Framework for Excellence

Pilot Guidance

Version 1.7 - FINAL

6th March 2008

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

Version	Date	Changes
V1.0	29 June 2007	-
V1.1	27 July 2007	Section 8, *Issues to be resolved* – paragraphs 55–59 re: Development Groups updated and expanded. Appendix 1: *Responsiveness to Employers* – paragraphs 101–122 updated and re-numbered; this affects all three *Responsiveness to Employers* Performance Indicators.
V1.2	07 September 2007	Appendix 1: *Financial Health* – paragraphs 159–172 updated. Annex 1: *Financial Health – Ratio Definitions*: table reference corrected to reflect changes to Appendix 1.
V1.3	28 September 2007	Section 4, *Timetable* – timetable updated to reflect changes to the learner views survey, principally in October 2007. Appendix 1: *Responsiveness to Learners* – paragraphs 77–95 updated and re-numbered to reflect changes to the learner views survey.
V1.4	26 October 2007	Appendix 1: *Financial Health* – paragraphs 159–176 updated for scoring methodology, changes arising from pilot consultation and development groups. Annex 1: *Financial Health – Ratio Definitions*: updated for changes arising from pilot consultation and development groups.
V1.5	07 December 2007	Section 4: *Timetable* – paragraph 26: timetable updated, and 'status' column added. Section 9: *Analysis of Grading* – paragraph 61: forthcoming Development Groups schedule added.
V1.6	15 February 2008	Section 6: *How the Framework Works* – paragraph 43: Table 2 amended. Appendix 1: *Responsiveness to Learners,* paragraphs 79 and 82 amended.

Appendix 1: *Quality of Outcomes* – paragraphs 139 and 141 updated and re-numbered.

Appendix 1: *Quality of Provision* – paragraphs 147 and 149 updated and re-numbered.

Appendix 1: *Use of Resources* – paragraphs 195–225 updated and re-numbered; this affects all five *Use of Resources* areas.

V1.7   06 March 2008   Appendix 1: *Achievement of the New Standard for Employer Responsiveness* – paragraph 128 amended.

Appendix 1: *Financial Health* – paragraphs 155–174 updated for scoring methodology, changes arising from further consultation and recent policy committee decisions.

Annex 4: *Financial Health – Proposed Applicability*: Added to reflect currently proposed list of exempt providers.

Appendix 1: *Use of Resources*, Exemptions Table following paragraph 198 updated; paragraphs 215–218 updated.

Contents

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 are 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 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 are required to do
     - the lines of communication with pilot institutions, and the support available to them
     - evaluation of the pilot process.

5.   The 100 pilot institutions have been chosen with 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 has arranged 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 LSC is also using 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.

11.   The Framework is still under development, and there remain a series of issues to explore and resolve. Some of these issues 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.

12.   The types of issues for resolution 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

13.   In terms of generating the data for the pilot, the main tasks for providers are 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.

14.   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 is based on Ofsted's current overall effectiveness grade for each provider.
- the Financial Control KPA is 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.

15.   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

16.   The LSC is considering 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 (see Section 11).

Activities

17.   During the pilot phase, pilot institutions are being asked 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/April 2008 (dates to be confirmed)
- 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

18.   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
- update liaison officers about developments in the Framework.

19.   Contact details for the LSC are set out in Appendix 3.

Ofsted

20.   Ofsted will:

- work closely with the Framework's development during the pilot phase
- explore how the Framework can be used in its business processes.

21.   Contact details for Ofsted are set out in Appendix 3.

Quality Improvement Agency

22.   The QIA will:

- 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.

23.   Contact details for QIA are set out in Appendix 3.

KPMG

24.   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
- consult with wider stakeholders
- organise and jointly host briefing and evaluation events.

25.   Contact details for KPMG are set out in Appendix 3.

4. Timetable (subject to review)

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

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

August	Develop questionnaires for evaluation	LSC	Completed
mid-August	Centrally administered surveys begin	LSC	Completed
31 August	Issue letter to pilot providers inviting participation in development groups	KPMG	Completed
September 2007			
early September	Pilot providers send out employer surveys (indicative)	Pilot providers	Completed
26 September	Pilot providers issued with updated information regarding the learner views survey and requested to confirm details regarding their selected approach to surveying learners	LSC/RCU	Completed
26 September	Pilot providers notified of the minimum sample size for the learner views survey	RCU	Completed
end September	Revised SARQ available for comment	LSC	Completed
end September	Revised BEQ / PCRA document available for comment	LSC	Completed
October 2007			
October onwards	Piloting of revised SARQ at colleges	LSC	Underway
early October	Telephone survey for learner destinations indicator finishes	RCU/LSC	Extended to December
3 October	Cut-off date by which providers are requested to confirm details regarding their selected approach to surveying learners	Pilot providers	Completed
5 October	Cut-off date by which providers are requested to supply LSC with the names of all priority learners, their learner reference numbers and learning aims	Pilot providers opting to undertake a sample survey and require the LSC to select the sample	Completed
11 October	Cut-off date by which providers are requested to confirm the numbers of each version of the questionnaire required for the learner views survey	Pilot providers opting for a paper-based approach to survey learners	Completed
Week commencing 22 October	Web-link to the online versions of the two questionnaires for the learner views survey sent to providers	RCU	Completed
26 October	Cut-off date by which providers are requested to confirm that that the web-links for the learner views survey have been tested effectively from all relevant sites	Pilot providers opting for a web-based approach	Completed
29 – 31 October	Paper questionnaires for the learner views survey sent to providers	RCU	Completed
mid-October	All learner destination data combined and made available	RCU/LSC	Extended to December
end October	Production of pilot provider profiles	LSC	Completed
November 2007			
early November	Production of headline learner destinations results	RCU	Extended to January
1 November	Commence learner views surveys. Pilot providers using a web-based approach to administer surveys will receive a weekly update of response rates.	Pilot providers	Underway
November	Analysis and modelling of learner destinations data	RCU/LSC	Extended to January
November	Five pilot site progress visits	KPMG	Completed
9 November	First national mid-pilot evaluation event (London)	KPMG	Completed
14 November	Second national mid-pilot evaluation event (Leeds)	KPMG	Completed
15 November	Pilot provider returns of employer survey to LSC (indicative)	Pilot providers	Completed

15 November to mid-December	Ofsted consideration of latest inspection grade for overall effectiveness	Ofsted	Underway
16 November	Third national mid-pilot evaluation event (Birmingham)	KPMG	Completed
late November	Development Group for phase 2 providers in the pilot	KPMG	Completed
30 November	Make changes in ILR	LSC	Completed
30 November	Employer views data available	LSC	Completed
30 November	QSR PI grades made available	LSC	Extended to end December
December 2007			
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	
31 December	Completion of Development Group work for developed PIs.	KPMG	
31 December	Employer views Performance Measure calibrated	LSC	Extended to January
31 December	Quality of Provision grades available	LSC	
31 December	Finance Records submitted to LSC	LSC	
January 2008			
January	Ten pilot site progress visits	KPMG	
January	Plan regional demonstrator site events	KPMG	
January	Decision conference on output of Development Groups on specific PIs	KPMG/LSC/pilots	(After 15 January)
February 2008			
February	Ten pilot site progress visits	KPMG	
February	Discussion paper circulated on options for publication and dissemination of Framework output	KPMG and LSC	
March 2008			
end March	Calibration and dissemination of indicative OPRs	LSC	
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	
April 2008			
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	(Has already begun)
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	
April / May	Regional 'demonstrator' pilot events held	Providers / KPMG	
May 2008			
early May	Meeting with main stakeholders to discuss evaluation report and implications for Version 1 of the Framework	DIUS/Ofsted/QIA/LSC and KPMG	
June 2008			
30 June	Publication of Framework Guidance Version 1 of the Framework	LSC	

5. Communication and Support

27.   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.

28.   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 has been allocated a KPMG adviser, who is their first point of contact (Appendix 3); where KPMG is unable to answer queries, that person will refer them to 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.

29.   An exception to the above rule is 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 and for technical queries relating to the employer survey, pilot institutions will need to contact employersurvey@lsc.gov.uk.

30.   The complete list of institutions participating in the pilot nationally, are on the Framework for Excellence website, http://ffe.lsc.gov.uk/.

31.   There is regular communication between the LSC/KPMG and pilot institutions, which includes:

- 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.

32.   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.

33.   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 January 2008.

34.   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.

35.   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 are all 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.

36.   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

37.   The structure of the Framework, broken down into OPR, PD, KPAs, PI, PM, and Assessment Criteria is shown in the diagrams below:
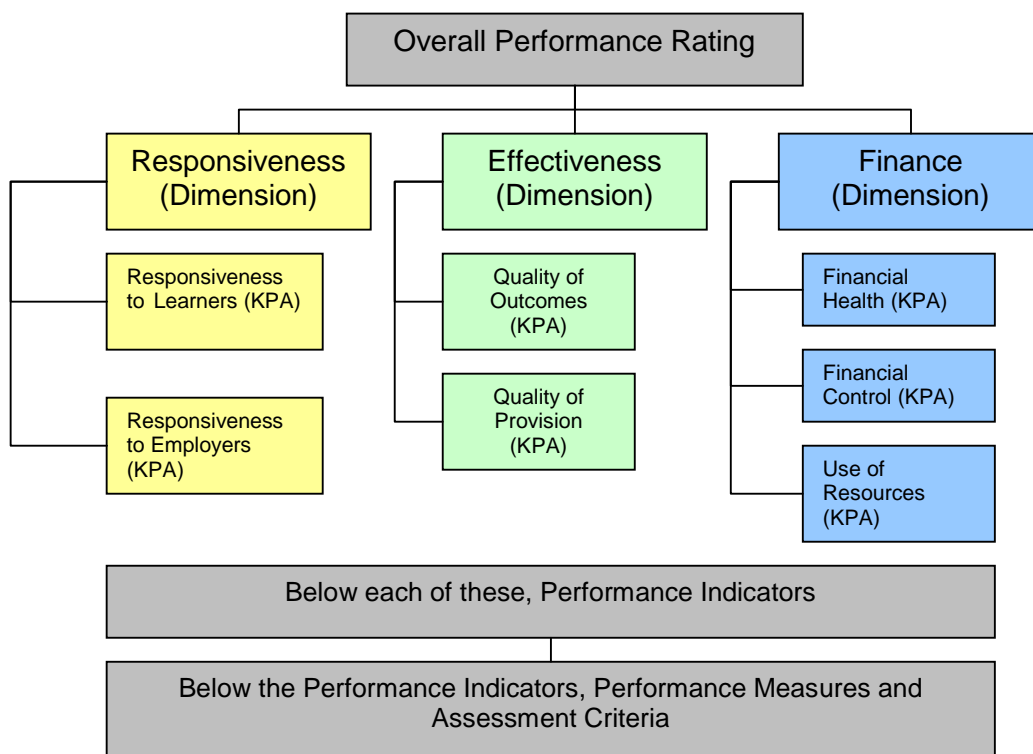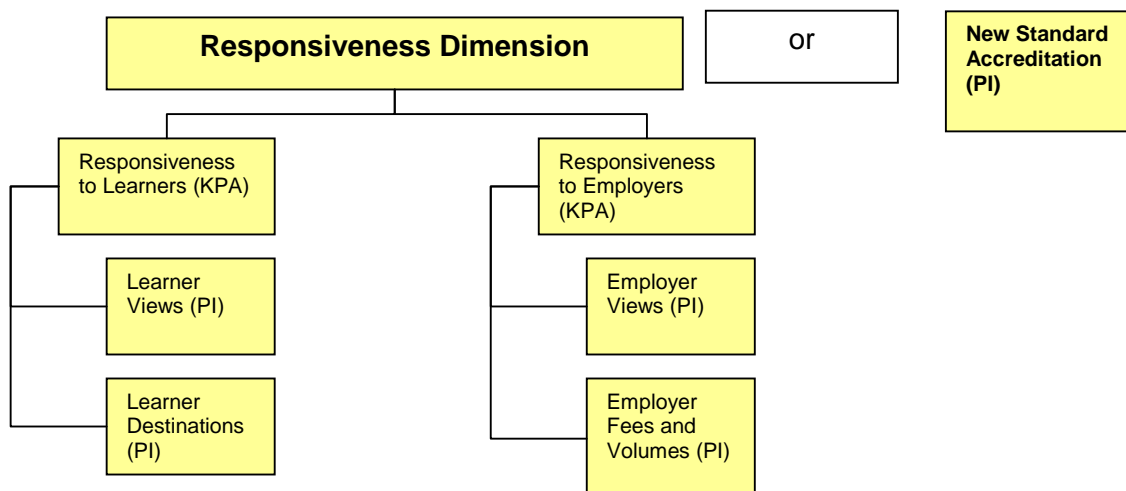
Diagram 1

```
                    ┌─────────────────────────────┐
                    │ Overall Performance Rating  │
                    └─────────────────────────────┘
```

Responsiveness (Dimension)	Effectiveness (Dimension)	Finance (Dimension)
Responsiveness to Learners (KPA)	Quality of Outcomes (KPA)	Financial Health (KPA)
Responsiveness to Employers (KPA)	Quality of Provision (KPA)	Financial Control (KPA)
		Use of Resources (KPA)

```
┌─────────────────────────────────────────────────────────┐
│      Below each of these, Performance Indicators          │
└─────────────────────────────────────────────────────────┘
┌─────────────────────────────────────────────────────────┐
│ Below the Performance Indicators, Performance Measures and│
│                  Assessment Criteria                      │
└─────────────────────────────────────────────────────────┘
```

Diagram 2

Responsiveness Dimension		or		New Standard Accreditation (PI)

Responsiveness to Learners (KPA)	Responsiveness to Employers (KPA)
Learner Views (PI)	Employer Views (PI)
Learner Destinations (PI)	Employer Fees and Volumes (PI)

Diagram 3

Effectiveness Dimension

Quality of Outcomes (KPA)

Success Rates (PI)

Quality of Provision (KPA)

Overall Effectiveness (PI)

Diagram 4

Finance Dimension

Financial Health (KPA)

Financial Control (KPA)
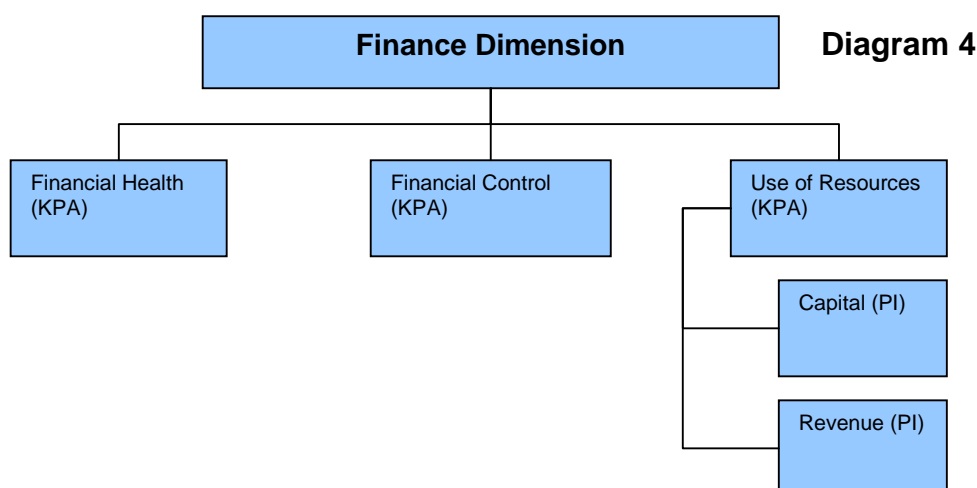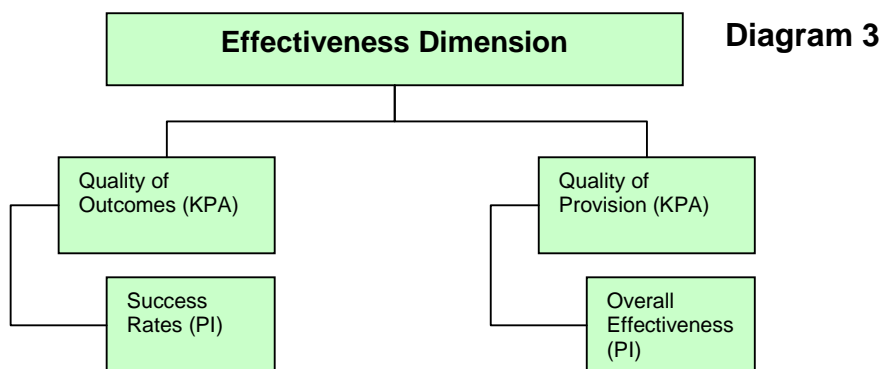
Use of Resources (KPA)

Capital (PI)

Revenue (PI)

Scores and Grading

38.   The Framework for Excellence uses a four-point grading system, in line with Ofsted's Common Inspection Framework. Performance indicators are attributed a grade of between one and four, which are then combined and given an appropriate grade from 'inadequate' to 'outstanding' (Tables 1 and 2).

39.   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.

40.   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.

41.   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.

42.   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

43.   Each possible sum is allocated to one of the four dimension grades using a combination table (Tables 1 and 2).

Table 1: Combining grades for a dimension with two KPAs

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

Exemptions

44.   When deriving the OPR, consideration has to be given as 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 of the KPAs being used in the derivation of their OPR.

45.   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.

46.   During the pilot that all KPAs apply, except where the specific circumstances of certain types of provision or provider make it inappropriate. Part of the purpose of the pilot programme is to determine the exemption rules and in what circumstances they apply.

47.   If data from external sources is not available to determine a PI during the pilot, then that PI is not included in determining the OPR. However, if under the Framework a college or provider does not make agreed data available from internal sources, the relevant PI will be graded inadequate for the purposes of the pilot.

48.   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.

49.   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

50.   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.

51.   Appendix 1 sets out for each PI:

- what the indicator is
- definition
- how the score is calculated
- issues to be resolved by the pilot programme
- what happens during the pilot and when.

52.   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. By summer 2010, 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

53.   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.

54.   For certain indicators, rapid development is required to ensure they are available to contribute to the OPR. KPMG and the LSC have drawn up detailed plans for their design, testing and trialling. This development work is being run in much the same way as the Solutions Groups that met during March and April 2007 to help develop the prototype Framework.

55.   For each of these indicators, KPMG has put together a small Development Group of representative providers to work with them and LSC specialists. Providers are 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.

56.   The PIs that are 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

57.   Development groups are also addressing a series of cross-cutting issues. These groups 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 Framework results
- production and use of management information, including the potential use of IT solutions to assist with the Framework.

58.   Additionally, the Framework's National Solutions Group has a certain amount of freedom to explore issues identified by the Group itself, while avoiding duplication with the issues covered by the other Development Groups.

59.   During August, the FfE communications team sent a general invitation to the liaison officers of the 100 pilot providers requesting nominees for Development Groups. The

invitation included the suggested terms of reference, and the likely start and report dates.

60.   An updated list of Development Groups, with forthcoming meeting dates already arranged, is below:

	Development Group	KPMG Lead	Date of Meeting	Location of Meeting
1	Financial Control	James Long	31 January 2008	LSC Coventry
2	Learner Views / Destinations	Tracy Murphy	Week of 3 March 2008	Birmingham
3	Employer Fees and Volumes	Tracy Murphy	14 March 2008	Birmingham
4	Employer views	Tracy Murphy	17 March 2008	Birmingham
5	Publication	James Long	Late February 2008	Birmingham
6	Wave 2	Tracy Murphy	16 January 2008	London
7	Wave 2	Tracy Murphy	Mid March 2008	London
8	Scrutiny and Challenge	Mark Johnson	Late January 2008	TBC
9	Scrutiny and Challenge	Mark Johnson	Early March 2008	TBC
10	Aggregation of OPR	Tracy Murphy/ Mark Johnson	Early February 2008	TBC
11	Effectiveness	Mark Johnson	Late January 2008	TBC
12	Data Development	Mark Johnson	27 March 2008	Birmingham
13	Contextualisation	James Long	9 January 2008	TBC
14	Contextualisation	James Long	20 February 2008	TBC
15	Production of MI	James Long	23 April 2008	Birmingham

9. Analysis of Grading

61.   Once all PIs have been calculated the LSC will apply the rules of combination to determine ratings for each KPA, PD, and the OPR.

62.   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.

63.   However, because this is a pilot year, the LSC will conduct 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 is testing the robustness of the Framework and has been receptive to comments and representations made by pilot providers. The results of any statistical analysis are shared with all pilot providers.

64.	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.

65.	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

66.	For the LSC it is critical that the Framework is seen to be applied 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 programmes may be influenced by the Framework's output
- the LSC in its role of market management and commissioning.

67.	The LSC's established appeal process will form the basis of an appeal system for the Framework once it is launched from summer 2008 onwards:

- 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

68.	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. The LSC will produce a report evaluating the pilot in spring 2008.

69.	Throughout the pilot programme, pilot providers are being asked 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 held in November 2007, 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.

70. 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.

71. 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?

72. A series of events has been arranged to take these forward (Section 4: Timetable).

12. Longer-term Evaluation of the Framework for Excellence

73. There will be a separate longer-term evaluation focusing on the Framework's implementation and effect, probably over a period of three or four years. The LSC is currently drawing up a specification to appoint an independent organisation to carry out this evaluation. The longer-term evaluation will focus on the impact of the Framework, its outcomes and the benefits realised by providers, learners and employers.

74. Proposed themes are:

- 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 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

75.   Over the phases of the evaluation, the evaluation methodology is anticipated to include:

- feedback from the 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

76.   All provider types are in scope for the application of this PI. Some providers may be exempt if they meet specific, objective criteria that will be developed in the pilot

Definition

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

78.   The indicator will be based on a provider-level learner survey. Data will be generated from nine questions which are based on the core questions from the National Learner Satisfaction Survey (NLSS). The questions have been designed to apply to the majority of learners in the majority of learning contexts and, taken together, also cross-reference the whole of the learner's 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 learners are treated fairly and with respect
- opportunities to give feedback about how providers can improve
- whether the provider is responsive to learners' views.

.
79.   Two versions of the questionnaire will be tested during the pilot. The questions are identical in both, but one questionnaire uses a combined seven-point and five-point response scale and the other uses a three-point response scale. Cognitive testing demonstrated that the questionnaire with the three-point response scales might be more appropriate for some learners[1]. Piloting providers are asked to use their professional judgement and expertise to ascertain which questionnaire to administer to a priority learner/group of learners questionnaires.

80.   For further information about the survey questions and their development, please see the learner views briefing on the Framework for Excellence website at the following link: www.lsc.gov.uk/ffe.

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

---

[1] Cognitive testing indicated that the three-point response scale might be more appropriate for some learners with learning difficulties and/or disabilities and learners on Skills for Life (SfL) programmes.

Methodology for 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 assign a score for each response and then calculate the learner-weighted average score for each question. These can then be combined to give a score for the college or provider overall. This can be compared with the appropriate criteria to give the PI grade. 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
- 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.

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 were required to administer the learner views survey between 1 November and 13 December 2007, using either a web- or paper-based or a combined approach.

86.   Piloting providers can choose to undertake a census or sample survey of the LSC's priority programmes [2]. Although learners with learning difficulties and/disabilities are within scope for the survey, we recognise that the questionnaire and self-completion approach to surveying learners might not be appropriate for some of these learners. Piloting providers are asked to use their professional judgement and expertise to ascertain whether to include some or all of their learners with learning difficulties and/or disabilities within the pilot survey. During the pilot, additional development work will be undertaken to establish how to develop the approach to collecting data for the learner views indicator to ensure that it is accessible to all learners within scope for the survey.

87.   If a sample survey is chosen, providers will be required to generate a minimum sample size of survey responses to ensure that a statistically valid organisational level performance rating for the learner views indicator can be produced. Piloting providers were notified of the minimum sample size of survey responses for their organisation by Thursday 25 October 2007. Additionally, providers opting for a sample survey selected a random sample that was representative of all of their priority learners within scope for the survey. Providers can select the random sample themselves or, alternatively, the LSC will select sample if required. In order for the LSC to select the sample, the name, learning aim and learner reference number of all of their current 2007/08 learners were supplied to the LSC by 11 October 2007.

88.   The LSC supplied paper-based questionnaires or a prototype web-based questionnaire. All paper questionnaires were distributed by courier to the pilot providers before 1 November 2007. RCU Ltd. provided a weblink to the online versions of the two questionnaires (3-point response scale and 7-point response scale) a week before the survey went live to allow for testing of the link from all relevant sites to ensure that there are no clashes with firewalls.

89.   At the end of September 2007 piloting providers were consulted to confirm:

- whether a census or sample survey would be undertaken
- how the sample will be selected if a sample survey was chosen
- whether a web-, paper-based or a combined approach would be used to administer the surveys
- whether some or all learners with learning difficulties and/or disabilities would be included within the pilot survey.

90.   Providers were required to confirm the actual number of learners who would be undertaking the survey:

- providers opting for a paper-based approach were required to provide an estimate of how many versions of the three-point response scale and seven-point response scale questionnaires were required no later than 11 October 2007. This would allow sufficient time to produce the questionnaires to ensure that they could be delivered to providers before 1 November 2007. Each questionnaire would have its own envelope.

---

[2] 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 SfL programmes; all work-based learners; all learners not included in the above categories with learning difficulties and disabilities.

- providers opting for a web-based approach were required to confirm how many learners had been asked to complete each version of the questionnaire at the beginning of November 2007. Providers received a weekly update on the number of responses received for each version of the questionnaire.

91.   Each questionnaire asked the learners for their learner reference number, name and date of birth. Providers needed to ensure that learners have access to their learner reference numbers (as recorded on the ILR) while completing the survey. The learner reference number, surname and date of birth are needed for validation purposes. It also simplifies and shortens the survey, preventing the need to ask background questions about the learners and their learning.

92.   The survey period ended on 13 December 2007. RCU Ltd. arranged for a courier to collect the completed paper-based questionnaires from a single site at each provider.

93.   The LSC carried out:

- analysis of the returned questionnaires to establish an overall learner response score and a performance rating for the learner views indicator for each provider
- the generation of benchmarking data.

94.   The LSC returned the following information to the piloting providers:

- performance rating for the learner views indicator
- overall learner response score for the nine questions
- percentage responses for each question
- benchmarking data.

Performance Indicator 2: Responsiveness to Learners – Destinations

Applicability

95.   All provider types are in scope for this application of this PI. Some providers may be exempt if they meet specific, objective criteria that will be developed during the pilot.

Definition

96.   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.

97.   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

98.   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 became available during January 2008.

99.   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.

100.   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).

101.   There are two phases to the derivation of results. During July and August 2005/06 strictly learners on the LSC's priority programmes[3] 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.

102.   From July to early September 2007, RCU Ltd. conducted a telephone survey and attempt to interview learners who were not tracked by the data-matching process.

---

[3] 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

103.　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.

104.　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.

105.　Comments on these matters were sought from pilot providers at the mid-pilot events in November 2007.

Responsiveness to Employers

Performance Indicator 1: Employer Views

Applicability

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

107. Following discussions with pilot providers, and taking account of their feedback, we will probably restrict the use of the pilot survey to employers that have been involved closely in the commissioning and design of provision, which is designed specifically to meet their *individual* needs. Such provision will normally be dedicated to the individual employer, although it may on occasion 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.

108. We will consider in the pilot the best way to survey the views of employers that pay fees for employees, where employees (and the self-employed) join courses or other provision which are open to learners more generally.

109. 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 a survey to support their application for the New Standard before February 2008 are requested to include the Framework for Excellence employer views survey in their wider set of questions.

Definition

110. Summary measure of employer satisfaction with providers during any period of the Framework.

111. 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.

112. The questions for the summary measure will be explored in the pilot.

Methodology of calculating the score

113. 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.

114. This survey has two phases: the first developed 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.

115. 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 have been asked to trial all three survey methods simultaneously 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

116. 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 inform the assessment criteria from survey results satisfactorily
- 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.

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

Data and recording of data

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

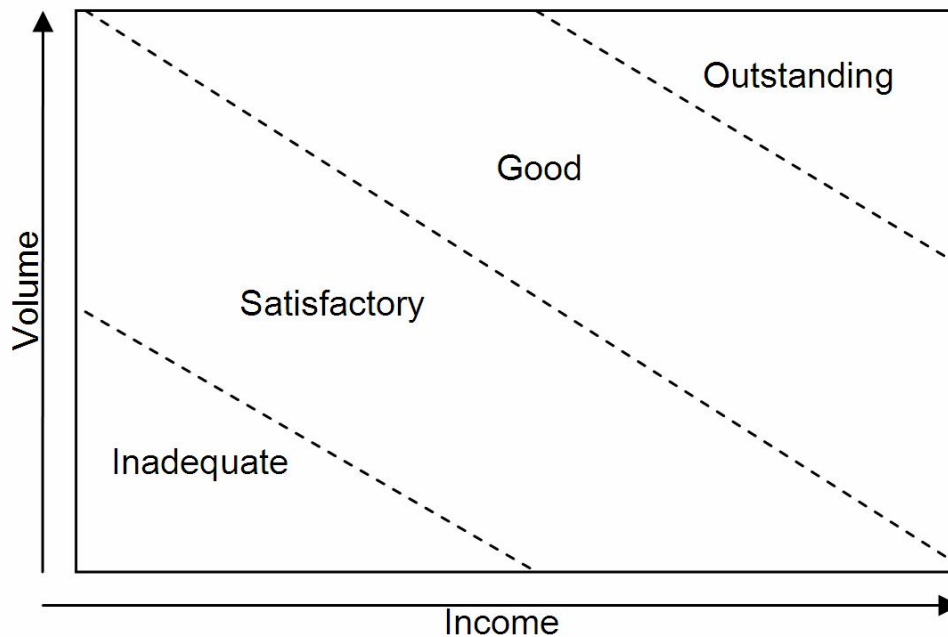# Performance Indicator 2: Fees and Volumes

Applicability

119. 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

120. The indicator will be a measure based on:

    • income from employers
    • the volume of all provision serving employers.

121. 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.

122. 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.

123. 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 that subsidises employer fees on courses which are open to all.

124. 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.

125. The proposed model for the 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

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

Data and recording of data

127. The data sources are:

- financial returns
- Train to Gain data.

Other options are being considered, including the ILR.

128. All data is held by the LSC.

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

Applicability

129. The PI is applicable to all providers as an alternative to participating in the employer responsiveness survey .

Definition

130. The New Standard for Employer Responsiveness is a comprehensive badge for all providers 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 is 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.

131. 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 KPA, for the period for which the New Standard is awarded (normally three years).

132. In a reciprocal arrangement, it is proposed that from summer 2009, any provider who is in scope for the responsiveness to employers KPA 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

133. 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.

134. A questionnaire was issued to pilot providers concerning these matters, and they were again discussed after the mid-pilot events in November 2007. Further development plans will be announced in June 2008.

Data and recording of data

135. There is a live register of providers that have achieved the New Standard on the relevant website at: http://www.newstandard.co.uk/.

Quality of Outcomes

Performance Indicator 1: Success Rates

Applicability

136.   The KPA is applicable to all provider types delivering accredited learning aims that contribute to Qualification Success Rates.

Definition

137.   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

138.   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 learner-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

139.   The LSC will calculate the Framework score, and then undertake sensitivity analysis of the scoring system and the assessment criteria. 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 very short course success rates separately? 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

140.   The data sources are the ILR and the LAT (available through the Provider Gateway).

Quality of Provision

Performance Indicator 1: Inspection Outcomes

Applicability

141.   All provider types are in scope for the application of this PI. Some providers may be exempt if they meet specific, objective criteria that will be developed during the pilot.

Definition

142.   The quality of provision KPA has one PI: Ofsted's current inspection 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.

143.   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.

144.   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.

145.   New colleges or providers that have not been inspected in the current or previous cycles will be exempt from the quality of provision KPA, until such time as they have been inspected by Ofsted.

Data and recording of data

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

Finance Dimension

Performance Indicator 1: 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 evaluated more readily, 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 income

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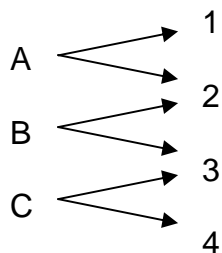
153. The existing definitions of ABC are shown in Annex 2, together with proposals for financial health definitions for grades 1-4 in Annex 3. These will be reviewed and confirmed during the pilot.

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 current proposal is to use the same scales for all providers, although this will continue to be reviewed during the pilot. These three scores will be added together to arrive at sub-total 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 (a bonus of up to 100). The total score, including a score for consistent good performance where relevant, will therefore range from zero to 400 and will be translated into an overall grade for the financial health KPA of outstanding, good, satisfactory or inadequate.

156. 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

157. During the pilot, the project team are exploring 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
- providers that should be exempt from financial health grades under the Framework
- the most appropriate approach to validation of data.

158. The Framework for Excellence Policy committee have recently given approval to proposals in respect of treatment of capital investment projects and making use of additional available information in determining the final Financial Health grade of a provider and these are detailed in paragraphs 171 – 174. In addition approval has also been given to the exemption from financial health scoring for certain provider types and details are provided in Annex 4.

Pilot activity and what we want pilot providers to do

Colleges

159. All data-modelling will be carried out by the LSC's Framework for Excellence Finance Team; extensive data-modelling and consultation has already taken place to set a starting point for the parameters for the three ratios.

160. 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. The record template has been further updated during the pilot, to reflect changes in financial health scoring methodology arising from consultation and development groups held during September and October 2007.

161. The College Financial Plans were 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).

162. The 2006/07 College Finance Record were completed and received by 31 December 2007 and will include the actual out-turn for 2006/07.

163. Once the College Financial Plan is received and the results of all colleges' workbooks were loaded into the LSC's systems, the three Framework ratios were modelled for the 100 pilot providers, in parallel with the six existing ratios. Pilot providers were then asked to review the results and feed back their findings and recommendations, for example through a workshop. The remaining non-pilot colleges were then also modelled for both sets of ratios and the results scrutinised.

164. 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

165. 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.

166. 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.

167. 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

168. The financial health score will be derived by awarding points for each of the three ratios and then applying a further reward for consistent performance. This approach has received positive feedback during the pilot consultation phase. Details are as follows:

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	< 0.2	< -4	>= 95 or negative
10	>= 0.2	>= -4	< 95
20	>= 0.4	>= -3	< 90
30	>= 0.6	>= -2	< 85
40	>= 0.8	>= -1	< 80
50	>= 1.0	>= 0	< 75
60	>= 1.2	>= 1	< 60
70	>= 1.4	>= 2	< 45
80	>= 1.6	>= 3	< 30
90	>= 1.8	>= 4	< 15
100	>= 2.0	>= 5	= 0

Step 2 – Recognition of consistency

The scores for the three ratios above will be aggregated, and a bonus for consistent performance will be added to the sub-total as follows:

Table 2: Recognition of consistency

Two ratios >= 60   add 50 points

Three ratios >= 60   add 100 points

Step 3 – Grading the Financial Health Score (with consistency)

The resulting total score out of 400 will be graded as follows:

Table 3: Grading the Financial Health Score

1	Outstanding	=	310 to 400
2	Good	=	220 to 300
3	Satisfactory	=	120 to 210
4	Inadequate	=	<= 110

WBL and other providers

169.   During the pilot phase, detailed consideration has been given to the question of whether one scoring approach suits all provider types. Following this, the

current proposal is to score WBL providers on the same basis as for colleges noted above.

Evaluation Arrangements for Piloting Work

170. Throughout the pilot 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 team. These will be further reviewed through consultation and workshops to recommend a workable solution for scoring financial health.

Recent Policy Decisions

171. The Framework for Excellence Policy committee have recently given approval to the following proposals in respect of Financial Health:

Treatment of the impact of capital projects on college financial health

172. Where a college is graded outstanding (1), good (2), or satisfactory (3) at the time of project approval; and it will return to at least a grade of satisfactory (3) by the third year following project completion; then providing it performs at least as well as forecast in the project proposal during the intervening years, its financial health grade will be maintained on record as being at least 'satisfactory' rather than 'inadequate'; however, if a college performs less well than it forecast then its grade will reflect this.

173. Under the approach above there would be a clear reference point within the project proposal, minimising any judgment required. The final proposed scoring scales have been amended, also, to reduce the number of colleges requiring this override based on an approved capital scheme. .

Reference to latest available information

174. Where additional financial information indicates that the grade based on the financial statements would no longer be appropriate, this can be investigated and taken into account where necessary. To support this proposal the finance project team will work to establish clear criteria which would form a basis for a senior LSC finance professional (such as the PFM Director) to authorise this approach. It is anticipated that this will be necessary only in exceptional circumstances and it is recognised that both the LSC and the provider will need to be working within defined parameters.

Financial Health – Ratio Definitions (Annex 1)

Ratio	Definition
Solvency	**For colleges:** Adjusted current ratio: $\dfrac{\text{Current Assets*}}{\text{Current Liabilities}}$ Whereby current assets = Finance Record 06/07 Table 2 section 3 current liabilities = Finance Record 06/07 Table 2 section 4 Current Assets (Finance Record 06/07 - Table 2 section 3): • stocks and stores in hand • trade debtors • fixed assets held for resale • other debtors • other short-term investments and cash. * 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. Current Liabilities (Finance Record 06/07 - Table 2 section 4) Creditors: amounts falling due within one year: • overdrafts • loans • LEA deficit loan • capital element of finance lease • trade creditors • tax and pension contributions • payments on account • fixed asset creditors • other. **For WBL and all other providers:** Current ratio defined as: $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

Sustainability	**For colleges:** Operating position after tax as a percentage of Income: <u>Adjusted operating position after tax</u> Income used in ratio analysis <u>Where Adjusted operating position after tax:</u> <u>Operating position after tax* (Finance Record 06/07 table 1 line 12b)</u> <u>less:</u> <u>exceptional support income (Finance Record 06/07 schedule 1c, line 3)</u> <u>pension finance income (Finance Record 06/07 schedule 1a, line 5c)</u> <u>add:</u> <u>FRS 17 adjustments (Finance Record 06/07 schedule 1d, line 14 + schedule 1e, line 14b)</u> <u>Where Income Used in Ratio analysis = Finance Record 06/07 Table 4 line 1</u> * FE corporations are exempt from most taxation **For all WBL and other providers:** <u>Net profit after tax</u> Turnover
Status	**For colleges:** Total borrowing as a percentage of reserves and debt (Finance Record 06/07 Table 4: 4e) **For all WBL and other providers:** Total debt as a percentage of reserves* and debt * reserves are defined for this purpose as shareholders funds less intangible assets

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 Health – Proposed Applicability (Annex 4)

It has been proposed that the following providers will be exempt from the Financial Health KPA :

- Central Government Departments
- Non Departmental Public Bodies
- Other Public Bodies and Agencies
- Local Authorities, NHS Trusts, PCTs and Strategic Health Authorities
- Police and Fire Authorities
- Designated charities and voluntary organisations whose main source of funding is not from the LSC for example, OXFAM, Red Cross, RNIB, RNLI
- Established Public Listed Companies and other registered companies to whom LSC funding is incidental to their business continuation, that is, total LSC contract values no more than 5% of annual turnover

N.B. For HEIs, it is proposed that the Framework relies on HEFCE assurances for Financial Health.

Performance Indicator 2: Financial Control

Applicability

175.   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

176.   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.

177.   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

178.   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 (FM&G)
- providers' internal controls and use and application of LSC funding streams.

179.   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.

180.   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.

181.   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 one to four. During the pilot, the current scoring mechanism for Effectiveness will be used, and where colleges are currently scored either a four or five 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.

182. 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

183. 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.

184. 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.

185. 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

186.   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

187.   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.

188.   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.

189.   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

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

191.   All pilot colleges will be consulted on key issues surrounding the financial control KPA.

Non-college Providers

192. All pilot providers will be sent the revised financial control audit document and guidance for comment in autumn 2007.

193. Any of the pilot providers that 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

194. 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.

195. FE colleges also have other audits, and the frequency of these vary from college to college:

- Funding audit: annual audit for those colleges that remain outside plan-led 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 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 one to five, with grades one to three representing full or satisfactory assurance, and grades four and five 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

196. As for colleges, there is a well-established audit regime in place for other providers that will be used to inform the financial control 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 one to five is currently given, with grades 1-3 representing full or satisfactory assurance, and grades four and five representing qualified assurance and limited assurance respectively.

Performance Indicator 3: Use of Resources

197.   The use of resources KPA presents measures in the Framework that aim to assess economy and efficiency and consists of two elements for Revenue and Capital, which are combined to produce the KPA score.

198.   One of the Framework's objectives is to provide value for money. Value for money requires evaluation of economy, efficiency and effectiveness as they link inputs, outputs and outcomes. The rest of the Framework is rightly devoted to assessing effectiveness of outputs and to some extent outcomes. Use of resources measures are to give proportionate coverage of economy and efficiency:

- economy and efficiency from the government's viewpoint in investing public funds in learning

- economy and efficiency within the operations of the organisations the LSC funds. Many of these, although arms-length to government, are public interest bodies funded by grant. Government interest in their internal economy and efficiency is demonstrated.

199.   Currently, the finance dimension is one third of the Framework's overall score and use of resources is one third of the Finance dimension. As one ninth of the overall Framework, use of resources will not normally have a disproportionate impact on the overall score.

200.   For the pilot, all of the use of resources measures apply to colleges. For other providers, some of the measures may not be applicable or may be exempt, as shown in the table below. As for all Framework measures this is provisional.

Use of Resources: proposed applicability to pilot providers

Pilot providers	UOR 1	UOR 2	UOR 3	UOR 4	UOR 5
GFE (38)	Y	Y	Y	Y	Y
WBL (23)	Y	Y	Y	E	E
SFC (20)	Y	Y	Y	Y	Y
ACL (6)	E	E	E	E	E
Specialist Land-based (4)	Y	Y	Y	Y	Y

Specialist Designated (3)	Y	Y	Y	Y	Y
Specialist LLDD (3)	E	E	E	E	E
Specialist Art & Design (1)	Y	Y	Y	Y	Y
HEIs (2) *	E	E	E	E	E

Key:

**Y = Applicable   Y? = to be evaluated   N = Not Applicable
E = Exempt**

* It has been formally agreed that HEIs are exempt from the pilot and that separate evaluation will take place over a longer timeframe.

UOR 1: Proportion of LSC funding applied to priority provision

Definition

201. The proportion by value of LSC funds received by providers that is applied to achieve a contribution to government priorities.

Principles

202. The measure follows the Summary Statement of Activity (SSoA) and the calculations and presentation in PAMS (Planning and Modelling System).

Data Sources

203. Individualised Learner Record (ILR) and PAMS.

Methodology

204. Based on learner numbers and priority funding data, expressed as a percentage, the methodology calculates the amount of LSC funding spent on LSC priorities.

Considerations

203. There are four areas for consideration:

- **Provider type**: some providers have more of their provision in the priority categories than do others, arising from their provider type or mission. For example, most sixth-form colleges make the majority of

their provision for 16-19s; similarly, work-based learning providers often have most of their work in the delivery of apprenticeships. The issue here is fairness in scoring.

- **Planned versus historic performance**: priority provision is readily measured from the ILR for past or current performance. There is the question, however, of how future expansion of priority activity is to be encouraged for those providers where it is currently insufficient.

- **Impact of demand-led funding**: there is an expectation within the new funding methodology that more provision will follow priorities. In this case, the question arises as to whether this measure will become redundant in a few years time. Currently, it is seen to have value because of the scope to increase priority provision within the sector. It may change in the future.

- **Mid-year adjustments**: currently, high-performing providers in the FE system demonstrate their responsiveness to particular priorities by taking on more than their original allocation at the request of the LSC. Some providers underachieving their allocations may lose funding. This re-distribution model is also integral to the new demand-led funding system and will have to be allowed for in the assessment of performance on this measure.

UOR 2: Delivery against funding allocation

Definition

204.   This measure compares the value of the provision delivered during the year with the funds that the LSC allocated at the start of the year and paid to the provider.

Principles

205.   The measure identifies those providers who have delivered differing percentages of provision for the amount allocated by the LSC. In particular, it distinguishes those delivering close to 100 per cent of the allocation; those delivering up to the 'funding claw back trigger point' of 97 per cent and those delivering in excess of their allocation.

206.   It supports the move toward self-regulation by identifying to what extent providers are able to make realistic plans regarding their delivery in the year to come and carry these out; those providers whose planning appears to be unrealistic in that they do not then deliver the level of training proposed; and those who are able to outperform their plans. In the latter case, it will be important to encourage realistic planning: substantial over-performance may indicate less than realistic plans.

Data Sources

207.   Allocation Management and Payments System (AMPS).

Methodology

208.   The measure is calculated by taking the reported out-turn value of training supplied and expressing it as a percentage of the final allocation before the start of the year concerned. Where a provider supplies training across more than one stream as well as in total and the score applied to each provider concerned may take account of the performance in each funding stream as well as in total.

Considerations

209.   There are four areas for consideration:

- initial modelling of the measure suggests that many providers currently perform close to allocation but others show wide variations.

- the measure needs to reflect LSC policy on under and over performance.

- it is important to identify a methodology/scoring approach that encourages realistic planning by providers and avoids advantaging single-stream providers. Inclusion of mid-year adjustment allocations may be useful.

- even if under demand led funding the LSC is only paying for the learning delivered, where a provider does not deliver the learning either planned or contracted for, this does have a cost, both for the learner who has to find alternative provision in their area and for other providers who have to try to accommodate these learners.

UOR 3: Funding for successful outcomes

Definition

210.   The amount of LSC funding spent on successful outcomes.

Principles

211.   The measure identifies those providers where successful outcomes incur differing amounts of LSC funding. It will show where successful outcomes have consumed larger and smaller amounts of funding and so highlight the comparative costs of success within the FE system. This measure was tested in 2004 by the former DfES as the original Value for Money measure and was intended to be one of the eight New Measures of Success.

Data Sources

212.   Individualised Learner Record (ILR) and Planning and Modelling System (PAMS).

Methodology

213.   A number of methodologies have been considered ranging from a highly complex but accurate aim-based assessment to the simpler approach of dividing total funding by the number of successes for each standard learner number. In the latter case the judgement is broader but the method is straightforward. It is proposed to take the simpler approach with methodology that follows demand-led funding principals and uses total funding adjusted by certain provider factors and divided by successes for each Standard Learner Number, which is the key concept in the new funding methodology. The methodology could be readily adjusted for future changes in the approach to funding providers.

Considerations

214.   There are three areas for consideration:

- it is important that the measure uses an appropriate definition of success, is easily understood and is based on standard learner numbers; the measure must also avoid bias toward a particular type of provider.

- it provides economy and efficiency elements to complement the measures in the Effectiveness Dimension.

- the measure should not be complicated such that it is onerous to compute or difficult to interpret; this challenge has been met by using national funding rates and using programme, learner and provider weightings to allow equitable comparisons between different types of providers.

<u>UOR 4: Cost Comparisons</u>

Definition

215.   This measure calculates cost comparison based on total operating cost per weighted standard learner number (WSLN proposed, see Methodology below).

Principles

216.   The measure aims to recognise performance improvement across the sector and complement, but not replicate, the detailed benchmarking work already carried out. Aiming for simplicity, the pilot has been based on a small number of high-level indicators and specifically avoids any comparison that reflects on the judgement of the provider's management on how they deploy their resources.

Data Sources

217.   Data is drawn from the ILR, PAMS and the finance record, Table1, Rows 7 and 8.

Methodology

218.   **i) Total operating cost per weighted standard learner number (WSLN)**
The total operating cost (staff costs + other operating expenses) is divided by a proposed weighted standard learner number (WSLN) to take account of various provider factors, including area cost, programme weighting, disadvantage, short course modifier and long-term residential factor.

Considerations

219.   There are three areas for consideration:

*   the measures are high-level and complement the overall Framework as part of a balanced scorecard: in particular they put down a marker which can be further developed over time

*   by using total operating cost, rather than lower level but less well-defined cost, the measure retains comparability

*   as one quarter of the use of resources revenue measures combine to represent one sixth of the overall finance dimension grade, these measures are considered unlikely to drive perverse behaviours. They are expected to have the positive impact of focusing management attention on economy and efficiency.

UOR 5: Capital

Definition

220.   The measure assesses the quality of facilities for learning and recognises the investments being made.

Principles

221.   Both current and planned future condition, with recognition for planned investment, are measured. The measure aims to be straightforward with recognition of investment towards world-class facilities and estate. The measure takes a high-level, easy to understand view of the provider's estate facilities and action they are taking to improve this. It looks to mitigate the impact on financial health that may occur when a provider is engaged on a capital scheme.

Methodology

222.   The capital performance Indicator (PI) will be based on two measures:

i) Condition is the moderated assessment of the condition of college estates based in part on the LSC Regional Property Advisors' assessment of each college estate, as well as the college's self-assessment of condition through the standardised e-mandate returns.

ii) Renewal assesses progress with replacement/renewal of facilities judges less than good or outstanding. This measure, based on gross internal floor area, tracks approved renewal plans through the various stages of LSC capital approval process (stage 2 fee support, approval in principal and details approval).

A scoring grid will determine the overall capital PI grade.

Considerations

223.   There are seven considerations:

- need to ensure consistency in assessment and moderation of condition scores
- necessary focus on learners and curriculum needs; Education Case is first part of the capital approval process
- valid and reliable measures of functional suitability are needed.
- time lag; major projects may take four years or more from concept to delivery
- factors outside college's control, for example local authority planning, LSC decision making
- using e-mandate data as a reliable source: currently variable but improving
- impact of borrowing on the financial health KPA: the intention is to recognise/reward the investment decisions made.

Scoring and Weighting

224.   The use of resources KPA score is split between revenue and capital partly to recognise the significance of the National Capital Strategy for the FE system.

225. Each of the four revenue measures will be scored and a scoring mechanism is being developed to produce an overall grade for the revenue PI. This grade will then be combined with the capital PI grade, using the Framework's scoring rules to produce an OPR for the use of resources KPA.

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.
General Further Education College	GFE	
Work-Based Learning	WBL	
Sixth-form college	SFC	
Adult Community Learning	ACL	
Learners with Learning Difficulties and/or Disabilities	LLDD	
Higher Education Institution	HEI	

Appendix 3: Directory

LSC:

Framework for Excellence Programme Director:
Jon Ashe, jon.ashe@lsc.gov.uk

Framework for Excellence Responsiveness and Effectiveness Dimensions:
Tim Smith, tim.smith@lsc.gov.uk

Framework for Excellence Finance Dimension:
Collette Sutton, collette.sutton@lsc.gov.uk

Framework for Excellence Learner Views Survey:
 responsivenesstolearners@lsc.gov.uk

Framework for Excellence Employer Views Survey:
employersurvey@lsc.gov.uk

QIA:

general.INFO@qia.gsi.gov.uk

KPMG:

theffeteam@kpmg.co.uk

Pilot Institutions:

	Provider Name	Provider Type	Region	KPMG Adviser
1	Alton College	SFC	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

	Provider Name	Provider Type	Region	KPMG Adviser
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	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

	Provider Name	Provider Type	Region	KPMG Adviser
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

	Provider Name	Provider Type	Region	KPMG Adviser
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	VT Training	WBL	SE	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