 1994/95 there was little growth in total part-time student numbers, followed by a marked increase in 1995/96 which is forecast to have continued in 1996/97.

Findings

3.5 The National Audit Office found that :

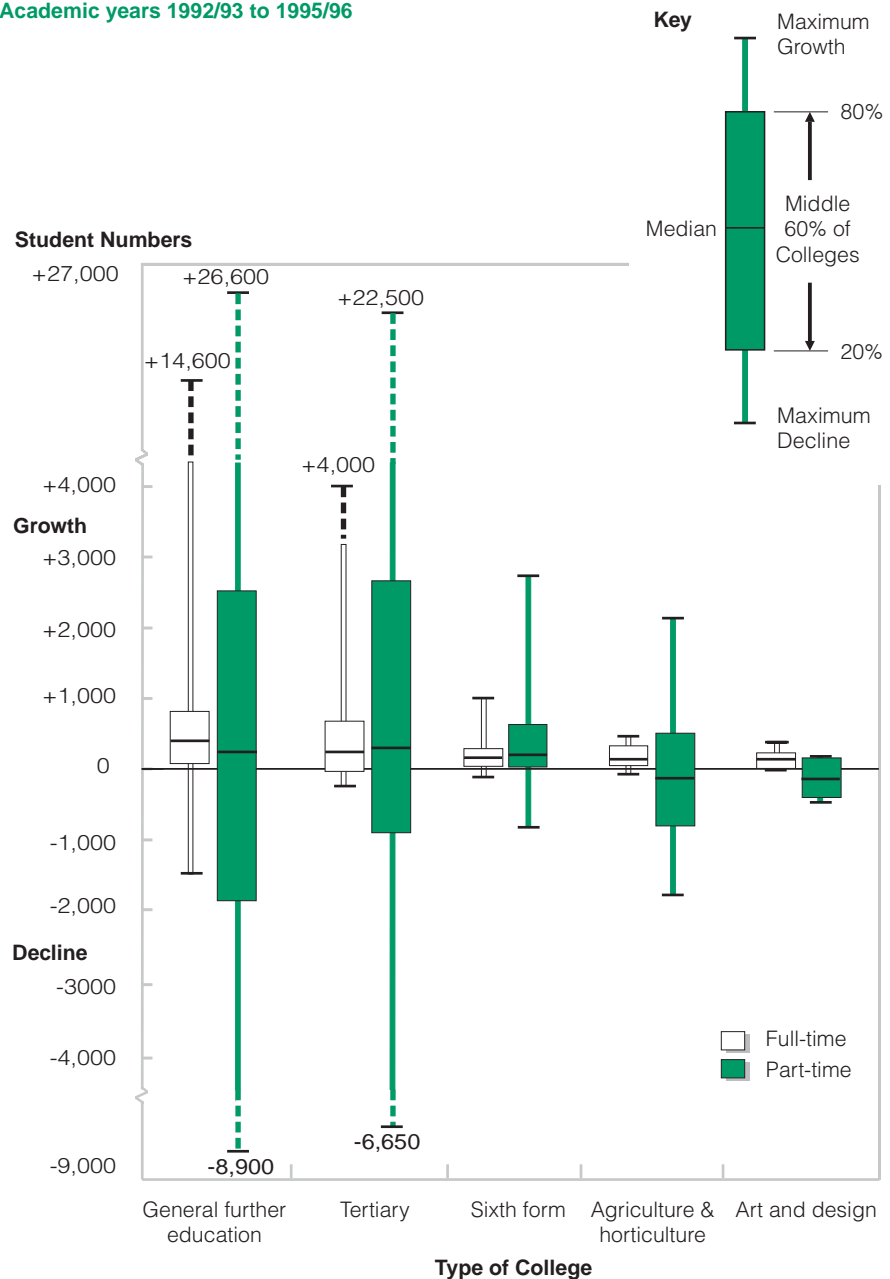
Full-time student numbers

- There was steady growth in total full-time student numbers between academic years 1992/93 and 1996/97, a forecast increase of around 28 per cent to some 818,000.
- Ninety per cent of colleges achieved growth in full-time numbers up to academic year 1995/96, with some 50 per cent of colleges increasing them by at least 23 per cent.

The changes in total student numbers at further education colleges by college type and mode of attendance

Figure 8

Academic years 1992/93 to 1995/96



Note: Taking part-time students at general further education colleges as an example the figure is interpreted as follows. In the period 1992/93 to 1995/96 the median college increased part-time student numbers by at least 240 students (that is 50 per cent of colleges increased by at least 240). In the same period changes in part-time student numbers in the middle 60 per cent of colleges ranged from growth of +2,600, to decline of -1,800 students. At any individual college the maximum growth in part-time students during the period was +26,600, and the maximum decline - 8,900.

Source: National Audit Office analysis of student numbers

There was considerable variability in changes in student numbers at individual colleges. The greatest variability was in part-time student numbers, particularly at general further education colleges.

Part-time student numbers

- Total part-time student numbers up to academic year 1996/97 are forecast to have increased by around 41 per cent to some 3.2 million, almost all of the increase taking place in the last two academic years.
- This growth in part-time student numbers was almost entirely in students on provision funded by the Funding Council. They are forecast to increase by some 93 per cent, from 1.28 million to 2.5 million. Again growth was unevenly distributed. Between academic years 1992/93 and 1994/95 part-time student numbers funded by the Funding Council increased by 17 per cent, followed by a forecast marked increase - 65 per cent - between academic year 1994/95 and 1996/97.
- Up to academic year 1995/96, some 60 per cent of colleges increased total part-time student numbers funded from all sources. Higher rates of growth emerge when considering students on provision funded by the Funding Council, where over 80 per cent of colleges increased part-time numbers.
- Growth in part-time student numbers was not evenly distributed across college type. Though a relatively small part of the further education sector, the highest rates of growth in part-time numbers were achieved by sixth form colleges, where there has been a more than sixfold expansion in numbers, an increase of some 63,000 students (of whom some 80 per cent were funded by the Funding Council). All sixth form colleges had some increase, but over 60 per cent of this growth occurred in less than 20 per cent of the colleges. Agriculture and horticulture and art and design colleges showed relatively low growth in total part-time student numbers.

Franchising and employer-led part-time provision

- Arrangements for colleges to deliver, on a franchised basis, higher education for universities and other higher education institutions have existed for some time. However, the use of outward franchising, where colleges' provision is delivered by, for example, private training providers, employers or community organisations, is a relatively new development in further education. Franchising was responsible for some 72 per cent of the growth in student numbers funded by the Funding Council in academic year

1995/96, and mainly involved part-time students. The rapid expansion in the use of franchising is reflected in the increase in the number of colleges involved in this form of delivery from 149 in 1994/95 to 256 in 1995/96*.

- Franchising explains 72 per cent of the growth in Funding Council funded students in academic year 1995/96. This equates to some eight per cent of the total number of full-time equivalent numbers in academic year 1995/96, but represents a lower percentage of total funding received by colleges from the Funding Council in the same year because most franchised provision is funded at the lower demand-led rate.
- The total numbers of students on franchised provision were forecast to increase by a further 32 per cent in academic year 1996/97, with 283 colleges expected to be making some franchised provision.
- In academic year 1992/93, traditional employer-led part-time provision, such as courses attended by employees on block release or day release, accounted for 20 per cent of total part-time student numbers. There was a seven per cent decline in employer-led part-time student numbers between 1992/93 and 1993/94 (the only years for which data were available).

Comments

3.6 The variability in growth, particularly at an individual college level, suggests that local factors are likely to be more important than national trends and patterns in explaining year on year changes. The lower growth in part-time student numbers at agriculture and horticulture and art and design colleges might be expected given that they rely on attracting students from a far wider geographical catchment area and have less scope to attract local part-timers.

3.7 In the earlier years of the period under consideration, there were higher rates of growth in the number of full-time compared with part-time students. This reflects the fact that in academic year 1993/94 additional funding for growth in student numbers additional to college strategic plans was for full-time students only. The new funding methodology, including the broader scope of the demand-led element (paragraphs 2.9-2.10) introduced in academic year 1994/95, provided an incentive for growth in provision funded by the Funding Council

* Franchising raises a number of regularity and control issues which colleges and the Funding Council are addressing. These are covered in the Comptroller and Auditor General's report The Further Education Funding Council for England (HC 223 of Session 1996-97) and are not repeated in this report.

regardless of mode of attendance. From academic year 1994/95 onwards there was a marked increase in growth in part-time student numbers on provision funded by the Funding Council, indicating the extent to which colleges responded to the incentives for growth provided by the funding methodology.

3.8 In addition to the incentive provided in the new funding methodology, the marked increases in part-time student numbers in academic years 1995/96 and 1996/97 is also likely to reflect colleges' increasing focus on both the part-time adult market as having the greatest potential for growth, and the use of the franchising method of delivery.

3.9 Some sixth form colleges have taken a strategic decision to retain their traditional focus on academic provision for full-time 16-19 year olds rather than choosing to diversify into adult and/or part-time markets. This may explain why 60 per cent of the growth in part-time student numbers at sixth form colleges occurred in only 20 per cent of the institutions.

3.10 On employer-led part time numbers, the Funding Council predict that the decline will have continued up to academic year 1996/97. The decline may be attributed to an increase in the numbers of 16 to 19 year olds, the age group traditionally involved in employer-led provision, staying in full-time education, and the development of work-based qualifications based on competencies, for example, National Vocational Qualifications. Also, demand for traditional block release part-time attendance may have fallen because employers are less inclined to release their staff, or increasingly favour alternative forms of delivery through for example, private training providers, franchising or their own in-house training programmes.

3.11 The decline in traditional employer-led training on block and day release undertaken at further education colleges might suggest that collaboration with employers has declined. However, college and employer collaboration has expanded in other ways including the increase in collaborative franchising arrangements with employers, and a move towards delivery of National Vocational Qualifications in the workplace.

Programme Area

Background

3.12 Courses provided by further education colleges are grouped under one of 10 programme areas. Examining trends in programme areas helps indicate whether the sector as a whole is responsive to the demands of both students and employers. The National Audit Office found variability (Figure 9) in growth in student numbers both within and between programme areas.

Findings

3.13 The National Audit Office found that:

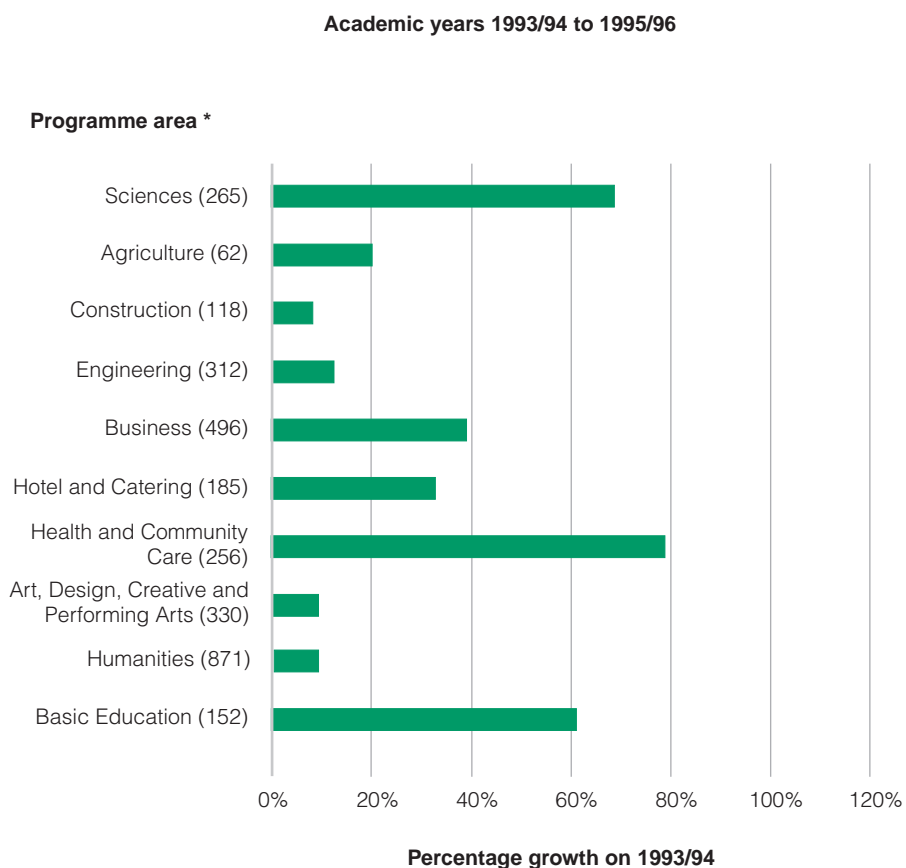
- Between academic years 1993/94 and 1995/96, the greatest rate of growth in total student numbers has been in: health and community care (80 per cent); sciences (68 per cent); and basic education (62 per cent). These rates did not generally vary significantly by funding source, except in the health and community care programme area where growth in students funded by the Funding Council was markedly greater (113 per cent).
- The lowest rates of growth in total student numbers during the period have been in construction (eight per cent), art and design (nine per cent), humanities (nine per cent), and engineering (13 per cent). Relatively modest growth in student numbers is forecast in all these programme areas by the end of academic year 1996/97. The rates of growth varied slightly by funding source - student numbers funded by the Funding Council had slightly higher rates of growth (construction, 10 per cent; art and design, 27 per cent; humanities, 14 per cent; and engineering, 17 per cent).

Comments

3.14 Growth in health and community care may be explained by a number of factors including: increased demand created by the expansion of care in the community and in the provision of childcare; a wider range of courses offered in the hairdressing and beauty sub-programme area; and the impact of new Government health and safety regulations which require increased numbers of qualified first-aiders in the workplace. Health and community care is also a vocational programme area which colleges can enter into, and expand, with relatively low levels of capital investment.

Growth in total student numbers by programme area

Figure 9



* Numbers in brackets show the number of students (thousands) in each programme area in 1993/94.

Note: Data from college strategic plans in 1994 were collected on an enrolment basis and converted to a student number basis for comparative purposes with information for later years.

The programme areas of greatest growth are Health and Community Care, Sciences and Basic Education. Up to 1995/96 there has been lower growth in the Construction, Art and Design, Humanities and Engineering programme areas.

Source: National Audit Office analysis of student number data from colleges' July 1994 to July 1996 strategic plans

3.15 Growth within the sciences area is largely due to increased numbers of students on information technology courses. By academic year 1994/95, of all qualifications aimed for in the sciences programme area, some 32 per cent (173,000 qualifications) were in the computing sub-programme area, of which 38 per cent (66,000 qualifications) were for the Royal Society of Arts qualification in Computer Literacy and Information Technology.

3.16 In those programme areas with lower growth in student numbers, there is little hard evidence available at either the Funding Council or colleges to explain the lower growth, or justify projected increases. Colleges have been active in continuing to promote these areas. However, for example:

- In the construction programme area it seems likely that lower growth is a reflection of the downturn in the construction sector as a whole. Another factor which may have an impact on this area is the introduction of National Vocational Qualifications which are potentially more expensive and time-consuming for employers to support. The reduction in college training funded by Training and Enterprise Councils may be another factor. Colleges have refined their provision in this area in reaction to low demand.
- In the engineering sector, the patterns of employer and student supply and demand are more variable. The pace of technological change is rapid and the relatively high cost of equipment may be a limiting factor for colleges.

3.17 The 1994 White Paper, *Competitiveness: Helping Business to Win*, established regional and sub-regional groupings, comprising members of the Funding Council's regional committees, representatives of the Training and Enterprise Councils in the region or sub-region and representatives of Government regional offices. Each autumn the groupings consider local analyses of labour market information and colleges' strategic planning information as the basis for providing advice to the regional committees on the sufficiency and adequacy of further education provision. The exercise in autumn 1996 identified no gaps in provision and the Funding Council were advised by each of their nine regional committees that there was sufficient and adequate further education provision. However, there were emerging concerns about the falling levels of higher cost provision within engineering and construction in parts of the Greater London, East Midlands and South West regions.

3.18 Growth, measured in terms of the volume increases in student numbers, is not an end in itself. Maximum value is achieved when growth is accompanied by improved course completion and achievement rates. For colleges, student drop out or failure also represents lost income as the funding methodology explicitly rewards student retention and achievement (paragraph 2.10).

Has growth been accompanied by improved levels of course completion and achievement?

Key messages

The National Audit Office found that:

- New comprehensive data capture systems on student course completion and achievement commenced at the beginning of the academic year 1994/95. The data for 1994/95 were published by the Funding Council in September 1996 and for 1995/96 in July 1997. In the absence of detailed data over a number of years it is difficult to draw firm conclusions about whether student course completion and achievement levels are getting better or worse.
- However, the data available in respect of academic year 1995/96 show:
 - overall course completion rates of 83 per cent included relatively low rates in General National Vocational Qualifications;
 - overall achievement rates of 67 per cent included relatively low achievement rates in National Vocational Qualifications; and
 - achievement rates at individual colleges were highly variable ranging from 99 per cent to 24 per cent.
- The very low achievement rates at some individual colleges and the achievement rates on National Vocational Qualifications are matters for concern. There is scope for colleges to
 - identify more appropriate qualification aims for individual students;
 - improve the support mechanisms that help students to complete their courses and achieve success; and
 - make methods of course delivery and assessment more responsive to the needs of students.

3.19 In September 1996, the Funding Council published for the first time sector-wide information from the Individualised Student Record (paragraph 1.6) on:

- the proportion of students continuing or completing courses; and
- students' success rates in achieving qualifications.

The information related to students on provision funded by the Funding Council in academic year 1994/95. 1995/96 figures were published in July 1997. On continuation and completion the results for 1995/96 cover 1.7 million full year

students (63 per cent of students funded by the Funding Council, or 49 per cent of total students). On achievements they cover the 3.2 million qualification aims^{*} funded by the Funding Council and completed in the academic year.

3.20 The National Audit Office's analysis of the data for academic year 1995/96 showed:

Course completion rates:

- Eighty three per cent of students completed their courses or were continuing their studies, broadly the same pattern for full-time and part-time students. Seventeen per cent (some 290,000 students) withdrew from their courses.
- By qualification type, the lowest student retention rates (79 per cent) occurred on courses leading to General National Vocational Qualifications.
- By type of student, the lowest rates of retention occurred amongst part-time students at sixth form colleges (69 per cent). Whilst the numbers of part-time students at sixth form colleges are relatively low they have been increasing. This indicates that sixth form colleges, whilst successful in attracting significantly increased numbers of part-time students, may need to adapt further their strategies for retaining them.

Achievement:

- Of the 3.2 million qualification aims of students completed in 1995/96 some 2.1 million (67 per cent) were achieved.
- By qualification type there was a markedly lower achievement rate on National Vocational Qualifications (54 per cent) of students' qualification aims.
- The average achievement rate for the majority of students at general further education and tertiary colleges was around 66 per cent of students' qualification aims, with higher average achievement rates for students at sixth form colleges (79 per cent) and specialist agriculture and horticulture and art and design colleges (76 per cent).

* A student might for example, aim to complete two GCE A-Level qualifications in the same year. In that year the student has two qualification aims, although some students might aim to complete different qualifications in separate years. It is possible to achieve less than one whole qualification aim, for example, part awards achieved on vocational qualifications. The achievement rate is calculated as the number of qualification aims achieved as a percentage of the total number of qualification aims completed in the year.

- The achievement rate at individual colleges was highly variable. Whilst the top 25 per cent of colleges had average achievement rates of 84 per cent or better of students' qualification aims, the bottom 25 per cent of colleges had average achievement rates of 59 per cent or worse. At individual college level the highest achievement rate was 99 per cent and the lowest 24 per cent, with the lower rates giving cause for concern.

3.21 The course completion and achievement rates in academic year 1995/96 were similar to those in 1994/95. Nevertheless, in the absence of detailed college data over a number of years it is difficult to draw firm conclusions about underlying trends and patterns in student completion and achievement. However, early withdrawal or failure to achieve may represent a waste of both human resources and public monies. Given the importance attached to their introduction in the last ten years, the completion rates on General National Vocational Qualifications are of concern. The very low rates of achievement at some individual colleges and the relatively low achievement rates on National Vocational Qualifications generally are also of concern. There is scope for colleges to: identify more appropriate qualification aims for individual students; improve their support mechanisms to help students to complete their course and achieve success; and make methods of course delivery and assessment more responsive to the needs of students.

Contribution towards the National Targets for Education and Training

Key messages

The National Audit Office found that:

- In academic years 1994/95 and 1995/96, the National Targets for Education and Training did not encompass a substantial element of the work undertaken at further education colleges and funded by the Funding Council. Just over half of students on provision funded by the Funding Council were studying for qualifications that would not count towards the National Targets. However, it is likely that many will go on, or have gone on, to achieve higher level qualifications which count towards the National Targets.
- Of those students who achieved at least one qualification in academic years 1994/95 and 1995/96 around a third achieved a qualification counting towards the National Targets.
- The sector's contribution towards Foundation Target 2 (core skills) is unclear because there is as yet no appropriate way of measuring students' achievement in this regard when they undertake modules of core skills development as components of larger courses.

3.22 Further education colleges are expected to contribute to the achievement of the National Targets for Education and Training. The National Targets, which are about increasing participation and levels of attainment in education and training amongst young people and the workforce, were originally launched by the Confederation of British Industry in 1991. Box 2 shows the revised targets announced in the 1995 White Paper, *Competitiveness: Forging Ahead*. In 1995, the then Secretary of State wrote to all colleges encouraging them to set their own targets for raising achievement and so contribute to the revised National Targets. The importance of the National Targets was reaffirmed in the December 1996 Competitiveness White Paper, *Learning to Compete: Education and Training For 14-19 Year Olds*.

3.23 Progress towards the National Targets is measured at a national level largely in terms of the proportion of the population at a certain age achieving a defined level of qualification. To date the relative contributions made by schools, further and higher education, and employer-based training towards the National Targets have not been measured. However, one of the college performance indicators calculated by the Funding Council measures the numbers of students achieving qualifications which contribute towards achievement of the National Targets. The total number of students who in academic year 1995/96 achieved qualifications counting against the National Targets is shown in Table 6.

3.24 Of those students who achieved at least one qualification in academic year 1994/95 (some 780,000 students) 36 per cent achieved a qualification counting towards one of the National Targets. However, this is not the complete picture:

- Some students who gain one or more qualifications are only part way through completing their programme of study, and would not count against the National Targets until all their qualification aims had been achieved.
- The figures exclude the further education sector's contribution towards Foundation Target 2. This is difficult to measure because communication, numeracy and information technology are often delivered as component modules of larger courses.

Box 2

The National Targets for Education and Training

Targets for 2000

Foundation Learning

1. By age 19, 85 per cent of young people to achieve five GCSEs at grade C or above, an Intermediate GNVQ or an NVQ level 2.
2. 75 per cent of young people to achieve NVQ level 2 competence in communication, numeracy and IT by age 19; and 35 per cent to achieve NVQ level 3 competence in these core skills by age 21.
3. By age 21, 60 per cent of young people to achieve two GCE A levels, an Advanced GNVQ or NVQ level 3.

Lifetime Learning

1. 60 per cent of the workforce to be qualified to NVQ level 3, Advanced GNVQ or two GCE A levels standard.
2. 30 per cent of the workforce to have a vocational, professional, management or academic qualification at NVQ level 4 or above.
3. 70 per cent of all organisations employing 200 or more employees, and 35 per cent of those employing 50 or more, to be recognised as Investors in People.

Source : 1995 White Paper, Competitiveness: Forging Ahead

Number of further education students in academic year 1995/96 achieving qualifications that count towards the National Targets.

Table 6

Target	Number of Students
Foundation Target 1	over 54,000 16 to 18 year old students achieved NVQ level 2 or equivalent, a similar number to 1994/95.
Foundation Target 3	almost 118,000 16-20 year old students achieved NVQ level 3 or equivalent, a slight decrease from 1994/95.
Lifetime Target 1	almost 106,000 students aged 21 or over achieved NVQ level 3 or equivalent, an increase of eight per cent on 1994/95.

Note: Based on data from 409 colleges.

Source: Further Education Funding Council

In academic year 1995/96 some 278,000 students at further education sector colleges obtained qualifications counting towards the National Target

3.25 Just over half of Funding Council-funded students at further education colleges in academic year 1995/96 were studying for qualifications that do not count towards the National Targets. This includes students enrolled on courses leading to NVQ level 1 or equivalent (or lower); and adults enrolled at, or lower than, NVQ level 2 or equivalent. However, it is likely that a considerable proportion of these students will go or have gone on to achieve higher level qualifications which count towards the National Targets.

Glossary

Academic Year	Academic or teaching year that runs from 1 August to 31 July. The period on which college strategic planning, curriculum delivery and accounting is based. By convention academic years are styled, for example, 1996/97.
Additional learning support	Any activity that provides direct support for learning to individual students, over and above that which is normally provided in a standard learning programme which leads to their primary learning goal.
Designated and Specialist Designated College	Prior to incorporation, most of the 446 colleges now in the sector were owned, administered and funded by the local authority in which they were based. Thirty-two designated colleges, however, were (and are) wholly or partly controlled by a church group or voluntary organisation. Nineteen of these are sixth form colleges, mainly Catholic. Thirteen are specialist designated colleges mainly providing adult education.
External Institutions	External institutions are institutions maintained by local education authorities and others which provide further education courses covered by Schedule 2 to the Further and Higher Education Act 1992, under sponsorship arrangements set out in Section 6(5) of the Act.
Financial Year	Runs from 1 April to 31 March. The period on which Departmental financial planning and accounting is based. Also the basis on which cash is voted by Parliament for further education. By convention financial years are styled, for example, 1996-97.
Franchising (or 'off-site collaborative provision')	An arrangement where another organisation provides teaching or training on behalf of the college. Provision is generally provided away from the college by a private training provider, voluntary group or employer (the franchisee). Students are enrolled by the college which then claims funding for the course and, in most cases, passes on a proportion to the franchisee for providing the course. Similar arrangements for colleges to deliver certain types of higher education (but not further education) for universities and other higher education institutions have existed for some time.

Full-time equivalent students

A measure of student numbers in which full-time full-year students are simply counted as one full-time equivalent, but part-time and part-year students are included as fractions in a manner that broadly reflects their attendance as a proportion of full-time full-year provision.

Full-time student

For the purposes of this report, a student attending for 450 guided learning hours or more in an academic year, that is, full-time for the full academic year. Part-time are those students attending for less than 450 guided learning hours in an academic year. In some contexts 'full-time' may also include those attending for more than 16 hours a week or for at least 150 guided learning hours per term (full-time part-year), and 'part-time' then refers to those attending for 16 hours a week or less.

Funding methodology

The mechanism used by the Funding Council to determine levels of grant allocated to colleges including the following elements:

funding units: measure used by the Funding Council to allocate funds to institutions, based on assigning a number of units per student to each learning programme (see below) at the college.

core funding: the element of the Funding Council's grant to colleges which is based on the previous year's funding. To date, this has been calculated at 90 per cent of the previous year's gross allocation from the Funding Council.

additional funding: the additional element of the Funding Council's grant to colleges - additional to core funding and based on activity in addition to core units. It is based on an application by each college for a proposed level of activity expressed in funding units. The level of activity agreed by colleges with the Funding Council as the basis for their annual funding allocation comprises core units, and additional units if applied for.

demand-led element: further funding made available up to financial year 1996-97 for student activity achieved over and above the level of activity agreed by the college with the Funding Council for their annual funding allocation. It was paid at a lower rate than that agreed for each additional funding unit.

General National Vocational Qualifications (GNVQ)

Vocational qualifications which can be college or school based, or undertaken through a work based route. They have a broad vocational emphasis comprising mandatory and optional vocational units and core skills elements (see also National Vocational Qualifications below).

Guided learning hour	All times when a member of staff is present to give specific guidance towards the qualification being studied. This includes lectures, tutorials, and supervised study in, for example, learning centres. It also includes time spent by staff assessing students' achievements, for example in the assessment of competence for NVQs. It does not include any supervision which is not specific to the study of the student.
Individualised Student Record (ISR)	A statement of information provided by each college to the Funding Council. The ISR provides data on students numbers, qualification aims, retention and achievement. The ISR is a key part of the funding method in that it provides the audit evidence necessary to support funding claims.
National Targets for Education and Training	National Targets for Education and Training, launched, with Government support, by the Confederation of British Industry in 1991. There are three Foundation Learning targets and three Lifetime Learning Targets which have the objectives of increasing the demand for, and achieving improved levels of attainment in, education and training of high quality (see paragraph 3.22 and Box 2).
National Vocational Qualifications (NVQ)	Framework of vocational qualifications based on students' ability to demonstrate practical skills gained via experience in the workplace (see also General National Vocational Qualifications above).
Programme area	Since academic year 1993/94 the Funding Council have categorised the curriculum offered by colleges into one of the following 10 programme areas: <ol style="list-style-type: none">1. Sciences (including mathematics and computing)2. Agriculture3. Construction4. Engineering (including manufacturing technologies)5. Business (including administration and management)6. Hotel and Catering (including leisure and tourism)7. Health and Community Care8. Art, design, creative and performing arts

9. Humanities (including education and social studies)

10. Basic education (including programmes of study in basic numeracy, literacy, English for speakers of other languages, discrete provision for students with learning difficulties and/or disabilities, and programmes of study for adults such as 'return to learn').

Provision	The totality of educational and training programmes offered by a college.
Qualification Aims	The qualifications that a student intends to achieve in a particular year. Colleges agree qualification aims with students on enrolment.
Regional Committees	The Further and Higher Education Act 1992 established an advisory committee in each of the Funding Council's nine regions. The committees include members of the local business community, representatives of the college principals in the region and people from Training and Enterprise Councils
Sixth Form College	A college originally catering largely for school leavers taking GCE Advanced level or GCSE qualifications on a full time basis. Since incorporation many of these colleges are attracting a wider range of students.
Specialist College	There are 30 colleges specialising in Agriculture and Horticulture, and eight colleges specialising in Art and Design and the performing arts.
Tertiary College	Colleges which were established by local education authorities, prior to incorporation, as the sole public provider, other than higher education institutions, of post-16 academic and vocational education within a particular geographic catchment area. Since incorporation, such arrangements have sometimes been replaced by competition between colleges and schools.
Training and Enterprise Council	A private sector company which manages local training and enterprise activities under a performance based contract with the Department for Education and Employment.

Appendix 1

Background to Further Education Sector

Legislative framework

1 The Further and Higher Education Act 1992 (the Act) made colleges independent bodies and established funding councils for England and Wales to administer the central government grant for the further education sector. The Further Education Funding Council for England (the Funding Council) have responsibility for administering funds in respect of 446 colleges, and to other institutions providing further education. In restricted circumstances the Funding Council fund some higher education in further education colleges. The grant to the Funding Council from the Department for Education and Employment (the Department) for the financial year 1996-97 totalled £3.16 billion, including additional funds made available for demand-led growth in excess of Department projections.

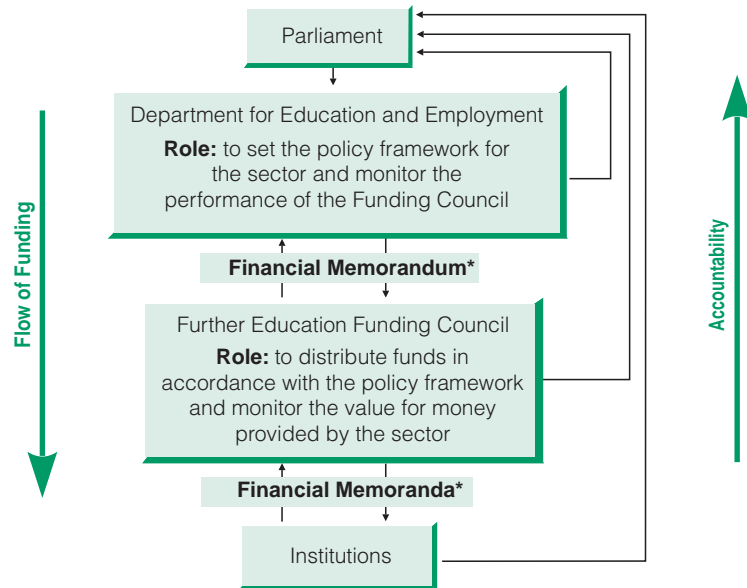
2 Financial memoranda govern the financial relationships between the Department and the Funding Council and between the Funding Council and individual sector colleges. The financial memoranda specify the terms and conditions on which public money is provided. Responsibilities and accountabilities in further education in England are summarised in Figure 1, and were described more fully in Appendix Two of the National Audit Office report *Managing to be Independent*. The responsibilities of the Chief Executive of the Funding Council include:

- satisfying himself that colleges have appropriate arrangements for financial management and accounting;
- promoting value for money through the grants paid to colleges; and
- monitoring their financial health and borrowing.

3 The Act places a duty on the Funding Council to secure the provision of sufficient facilities for the full-time education of 16-18 year olds, and adequate facilities for the part-time education of those over 16 and full-time further education for those over 18. The Act also requires the Funding Council to make provision for assessing the quality of education in the sector. In response the Funding Council have established an Inspectorate to carry out external assessments of colleges by means of a four-year cycle of inspection visits.

Responsibilities and accountabilities in further education in England

Figure 1



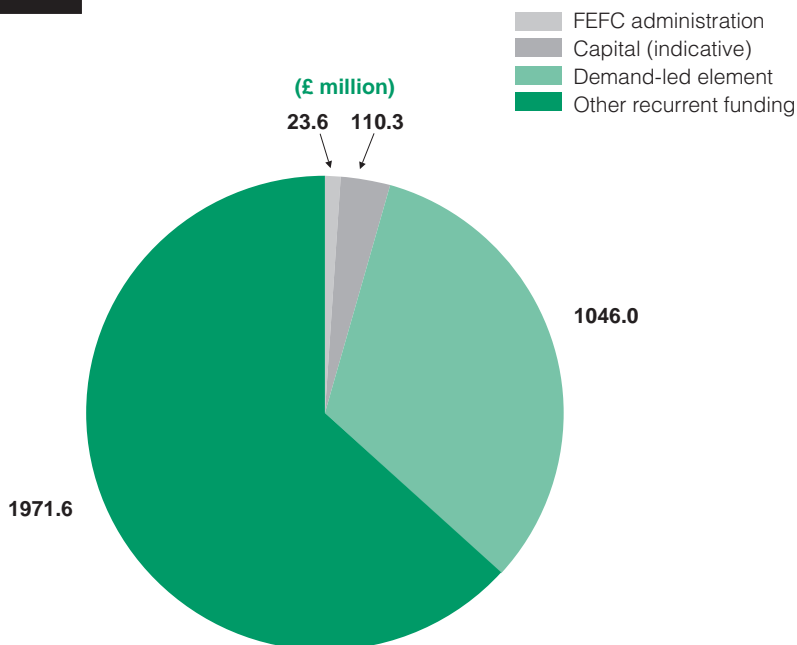
* Financial Memoranda govern the financial relationships between the body making the grant and the recipient. They specify the terms and conditions of funding. They require recipients to have in place sound systems of financial control. Each funding body monitors compliance with the memoranda.

Funding for colleges

4 Annual letters from the Secretary of State inform the Funding Council of their funding allocation for the following year and state the assumptions on sector growth and efficiency which underlie this allocation. It is for the Funding Council to determine how the funds for the further education sector should be allocated to individual institutions. The allocation includes an indicative sum to be spent on capital. Up to financial year 1996-97 the Government made part of the allocation, the demand-led element related to growth, exempt from cash limits (Figure 2). The Funding Council introduced a new funding methodology from academic year 1994/95 which was designed to be able to achieve a number of objectives including growth and efficiency gains sought by the Government.

Central Government expenditure on further education 1996-97

Figure 2



Source: Department for Education and Employment

Of the £3.1 billion made available to the sector by the Department for Education and Employment, some £3.0 billion represents recurrent funding of institutions, of which one third is exempt from cash limits.

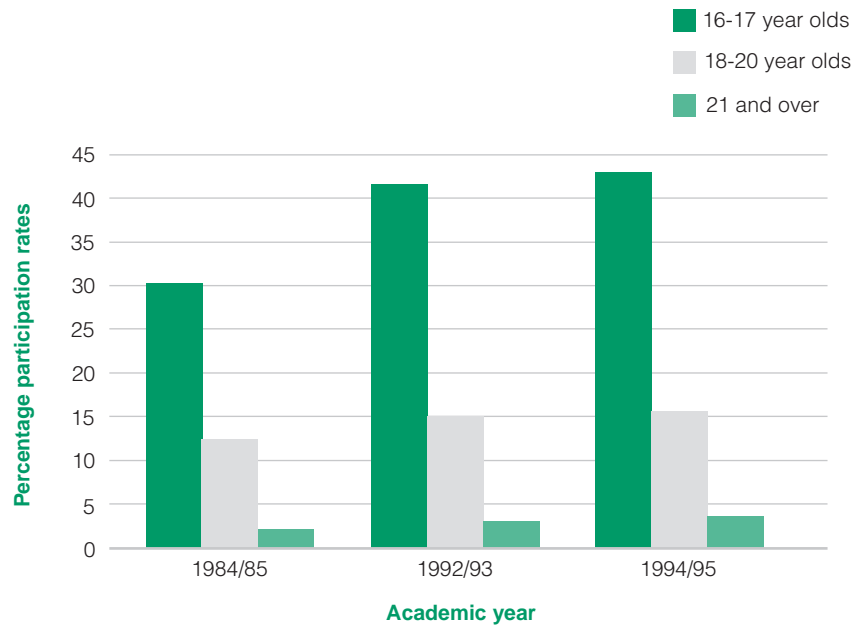
Widening participation

5 Over the last decade there has been an increasing emphasis on widening participation in further education, not only by 16 and 17 year olds but also by adults and others who had traditionally not taken full advantage of the opportunities offered by further education. Figure 3 shows that since academic year 1984/85 participation by all age groups has increased, although there appears to be scope for increased participation by adults.

6 The Funding Council established a Widening Participation Committee in 1995 to identify, and recommend ways to address, the needs of under-represented groups in further education. The Committee produced an interim report in November 1996 which recommended the funding of strategic partnerships to develop joint working to widen participation locally and the introduction of a new learning pathway for adults through the wide range of opportunities in further education. The Committee delivered their final report on 3 July 1997. Other committees established by the Funding Council have commented on ways to

Rates of participation in Further Education

Figure 3



Note: The participation rate is derived from a count of students in further education at one point in time in the academic year, and cannot be related to the student number data shown in Appendix 2 which are produced on a whole year basis.

Source: Department for Education and Employment

The trend has been for increased participation for all age groups.

increase participation amongst those with learning difficulties and/or disabilities and to improve access to further education through improved use of learning technology.

Accountability

7 Colleges are required by regulations under the Act to prepare audited annual accounts for each financial year. In addition, the Funding Council publish reports on inspections, and they have developed a series of performance indicators for colleges to be published annually. The coverage of the performance indicators is restricted to provision funded by the Funding Council (including part funded provision), with the exception of performance indicator five which covers all provision. The first set of performance indicators, for academic year 1994/95, were published in February 1997. They are listed in Box 1.

College performance indicators

Box 1

<i>Indicator</i>	<i>Description</i>	<i>Indicator of</i>
1. Achievement of funding target	Unit of activity as % of funding target	Effectiveness
2. Student number trends	Change in student numbers from previous year	Responsiveness
3. Student continuation	% of enrolled students attending in 3rd term	Programme effectiveness
4. Learning goals and qualifications	% of qualification aims achieved	Student achievements
5. Attainment of National Vocational Qualifications or equivalent	Numbers achieving qualifications which contribute to National Targets	Contribution to National Targets
6. Average level of funding	Funding Council funding per unit of activity	Value for money

Appendix 2

Student number data

Table 1		Student number data (thousands per academic year)				
		<i>1992/93 best estimate</i>	<i>1993/94 best estimate</i>	<i>1994/95 Actual</i>	<i>1995/96 Actual</i>	<i>1996/97 Forecast</i>
A. Mode and source		College type				
Full-time Funding Council funding	General FE & Tertiary	-	-	533	568	592
	Specialist	-	-	16	17	17
	Sixth form	-	-	102	112	119
	Total	592	633	671	697	728
Part-time Funding Council funding	General FE & Tertiary	-	-	1436	1959	2358
	Specialist	-	-	30	32	34
	Sixth form	-	-	31	57	77
	Total	1282	1319	1497	2048	2469
Full-time Other- funded	General FE & Tertiary	-	-	60	57	84
	Specialist	-	-	5	4	5
	Sixth form	-	-	1	2	1
	Total	46	67	66	63	90
Part-time Other-funded	General FE & Tertiary	-	-	731	661	674
	Specialist	-	-	30	33	27
	Sixth form	-	-	11	18	17
	Total	978	944	772	712	718
B. College type		Mode				
General FE & Tertiary	Full-time	530	583	613	625	676
	Part-time	2184	2181	2168	2620	3032
	Total	2714	2764	2781	3245	3708
Specialist	Full-time	16	18	20	21	22
	Part-time	64	60	60	65	61
	Total	80	78	80	86	83
Sixth form	Full-time	92	99	103	114	120
	Part-time	12	22	42	75	94
	Total	104	121	145	189	214
C. Totals						
	Total full-time	638	700	737	760	818
	Total	2260	2263	2270	2760	3187
part-time						
	Total Funding Council funded	1874	1952	2168	2745	3197
Other funded						
	Total other funded	1024	1011	839	775	808
	Total (all)	2898	2963	3007	3520	4005

Notes on methodology

- After academic year 1993/94 there was a change in the form in which student data was collected. Data for years 1992/93 and 1993/94 is based on enrolment figures converted into student number figures using a methodology agreed between the Funding Council and the Department. The data represents an agreed best estimate and has been prepared for the specific purpose of this report only.
- Specialist colleges includes Agriculture and Horticulture colleges and Art, Design and Performing Art Colleges. Data exclude Specialist Designated Colleges (in 1995/96 14 Specialist Designated Colleges enrolled 210,000 students).
- Data exclude further education students at external and other non-college institutions.
- Data include students studying for higher education qualifications in further education colleges where they are not franchised-in from higher education institutions. Colleges which transferred into the higher education sector between 1992/93 and 1995/96 were treated as transferred from 1992/93. Data exclude students studying for further education qualifications at higher education institutions.
- Six colleges merged between 1992/93 and 1995/96. To create comparable year on year data the six colleges were treated as merged from 1992/93 onwards. Taking account of the exclusion of specialist colleges, the treatment of merged colleges and colleges which transferred into the higher education sector, the National Audit Office based their analysis on 435 colleges in each year.
- Changes in the volume of students numbers funded from sources other than the Funding Council have to be treated with some caution due to: some uncertainty over the completeness of recording student number data by colleges in 1992/93 and 1993/94; and a change in the method of collecting student number data between 1993/94 and 1994/95 following the introduction of a new student recording system. The new system replaced the enrolments based system where each student could be recorded more than once.

Source: National Audit Office analysis of individual college student number data derived from:

- 1992/93 and 1993/94, student enrolment data from the 1992/93 and 1993/94 End Year Student Enrolment Statistics (EYSES), converted into student number data using individual college conversion factors supplied by the Funding Council. Data adjusted for definitional differences between EYSES returns and Individualised Student Record (ISR) returns from later years;
 - 1994/95 and 1995/96 data from the ISR; and
 - 1996/97 college forecasts from February 1997 strategic plans.
-

Appendix 3

Patterns of growth in the Funding Council regions

1 Colleges are grouped by the nine Funding Council regions. The National Audit Office analysed changes in student numbers by region to identify any geographical patterns in growth and found variability in regional growth both between regions and year on year (Figure 1).

2 The National Audit Office found that since academic year 1992/93:

- The highest rates of growth in total student numbers have been in colleges in the West Midlands and East Midlands regions.
- The lowest rates of growth up to academic year 1995/96 in total student numbers have been in colleges in the Eastern, Greater London and South East regions.
- In terms of students on courses funded by the Funding Council similar patterns emerge but, as shown in Table 1, rates of growth are significantly higher, particularly in part-time numbers in the South West region.

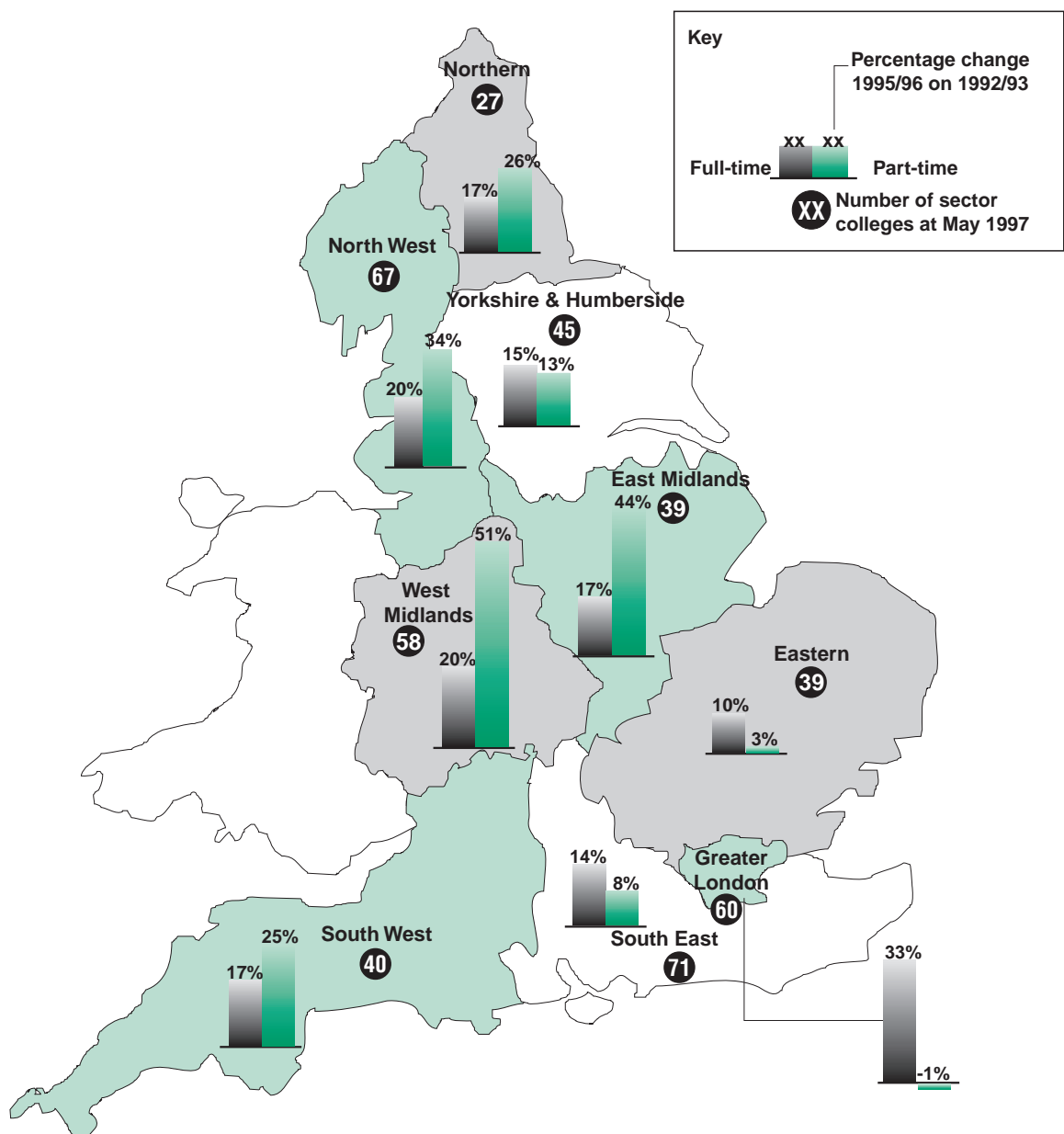
Comments

3 Much of the variation in growth up to academic year 1995/96 between regions may be explained by: the individual nature of the region including whether the region is predominantly urban or rural; the greater or lesser scope for growth dependent on student participation rates at the time of incorporation in 1993; the impact of local education authority reorganisations before independence in 1993; and the strategies adopted by individual colleges within each region.

4 However, high rates of growth in part-time numbers can largely be explained by the extent to which colleges in the region have used franchising as a means of expansion, particularly between 1994/95 and 1995/96. Those regions where franchising was first used as a means of expansion (for example the urban areas of the West Midlands region) are characterised by high levels of competition amongst colleges, and the presence of major employers and large and active community organisations. However, the use of franchising also largely explains the high rate of growth in Funding Council-funded part-time student numbers in the South West, a predominantly rural region.

Figure 1

Funding Council regional map showing percentage change in total student numbers by mode of attendance between academic years 1992/93 to 1995/96



Total further education sector colleges at May 1997, 446

Note: Students on franchised provision are counted at the enrolling college. Percentage changes are based on total student numbers including those funded from other than the Funding Council. However, significantly higher rates of growth occurred in Funding-Council funding part-time student numbers (Table 1).

Source: National Audit Office analysis of student number data

There is variability in growth by region. The greatest growth is in colleges in the West Midlands and East Midlands regions and the lowest is in Eastern region. Lower growth in total numbers masks significant increases in full-time student numbers in all regions but particularly in the Greater London region.

Table 1

Changes in students number (thousands per academic year) by Funding Council region

Funding Council Region	Mode of Attendance	<i>All sources of funding</i>		<i>Funding Council-funded only</i>	
		Percentage change in student numbers 1992/93 to 1995/96	No. Students 1995/96 ('000')	Percentage change in student numbers 1992/93 to 1995/96	No. Students 1995/96 ('000')
Eastern (39)*	Full-time	10	77	13	71
	Part-time	3	264	39	166
	Total	5	341	30	237
East Midlands (39)	Full-time	17	55	16	52
	Part-time	44	260	96	198
	Total	38	315	71	250
Greater London (60)	Full-time	33	110	36	106
	Part-time	-1	287	19	203
	Total	7	397	25	309
Northern (27)	Full-time	17	41	19	37
	Part-time	26	148	56	128
	Total	24	189	46	165
North West (67)	Full-time	20	128	14	114
	Part-time	34	474	58	358
	Total	31	602	45	472
South East (71)	Full-time	14	108	12	100
	Part-time	8	301	47	202
	Total	10	409	34	302
South West (40)	Full-time	17	70	18	65
	Part-time	25	311	92	225
	Total	23	381	63	290
West Midlands (58)	Full-time	20	96	18	87
	Part-time	51	429	93	340
	Total	44	525	71	427
Yorkshire and Humberside (45)	Full-time	15	75	14	66
	Part-time	13	286	50	231
	Total	14	361	35	297
Total (all)	Full-time	18	760	18	698
	Part-time	22	2760	60	2051
	Total	21	3520	46	2749

* Numbers in brackets show the total number of sector colleges in each region at May 1997.

Source and notes as for Table 1 of Appendix 2.

Rates of growth in part-time student numbers are higher for Funding Council-funded students when compared with rates of growth in part-time student numbers funded from all sources.

5 Franchising allows colleges to attract students from a far greater geographical range. This has increased the number of students who are enrolled by a college in one region, whilst resident in another region. For example, in academic year 1995/96 almost a quarter of students enrolled at colleges in the West Midland region were on franchised provision, and of those, approaching a half were on franchised provision delivered outside of the region. In total, 34 per cent of all franchising in academic year 1995/96 was out of region.

6 In the regions with low growth in part-time numbers (Eastern and Greater London) colleges generally have not become involved in franchising. In Greater London, the impetus to secure growth in the part-time market has not been as immediate because consistent growth in full-time numbers has ensured stable or increased levels of funding. Elsewhere, lack of competition and the presence of fewer large employers may have reduced the impetus to become involved in franchising. However, as indicated by the extent of out of region franchising, students from those regions exhibiting low growth in part-time numbers may be attending franchised provision provided by colleges in other regions.