

# **Framework for Excellence**

## **Pilot Guidance Document**

**Version 1.2**

**07 September 2007**

Further to recent statements made by Bill Rammell MP, Minister for Lifelong Learning, Further and Higher Education, and John Denham MP, Secretary of State for Innovation, Universities and Skills we can confirm that the Framework for Excellence pilot is **proceeding as planned**.

# Change List

<u>Version</u>	<u>Date</u>	<u>Changes</u>
V1.0	29 June 2007	-
V1.1	27 July 2007	<p>Section 8, <i>Issues to be resolved</i> – paragraphs 55-59, regarding Development Groups updated and expanded.</p> <p>Appendix 1: <i>Responsiveness to Employers</i>, paragraphs 101 – 122 replaced with new text and re-numbered. This affects all three Responsiveness to Employers Performance Indicators.</p>
V1.2	07 September 2007	<p>Appendix 1: <i>Financial Health</i>, paragraphs: 159 – 172 updated.</p> <p>Annex 1: <i>Financial Health – Ratio Definitions</i>: table reference corrected to reflect changes to Appendix 1.</p>

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# 1. Introduction

1. The primary purpose of this document is to provide information, advice and guidance to the 100 colleges and work-based learning (WBL) providers (Appendix 3) that will be piloting the prototype Framework for Excellence (the Framework) from September 2007 to March 2008. It will also be of interest to:
  - **all other colleges and WBL providers that need to prepare for the Framework being applied to them in September 2008**
  - all other providers that will be brought into the Framework from September 2009 onwards, such as Personal and Community Development Learning Sector and specialist further education (FE) colleges
  - all colleges and providers with a regulatory or representational role in the FE system.
2. This guidance document complements the Learning and Skills Council's (LSC's) publication *Framework for Excellence: How the Framework will work*, published on 20 June and available at: <http://ffe.lsc.gov.uk/> - that publication is a useful introduction to this detailed pilot guidance.
3. This is a "live" document, which will be updated during the course of the pilot, for example to clarify issues or to disseminate key messages. Each pilot institution has a nominated liaison officer, who will be notified by e-mail alert to any changes in this document.
4. For the pilot process this document sets out:
  - the composition of the Framework
  - a detailed timetable for the pilot phase
  - what pilot institutions will be required to do
  - the lines of communication with pilot institutions, and the support that will be available to them
  - evaluation of the pilot process.
5. The 100 pilot institutions have been chosen by reference to several criteria: institution type, location and current performance (inspection grades and success rates).
6. KPMG is managing the pilot process on behalf of the LSC.
7. The LSC is arranging for each pilot institution to receive an honorarium of £1,000 in recognition of the additional administrative and management tasks involved in taking part.

## 2. Objectives of the Pilot

8. The Framework for Excellence is designed to be an effective and trusted method of raising standards within the FE system, and to inform choice and improve the quality of decision-making for learners and employers. It will provide a single, unified framework for assessing and reporting achievement in all key areas of performance.
9. The first pilot phase of the Framework is designed to aid the development of a robust performance assessment framework suitable for implementation by colleges and WBL providers in September 2008. A second pilot phase in September 2008 will be necessary for other types of provider.
10. The role of the pilot institutions will be to help test:
  - the definition of each of the proposed Performance Measures (PMs) and their associated Assessment Criteria
  - the rules governing the aggregation of the grades for Performance Indicators (PIs) to Key Performance Areas (KPAAs), Performance Dimensions (PDs), and the Overall Performance Rating (OPR)
  - the additional administrative commitment, for example as a result of new data-collection processes
  - the value of the Framework in acting as a stimulus to improve performance
  - the value of the Framework to address the needs of learners and employers in informing their choices.
11. The LSC will also use the pilot programme for developing, testing and trialling other PIs that may be included in the Framework; non-pilot FE colleges and WBL providers will be also invited to participate in this work.
12. The Framework is still under development, and there remain a series of issues to be explored and resolved. Some are of a cross-cutting nature, such as how contextual factors are best taken into account, and some relate to specific PIs, for example dealing with low response rates in learner surveys.
13. The types of issues to be resolved are:
  - those cross-cutting issues that relate to the overall development and implementation of the Framework, and involve pilot institutions (Section 8)
  - those that relate specifically to each individual PI (Appendix 1: Specifications for Individual Performance Indicators)
  - those cross-cutting issues that involve the main stakeholders: the Department for Innovation, Universities and Skills (DIUS), the LSC, the Office for Standards in Education, Children's Services and Skills (Ofsted), and the Quality Improvement Agency (QIA).

## 3. Roles and Responsibilities

### Pilot Institutions

#### Information and Data Generation

14. In terms of generating the data for the pilot it is envisaged at this stage that the main tasks for providers will be to:
- administer a learner views survey and return the completed questionnaires to the LSC
  - support the learner destination survey by cleaning their learner contact data, where necessary
  - administer an employer survey (some pilot providers may need to clean their employer register in preparation for this survey).

It is also likely that WBL providers will need to do some additional work to supply the financial data.

15. With the following provisions, the LSC expects to base all other data and information required for the pilot programme on sources that it already holds:
- the Quality of Provision KPA will be based on Ofsted's current opinion of the overall effectiveness of a provider; Ofsted will assess its level of confidence in the reliability of each provider's self-assessment report
  - the Financial Control KPA will be based on audit assessment tools - the most recent Financial Management and Governance (FM&G) review in the case of colleges, and tools such as the Provider Control Risk Assessment (PCRA) and Business Environment Questionnaire (BEQ) for other providers. Where this information is not current – for example, FM&G reviews are conducted in line with the inspection cycle – some follow-up review work with providers may be required
  - the Use of Resources KPA is still under development: there may be some new data requirements, but it is envisaged that colleges will already hold much of this additional data and therefore the additional administrative commitment will not be significant.
16. Full details of the roles and responsibilities of pilot providers for the specific PIs are included in Appendix 1 of the document.

#### Output and Issues Resolution

17. The LSC plans to consider evidence from pilot institutions and a wider range of stakeholders in order to ensure that the Framework is fit for purpose when it is implemented fully in FE colleges and WBL providers in 2008/09 (Section 12: Evaluation of the Framework for Excellence).

## **Activities**

18. During the pilot phase, pilot institutions will need to:
- attend a national briefing on either 4 July 2007 (The Queens Hotel, Leeds), 6 July 2007 (The Holiday Inn, Birmingham) or 10 July 2007 (The New Connaught Rooms, London)
  - attend a national mid-pilot event on either 9 November 2007 (London), 14 November 2007 (Leeds), 16 November 2007 (Birmingham)
  - attend a national end-of-pilot event in March 2008 (dates to be advised);
  - attend other meetings, which may include virtual or telephone events
  - complete evaluation questionnaires, which may be sent to different audiences, such as governing bodies and senior management teams
  - facilitate occasional site visits during the pilot by KPMG
  - provide information about the level of their own input to assist in carrying out an assessment of the additional commitment for providers
  - organise and ensure attendance at workshops designed to solicit their views and discuss proposed action following the results of the Framework being communicated
  - organise and host focus groups/workshops of learners and/or employers to test the value of the Framework's output to them.

## **Learning and Skills Council**

19. The LSC will:
- generate four-point grades for PIs and supplementary measures
  - determine the four-point rating for the KPA, PD and the OPR, using scoring and aggregation rules
  - disseminate ratings to pilot providers
  - consult with pilot institutions on the processes and outputs of undertaking the Framework for Excellence exercise
  - evaluate the outputs, and model findings where appropriate
  - explore the use of the Framework in the LSC's business processes during the first phase of the pilot programme.
20. Contact details for the LSC are set out in Appendix 3.

## **Ofsted**

21. Ofsted will:
- work closely with the Framework's development during the pilot phase
  - explore how the Framework can be used in its business processes.
22. Contact details for Ofsted are set out in Appendix 3.

## **Quality Improvement Agency**

23. The QIA will appoint a contractor to:
- be the first point of contact for non-pilot providers, answering queries and disseminating knowledge about the Framework's development and application
  - develop peer review, working with 100 groups comprising pilot and non-pilot institutions
  - explore how to use the Framework in its business processes.
24. Contact details for QIA are set out in Appendix 3.

## **KPMG**

25. In supporting the pilot phase of the Framework, KPMG will:
- be the first point of contact for pilot institutions
  - facilitate group meetings of pilot institutions
  - make visits to specific pilot institutions, where required
  - update liaison officers with developments in the Framework
  - consult with wider stakeholders
  - organise and jointly host briefing and evaluation events.
26. Contact details for KPMG are set out in Appendix 3.



## 4. Timetable (subject to change)

27. The timetable below sets out the high-level activities of the pilot phase:

<b>Date</b>	<b>Task</b>	<b>Responsible Organisation</b>
<b>May 2007</b>		
22 May	List of 100 pilot providers finalised	LSC
<b>June 2007</b>		
01 June	Request to pilot sites to nominate liaison officer	LSC
05 June	Providers requested to correlate employer contact details and forward to FfE communications team	LSC
15 June	Pilot sites deadline for nominating liaison officer	Pilot providers
20 June	Ministerial launch of June policy document	DIUS
22 June	Providers notified of revised timing of learner views survey and requested to: correlate employer contact details; opt for a web- or paper-based survey and identify any special requirements regarding the questionnaires and forward information to the LSC	LSC
29 June	Pilot Guidance placed on LSC website	LSC
late June	Briefing events for regional LSC staff	LSC
<b>July 2007</b>		
1-31 July	Data-matching for learner destinations indicator	RCU/LSC
04 July	First national briefing event for pilot sites (Leeds)	KPMG
06 July	Second national briefing event for pilot sites (Birmingham)	KPMG
10 July	Third national briefing event for pilot sites (London)	KPMG
13 July	System of alerts to guidance changes for pilot sites	LSC
13 July	Providers that have not provided employer contact details to be contacted	LSC
16 July	Telephone survey for learner destinations indicator commences	RCU/LSC
20 July	Issue of Addendum to Pilot Guidance	KPMG
20 July	Cut-off date by which providers are requested to return employer contact details	Pilot providers
31 July	Cut-off date for providers to return requested information for the learner views PI	Providers/LSC
31 July	Bulletin to pilot site liaison officers - including FAQs (repeated monthly)	KPMG
end July	KPMG teleconference/phone-in for pilot providers (repeated monthly if required)	KPMG
end July	Production of pilot provider profiles	LSC
<b>August 2007</b>		
early August	Set up composition of and terms of reference for development groups for (1) specific PIs; (2) cross-cutting issues groups	KPMG
August	Timetable and set up workshops and events for pilot programme	KPMG

August	Develop questionnaires for evaluation	LSC
mid-August	Centrally administered surveys begin	LSC
31 August	Issue letter to pilot providers inviting participation in development groups	KPMG
<b>September 2007</b>		
early September	Pilot providers send out employer surveys (indicative)	Pilot providers
01 September	Pilot providers reminded of need to confirm number of questionnaires/envelopes for the learner survey at the end of the month	LSC/RCU
04 September	Confirmation of questions for learner views survey	LSC
26 September	Batch of learner views questionnaires sent to piloting providers for non-completers	RCU
28 September	Providers confirm number of questionnaires/envelopes required for the learner views survey and return information to RCU Ltd.	Providers/RCU/LSC
end September	Revised SARQ available for comment	LSC
end September	Revised BEQ / PCRA document available for comment	LSC
<b>October 2007</b>		
October onwards	Piloting of revised SARQ at colleges	LSC
early October	Telephone survey for learner destinations indicator finishes	RCU/LSC
01 October	Commence inclusion of learner views survey in exit process for learners who leave a programme early	Pilot Providers
October	Confirmation of estimate of number of learners within scope for web based learner views survey	Pilot providers opting for a web-based approach to survey learners
22 October	Learner views survey questionnaires/information about accessing web resource sent to providers for fixed window survey	RCU
mid-October	All learner destination data combined and made available	RCU/LSC
<b>November 2007</b>		
early November	Production of headline learner destinations results	RCU
early November	Commence 'fixed window' learner views surveys	Pilot providers
early November	Update events for LSC regional staff	KPMG and LSC
November	Analysis and modelling of learner destinations data	RCU/LSC
November	Five pilot site progress visits	KPMG
14 November	First national mid-pilot evaluation event (Leeds)	KPMG
November	Centrally administered survey data available	LSC
15 November	Pilot provider returns of employer survey to LSC (indicative)	Pilot providers
15 November to mid-December	Ofsted consideration of latest inspection grade for overall effectiveness	Ofsted
16 November	Second national mid-pilot evaluation event (Birmingham)	KPMG
20 November	Third national mid-pilot evaluation event (London)	KPMG
late November	Development Group for phase 2 providers in the pilot	KPMG
30 November	Make changes in ILR	LSC
30 November	Employer views data available	LSC
30 November	QSR PI grades made available	LSC

<b>December 2007</b>		
13 December	Conclude all learner views surveys	Pilot Providers
14 December	Return of completed learner views questionnaires to RCU via a courier	Pilot providers/RCU
December	Five pilot site progress visits	KPMG
15 December	Analysis paper on employer survey returns sent to pilot providers and key stakeholders for comment	IFF and LSC
mid-December	Ofsted report on reliance of inspection grade (taking account of other evidence)	Ofsted (with LSC and KPMG)
31 December	Completion of Development Group work for fast-track developed PIs.	KPMG
31 December	Employer views Performance Measure calibrated	LSC
31 December	Quality of Provision grades made available	LSC
31 December	Finance Records submitted to LSC	LSC
mid-December	Unadjusted assessment criteria made available	RCU/LSC
<b>January 2008</b>		
January	Ten pilot site progress visits	KPMG
January	Plan regional demonstrator site events	KPMG
mid-January	Employer focus groups (selected pilots) on Responsiveness to Employers KPA	KPMG/LSC/pilots
January	Analysis of survey data and modelling of assessment criteria	LSC
January	Decision conference on output of Development Groups on specific PIs	KPMG/LSC/pilots
January	Unadjusted performance ratings available	RCU/LSC
31 January	Modelling and analysis of destinations data by learner and provider type	RCU/LSC
31 January	Employer views PI grades made available	LSC
<b>February 2008</b>		
early February	Production of unadjusted learner views performance ratings	RCU/LSC
February	Analysis of response rates by learner type and impact of learner mix and type on assessment criteria and performance ratings.	RCU/LSC
February	Ten pilot site progress visits	KPMG
late February	Production of adjusted learner views performance ratings and assessment criteria	LSC/RCU
28 February	Discussion paper circulated on options for publication and dissemination of Framework output	KPMG and LSC
28 February	Financial Health grades calibrated	LSC
28 February	Adjusted performance ratings made available	RCU/LSC
<b>March 2008</b>		
early March	Dissemination of learner destinations data	RCU/LSC
early March	Calibration and dissemination of indicative OPRs	LSC
early March	Statistical analysis of correlation between PIs and potential contextual factors, regional analysis, distribution of grades by provider type, etc	LSC
early March	Moderation, sensitivity testing of ratings	LSC and other key stakeholders
early March	Dissemination of learner views performance ratings and additional learner views data to providers	LSC/RCU
early March	Update events for LSC regional staff	KPMG and LSC

w/c 17 March	Publication/dissemination of results workshop (London) - mixed audience of stakeholders and pilots	KPMG
<b>April 2008</b>		
early April	Begin mock appeals process	LSC
April	Event or 1x1 discussions - how does output inform work of external stakeholders	KPMG and external stakeholders
April	Learner focus groups - evaluation of FFE information on learner choice/decisions	LSC
April	Employer focus groups - evaluation of FFE information on employer choice/decisions	KPMG and LSC
April	Event: LSC (national/regional) - evaluation of FFE output on commissioning and market management	KPMG and LSC
April	Analysis of pilot provider evaluation questionnaires and distribution to interested stakeholders	LSC and KPMG
April	Development Group for phase 2 pilot providers in the pilot	KPMG, LSC and subset of pilot providers
April	Workshops: series with sample pilot providers' governing bodies, senior management teams - evaluation of FfE output on plans, performance improvement, etc	KPMG and LSC
16 April	First national end pilot evaluation event (Leeds)	KPMG
18 April	Second national end pilot evaluation event (Birmingham)	KPMG
22 April	Third national end pilot evaluation event (London)	KPMG
end April	Draft evaluation report with recommendations for Version 1 of the Framework	KPMG
late April	Completion of Development Group work for cross-cutting issues	KPMG
April / May	Regional 'demonstrator' pilot events held	Providers / KPMG
<b>May 2008</b>		
early May	Meeting with main stakeholders to discuss evaluation report and implications for Version 1 of the Framework	DIUS/Ofsted/QIA/LSC and KPMG
<b>June 2008</b>		
30 June	Publication of Framework Guidance Version 1 of the Framework	LSC

## 5. Communication and Support

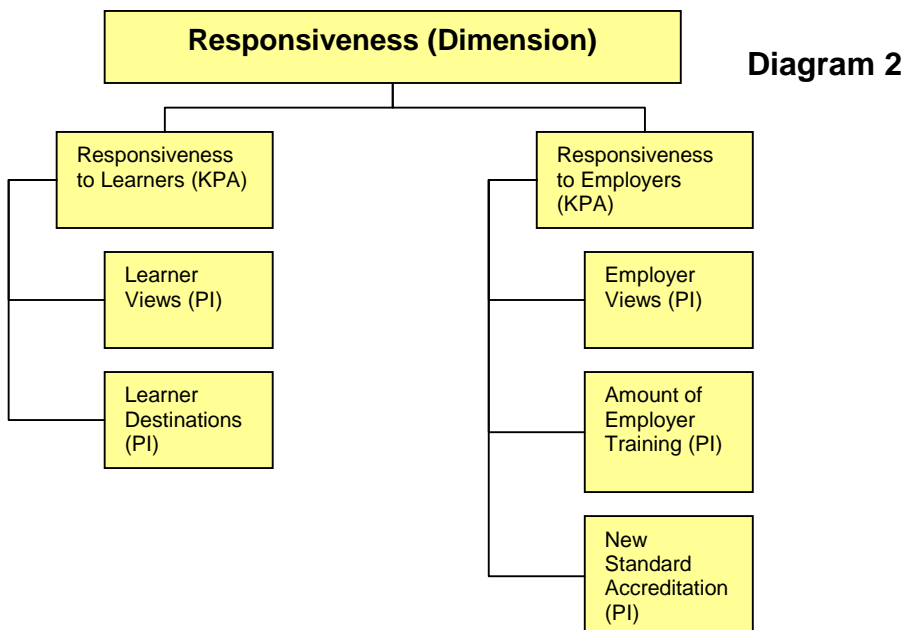
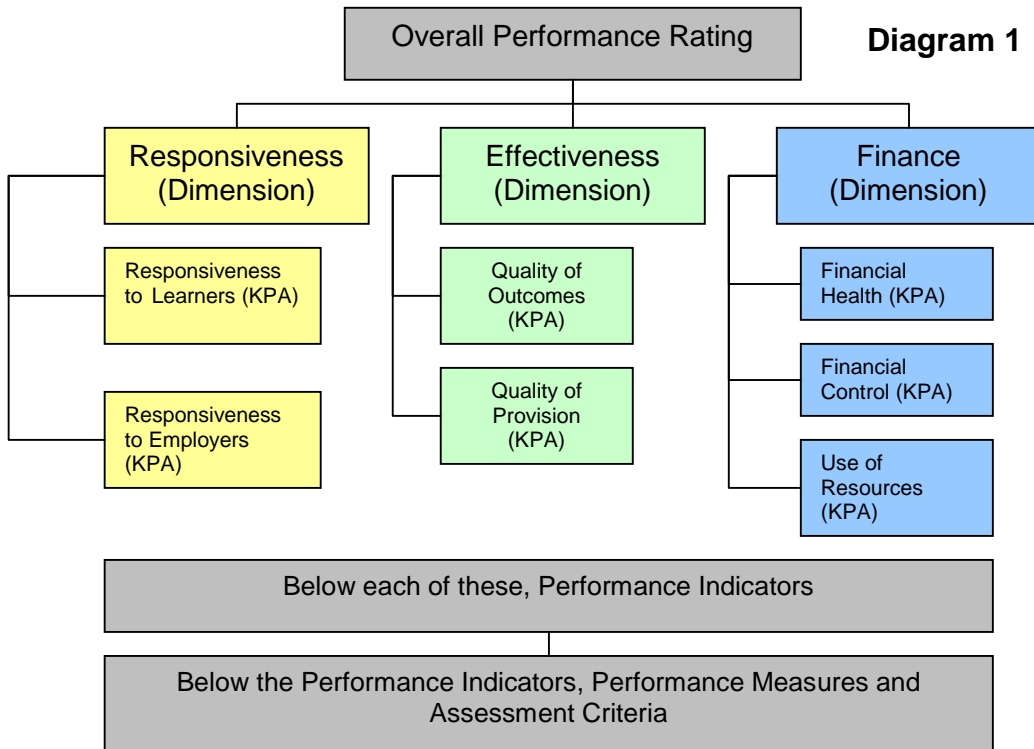
28. It is vitally important that there are clear, consistent and simple channels of communication between the pilot institutions, the LSC, QIA, KPMG and other interested parties.
29. There are two main features to the communication system:
  - each pilot institution has a nominated a liaison officer, who will disseminate information relating to the pilot within their organisation, co-ordinate responses and returns to the LSC, and attend the national briefing and evaluation events
  - each pilot institution will be allocated a KPMG adviser, who will be their first point of contact (Appendix 3); where KPMG is unable to answer queries, it will refer them onto the LSC's Framework for Excellence communications team, which will arrange for a direct response to the pilot institution and forward a copy to KPMG.
30. An exception to the above rule will be issues around the management and administration of the learner views survey and the employer survey, because of the technical aspects of this work. For technical queries relating to the learner views survey, pilot institutions will need to contact [learnersurvey@lsc.gov.uk](mailto:learnersurvey@lsc.gov.uk) and for technical queries relating to the employer survey, pilot institutions will need to contact [employersurvey@lsc.gov.uk](mailto:employersurvey@lsc.gov.uk).
31. Also, the LSC has set up a forum on its Framework for Excellence website, giving all providers the opportunity to discuss the Framework and share their experiences. Details of the forum, as well as the complete list of institutions participating in the pilot nationally, are on the Framework for Excellence website, <http://ffe.lsc.gov.uk/>.
32. There will also be regular communication between the LSC/KPMG and pilot institutions, which is likely to include:
  - monthly bulletins/newsletters from the LSC communications team
  - a system of e-mail alerts for changes in the pilot guidance document
  - teleconferences on specific issues hosted by KPMG.
33. Some pilot institutions may find it useful to share experiences either with groups in their geographical area or with similar institutions across England. Moreover, the LSC is keen to encourage those institutions that are not participating in the pilot programme to prepare for implementation of the Framework in 2008/09.
34. For pilot institutions working with regional LSC staff, the LSC will establish regional support networks and other mechanisms to enable discussion and mutual support from September 2007.
35. By participating in the QIA's new programme *Support for Excellence – Self-Assessment, Self-Improvement and Self-Regulation (SfE)*, colleges and institutions outside the Framework pilot group will have the opportunity to use the emerging PIs in their own organisations and in peer review and development activities. The programme will give this wider group the chance to hear about the experience from participants in the pilot programme, and provide feedback on the Framework. More details of the Support for Excellence programme are available at [www.qia.org.uk](http://www.qia.org.uk).

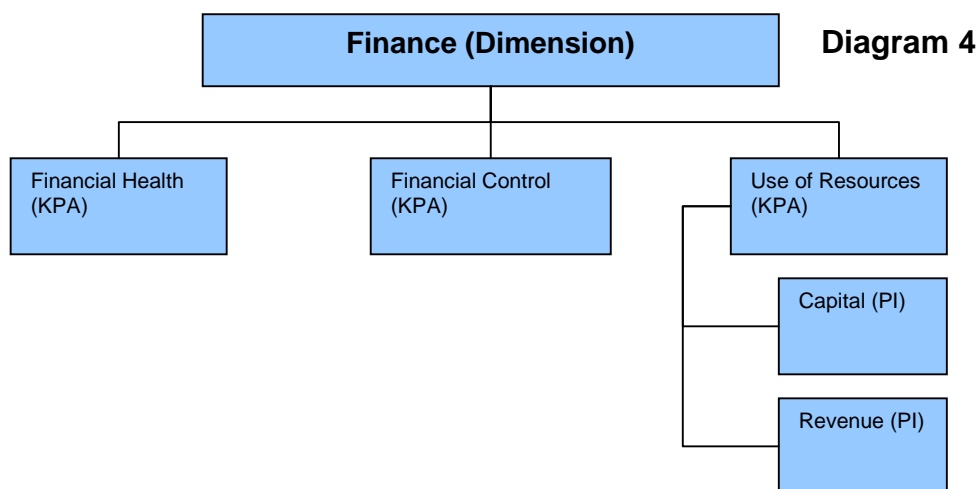
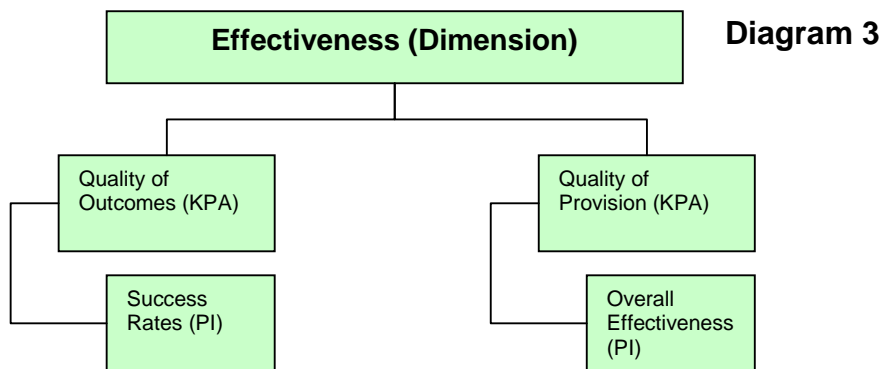
36. A significant element in delivering SfE will be supporting provider-based peer review and development activities, which will include aspects of the implications of Framework for Excellence. Pilot and non-pilot institutions will be welcome to join the SfE peer group activities. The output of the peer review and development work will inform the arrangements for implementing the Framework in 2008/09.
37. During the first phase of the pilot programme, the regional LSCs and Partnership Teams will be working with all colleges and providers to assist them, through:
- the existing regional networks
  - other networks developed through KPMG and QIA
  - regular channels of communication with individual colleges and providers.

# 6. How the Framework Works

## Structure

38. The structure of the Framework, broken down into OPR, PD, KPAs, PI, PM, and Assessment Criteria is shown in the diagrams below:





## Scores and Grading

39. The Framework for Excellence uses a four-point grading system, in line with the Common Inspection Framework. Performance indicators are attributed a grade of between 1 and 4, which are then combined and given an appropriate grade of between 'inadequate' and 'outstanding' (Tables 1 and 2).
40. The PM is an absolute measure of performance, such as the outcome from a learner survey or a qualification success rate. Assessment criteria are the criteria used to derive a grade (give an absolute judgement) for a PM or combination of PMs, to give a PI.
41. In deriving the OPR, the Framework will give equal weighting to the three dimensions; similarly, each dimension will give equal weighting to its constituent KPAs.
42. The proposal for the overall scoring of the Framework is based on a number of commonsense assumptions. For example, if all KPAs in a dimension have the same grade, the grade for the dimension must be that for the KPAs. Also, if the three dimensions have the same grade, then the OPR must have the same grade as the dimensions.



43. In addition, the following will apply:

- in any combination of three grades, the combined grade can be outstanding only if at least two of the subsidiary grades are outstanding, and inadequate only if at least two of the subsidiary grades are inadequate
- where grades are being combined, one of which is inadequate, the resulting combination can be no better than satisfactory. These assumptions also ensure that a college or provider cannot benefit from accepting inadequate performance in aspects of its provision.

## Combination of Grades

44. Each possible sum is allocated to one of the four dimension grades using a combination table (Tables 1 and 2).
45. It is important that the combination of two KPAs into a dimension is consistent with the combination of three KPAs into a dimension. If this combination is inconsistent, it may introduce a bias that makes it harder (or easier) to obtain a given grade in one dimension than another. The combinations shown in Tables 1 and 2 are consistent and contain no such bias.

**Table 1: Combining grades for a dimension with two KPAs**

Standard for the Dimension		Assessment Criteria
Grade 1	<b>Outstanding</b>	Sum of grades for constituent KPAs is 2
Grade 2	<b>Good</b>	Sum of grades for constituent KPAs is 3 or 4
Grade 3	<b>Satisfactory</b>	Sum of grades for constituent KPAs is 5 or 6
Grade 4	<b>Inadequate</b>	Sum of grades for constituent KPAs is 7 or 8

**Table 2: Combining KPA grades for a dimension with three KPAs or three dimension grades into the OPR.**

Standard for the OPR		Assessment Criteria
Grade 1	<b>Outstanding</b>	Sum of grades for the dimensions (or KPAs) is 3 or 4
Grade 2	<b>Good</b>	Sum of grades for the dimensions (or KPAs) is 5, 6 or 7, with no one dimension (or KPA) at grade 4
Grade 3	<b>Satisfactory</b>	i) Sum of the grades for the dimensions (or KPAs) is 6 or 7, with one of the dimensions (or KPA) at grade 4 or ii) Sum of grades for the dimensions (or KPAs) is 8 or 9, with no two dimensions (or KPAs) at grade 4
Grade 4	<b>Inadequate</b>	i) Sum of grades for the dimensions (or KPAs) is 10, 11 or 12 or ii) Two of the dimensions (or KPAs) are grade 4

## Exemptions

46. When deriving the OPR, consideration has to be given to whether each KPA or PI applies to a provider. For example, some sixth-form colleges may argue that their mission is to prepare young people for higher education and, therefore, that a Responsiveness to Employers KPA is not relevant to them. Under these and similar circumstances, it is proposed that some colleges and providers will be granted an exemption from one or more KPAs being used in the derivation of their OPR.
47. As a principle, any exemption should be objective, to enable effective cross-sector comparisons. Therefore, there will be rules applied to determine whether a provider is exempt from a particular KPA. Colleges and providers will not be able to elect for themselves which KPAs apply to their provision.
48. It is proposed for the pilot that all KPAs apply, except where the specific circumstances of certain types of provision or provider make it inappropriate. It will be part of the pilot programme to determine the exemption rules and in what circumstances they apply.
49. If during the pilot data from external sources is not available to determine a PI, then that PI will not be included in determining the OPR. However, if under the Framework a college or provider does not make agreed data available from internal sources, it will be deemed to be inadequate in respect of the relevant PI for the purposes of the pilot.
50. Ratings derived during the pilot phase will be reviewed by the LSC, as well as provided to pilot providers for assessment and comment. There will be an opportunity for the pilot providers to report to the LSC their views of the rating system and any issues of contextualisation which may have impacted upon their score. Section 9 'Moderation' sets out the detail of this process.
51. The LSC will undertake all calculations of scoring, for example generating the KPA, Dimension, and OPR scores. Pilot providers are not required to undertake this exercise. The LSC will provide pilot providers with all data and scoring mechanisms, and will consult them on their use and development.

## 7. Performance Indicators

52. The LSC expects that all of the PIs listed in this document (Appendix 1) will be used to generate the OPR during the first phase of the pilot programme; some of these indicators are already well developed and ready to use. Other indicators, in consultation with pilot providers and other stakeholders, will be subject to rapid development in the early part of the pilot programme; these are discussed in the next section.
53. Appendix 1 sets out for each PI:
  - what the indicator is
  - to what provider types it applies
  - how the score is calculated
  - issues to be resolved by the pilot programme
  - what happens during the pilot and when.
54. Other PIs may be added to the Framework at a later date. It is a fundamental principle of the Framework that it should provide a balanced picture for all providers, and it may prove necessary to introduce one or more indicators to achieve this aim.

From summer 2009, the Framework will apply to all providers that receive some element of LSC funding, for example adult and community learning and specialist colleges; the Framework may need adapting to ensure that the performance of these other provider types is addressed adequately and equitably.

## **8. Issues to be Resolved**

### **Development Groups - Individual PIs**

55. The LSC will use the pilot programme to test and resolve many practical issues that are specific to the application of individual PIs; a list of these issues is given for each indicator in Appendix 1.
56. For certain indicators, rapid development is required to ensure they are available to contribute to the OPR. KPMG and the LSC will draw up detailed plans for their design, testing and trialling. This development work will be run in much the same way as the Solutions Groups which met during March and April 2007 to help develop the prototype Framework.
57. For each of these indicators, KPMG will put together a small Development Group of representative providers to work with them and LSC specialists. Providers will be free to decide how much they wish to participate. If necessary, invitations will be extended to non-pilot providers. Each Development Group's views and conclusions will contribute to the creation of a draft specification for the indicator, similar to that set out for other indicators in this guidance document.
58. The PIs that will be the subject of these Development Groups are:
  - Learner views – treatment of learners on short courses, or courses with flexible start dates
  - Learner destinations (although this is already at an advanced stage)
  - Employer views survey – there are some specific aspects of this indicator, for example ensuring there is an accurate and comprehensive employer database, which requires provider involvement
  - Employer fees and training volumes
  - Financial health and control
  - Use of Resources – revenue and capital measures.

### **Development Groups – Cross-cutting Issues**

59. Development Groups will also be established to resolve a series of cross-cutting issues. These groups will include representative providers and other stakeholders, with an appropriate balance for the issue under consideration. The Groups are listed below:
  - Consortia and mergers;
  - Contextual factors and contextualisation;
  - Data development issues e.g. implications of using validated data from different time periods, the trend/volatility of performance data between years, missing data;
  - Publication (format, dissemination) of the FFE results;

- Production and use of management information, including the potential use of IT solutions to assist with the Framework.
60. Additionally, the LSC is establishing, on a trial basis, a Development Group with the freedom to explore issues identified by the Group itself, while avoiding duplication with the issues covered by the other Development Groups.
61. During August, the FfE Communications Team will send a general invitation to the liaison officers of the 100 pilot providers requesting nominees for Development Groups. The invitation will include the suggested terms of reference, and the likely start and report dates.

## 9. Analysis of Grading

62. Once all PIs have been calculated the LSC will apply the rules of combination to determine ratings for each KPA, PD, and the OPR.
63. The rating for each PI is determined by applying objective assessment criteria to a PM. In this sense there is no scope to change any rating through professional judgement – any relevant factors in determining a rating should be included as part of the assessment criteria.
64. However, because this is a pilot year, the LSC will wish to carry out an exercise to determine if changes should be made to the grading process, including:
- analysing the overall distribution of ratings for the 100 pilot providers for each PI, KPA, PD and the OPR. Does the output of the prototype Framework discriminate effectively and fairly between good and poor performers? Do the boundaries of the rating bands need to change (and with it the assessment criteria) to provide a distribution that is broadly in line with inspection outcomes?
  - analysing the statistical correlation between ratings for PIs, KPAs, PDs and the OPR against:
    - types of provider
    - potential contextual factors that are largely outside providers' control and may have a significant effect on one or more of their PIs.
  - considering circumstances around college and provider performance that are not taken into account in the prototype Framework. In this first phase of the pilot programme, the LSC plans to fully test the robustness of the Framework and will be receptive to comments and representations made by pilot providers. The results of any statistical analysis will be shared with all pilot providers.
65. Pilot providers will:
- receive not only their own indicative ratings but also the national distribution for each PI, KPA, PD and the OPR
  - have the opportunity to comment on the proposed assessment criteria and boundaries for the rating bands
  - have the opportunity to suggest contextual factors
  - be asked to put forward any special factors or extenuating circumstances, together with objective evidence, which they believe has influenced their performance and had a material effect on their ratings.

66. Where data is available for previous years in the same format as the pilot year, the LSC will analyse trends for the movement in PMs between years. Where it detects high levels of variation from year to year it will consider whether the specification for the relevant PMs needs to change, for example by introducing a three-year moving average.

## 10. Appeals Process

67. For the LSC it is critical that the Framework is seen to be applied fairly and equitably. Providers will also need confidence in the process, given that performance information will be in the public domain. Additionally, it is important for:
- learners and employers who may rely on its output to make choices
  - regulators, inspectorates and other intermediary bodies whose own work programmes may be influenced by the Framework's output
  - the LSC in its role of market management and commissioning.
68. The LSC's established appeal process will form the basis of an appeal system, and it is envisaged that:
- there will be clearly defined grounds for appeal
  - providers will have the opportunity to present evidence (in a prescribed format)
  - pilot providers will be consulted about how the process should work
  - the appeals process will be ready for implementation in the summer of 2008.

## 11. Testing the Response to the Pilot Framework Outputs

69. The LSC plans to consider evidence from pilot providers and a wider range of stakeholders in order to ensure that the Framework is fit for purpose when it is implemented fully in FE colleges and WBL providers in 2008/09.
70. Throughout the pilot programme, pilot providers will be expected to do some or all of the following:
- complete evaluation questionnaires which, for example, may be sent to different audiences, such as governing bodies and senior management teams
  - facilitate occasional site visits during the pilot by KPMG
  - provide information about the level of their own input to assist in carrying out a regulatory impact assessment
  - attend evaluation events which will be held in November, and at the end of the first pilot phase in March 2008
  - organise and ensure attendance at workshops designed to solicit their views, and discuss proposed action following the communication of the results of the Framework
  - organise and host focus groups/workshops of learners and/or employers to test the value of the Framework's output to them.
71. The LSC and KPMG will also organise other events or processes which providers will either be requested to attend or offered the opportunity to participate, for example:

- the LSC will give further consideration to the publication of the Framework results, for example how they are disseminated and in what format. Pilot providers may be canvassed for their views on different options
  - some providers may be asked to act as ambassadors or be a “demonstration” provider, which could entail hosting events, for example for other providers in their locality or region.
72. Towards the end of the pilot programme, in the spring of 2008, several issues will need to be addressed in relation to the experience of providers and other stakeholders:
- definition, data collection, and assessment criteria, for each PI
  - rules of combination and aggregation – including dealing with missing values
  - distribution of scores and correspondence with inspection grades, ensuring that the output of the Framework is equitable across provider types
  - extent of secondary data that will be made available to learners and employers, for example qualification success rates at course level
  - reaction/response of learners and employers
  - reaction/response of providers – combination of questionnaires, visits and workshops with providers on an individual and group basis – the key question is does the Framework lead to the right behaviours, or are there perverse incentives?
73. A series of events will be arranged to take these forward (Section 4: Timetable).

## **12. Evaluation of the Framework for Excellence**

74. There will be a separate three-year evaluation looking at the trialling and implementation of the Framework. The LSC is currently drawing up a specification to appoint an independent organisation to carry out this evaluation. The three-year evaluation will focus more on the impact of the Framework, its outcomes and the benefits realised by providers, learners and employers.
75. Proposed themes are:
- evaluation of the pilot and subsequent implementation
  - application of lessons learned from the 2007/08 pilot to improve subsequent piloting and implementation
  - evaluation of how learners and employers are using the Framework to inform the choices they make about learning and training
  - evaluation of the benefits of driving improvements in the FE system and the supporting moves towards self-regulation
  - evaluation of the benefits in shifting resources from the regulatory system to frontline delivery
  - evaluation of benefits to the LSC in securing optimal outcomes relating to its commissioning and capital investment in the FE system
  - evaluation and comparison of the introduction of the Framework, with the introduction of other public service performance assessment frameworks, such as Local Authority Comprehensive Performance Assessment (CPA), and schools’ quality performance indicators.

## Methodology

76. Over the phases of the evaluation, the evaluation methodology is anticipated to include:
- feedback from LSC, Ofsted and QIA
  - feedback from relevant national stakeholders
  - feedback from providers
  - feedback from customers (learners and employers)
  - a quantitative aspect – to measure outcomes and impact
  - a qualitative aspect – to deepen the understanding of perceptions and to build on the quantitative analysis
  - desk analysis of other documents and data.

# Appendix 1: Specifications for Individual PIs

## Responsiveness to Learners

### Performance Indicator 1: Responsiveness to Learners – Learner Views

#### Applicability

77. The PI is applicable to all provider types.

#### Definition

78. Summary measure about learners' views on their provider's responsiveness, applicable to all provision funded by the LSC.

79. The indicator will be based on a provider-level learner survey. Data will be generated from 10 questions which are based on the core questions from the National Learner Satisfaction Survey (NLSS). The questions apply to the majority of learners in the majority of learning contexts and, taken together, also cross-reference the whole of the learners' journey. The questions will capture learners' views about:

- information, advice and guidance
- quality of teaching and training
- overall satisfaction with the learning experience
- satisfaction with the level of support available
- whether the learning programme meet individual need
- whether learners are treated fairly and with respect
- opportunities to give feedback about how providers can improve
- whether the provider is responsive to learners' views.

80. The proposed questions are currently being tested with different types of learners to check their interpretation and understanding; the final questions to be tested during the pilot will be published in September 2007.

81. The assessment criteria will be applied to an overall learner response score generated from the responses to the individual questions.

#### Methodology of calculating the score

82. Options for generating the overall learner response score and assigning grades will be explored during the pilot. One option is to average the percentage of respondents giving positive ratings (for example, strongly agree or agree) for each of the questions, and use preset minimum overall learner response scores for performance ratings of outstanding, good, satisfactory and inadequate. Currently, no provider or national datasets exist that would allow us to predict the overall learner response scores for the assessment criteria.



## Issues to be resolved in the pilot programme

### 83. *Impact*

- Additional workload on providers and learners for the administration of the survey
- learners' views about the survey questions and the value of the resultant performance ratings
- links between survey responses and providers' management information and qualitative evidence.

### *Approach*

- timing of the survey, specifically the impact of seeking learners' views in the early stages of their learning programme.
- whether to carry out a census or sample survey of priority learners beyond the pilot phase of the Framework
- approach to surveying learners on short courses or courses with flexible starts to ensure all learner views are captured
- whether a web-based or paper-based survey is the most effective way to generate learner responses
- treatment of learners on short courses or courses with flexible starts to ensure that all learner views are captured.

### *Assessment criteria*

- calculation of overall learner response rates and assessment criteria
- inclusion of response rates in the assessment criteria
- how to deal with non-responses and what will constitute a reasonable response rate from learners
- impact of learner mix/type of learning, where providers deliver more than one type of provision to those in the priority learners' category.

## Timeline

84. Providers will be required to undertake a new annual survey of their learners using a common methodology. Although surveys will be administered locally, questionnaires will be returned to the LSC for central analysis.
85. During the Framework pilot, the LSC has commissioned RCU Ltd. to support the collection and analysis of data relating to learners' views. Piloting providers will chose either a paper- or web-based approach and undertake a census survey of priority learners<sup>1</sup> during November and December 2007. In order to capture information from learners who leave before the end of a programme, piloting providers will be required to ask all priority learners who leave their programme prematurely during October 2007–December 2008 to complete the survey as part of their exit process.
86. The LSC will supply paper-based questionnaires or a prototype web-based questionnaire. During June-July 2007, piloting providers will be consulted to identify:

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<sup>1</sup> Priority learners include: all 16-18s (regardless of programme length); all learners on programmes that can contribute towards a full level 2 or full level 3; all learners on target-bearing Skills for Life (SfL) programmes; all work-based learners; all learners not included in the above categories with learning difficulties and disabilities.

- whether they want to opt for a wholly web- or paper-based approach
  - any special requirements to ensure the survey is accessible to all target learners.
87. Providers will be required to estimate the number of learners who will be undertaking the survey:
- providers opting for a web-based approach will need to provide an estimate of the number of learners within scope for the survey before the end of October
  - providers opting for a paper-based approach will be required to provide an estimate of the number of questionnaires and number of 'group' envelopes they will require by the end of September 2007, to allow sufficient time to produce the questionnaires. The concept of a 'group' is for administrative purposes only and it is entirely up to providers to decide the easiest way to group learners together to complete the questionnaire. After the learners within a group have completed the survey, the questionnaires will be placed into the group envelope and sealed. Each envelope will have full instructions printed on the back to guide staff administering the survey.
88. Providers will need to generate lists of learner reference numbers (as recorded on the Individualised Learner Record) and ensure that learners have access to these while completing the survey. The learner reference number is needed for validation purposes. It also simplifies and shortens the survey, preventing the need to ask background questions about the learners and their learning.
89. Questionnaires and on-line data will be returned to the LSC on a specific given date for analysis. RCU Ltd. will arrange for a courier to collect the completed paper-based questionnaires from each provider.
90. The LSC will undertake:
- analysis of the returned questionnaires to establish an overall learner response score and a performance rating for the learner survey indicator for each provider
  - the generation of benchmarking data.
91. The LSC will return the following information to the piloting providers:
- performance rating for the learner survey indicator
  - overall learner response score for the 10 questions
  - percentage responses for each question
  - benchmarking data.

## **Performance Indicator 2: Responsiveness to Learners – Destinations**

### **Applicability**

92. The PI is applicable to all provider types.

### **Definition**

93. The first pilot phase of the Framework for Excellence (2007/08) will generate new evidence on the destination and progression of learner cohorts from priority learning into subsequent activities.
94. The LSC has commissioned RCU Ltd. to undertake the collection and analysis of learner destinations data during the Framework pilot. Piloting providers will not be required to collect learner destinations data but will receive detailed outputs from the piloting of this indicator.

### **Methodology of calculating the score**

95. The score is likely to be a single figure for each provider. This will give the proportion of learners (net of planned inactivity, for example gap years) found to be in a positive destination. It is not clear yet whether untraced learners would count against the provider but the pilot will reveal whether, for example, there is a significant variation in the proportion of inaccurate contact details at different providers. The initial assessment criteria will be defined by the collection of destinations data during the pilot; these criteria will be available during January 2008.
96. Since no national dataset of this information currently exists, the LSC will work with stakeholder organisations during the pilot phase to agree what will constitute a positive destination in the context of the measure and to set assessment criteria for different levels of performance.
97. The initial evidence base will relate to the 2005/06 leaving cohort from the 100 pilot providers, monitored to determine their 2006/07 activity (measurement year).
98. There are two phases to the derivation of results. During July and August 2005/06 priority learners<sup>2</sup> who completed at least one of their learning aims in 2005/06 and were not continuing any into 2006/07 will be matched into the 2006/07 learner datasets for all publicly-funded post-16 provision, including higher education.
99. During July through to early September 2007, RCU Ltd. will conduct a telephone survey and attempt to interview learners who were untracked by the data-matching process.

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<sup>2</sup> As with learner views, the priority measures include: all 16-18s (regardless of programme length); all learners on programmes that can contribute towards a full level 2 or full level 3; all learners on target-bearing SFL programmes; all work-based learners; all learners not included in the above categories with learning difficulties and disabilities. Learners will not be included if their programme includes any learning aim with an expect completion date that runs into the following academic year.

## **Issues to be resolved by the pilot programme**

100. The first pilot phase of the Framework for Excellence (2007/08) will generate new evidence on the destination and progression of learner cohorts from priority learning into subsequent activities.
101. The pilot phase will look specifically at:
  - what will constitute a positive outcome
  - testing of the assumption that there would be no additional burden on providers
  - the form in which the information gathered during the data-matching and survey phases can be shared with providers
  - timing of surveys in future years.
102. Comments on these matters will initially be sought from pilot providers at the mid-pilot events in November.

# Responsiveness to Employers

## Performance Indicator 1: Employer Views

### Applicability

103. The PI is applicable to all providers directly contracting with employers. Employers in this context includes those who employ others, those who are self-employed and trade unions.
104. Following discussions with pilot providers, and taking account of feedback we have received, we will probably restrict the use of the pilot survey to employers who have been actively involved in the commissioning and design of provision, which is specifically designed to meet their *individual* needs. Such provision will normally be dedicated to the individual employer, although it may occasionally be commissioned by two or more employers acting in concert. Courses which are normally open to all will *not* be within the scope of the survey.
105. We will consider in the pilot the best way to survey the views of employers who pay fees for employees, where employees (and the self-employed) join courses or other provision which are open to learners more generally.
106. FfE pilot providers who have already surveyed their employers for New Standard purposes (see below) will be able to submit this survey data, and will *not* have to conduct the FfE Employer Views survey. Those providers that intend to conduct, before February 2008, a survey to support their application for the New Standard are requested to include the Framework for Excellence employer views survey in their wider set of questions.

### Definition

107. Summary measure of employer satisfaction with providers during any period of the Framework.
108. Ratings will be based on employers' views of providers on key areas of delivery. These key areas will correspond to the core elements of the New Standard for 'Employer Responsiveness' – in particular the 'Respond', 'Deliver', 'Relate' and 'Perform' elements.
109. The questions for the summary measure will be explored in the pilot.

### Methodology of calculating the score

110. A decision is yet to be made as to which type of survey process will be the most appropriate – centrally administered by the LSC or provider run. The pilot survey will consist of standard questions (based on New Standard assessment criteria), and providers will be required to return their responses to the LSC for analysis.
111. This survey will be developed in two phases: the first will develop the questionnaire during summer 2007; the second will pilot the full survey as part of the Framework pilot. The results of this development work will feed in to recommendations for a full

employer satisfaction survey, to be rolled-out across all college and WBL providers in 2008/09.

112. The pilot programme will explore the benefits and costs of different survey methods (telephone, postal, web-based), as well as developing, testing and refining the most appropriate questions. Some large providers will be asked to trial all three survey methods side by side with different sets of employers. For all other providers (where applicable) we will agree which method will be used, with the aim of achieving a balance between the three types.

### **Issues to be resolved by the pilot programme**

113. The pilot programme will need to review and assess the:

- additional workload on providers
- additional workload on employers
- timing of surveys
- best methodology for running surveys, for example centrally administered or provider run
- survey methodology
- assessment criteria
- levels of responsiveness to satisfactorily inform the assessment criteria from survey results
- costs and benefits of national or local surveys
- extent to which the PI informs employer choice
- extent to which perverse incentives feature as a result of this KPA
- applicability of this PI to different types of provider

114. Once the employer surveys have been undertaken in late 2007, the LSC will seek feedback on the above matters through the use of a questionnaire, and at the mid-pilot events in November.

### **Data and recording of data**

115. A new survey of employers directly contracting with providers.

## Performance Indicator 2: Income from employers and volume

### Applicability

116. The PI is applicable to all providers directly contracting with employers. Employers in this context include those who employ others, the self-employed and trade unions.

### Definition

117. The indicator will be a measure based on:

- income from employers
- the volume of learning directly contracted with employers.

118. The concept behind this indicator is that providers who attract substantial income from employers or who deliver high volumes (or who deliver to large numbers of employers) have shown that they are more responsive to employers than providers with small incomes and volumes, and will therefore be more attractive to other potential employer customers.

119. There are a number of options for the definition of the employer income and volumes measure. Also, contextual factors (such as the provider's size, location and mission) are relevant to the interpretation of these.

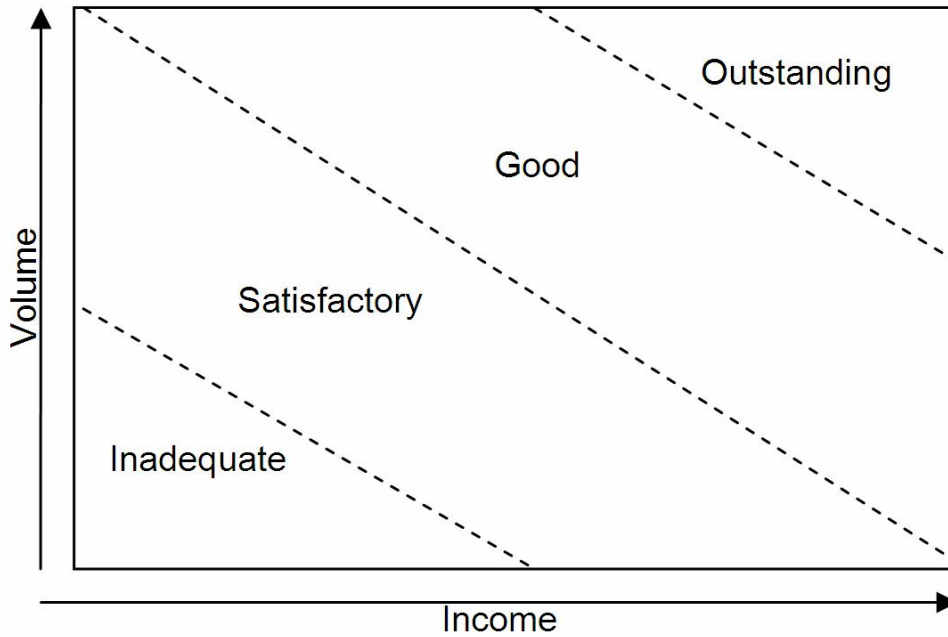
120. The provisional scope of the income from employer measure includes:

- fee income paid by employers for delivery of learning/training (including fees for provision dedicated to a particular employer and fees for provision open to all, and including 'full cost provision')
- LSC funding for provision contracted by employers such as Train to Gain
- LSC funding which subsidises employer fees on courses which are open to all.

121. The provisional scope of the measure for volume of learning contracted directly with employers is all provision serving employers, irrespective of whether the learners are in dedicated provision or provision open to learners more generally.

122. The proposed model of assessment criteria gives the highest scores to providers with high values for the employer income and volume measures, and the lowest scores to providers with low values for these measures. The model is illustrated on the next page.

## Proposed Model of Assessment Criteria



### Issues to be resolved by the pilot programme

123. The pilot programme will help determine workable measures for fee income and volumes to form this performance indicator. Specifically, we will examine how contextual factors can be built into the assessment criteria.

### Data and recording of data

124. The data sources are:

- financial returns
- Train to Gain data.

Other options are being considered, including the ILR.

125. All data is held by the LSC.



## Performance Indicator 3: Achievement of the New Standard for Employer Responsiveness

### Applicability

126. The PI is applicable to all providers directly contracting with employers. Employers in this context include those who employ others, the self-employed and trades unions.

### Definition

127. The New Standard for employer responsiveness will be a comprehensive badge for employers across the entire training market. Assessment is voluntary and will be verified in consultation with employers. The New Standard was rolled out in summer 2007, and will be applicable across publicly and privately funded provision. Accreditation to the New Standard will be based on assessment against a number of criteria which look at the processes providers have in place to meet employers' needs, and the outcomes achieved by providers.
128. The evidence used to assess the employer satisfaction measure in the Framework for Excellence will be based on a subset of the assessment criteria from the New Standard. It is proposed that providers who achieve the New Standard will automatically be rated as outstanding for the whole responsiveness to employers key performance area, for the period for which the Standard is awarded (normally three years).
129. In a reciprocal arrangement, it is proposed that from summer 2009, any provider who is in scope for the responsiveness to employers key performance area will need to achieve a rating of 'good' or outstanding' *before they can apply for the New Standard*.

### Issues to be resolved by the pilot programme

130. The objective of the pilot phase is to:
- assess the implications of not submitting information on employer satisfaction each year
  - explore the ramifications of providers slipping below expected performance on the fee income and volumes measures in the inter-accreditation period.
131. A questionnaire will be issued to pilot providers concerning these matters, and they will again be discussed at the mid-pilot events in November. Further development plans will be announced following these events.

### Data and recording of data

132. There will be a register of providers that have achieved the New Standard on the relevant website at: <http://www.newstandard.co.uk/>.

# Quality of Outcomes

## Applicability

133. The KPA is applicable to all provider types that deliver accredited learning aims.

## Definition

134. The PI is derived from four qualification success rates:

- FE long courses, excluding A-levels
- FE short courses
- A-levels
- apprenticeships and advanced apprenticeships (combined)
- the A-level value-added measure from the LSC's Learner Achievement Tracker (LAT).

## Methodology of calculating the score

135. The qualification success rates for the four constituent groups are transformed to a score using a prescribed scoring system. A bonus score calculated from the A-level value-added for the college or provider is added to the A-level QSR score. The starts weighted average of the scores for the four constituent groups is then calculated and compared with the assessment criteria to give the grade for the success rate performance indicator.

## Issues to be resolved by the pilot programme

136. The LSC will calculate the Framework score, and then undertake sensitivity analysis of the scoring system and the assessment criteria. The data will be provided to the pilot organisation and feedback will initially be sought in late October/early November 2007 through the use of a questionnaire, and at the mid-pilot events in November 2007. Pilot providers will also be required to comment on the grade boundaries in the assessment criteria. Additional issues to be explored are:

- whether the KPA should capture short course success rates? Are there any "perverse incentives" for the inclusion of this success rate for the FE system?
- what are the appropriate assessment criteria?
- is the method of bringing together value-added measures and A-level success rates valid?
- develop and test process of calculation of overall score.

## Data

137. The data sources are the Individualised Learner Record (ILR) and the LAT (available through the Provider Gateway).

138. Further details of consultation methods and events will be discussed and agreed at the briefing events in July 2007.

# Quality of Provision

## Applicability

139. The KPA is applicable to all provider types.

## Definition

140. The quality of provision KPA has one PI: Ofsted's current judgement on the overall effectiveness of the college or provider. This is because the LSC considers that the Framework should be based on objective indicators and evidence.
141. For the pilot version of the Framework, assessment of the quality of provision will be based on Ofsted's most up-to-date judgement of the overall effectiveness of the college or provider, usually based on the most recent inspection or reinspection outcome.
142. While Ofsted's judgement will provide evidence for some colleges and providers, it may not reflect the current position of others. During the pilot, the LSC will work with Ofsted to explore options for taking account of this, including the use of information from monitoring visits and the scope for using Ofsted's consideration of a college's or provider's self-assessment.
143. New colleges or providers that have not been inspected in the current or previous cycles will be exempt from the quality of provision key performance area, until such time as they have been inspected by Ofsted.

## Methodology to calculate scores

144. Ofsted will provide their opinion on the overall effectiveness of the college or provider against the Common Inspection Framework. Annual desk-top reviews by Ofsted of college/provider performance reports, Framework for Excellence outcomes and other evidence may be taken into account.

## Data and recording of data

145. Assessment undertaken by Ofsted, and grade generated in line with the Common Inspection Framework.

## What happens when

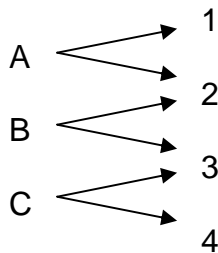
146. Further details of consultation methods and events will be discussed and agreed at the briefing events in July 2007.

# Financial Health

## Applicability

147. The LSC monitors the financial health of providers and has well-established and accepted procedures for fulfilling this need. Where a provider's financial health is identified as being weak, the LSC typically requires the provider to develop robust plans to improve its financial health, drawing on a range of intervention measures available to the LSC as appropriate.
148. Under the Framework for Excellence, the LSC will continue to monitor providers' financial health as a key performance area, based on three performance measures, rather than the existing six ratios, with the expectation that providers perform well in all areas. It will acknowledge providers that perform consistently well against the three ratios. Financial health ratings will be published for the first time.
149. For example, a provider would be classified as financially secure if it was able to continually generate a reasonable level of operating surpluses reliably as planned and, through those, accumulate a reasonable level of financial reserves. The provider would also need to generate sufficient cash to finance its operations and meet its liabilities; regular operating surpluses would normally ensure this.
150. Currently, the LSC uses six ratios to help assess a provider's Financial Health and determine an appropriate Financial Health group of A, B or C. Under the Framework, and subject to ongoing consultation, the six ratios will be reduced to three:
  - solvency (current ratio)
  - sustainability (operating surplus or deficit)
  - status (borrowing as a percentage of certain reserves and debt).
151. Detailed definitions for each Financial Health ratio are shown in Annex 1: of the three proposed ratios, solvency and status can be more readily evaluated, as they compare directly with existing individual ratios. Borrowing is more complex, as it will replace two existing ratios which, for colleges, are measured by:
  - general reserves as a percentage of adjusted total income
  - total borrowing as a percentage of adjusted total incomeand for WBL providers by:
  - interest cover
  - total borrowing as a percentage of net tangible worth.

152. It is envisaged that a provider currently assessed as falling into Financial Health group A, B or C will normally be re-assessed as group 1, 2, 3 or 4 as follows:



153. The existing definitions of ABC are shown in Annex 2, together with proposals for Financial Health definitions for grades 1-4 in Annex 3. These will be reviewed and confirmed during the pilot.

154. The proposed definitions of the three measures differ slightly between FE colleges and other providers, but they serve the same purpose: to assess the overall robustness of a provider's finances and to understand the degree of risk they may represent if they do not have sufficient financial capacity to continue to deliver the LSC's remit. The three ratios for the pilot are as follows:

- **solvency** - relates to the capacity of a provider to meet its short-term financial obligations. For the Framework, it is defined as current ratio where current ratio is current assets divided by current liabilities. Current ratio is a measure of a provider's liquidity, where higher ratios indicate a more stable short-term position
- **sustainability** - relates to a college's operating surplus or deficit of income generated over expenditure incurred for a particular accounting period; for other providers it relates to profit as a percentage of turnover
- **status** - relates to a provider's total borrowings as a proportion of reserves and debt; this indicator will measure a provider's capacity to access financial resources from lenders.

155. Each of the three measures will receive a score ranging from zero to 100, where zero represents a low value and 100 represent a high value. The scales on which the scores are based may vary by provider type. These three scores will be added together to arrive at an overall score ranging from zero to 300. Where a provider exceeds a specified threshold for two or more of the three indicators, it is proposed to recognise consistent good performance in the scoring. The total score, including a score for consistent good performance where relevant, will be translated into an overall grade for the Financial Health KPA of outstanding, good, satisfactory or inadequate.

156. It is proposed to explore whether there is a need to apply a different approach where a non-college provider only receives a small proportion of its funding from the LSC.

157. It is anticipated that a relevant college group, such as a college's Finance & General Purpose Group (F&GP) will be required to consider its Financial Health and Use of Resources and, in parallel to this, that a college's audit committee will be required to consider the college's Financial Control in its annual report.

### **Issues to be resolved in the pilot programme**

158. During the pilot we will explore a number of issues, including:
- how providers are likely to respond to the publication of financial health grades, for example in making management decisions
  - the implications of putting financial health grades in the public domain
  - dealing with the variation in the ratios from year to year
  - the impact of major capital investment projects on colleges' financial health
  - the possible need for different assessment criteria for different provider types
  - the most appropriate approach to validation of data.

### **Deriving the KPA**

159. For the pilot, the Financial Health KPA will be scored with and without recognition for stability (consistent performance.) This is detailed further in paragraphs 169 and 170.

### **Pilot activity and what we want pilot providers to do**

#### **Colleges**

160. All data-modelling will be carried out by the LSC's Framework for Excellence Finance Dimension Project Team; extensive data-modelling and consultation has already taken place to set a starting point for the parameters for the three ratios.
161. Prior to the pilot, the College Finance Record 2006/07 was amended to include additional fields for memorandum calculations for the three ratios proposed under the Framework for Excellence.
162. The College Financial Plan will be completed and returned to the LSC by 31 July 2007 and will include the forecast out-turn for 2006/07, plus three future years (and up to 10 years if the plan includes capital expenditure).
163. The 2006/07 College Finance Record will be completed and received by 31 December 2007 and will include the actual out-turn for 2006/07.
164. Once the College Financial Plan is received and the results of all colleges' workbooks are loaded into the LSC's systems, the three Framework ratios will be modelled for the 100 pilot providers, in parallel with the six existing ratios.

Pilot providers will then be asked to review the results and feedback their findings and recommendations, for example through a workshop. The remaining non-pilot colleges will then also be modelled for both sets of ratios and the results scrutinised.

165. A number of modelling exercises may be necessary and, by the end of the pilot programme, a fair and consistent model will be produced for colleges and other providers to generate a four-point score based on the three proposed ratios.

### **WBL and other providers**

166. A sample of WBL providers has also been modelled for the six existing and three proposed ratios, subject to the same scoring grids and scrutiny as the colleges using their financial accounts.
167. During the pilot programme, the pilot WBL providers will be modelled together with a wider sample of WBL providers and a sample of other providers.
168. Consultation will take place and will include WBL workshops to consider the results of data-modelling and the appropriateness of scoring grids. The final scoring grids for WBL providers may differ from those for colleges, an issue that will be explored during the pilot programme.

### **Financial Health Scoring**

#### **Colleges**

169. The initial Financial Health score (without stability) will be the sum of the scores for the three individual ratios. This initial score, up to a maximum of 300, will then be translated into outstanding, good, satisfactory or inadequate, in line with the Framework's scoring (Table 2.)
170. In addition to this initial score (without stability,) pilot providers will also be modelled on a further basis to reward consistent good performance above a particular threshold (Table 3.) This final score (with stability,) up to a maximum of 400, will be converted into a four-point score (Table 4):

#### **Step 1: Initial scoring**

For each of the ratios a score of zero to 100 points will be awarded, based on performance.

**Table 1: Scoring the Financial Health Ratios**

Score	Adjusted Current Ratio	Operating Surplus	Borrowing as a % of Reserves and Debt
0	< 0.4	< -3	> 80 or negative
10	> 0.4	> -3	< 80
20	> 0.6	> -2	< 70
30	> 0.8	> -1	< 60
40	> 1.0	> 0	< 50
50	> 1.2	> 1	< 40
60	> 1.4	> 2	< 30
70	> 1.6	> 3	< 20
80	> 1.8	> 4	< 10
90	> 2.0	> 5	< 5
100	> 2.2	> 6	= 0

**Step 2 – Grade scoring (without stability)**

A summation of the scores for the above ratios will provide a total score out of 300, which will be compared to the following table to derive an overall Financial Health Score (without stability.)

**Table 2: Translating the Financial Health Score (without stability)**

1	Outstanding =	221 to 300
2	Good =	141 to 220
3	Satisfactory =	71 to 140
4	Inadequate =	<=70

**Step 3: Additional points for stability**

A further measure, to recognise stability, will be provided by granting additional stability points to the totals generated in Step 2 as follows:

**Table 3: Recognition of stability**

Two ratios $\geq 50$	add 50 points
Three ratios $\geq 50$	add 100 points



## Step 4 – Grade scoring (with stability)

**Table 4: Translating the Financial Health Score (with stability)**

1	Outstanding	=	331 to 400
2	Good	=	201 to 330
3	Satisfactory	=	71 to 200
4	Inadequate	=	<=70

### WBL and other providers

171. Scoring and rating for WBL providers has initially been based on the scoring tables in steps 1 – 4 for the three ratios, but as the pilot develops, consideration will be given as to whether one scoring approach suits all provider types.

### Evaluation Arrangements for Piloting Work

172. As previously described, the six existing and three proposed ratios will be modelled in-house and evaluated for:

- the 100 pilot providers
- all remaining colleges
- a large sample of non-college providers.

The findings will be initially evaluated by the 100 pilot institutions and the Framework for Excellence Finance Dimension Team. These will be further reviewed through consultation and workshops to recommend a workable solution for scoring Financial Health.

## Financial Health – Ratio Definitions (Annex 1)

Ratio	Definition
<b>Solvency</b>	<p><b>For colleges:</b></p> <p>Adjusted current ratio: <math display="block">\frac{\text{Current Assets}^*}{\text{Current Liabilities}}</math></p> <p>Whereby current assets = Finance Record 05/06 Table 2 section 2  current liabilities = Finance Record 05/06 Table 2 section 3</p> <p>Current Assets (Finance Record 05/06 - Table 2 section 2):</p> <ul style="list-style-type: none"> <li>• stocks and stores in hand</li> <li>• trade debtors</li> <li>• fixed assets held for resale</li> <li>• other debtors</li> <li>• other short-term investments and cash.</li> </ul> <p>Note: Restricted cash and short-term investments from disposal of fixed assets held for future fixed assets acquisitions will be excluded from the current assets figure.</p> <p>Current Liabilities (Finance Record 05/06 - Table 2 section 4)</p> <p>Creditors: amounts falling due within one year:</p> <ul style="list-style-type: none"> <li>• overdrafts</li> <li>• loans</li> <li>• LEA deficit loan</li> <li>• capital element of finance lease</li> <li>• trade creditors</li> <li>• tax and pension contributions</li> <li>• payments on account</li> <li>• fixed asset creditors</li> <li>• other.</li> </ul> <p><b>For WBL and all other providers:</b></p> <p>Current ratio defined as: <math display="block">\frac{\text{Current Assets}}{\text{Current Liabilities}}</math></p>



## Financial Health – Existing Definitions (Annex 2)

Grade	Traditional
A	Providers that appear to have sufficiently robust finances to fully discharge their contractual obligations and to deal with the circumstances most likely to occur over the next few years.
B	Providers that show signs of financial weakness that might limit their ability to fulfil their contractual obligations, if they encounter adverse circumstances during the next few years: providers in this group may have features similar to those for group A.
C	Providers that are financially weak and are, or may become, dependent on the goodwill of others. This might involve, for example, a loan from their bank for solvency purposes or support from another group company. There is significant risk of providers in this group not being able to fulfil contractual obligations because of weak financial health.

## Financial Health – Proposed Definitions (Annex 3)

Grade	Traditional	Alternative
1 Outstanding	Providers with very robust finances to fully discharge their contractual obligations and to deal with the circumstances most likely to occur over the next few years.	Providers with excellent/good indicators for solvency (current ratio), margin (operating surplus/profit), and status (gearing).
2 Good	Providers with sufficiently robust finances to discharge their contractual obligations and to deal with most circumstances likely to occur over the next few years.	Providers with at least two good indicators for solvency (current ratio), margin (operating surplus/profit), and status (gearing).
3 Satisfactory	Providers that show signs of financial weakness that might limit their ability to fulfil their contractual obligations, if they encounter adverse circumstances during the next few years.	Providers with at least two satisfactory indicators for solvency (current ratio), margin (operating surplus/profit), or status (gearing).
4 Inadequate	Providers that are financially weak and are, or may become, dependent on the goodwill of others. There is a significant risk of providers in this group not being able to fulfil contractual obligations because of weak financial health.	Providers with at least two inadequate indicators for solvency (current ratio), margin (operating surplus/profit), or status (gearing).

NB. The revised definitions will be confirmed during the pilot process.

# Financial Control

## Applicability

173. The Financial Control KPA is applicable to all provider types. It has one PI: for colleges it will be based on the opinion of LSC auditors as part of their FM&G review; for providers funded through contracts, the PI will be based on a newly constructed document drawing on both the PCRA and the BEQ. Further details are given below.

## Definition

174. Financial controls are the activities carried out and evidenced by providers to ensure that LSC funds are used for the purposes intended, properly accounted for and in accordance with contractual requirements. Information on current audit regimes is provided at Annex 1.
175. The scope of the Financial Control KPA should cover all aspects of financial management that are relevant to LSC-related business activities. Financial controls should be thorough, robust and be able to demonstrate financial management accountability, including relevant aspects of governance. The scope of financial control will include the soundness of internal control, the maintenance of regularity and the application of the proper use of LSC funds.

## Methodology to calculate the scores

176. LSC auditors will assess a provider's financial controls and determine a grade of outstanding, good, satisfactory or inadequate for this PI, based on a consistent approach to their reviews of:
- providers' financial management and governance
  - providers' internal controls and use and application of LSC funding streams.
177. The grade for Financial Control will then be combined with the KPA grades for Financial Health and Use of Resources to produce an overall grade for the Finance Dimension.
178. Colleges will continue to be assessed on the basis of FM&G reviews. The LSC will use the existing grades for all pilot colleges and convert them into a Financial Control grade, which will be fed back to colleges for comment in autumn 2007.
179. The basis for the Financial Control score for colleges will be the annual Self-Assessment Report Questionnaire (SARQ) which is validated during the LSC's FM&G reviews during college inspections. The LSC audit team's opinion will be expressed as a score on a scale of 1 to 4. During the pilot, the current scoring mechanism for Effectiveness will be used, and where colleges are currently scored either a 4 or 5 during FM&G reviews, this will be categorised as inadequate under the Framework for Excellence. After the

pilot, a revised SARQ document will be used as part of the FM&G review, to aid the four-point scoring under the Framework.

180. For providers funded through funding agreements (contracts), the existing PCRA and BEQ will be condensed into one audit assessment document, with the objective of reducing the burden on providers. LSC auditors will review this new audit assessment tool along with other audit techniques, such as substantive testing and controls testing. The current two opinions for use of funds and internal controls will continue to be given, but they will be combined into an overall grade on a four-point scale.

### **Issues to be resolved by the pilot programme**

#### Colleges

181. During the update of the SARQ, a number of issues will be considered. For example, under a full scope review, how will the two opinions currently given be combined into a single grade, and would a desk-based review be given equal weight to a full scope review? The revised document will be ready by autumn 2007.
182. FM&G reviews occur alongside Ofsted inspections, and as such it is expected that there will only be a limited number of pilot colleges that are due for inspection during the first phase of the pilot programme. It is therefore envisaged that from autumn 2007 the revised SARQ will be piloted at colleges where Ofsted inspections take place, and this will therefore include colleges that are not in the core pilot cohort.
183. During the pilot period there will be consultation events and evaluation of feedback to help ascertain solutions to a number of issues, including:
  - review process for FM&G reviews; it is proposed that where a college scores 'inadequate' during a FM&G review, a follow-up review will be carried out within 12 months
  - the implications and treatment of qualified audit opinions given by external auditors. If a college scores a 'satisfactory' or better during a FM&G review, and yet in a later year receives a qualified audit opinion (for example during the financial statements audit), it is proposed that the college will be downgraded, and this will be considered during the pilot
  - explore the role of college audit committees; it is proposed that college audit committees be required to comment on the Financial Control grade in their annual report.

## Non-college providers

184. Non-college providers will be assessed against an amalgamated BEQ/PCRA document and, where appropriate, during Financial Management reviews (which are completed alongside inspections for a small minority of providers). These audit reviews will occur in line with LSC regional and national audit plans. The amalgamated BEQ/PCRA document will be ready for comment by the end of autumn 2007. LSC auditors will validate the revised Financial Control document during audit visits and, alongside other audit techniques such as reviewing documentation, auditors will form an opinion on a four-point scale in line with the Framework's scoring system. The LSC will prepare guidance for consultation during the pilot phase on how the existing audit opinions and recommendations will be used to generate the Financial Control grade.

## Mixed Provision

185. Providers with mixed provision will be consulted on two main issues:

- proposal of de-minimis levels, whereby elements of provision are so small by size or percentage that they are not taken into account for Framework scoring
- scoring for providers with different sources of funding, for example, colleges with large elements of WBL provision who are subject to both FM&G Reviews and WBL contracts/funding audits.

186. The LSC will model levels of mixed provision to ascertain effective de-minimis levels of funding. This information will be shared with pilot providers and formal feedback will be requested.

187. The LSC will also seek formal feedback to ascertain views on how opinions on different funding streams should be taken into account, for example, issues of proportionality will need to be considered.

## Timeframe

### Colleges

188. The SARQ will be revised and sent to pilot providers for comment in autumn 2007.

189. All pilot colleges will be consulted on key issues surrounding the Financial Control KPA.

## Non-college providers

190. All pilot providers will be sent the revised Financial Control audit document and guidance for comment in autumn 2007.
191. Any of the pilot providers which are due an audit visit from autumn 2007 onwards will be audited by the regional PFA teams against the revised document.

## Current audit regimes

There are well-established audit regimes in both colleges and other provider types.

### Colleges

192. FE colleges have at least three different types of audit each year, each leading to an audit report/management letter and an opinion, qualified or unqualified. These audit reports/management letters are usually accompanied by audit recommendations:
  - internal audit assignments, which are summarised in an annual internal audit report
  - financial statements management letter
  - regularity audit management letter.
193. FE colleges also have other audits, and the frequency of these vary from college to college:
  - funding audit: annual audit for those colleges which remain outside planned funding, currently about 20 colleges. This leads to either a qualified or unqualified opinion
  - learner eligibility and existence audit: on a two to six-year rolling cycle depending on risk; colleges may apply to have the audit at an interim stage; these audits result in either a qualified or unqualified opinion
  - FM&G reviews undertaken by LSC audit teams in parallel with the Ofsted , normally once every four years; this review takes account of audit opinions expressed by independent audit firms. Currently, there are three different types of FM&G review, based on a risk assessment: a desk-based review, a limited-scope review and a full-scope review. All three types of review include an opinion on the **effectiveness** of the college's FM&G frameworks, and the full-scope review has a further opinion on the **soundness and operation in practice** of the college's FM&G frameworks. The opinions are given on a scale of 1-5, with grades 1-3 representing full or satisfactory assurance, and grades 4 and 5 representing qualified assurance and limited assurance respectively
  - LSC audits of specific funding streams (contract audits), such as WBL, European Social Fund, and Train to Gain. These audits are carried out in accordance with LSC regional audit plans, on a one to three-year rolling cycle, depending on a risk-based assessment. Two audit opinions are given, one for use of funds (expressed as satisfactory or unsatisfactory



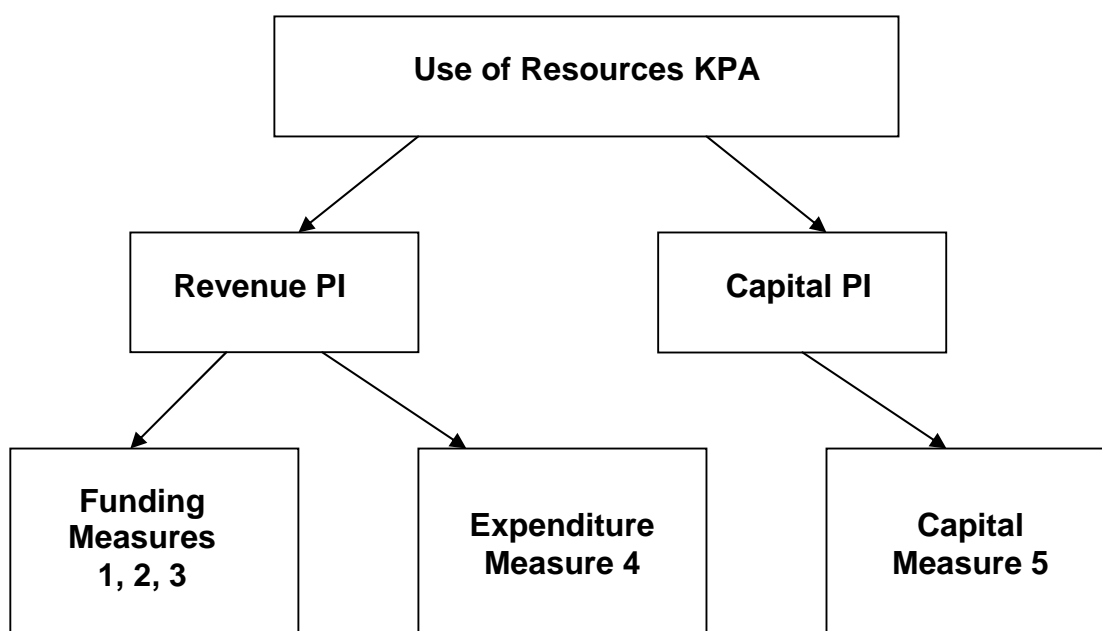
use of funds) and one for internal controls (expressed as sound or unsound internal controls).

## Non-college Providers

194. As for colleges, there is a well-established audit regime in place for other providers that will be used to inform the Financial Controls KPA. The main sources of information will be:
- LSC audits of specific funding streams (contract audits), such as WBL, European Social Fund, and Train to Gain. These audits are carried out in accordance with LSC regional audit plans, on a one to three-year rolling cycle, depending on a risk-based assessment. Two audit opinions are given, one for use of funds (expressed as satisfactory). Some providers Financial Management reviews are undertaken by LSC audit teams in parallel with Ofsted: normally once every four years for providers with total funding in excess of £5 million each year. During these reviews the effectiveness of the provider's financial management arrangements are considered. A grade on a scale of 1-5 is currently given, with grades 1-3 representing full or satisfactory assurance, and grades 4 and 5 representing qualified assurance and limited assurance respectively.

## Use of Resources

195. The Use of Resources KPA considers value for money, focusing mainly on efficiency (the ratio of inputs to outputs), but also effectiveness (the achievement of objectives).
196. The PIs that will contribute to the Use of Resources KPA will be under development in the pilot phase. Pilot providers and other stakeholders will be closely involved with this process. The indicators will combine a range of learner, estates', and financial data, to assess aspects of business performance.
197. It is envisaged that the Use of Resources PIs will be piloted between November 2007 and February 2008, to confirm which will be included in the final Framework. The scores will then be incorporated into the OPR for the Finance Dimension and the overall Framework at the end of the pilot.
198. The Use of Resources KPA is shown diagrammatically below:



199. The Use of Resources KPA incorporates a Revenue PI and a Capital PI that are equally weighted. The Revenue PI in turn incorporates three funding measures and one expenditure measure.
200. All PIs and measures will be relevant to colleges, however, for non-college providers, the Capital PI will not be relevant in the first instance, and some of the Revenue measures may not be relevant to all providers. The applicability to non-college providers may be determined with reference to factors such as size (turnover), type of legal entity, proportion of LSC/public funding, and size of LSC contract.
201. The table below shows that data for the three funding measures will be taken primarily from the Individualised Learner Record (ILR), and for the expenditure

measure (benchmarking) from the Finance Record. The Capital PI for colleges will draw on information mainly from their e-Mandate estates' management data returns, but it may also draw on other data, where available:

Data Source	UOR Ref	Proposed measure	Notes
I	1	Proportion of income spent on priority provision	Revenue Funding Measure
L	2	Delivery against funding allocation	Revenue Funding Measure
R	3	Funding for a successful outcome	Revenue Funding Measure
Finance Record	4	Benchmarked Expenditure	Revenue Expenditure Measure
E-Mandate	5	Capital	Capital Measure

### Proportion of income spent on priority provision

202. This measure considers the proportion by value of LSC funds received by a college or provider that is applied to either LSC national priorities, regional priorities, or both; it is derived from the Individualised Learner Record (ILR).
203. Many providers continue to deliver funded learning that is not an LSC priority. It is an established concept in the LSC's existing operations that the LSC already takes a view on providers' performance against funding allocation and may act to address underperformance against funding allocation. The LSC also takes a view on delivery of non-priority provision; meanwhile, providers are also concerned with the efficiency of their own operations.
204. During the pilot, the LSC will work to develop this indicator using data already available from the ILR. Pilot providers will be asked to review the results and consider the application of this measure under the Framework.

## **Issues to be explored in the pilot programme**

205. During the pilot, the LSC will work to resolve a number of issues relating to the proportion of income spent on priority provision:
- definition of income
  - definition of priority provision and how this definition changes year on year
  - assessment criteria
  - impact of demand-led funding
  - development of a suitable analysis tool
  - relevance to non-college providers.

## **Delivery against funding allocation**

206. This measure is being scoped and will consider the assessment of providers' actual performance/delivery compared to their contracted/funded levels of activity each year. Delivery against funding allocation can be expressed as the monetary value of LSC funds that are allocated and paid to a college or provider that have been earned through actual delivery by the college or provider. It can be derived from the ILR together with contract/allocations data.
207. During the pilot, the LSC will work to develop this indicator using data already available from the ILR and other LSC records. Pilot providers will be asked to review the results and consider the application of this measure under the framework.

## **Issues to be explored in the pilot programme**

208. During the pilot, the LSC will work to resolve a number of issues relating to delivery against funding allocation:
- definitions
  - assessment criteria
  - applicability across provider types and funding streams
  - scoring.

## **Funding for a successful outcome**

209. Funding for a successful outcome is the relative cost to the LSC of the delivery of a successful outcome in a programme area between different colleges or providers. It can be derived from ILR data. 'Cost per successful outcome' was the original DIUS Value for Money (VfM) indicator for New Measures of Success, and this measure (Funding for a successful outcome) seeks to build on previous work.
210. The cost per successful outcome to the LSC is dependent on a combination of learner retention, success rates and funding levels. The actual funding per successful outcome will vary in relation to both:
- reported success rates, and

- the amount of funding claimed in respect of non-successful learners (the funding paid to a college/provider increases the longer a non-successful learner remains on a programme across the various census dates).

211. During the pilot, the LSC will work to develop this indicator using data already available from the ILR. The LSC will share the results of this data analysis with pilot providers. Pilot providers will be asked to review the results and consider the application of this measure under the Framework.

### **Issues to be explored in the pilot programme**

212. During the pilot, the LSC will work to resolve a number of issues relating to funding for a successful outcome:

- definitions of a successful outcome
- assessment criteria
- applicability across provider types
- scoring.

### **Benchmarked Expenditure**

213. The cost to a provider of delivering an LSC outcome varies between providers and is made up of a range of teaching and non-teaching cost elements. While the management of this cost base is the responsibility of each provider's corporation and/or executive management team, it is in the public interest for providers to deploy public funds efficiently to ensure value for money in delivering required outcomes. Ministers and the DIUS have recognised this in setting efficiency targets for the college sector.

214. The Benchmarked Expenditure measure will assess providers' costs of delivering an LSC outcome compared with each other and with absolute standards - it will assess their economy and efficiency in their use of public resources. This measure is under development and the LSC has commissioned a feasibility study into how best to take it forward. The approach under development will draw on learner data from providers' ILR returns.

215. With the advent of Standard Learner Numbers (SLNs), there will be a common unit of learning activity that can be costed by providers. It is proposed to define this unit of activity as SLN x provider factor. Providers are already required to record almost all learning activity on the ILR, even where the LSC does not fund it directly. It is therefore understood that the vast majority of a provider's learning activity can be expressed in terms of SLNs (adjusted for the provider factor).

216. Providers currently analyse their costs according to their business needs. For the college sector, the Finance Record return analyses both income and expenditure on a consistent basis, and it is proposed to work with the Association of Colleges and college representatives to refine this analysis for use in sector benchmarking. In addition to income and expenditure data, it is proposed to incorporate core data on resource levels, for example teaching

staff utilisation, and relate this data to units of activity. The finance record incorporates numerous data fields and the LSC aims to balance any additional data requirements by removing some of the less-used existing data fields.

217. The Scottish Funding Council has developed this type of model, with their equivalent of the Finance Record analysing elements of both income and expenditure expressed in terms of their equivalent of the SLN. The Scottish model has been in use for over three years and the LSC has the opportunity to draw on Scottish colleges' practical experience in developing a benchmarking performance indicator for Framework for Excellence. It is envisaged that, as the unit of activity will be common to most if not all providers, non-college providers will be able to apply at least the top level benchmarking indicators to their own provision. The pilot will explore to what extent it will be possible and appropriate for non-college providers to provide benchmarking data for the purpose of the Framework.
218. In addition to benchmarking expenditure across the Learning and Skills sector, the development work will explore how to incorporate reference to cross-public sector benchmarks, mainly in relation to non-teaching activity.

### **Issues to be explored in the pilot programme**

219. During the pilot, the LSC will work to resolve a number of issues relating to funding for a successful outcome:
- systems/data available for measuring and monitoring unit costs
  - which are the 'key' indicators which can be applied across provider sectors
  - standards and scoring
  - development of the college sector finance record return
  - requirements of the new Statement of Recommended Practice (SORP) for colleges
  - implications and data sources for non-college providers
  - cross-government benchmarks
  - findings and recommendations of the LSC's current Benchmarking Feasibility Study.

### **Capital**

220. The FfE consultation document published in July 2006 stated that *'the criteria for financial health should be sufficiently robust to ensure that well-planned capital investment does not have an inappropriate impact on the overall judgement'*. Initial development of the Financial Health KPA focused on this and it was, as far as possible, defined to recognise where a college provider was addressing the LSC's capital agenda. In particular, the initial scoring system was designed to reward reasonable levels of borrowing for capital purposes. Following consultation with the college sector (and WBL sector representatives), however, capital considerations were removed from the Financial Health KPA and the capital assessment was identified as a separate performance indicator under the Use of Resources KPA.

221. The Capital PI aims to reflect the quality of colleges' current learning environments, the extent to which they meet expected standards, and the steps that they are taking to reach these standards, where necessary. The Capital PI will not be capable of application to non-college providers, at least for the first iteration of the Framework.
222. Colleges already participate in the e-mandate estate management data benchmarking programme, and the LSC is exploring to what extent the data for the capital performance indicator can be drawn from e-mandate and the ILR. The LSC's property team currently reaches assessments of providers based on these two data sources, and it is proposed to develop this approach further for incorporation in the Framework. Colleges grade their own accommodation within e-mandate, using a three-point scale, and the development work on the Capital PI will also consider whether this might be incorporated. During the pilot, the LSC will work with pilot providers to develop a relevant Capital Indicator for incorporation in the Framework for Excellence. This is likely to consist of a scoring matrix to reflect:
- a provider's current infrastructure needs
  - a provider's future infrastructure needs
  - progress already made and progress in hand towards meeting current needs and future targets.

### **Issues to be explored in the pilot programme**

223. During the pilot, the LSC will work to resolve a number of issues relating to capital:
- definitions
  - in the wider context of the LSC's capital priorities, how the PI can be used in relation to regional capital plans and the assessment of capital project proposals
  - development of a scoring matrix
  - possible implications for non-college providers.

## Appendix 2: Glossary

Grade		A grade is a judgement on the absolute level of performance reached. The Framework uses the Ofsted four-point grading scale: Outstanding; Good; Satisfactory; and Inadequate.
Overall Performance Rating	OPR	The OPR is expressed as a grade that indicates the overall performance of the college or provider. The grade is derived from the grades for the three dimensions.
Performance Dimension	PD	There are three dimensions: Responsiveness; Effectiveness; and Finance. Each dimension is given a grade that is made up from the grades for the KPAs in that dimension.
Key Performance Area	KPA	There are seven KPAs: each KPA is derived from one or more PIs and is given a grade against the Ofsted four-point scale.
Performance Indicator	PI	A PI is a performance measure that has been compared with a set of assessment criteria to give a judgement on the standard reached by the performance measure. Each PI is given a grade using the assessment criteria for that PI. PIs can exist at a number of levels: two PIs at one level can be combined to give a PI at the next higher level.
Performance Measure		An absolute measure of performance such as the outcome from a learner survey or a qualification success rate.
Assessment Criteria		The criteria used to derive a grade (give an absolute judgement) for a performance measure or combination of performance measures, to give a PI.
Scoring		A means of converting two or more performance measures to the same basis so that they can be combined. Not all performance measures need to be converted to a score. Scoring is usually used where a single set of assessment criteria are to be applied to a combination of performance measures.
Score		The outcome of scoring. Each performance measure is converted to a score that can be combined with the scores for other performance measures and/or bonus scores before the application of assessment criteria.



## Appendix 3: Directory

### LSC:

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## Pilot Institutions:

	Provider Name	Provider Type	Region	KPMG Adviser
1	Alton College	GFE	SE	James Long
2	Barnsley College	GFE	Y&H	Tracy Murphy
3	Basingstoke College of Technology	GFE	SE	James Long
4	Bedford College	GFE	EE	James Long
5	Bilborough College	GFE	EM	Mark Johnson
6	BMW, Berkshire	WBL	NES	Tracy Murphy
7	Boston College	GFE	EM	Mark Johnson
8	Bracknell and Wokingham College	GFE	SE	James Long
9	Bradford College	GFE	Y&H	Tracy Murphy
10	British Gas Engineering Academy	WBL	NES	Tracy Murphy
11	British Racing School	WBL	EE	Tracy Murphy
12	Burton College	GFE	WM	Mark Johnson
13	Calderdale College	GFE	Y&H	Tracy Murphy
14	Capel Manor College	GFE	London	James Long
15	Carmel College	GFE	NW	Tracy Murphy
16	Carter and Carter plc	WBL	NES	Tracy Murphy
17	Castle College	GFE	EM	Mark Johnson
18	Chelmer Training	WBL	London	Tracy Murphy
19	Chesterfield College	GFE	EM	Mark Johnson
20	Chichester College	GFE	SE	James Long
21	Christ the King Sixth Form College	SFC	London	James Long
22	City College Norwich	GFE	EE	James Long
23	City College, Plymouth	GFE	SW	James Long
24	City Lit, London	GFE	London	James Long
25	City of Sunderland College	GFE	NE	Tracy Murphy
26	Colchester Sixth Form College	SFC	EE	James Long

	<b>Provider Name</b>	<b>Provider Type</b>	<b>Region</b>	<b>KPMG Adviser</b>
27	College of NE London	GFE	London	James Long
28	Derbyshire County Council	GFE	EM	Mark Johnson
29	Eagit Ltd, Norwich	WBL	EE	Tracy Murphy
30	East Surrey College	GFE	SE	James Long
31	Eastleigh College	GFE	SE	James Long
32	Four Counties Training	WBL	London	Tracy Murphy
33	Gloucestershire College of Arts and Technology	GFE	SW	James Long
34	Godalming College	GFE	SE	James Long
35	Greenhead College	GFE	Y&H	Tracy Murphy
36	Hadlow College	GFE	SE	James Long
37	Hanovia Style (Toni & Guy Academy )	WBL	NW	Tracy Murphy
38	Harrogate College (Faculty of Leeds Metropolitan University)	HEI	Y&H	Tracy Murphy
39	Hereford Sixth Form College	SFC	WM	Mark Johnson
40	Herefordshire Group Training Association	WBL	WM	Tracy Murphy
41	Humber WBLP Consortium for Learning	WBL	Y&H	Tracy Murphy
42	Isle of Wight College	GFE	SE	James Long
43	John Leggott Sixth Form College	SFC	Y&H	Tracy Murphy
44	Joseph Chamberlain College	GFE	WM	Mark Johnson
45	Kendal College	GFE	NW	Tracy Murphy
46	Kingston College	GFE	London	James Long
47	Kingston Maurward College	GFE	SW	James Long
48	Knowsley Community College	GFE	NW	Tracy Murphy
49	Leeds College of Art and Design	GFE	Y&H	Tracy Murphy
50	Lewisham College	GFE	London	James Long
51	Leyton Sixth Form College	SFC	London	James Long
52	Locomotivation Ltd.	WBL	SW	Tracy Murphy

	<b>Provider Name</b>	<b>Provider Type</b>	<b>Region</b>	<b>KPMG Adviser</b>
53	London Institute (University of the Arts London)	GFE	London	James Long
54	Loreto College	GFE	NW	Tracy Murphy
55	Loughborough College	GFE	EM	Mark Johnson
56	Luton Borough Council, Luton	PCDL	EE	James Long
57	Manchester Training	WBL	NW	Tracy Murphy
58	Mid-Kent College of Higher and Further Education	GFE	SE	James Long
59	Midland Group Training Services Limited	WBL	WM	Tracy Murphy
60	Nelson and Colne College	GFE	NW	Tracy Murphy
61	The Mary Ward Centre, London	SFE	London	James Long
62	The Northern College for Residential Adult Education, Barnsley	SFE	Y&H	Tracy Murphy
63	The Sixth Form College Farnborough	SFC	SE	James Long
64	NETA	WBL	NE	Tracy Murphy
65	Newcastle College	GFE	NE	Tracy Murphy
66	NG Bailey & Co Ltd, Leeds	WBL	Y&H	Tracy Murphy
67	North Devon College	GFE	SW	James Long
68	NE Chamber of Commerce, Trade & Industry	WBL	NE	Tracy Murphy
69	North Nottinghamshire College	GFE	EM	Mark Johnson
70	Northumberland County Council	PCDL	NE	Tracy Murphy
71	Oldham College	GFE	NW	Tracy Murphy
72	Open Door Adult Learning Centre, Sheffield	PCDL	Y&H	Tracy Murphy
73	Oxford and Cherwell Valley College	GFE	SE	James Long
74	Paragon Training (Dorset) Ltd (Paragon and ITE Training Group)	WBL	SW	Tracy Murphy
75	Pendleton Sixth Form College	SFC	NW	Tracy Murphy
76	Portland College	SFE	EM	Mark Johnson

	<b>Provider Name</b>	<b>Provider Type</b>	<b>Region</b>	<b>KPMG Adviser</b>
77	Portsmouth College	GFE	SE	James Long
78	Queen Elizabeth Sixth Form College	SFC	NE	Tracy Murphy
79	The Reynolds Group Ltd	WBL	London	Tracy Murphy
80	Richard Huish College	GFE	SW	James Long
81	Rodbaston College	GFE	WM	Mark Johnson
82	The Royal National College for the Blind, Hereford	SFE	WM	Mark Johnson
83	S & B Training Ltd, Bristol	WBL	SW	Tracy Murphy
84	SEEVIC College	GFE	EE	James Long
85	Sheffield Trainers Limited	WBL	EM	Tracy Murphy
86	Shrewsbury Sixth Form College	SFC	WM	Mark Johnson
87	Sir John Deane's College	GFE	NW	Tracy Murphy
88	South Thames College	GFE	London	James Long
89	South Tyneside Metropolitan Borough Council	PCDL	NE	Tracy Murphy
90	St Helens College	GFE	NW	Tracy Murphy
91	Stockton-on-Tees Borough Council	PCDL	NE	Tracy Murphy
92	Sussex Downs College	GFE	SE	James Long
93	Telford College of Arts and Technology	GFE	WM	Mark Johnson
94	Training 2000	WBL	NW	Tracy Murphy
95	Treloar College, Hampshire	GFE	SE	James Long
96	WBL Network for Bournemouth, Dorset and Poole	WBL	SW	Tracy Murphy
97	West Suffolk College	GFE	EE	James Long
98	Weston College	GFE	SW	James Long
99	Wyggeston and Queen Elizabeth I College	GFE	EM	Mark Johnson
100	Zodiac Training	WBL	NE	Tracy Murphy

**PCDL** – Personal and Community Development Learning; **GFE** – General FE College; **HEI** – Higher Education Institution; **SFC** – Sixth Form College; **SFE** – Specialist FE College; **WBL** – Work-based Learning; **EE** – East of England; **EM** – East Midlands; **London** – London; **NE** – North East; **NES** – National Employer Service; **NW** - North West; **SW** – South West; **SE** – South East; **WM** – West Midlands; **Y&H** – Yorkshire and Humberside