Report by the
Comptroller and Auditor General

Managing Finances in English Further Education Colleges

Ordered by the
House of Commons
to be printed 2 May 2000

LONDON: The Stationery Office
£0.00

HC 454 Session 1999–2000
Published 4 May 2000

Executive summary

1 The further education sector in England provides learning opportunities to students from the age of 16 upwards, offering over 12,000 qualifications from degree level to vocational training. The sector consists of 429 further education colleges with an income of over £4 billion a year, mostly provided by the Further Education Funding Council (the Funding Council), which also has responsibility for overseeing the sector and assessing the quality of education being provided by colleges. The Government sees the further education sector as a crucial part of its overall strategy to combat social exclusion, unemployment and skill shortages and sees widening participation in further education as critical to its economic and social agenda.

2 The proportion of colleges in poor financial health grew rapidly between 1993-94 and 1996-97. More recently, the proportion has started to decline but still stands at about 13 per cent. In the light of this and concerns expressed by the Committee of Public Accounts (63rd Report of session 1997-98), we examined the reasons why colleges have financial problems and how these could be improved.

3 We have three overall findings:

- some external factors play a significant role in determining whether a college will be in good or poor financial health, such as financial problems inherited at incorporation and the type of students it has. Some factors, like differences in funding, are diminishing with time. Others, such as the type of college or type of student tend to apply to restricted groups of colleges rather than right across the sector;

- the way in which colleges are managed and governed plays a large role in deciding their financial health. In particular, there are certain key elements of best practice in management which can do much to ensure a college's financial health. Our survey and visits showed that there are some managerial practices more characteristic of colleges in good financial health, which colleges in poor financial health should consider adopting;

- the Funding Council has a sophisticated system for monitoring colleges and assisting them from poor financial health to recovery. The Regional Review process, recently formalised, has significantly enhanced this system and it will be further enhanced by the work of the Quality

Monitoring Unit and funding from the Standards Fund. The Funding Council also provides valuable support to colleges in the areas of benchmarking and performance indicators. There are some areas, however, where our work showed scope for the Funding Council to give more effective assistance.

Recommendations on what more colleges can do to improve their financial health:

i) Colleges need good, accurate and timely management information so that the Principal and the governing body have a sound basis of information on which to make decisions affecting the college and to ensure they meet their Funding Council targets.

ii) Colleges in good financial health were producing in a number of respects, more detailed management accounts, producing them more quickly and distributing them more widely than colleges in poor financial health. Colleges in poor financial health should follow suit (paragraphs 2.17-2.20).

iii) Problems in predicting funding unit outturn can have a major impact on the income of colleges and can drive colleges into poor financial health by leading to unforeseen shortfalls in income. Colleges should seek to avoid these problems by ensuring that they have systems in place to monitor accurately their outturn against Funding Council targets and to forecast in good time any emerging problem so as to prevent unforeseen shortfalls in income (paragraphs 2.17-2.20 and Case study 3).

iv) Colleges should ensure spending and spending commitments on staff are centrally monitored monthly so that colleges can predict spending accurately (paragraphs 2.17-2.20 and Case study 4).

v) Where colleges are using European Social Fund money or other non FEFC sources of funding, they should ensure that proper records are kept, projects accord with applications and ESF or other rules are complied with so that colleges do not have to make large repayments (paragraphs 2.19-2.20 and Case study 5).

vi) It is important for colleges to know the costs of their college processes and provision so that they can make intelligent decisions about which courses to run. Colleges in good financial health were twice as likely to have a clear and consistent costing policy and process. Colleges should have systems in place to identify the costs of courses (including those that are running at a loss) and regularly report on these courses to the Governors (paragraphs 2.21-2.23 and Case studies 6-8).

vii) Governors need to monitor closely the financial position of the college in order to help management take remedial action should the financial situation require it (paragraphs 2.26-2.28 and Case study 10).

viii) Eighty per cent of colleges had undertaken some benchmarking activity but colleges in good financial health were more likely to have carried out benchmarking of costs and to have seen benefits from it. Colleges in poor financial health should explore further the scope for benchmarking (paragraphs 2.24-2.25 and Case study 9).

ix) Virtually all colleges reviewed their performance targets, but colleges in good financial health were more likely to have developed additional performance indicators, to be reporting on them frequently and to be taking remedial action as a result. Colleges in poor financial health should examine the merits of adopting similar approaches (paragraphs 2.26-2.28 and Case study 10).

Recommendations on how the Funding Council should improve their assistance to colleges:

x) The Funding Council monitors the financial health of colleges at least twice per year and more frequently should the Funding Council consider it necessary. In addition, all aspects of each college's activities are examined three times per year as part of a wider Regional Review Process. Colleges we visited would welcome more information about the Funding Council's conclusions. The Funding Council should consider providing fuller feedback of the process, results and implications for action of their monitoring to colleges (paragraph 3.8).

xi) The Funding Council assesses the solvency of each college as part of the review and informs the college Principal of the results, but does not inform the college governing body directly. In our view, the Funding Council should consider giving feedback in parallel on the results of reviews to college Governors and to Principals (paragraph 3.8 and Case study 12).

xii) The Funding Council provides colleges with a range of comparative benchmarking material, which the colleges we visited found useful. However, the data's usefulness was hampered by a lack of timeliness, caused largely by delays in colleges' sending in returns. The Funding Council should produce current benchmarking data on a more timely basis (perhaps by making greater use of IT) and produce additional data on topics which colleges have identified as useful (paragraphs 3.12-3.15).

xiii) When asked to do so, the Funding Council has put colleges in contact with structurally similar colleges, so that the colleges could make benchmarking comparisons to identify means and scope for financial improvement. Such groups of colleges are known as "benchmarking families" and have led to very positive results. Given this, the Funding Council should henceforth proactively promote these "benchmarking families" (paragraphs 3.16-3.17 and Case study 14).

xiv) Colleges we visited said that they would find additional advice and support from the Funding Council helpful. In particular, colleges wanted the Funding Council to provide a standard course-costing model and to recommend common financial and management information systems to colleges. The Funding Council intends to encourage the Further Education Development Agency to take this forward (paragraph 3.20).