



National Audit Office

**DEPARTMENT FOR INNOVATION, UNIVERSITIES AND SKILLS
LEARNING AND SKILLS COUNCIL**

Renewing the physical infrastructure of English further education colleges

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 924 Session 2007-2008 | 11 July 2008



SUMMARY

1 Each year around 3.3 million young people and adults attend courses or training provided by one of the 376 further education colleges (including sixth form colleges) in England. Colleges are independent corporate bodies that operate on a not-for-profit basis, and the Government sees them as having a central role in equipping young people and adults with the skills for productive, sustainable employment. The Department for Innovation, Universities and Skills (the Department) has overall responsibility for the delivery of government objectives through the further education sector and its non-departmental public body, the Learning and Skills Council (the Council), plans and funds further education in England. By 2010, the Council will have handed over its functions to 150 local authorities, a new Skills Funding Agency, and a new Young People's Learning Agency.

2 Colleges were incorporated in 1993, taking over ownership of their land, buildings and reserves from local authorities. Much of the physical infrastructure was in poor condition, and many buildings required urgent health and safety-related repairs, were unattractive to potential learners, unsuitable for modern learning, inaccessible to people with disabilities and inefficient to run. Between 1993 and 1996, the Learning and Skills Council's predecessor, the Further Education Funding Council provided colleges with funding, mainly for projects related to addressing health and safety issues, and very limited funding was available in the next two years.

3 From 1999, the then Department for Education and Skills obtained capital funding for the Further Education Funding Council to distribute to colleges for capital projects. This programme was continued and expanded when the Learning and Skills Council was created in 2001. At around 9 million square metres, the Learning and Skills Council considered that the estate, at incorporation in 1993, had been much bigger than was needed and there was still scope for rationalisation in colleges, including through their disposal of surplus land and buildings. The Council therefore expected colleges to provide the majority of their project costs through disposal of any surplus assets, taking out loans secured on their assets, and use of reserves. The Council requires colleges to examine whether they could obtain better value for money through private finance or public-private partnerships (PFI/PPP). After examining the options, almost all colleges have chosen to proceed on a grant-funding basis, reflecting in many cases their ability to part-fund projects through asset disposals, reserves and borrowings. The scale of most projects is also unlikely to be sufficiently large to generate interest among private contractors in PFI/PPP deals with further education colleges.

4 Between April 2001 and March 2008, the Learning and Skills Council approved colleges' projects at the final detailed application stage with a total cost of £4.2 billion and grant support totalling £1.7 billion. These projects are intended to provide colleges with the modern learning spaces and facilities needed to deliver a wide range of courses and to make colleges more attractive to potential learners and employers. Colleges, as independent corporations, decide their procurement strategies and are responsible for delivering their projects.

5 With the Learning and Skills Council's capital programme for further education colleges now well underway, this report sets out the background to the sector and its physical infrastructure (Part 1) and evaluates:

- the Council's co-ordination of college projects in the overall programme, the procurement approach used by the Council and colleges, the support given to colleges and the delivery of projects to cost and time (Part 2); and
- the impact of the programme, focusing on the progress made across the sector, the quality of the buildings and the indebtedness of the sector (Part 3).

We did not seek to evaluate decisions on the rationalisation of estates or mergers of colleges. We obtained evidence from a range of sources including visits to colleges, a survey of colleges, interviews and data analysis: our full methodology is set out in Appendix 1.

Main findings

On the procurement approach, support for colleges and delivery of projects:

6 **The grant-based approach to project funding has been successful in delivering effective projects, although some of the early projects may have been over- or under-funded by the Learning and Skills Council.** Colleges have made good use of the grants offered by the Learning and Skills Council, and they obtained substantial additional funding from the disposal of surplus assets, taking out secured loans and use of their reserves. However, before September 2003, in calculating its grant support, the Council placed limited emphasis on how much a college could afford to contribute and continued the Further Education Funding Council's practice of usually restricting funding to 35 per cent of project costs. If a college's proceeds from the sale of assets exceeded 65 per cent of the project costs, however, the Council's policy was to abate its grant by an amount equivalent to that excess. Between June 2001 and August 2003, 207 (74 per cent) of the 281 projects receiving detailed approval were funded at 35 per cent of the total cost. Some of these colleges may have required less grant funding for their projects to be viable while others may have had to restrict their project ambitions.

7 **The organisation and funding of the programme has meant that there has been no national prioritisation of projects, but programme management has improved over time.** The Learning and Skills Council initially operated through 47 local Learning and Skills Councils, which might have made it difficult to prioritise projects at a regional or national level. Until it began to fund higher proportions of project costs from about 2004, to build on the strengths of the further education sector early in the capital programme the Council gave priority to projects at colleges that were willing and able to majority fund themselves. In 2006, following internal reorganisation, the Council's regional operations took on planning functions and prepared regional capital strategies that aimed to help target project funding so as to balance educational and property priorities. As a consequence of the initial arrangements, some areas and colleges with the greatest need have not received the highest priority.

8 **Colleges are now using more modern procurement strategies, but there is still scope for improvement.** Increasingly, colleges have reduced the risk of cost overruns by making more use of design and build contracts rather than traditional contracts. Some colleges could, however, engage their main contractors earlier so that more construction expertise is brought to bear in making decisions on the detailed design of their buildings. This would help improve the value for money of the buildings by better allowing for their 'buildability'.

9 Most colleges are satisfied with the advice they receive, but client support could be developed further to help colleges in being effective clients. Most colleges are inexperienced clients and rely on professional advisers, and they are generally satisfied with their support. The Learning and Skills Council's introduction in April 2008 of framework contracts for appointing consultants should help assure the quality of advice received. The Council's relatively small capital team also provides good quality support to colleges and publishes a range of guidance. As projects become larger and more complex, there is a need for more training for colleges in being an effective client and increased coordination of the expertise that now exists in many colleges that have completed major projects.

10 Projects are usually delivered on or close to their budgeted cost. Colleges have focused on avoiding cost overruns, which they would normally need to finance themselves without additional grant from the Learning and Skills Council. Thirty-eight colleges (27 per cent) in our survey reported an overrun (averaging £0.9 million), including 11 colleges with an overrun exceeding 10 per cent of the project cost. In some cases, colleges decide that there are good reasons for them to bear the cost of an overrun rather than reduce the scope of their project. Overruns are now being minimised by the Learning and Skills Council requiring more certainty of costs before approving projects and through colleges avoiding late changes in design, reducing the scope of projects where necessary, and using contract strategies that minimise cost uncertainty.

11 The Learning and Skills Council and colleges need to give more attention to the whole life costs of new buildings. The long term value for money of new or refurbished buildings depends not only on the initial capital cost but also the implications of the design for the building's whole life running and maintenance costs. It is important therefore that capital expenditure decisions take account of whole life costs. The Learning and Skills Council's approach to programme management has, however, tended to encourage colleges to make detailed design decisions more by reference to the affordability of the upfront capital costs than to the whole life costs. The Learning and Skills Council intends to address this issue in its revised financial appraisal methodology later in 2008.

12 Management information on the national programme is inadequate. The Learning and Skills Council relies on spreadsheets for management information, but such systems are not sufficiently robust for a programme of this scale. There are also areas where information needs to be better collated, such as the actual costs of completed projects, contract strategies used and the lessons learned that colleges have identified from their completed projects. The Council is planning to develop a management information and budgeting system that is intended to address these concerns.

On the outcomes of the programme:

13 The Learning and Skills Council and colleges have made good progress overall in renewing the physical infrastructure of the further education sector since 2001, but some regions have made much more progress than others. In 2001, many college buildings were ageing and their quality and fitness for purpose was often unsatisfactory, affecting the reputation of the sector. By 2008, around half of the estate has been renewed and the Council plans that the rest of the work will be completed within about eight years. The nine regions varied substantially, however, in the proportion of their infrastructure that was estimated to have been renewed or have an approved project as at May 2007: from 63 per cent in the South West to 32 per cent in Greater London, where projects are often large and complex.

14 Completion of the programme by 2016 will require careful risk management and prioritisation of the capital funds available to the Council's successor bodies. Colleges still to be renewed may be less financially strong or less able to contribute through applying reserves, disposing of assets or raising of loan finance. The cost of renewing the remaining colleges is becoming more expensive, putting the affordability of the programme at risk within the limits of the Learning and Skills Council's capital budgets. The Council will need to consider how best to prioritise funding or encourage colleges to use procurement strategies that require less upfront public funding.

15 In most respects, the quality of new or refurbished buildings is high and they meet the needs of colleges and learners. The renewed buildings usually improve the external appearance of colleges and provide up-to-date facilities for academic and vocational learning. We found that most learners and staff were very satisfied with the buildings, and 97 per cent of the colleges in our survey considered that their renewed building was excellent or good. Some of the ten colleges we visited highlighted problems with social spaces and ventilation systems.

16 The environmental sustainability of college buildings was given relatively little emphasis in the early years of the programme, but the Learning and Skills Council is now raising its profile. The first projects started before the importance of sustainability in new buildings was so widely recognised, and the first new buildings reflect that. There is little evidence from BREEAM assessments (of environmental performance), because these were rarely undertaken and only became mandatory from 2007. The Council is now working towards a target to achieve 'zero carbon' for new college developments by 2016, but it recognises there is scope for it to expand the collection and dissemination of better information on best practice and energy consumption in new and existing buildings. The Council's estates management database, 'eMandate', already provides some useful comparative data for colleges. The Council intends to do more to encourage colleges to apply the Office of Government Commerce's 'Quick Wins' to improve the sustainability of college designs.

17 Projects appear to be linked to improved learner participation in colleges. Most projects replace buildings that were unfit for purpose and are also intended to improve the attractiveness of the college to potential learners. Research on some of the earliest projects indicates that renewal helps colleges to recruit learners – for example, a college with a completed £5 million project on average is likely to have about 300 more learners a year than a similar college without a project. Some of these gains are likely to be at the expense of other providers. For some colleges, a project is very important to them for ending decline in the numbers of learners which may be linked to poor facilities.

18 The funding arrangements have required colleges to increase their external borrowings which, although currently lower than debt levels in higher education, add to financial risks in the sector. The programme has resulted in college debts increasing from around £200 million (in 2001-02) to £731 million of long term loans (in 2006-07), and they will continue to rise rapidly. Between 2005-06 and 2006-07, the number of colleges that were assessed as being financially weak increased by 21 (from 68 to 89). Colleges with large debts could be more vulnerable to loss of income if they fail to generate the projected demand for courses from employers and learners (as set out by colleges in their applications for capital funding). The overall level of external borrowings by further education colleges, at 12 per cent of their income by the end of 2006-07, was lower than that of the higher education sector which had long term borrowing equivalent to 19 per cent of its income. At one per cent of college income, interest payable remains affordable for the sector as a whole but 19 colleges had long term borrowings of more than 40 per cent of their income in 2006-07.

19 Transfer of responsibility for the future management of the programme will need to be closely managed. By 2010, the Learning and Skills Council will have closed and its responsibilities passed to 150 local authorities, a Skills Funding Agency and a Young People's Learning Agency. Following a consultation process, the Department for Innovation, Universities and Skills will manage the handover process and, with the Department for Children, Schools and Families, decide how the capital programme will be managed. The Department for Innovation, Universities and Skills will need to maintain a clear visibility of the programme.

Overall conclusion on value for money

20 The design of the capital programme for further education takes advantage of colleges' accumulated reserves, their access to secured loan funding and their scope to dispose of surplus assets. The joint funding approach, with the Learning and Skills Council providing additional grant funding, is enabling the sector to make good progress in rationalising its estate: by 2008, around half of the renewal of the estate had been completed or had received approval for a project to proceed. Relatively poor facilities have been replaced by new or refurbished facilities that are generally of high quality and meet the needs of learners, and the Council has recently been able to increase the approved benchmark costs for projects, which should further improve the quality of the new facilities and allow colleges to respond to the need for enhancing environmental sustainability.

21 The funding approach used prior to September 2003 was relatively unsophisticated in that most projects were funded at a standard grant rate, resulting in some over-funding of projects and some projects that colleges needed to scale down. The Learning and Skills Council has since determined grant rates so that they better reflect colleges' financial strength. The programme has entailed an increase in the sector's long term indebtedness, to £731 million in 2007. For the sector as a whole, interest payable remains affordable, at around one per cent of college income, but a small proportion of colleges now have large debts and could be at risk if they experience a reduction in demand for their courses.

Recommendations

22 Our recommendations are aligned with our main conclusions and are aimed at supporting the Department, the Learning and Skills Council (and its successor bodies from 2010) and colleges to further improve the value for money of the programme.

- i** **Given the planned changes to the further education system, the Department needs clearer visibility of the programme to achieve a smooth transition of the programme from the Learning and Skills Council to the successor bodies.** The Council has had a key role in managing the capital programme. With the dissolution of the Council by 2010, the Department will need to provide continuity of standards in programme management and the setting of programme targets in a clear policy context. To enhance the Department's oversight, it could commission an independent Gateway Review of the programme before it is handed over to the Council's successor bodies. The Department should also be party to the decision on how best to prioritise future projects for funding.
- ii** **The condition of the physical infrastructure and the progress made in renewing it varies by region of the country.** The Learning and Skills Council should examine whether it needs to provide more support to capital projects in some regions, such as Greater London, where there has been less progress. For the renewal programme to be completed by 2016, the Learning and Skills Council will need to consider the scope for encouraging and supporting colleges in using different procurement strategies.
- iii** **Progress in improving the environmental sustainability of renewed buildings is hampered by a lack of information.** As part of the post project review process, the Learning and Skills Council should make it mandatory for colleges to assess and report whether they have achieved the sustainability outcomes (including energy consumption) that their new buildings were designed to provide, and to report on their implementation of the Office of Government Commerce's 'Quick Wins' for improving the sustainability of new buildings.
- iv** **Major decisions in projects are based largely on initial costs rather than whole life costs.** Whole life costs are difficult for colleges to measure, so the Learning and Skills Council should work with industry professionals to develop a suitable approach to incorporating whole life cost considerations into the feasibility, design and construction stages of a project.

- v** **There is an increasing risk that some colleges might take on more debt than they can service.** The Learning and Skills Council should keep under review its methods of assessing colleges' ability to afford new projects and the financial health of the sector. It should also pilot the use of professional advice for colleges in getting best value from loan finance.
- vi** **Some colleges are under-prepared and their procurement strategies need to improve.** Whilst the Learning and Skills Council is now addressing client capability, the Council should examine colleges' appraisal of procurement strategies and the performance of the strategies used, including consistency with good practice. In addition to the Council's approval processes, Gateway Reviews of the major projects (now available to colleges through the Council's new consultancy frameworks) could be used to provide independent assurance on colleges' internal project management arrangements and their preparedness to proceed to the next stages of a project. The Council should step up its encouragement of colleges to engage earlier with main contractors and, in considering a possible new framework for contractors, investigate how it might facilitate more integrated working at an earlier stage.
- vii** **There is a continuing need for improving client capability and sharing expertise, particularly as projects become larger and more complex.** The Learning and Skills Council should take steps to assist colleges new to the programme by using the skills developed within colleges that have already delivered their projects successfully. There are a number of options including better guidance for colleges, training in project sponsorship, funded secondments of staff between colleges, and a shared service to help colleges perform their client function. It would also help colleges if they had access to case studies of projects with serious problems that had affected outcomes.
- viii** **Improving the quality and quantity of information collected would help improve the management and evaluation of the programme.** The Learning and Skills Council should give priority to completing the management information and budgeting system it is currently developing that aims to capture, analyse and report all of the key data that it needs to manage the programme most effectively and to enhance its support for colleges. It should improve the information captured by post project review processes in colleges, and regularly collate and disseminate the results to the sector. It would also be useful for the National Learner Satisfaction Survey to include questions on the suitability of accommodation and its impact on learners' study decisions.