



AUDIT COMMITTEE

AGENDA

16th Meeting, 2001 (Session 1)

Tuesday 13th November 2001

The Committee will meet at 2.00 pm in Committee Room 3, Committee Chambers to consider the following agenda items:

1. **Overview of Further Education Colleges in Scotland 1999/2000:** The Committee will receive a briefing from the Auditor General for Scotland on his report entitled 'Overview of Further Education Colleges in Scotland 1999/2000' (AGS/2001/8).
2. **Scottish Further Education Colleges: Managing Costs:** The Committee will consider a further response from the Scottish Further Education Funding Council to its report entitled 'Scottish Further Education Colleges: Managing Costs' (SP Paper 70).
3. **Scope of Activities of the Auditor General for Scotland:** The Committee will consider a letter from the Minister for Finance and Local Government on proposed changes to the scope of activities of the Auditor General for Scotland.

David McGill
Acting Clerk to the Audit Committee
Room G.6, Committee Chambers
Ext. 0131 348 5215
Email: david.mcgill @scottish.parliament.uk

The papers for this meeting are as follows

Agenda Item 1

Report by the Auditor General for Scotland entitled
'Overview of Further Education Colleges in Scotland
1999/2000'.

AGS/2001/8

Briefing Paper

PRIVATE PAPER

Agenda Item 2

Letter and Memorandum from Prof. John Sizer, Chief
Executive SFEFC to the Convener - 24 October 2001.

AU/01/16/1

Summary of SFEFC Memorandum

AU/01/16/2

Agenda Item 3

Paper from the Clerk on proposed changes to the
scope of activity of the Auditor General for Scotland.

AU/01/16/3

Letter from the Minister for Finance and Local Government
to the Convener – 24 October 2001.

AU/01/16/4

24 October 2001

Mr David McGill
Acting Clerk to the Audit Committee
The Scottish Parliament
Room G.6
Committee Chambers
Edinburgh EH99 1SP

**PROGRESS REPORT TO THE SCOTTISH PARLIAMENT'S AUDIT COMMITTEE –
OFFICIAL REPORT ON THE NAO REPORT: SCOTTISH FURTHER EDUCATION
COLLEGES – MANAGING COSTS**

I am pleased to enclose the Council's latest Progress Report on the above Official Report by the Audit Committee. This report builds on the progress reported to the Audit Committee in December 2000.

The format of the report is similar in style to the December 2000 report. The first column shows the Committee's recommendations to the Council, the second column records the evidence given to the Committee on 28 October 1999 with the third and fourth columns reporting progress by the Council for the period up to December 2000 and October 2001 respectively.

As this report demonstrates, progress continues to be made across the range of strategic reviews undertaken by the Council. All colleges have now produced a Management Action Plan (MAP) and the Council has provided sector-level feedback following our analysis of the Plans. A copy of that report is attached. We intend to issue individual feedback reports to colleges within the next few weeks.

As with the previous report I also attach, at Annex A to the Progress Report, a copy of the Council's Action Plan from the Management Review along with a commentary of progress to date.

The situation with regard to reporting the financial health of colleges has also developed considerably. In particular, there is more robust financial information available from colleges and that is analysed using the Council's financial health monitoring framework. Accordingly, action with regard to recovery plans has been more focused and targeted on those with greatest need.

You will be aware that the Auditor General for Scotland is shortly to publish an FE Overview Report. That Report will also incorporate much of the information that I now provide. In that context I would hope that, in future, progress will be monitored against the more up-to-date report by the Auditor General for Scotland.

If the Committee requires any further information, then please contact Liam McCabe (telephone 0131-313-6524/email: lmccabe@sfc.ac.uk).

I have copied this letter to Eddie Frizzell, Head of Scottish Executive Enterprise and Lifelong Learning Department.

Professor John Sizer
Chief Executive

OFFICIAL REPORT OF THE SCOTTISH PARLIAMENT'S AUDIT COMMITTEE ON THE NAO REPORT: SCOTTISH FURTHER EDUCATION COLLEGES: MANAGING COSTS - ACTION PLAN: PROGRESS REPORT AT DECEMBER 2000

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Progress to December 2000	Update on progress to October 2001
<p><i>"The Committee recommends that the Council complete its various reviews and report to the Committee by <u>31 December 2000</u> on the:</i></p> <ul style="list-style-type: none"> <i>Root and branch review of the sector and on the action planned to tackle college deficits, improve college management, and to rationalise further education provision in Scotland;</i> 	<p><i>"Root and branch review"</i></p> <p>The root and branch review referred to in the recommendation is defined in the Official Report (paragraph 50) as the various strategic review initiatives set in train by the Council. Namely: the review of strategy; of the funding formula; of management; of the financial monitoring framework, of standards and quality, of estates; and information and communications technology.</p> <p><u>Review of Strategy (Supply and Demand)</u></p> <p>The review of Supply and Demand in Scottish Further Education is currently underway. The Council will receive an initial report in May. The review findings will form the basis of a dialogue with key stakeholders and will contribute to the development of information bases against which the Council and colleges can make strategic judgements.</p>	<p>The Council considered the report on the review of supply and demand in July and September 2000. The report was distributed to all colleges and key stakeholders (in CD format) in December 2000.</p> <p>Although the report concluded that on a national basis, provision was broadly adequate at meeting demand, the key use of the report is to assess the relative adequacy of each area and of the provision of major subjects. This is being taken forward by a major area and national mapping exercise.</p>	<p>The Council has now begun a comprehensive mapping of each geographical area and of key industrial sectors (4 in 2001-02) due to be complete by 31 March 2002.</p>

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	<p>The Executive reviewed the 1999 Development Plans of all colleges and made follow-up visits to provide feedback on this process. This process informed the development of guidance on strategic plans for 2000-03. The Council is currently consulting on planning processes for 2001-04 and beyond. Guidance on operational plans for 2000-01 will be issued in April 2000 with plans to be submitted at the end of July. In addition, the Council is to commission the development and delivery of a programme of activity which will assist college senior managers and enhance the effectiveness of planning in the sector.</p> <p>The Council has committed at least £3m per annum to its Strategic Development Fund, the purpose of which is to provide financial support to promote the strategic development of the FE sector to better meet Scotland's local and national educational needs, and to help make significant step changes in the nature of provision, its delivery, and management.</p> <p>Review of Funding</p>	<p>After consultation with the sector and making relevant amendments, guidance on operational plans was issued in May 2000 for plans to be submitted by 31 August 2000. The Council has analysed all the current years plans and given feedback to colleges, including face to face visits, on their strategic and operational plans. The programme of activity for college managers to enhance the effectiveness of planning will be undertaken once the management review action plans identify the scale and scope necessary.</p> <p>The Council has established and is chairing a joint steering group with the Glasgow Colleges Group to examine and analyse available data on need and provision in Glasgow, and to commission an analysis of the strategic options for the provision of FE in Glasgow. The Council is funding consultancy to assist this process.</p>	<p>This pattern of analysis of plans and feedback to colleges is now an annual occurrence. Now that the Management Review Action Plans are complete, the Council will give individual support to colleges to improve the effectiveness of planning, with particular focus to those where the scope for improvement is greatest.</p> <p>The analysis was undertaken by external consultants, was completed in March 2001 and a consultation phase with college Boards and other stakeholders was completed in September 2001, due to be published during October. Joint consideration of the outcomes will then take place.</p> <p>Council has offered specific estates funding for a project manager to take forward emerging estates solutions.</p>

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	<p>Funding year has been aligned with academic year. A forward looking methodology has been devised based on a funding agreement whereby colleges will be offered grant-in-aid in return for delivery of a specified volume of activity acceptable to the Council. The methodology includes a fee waiver grant and special elements for entry cost, achievement and unavoidable cost factors. The allocations for academic year 2000-01 will be announced on 26 April. The new methodology should enable colleges to plan forward with greater confidence in future. Some other elements of the methodology will be considered in phase 2 of the review such as the standard funding values and the weights for different subject groups.</p>	<p>The academic year 2000-01 allocations were announced on 26 April 2000. The Council's new forward-looking approach to funding was welcomed by the colleges as being more transparent and more predictable. The Council has also started to review details such as subject weightings and other aspects of the funding method. The Council will set out the implementation options and implications of this work by the end of March 2001 and engage in a full consultation with college immediately after that.</p> <p>The Scottish Executive has recently announced the likely level of resources that will be available to colleges over the next three years. While there is a substantial increase (concentrated in the first year), the sector has also been challenged to contribute significantly to key policy objectives (i.e. increase student numbers, social inclusion, literacy and numeracy). In addition to targeting these issues, the Council will focus elements of its funding on quality improvement in terms of the development of college staff, management and Boards of Management members as well as investment in estates and information</p>	<p>The Council ran its consultation on its Activity Measurement Method over the summer of 2001 with final responses due for submission by 30 September. (The 'Activity Measurement Method' is the way in which the Council measures funded activity in FE colleges which reflects, for example, different modes of delivery and subjects). Taking account of these responses, the relevant Council Committee and the Council itself are now considering how to take these matters forward at meetings in November and December. The Council will advise colleges of the next steps early in calendar year 2002.</p>

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	<p><u>Review of Management</u></p> <p>The consultants report on the review along with the Management Review Steering Group's draft report on the review findings, conclusions and recommendations were endorsed by the Council on 30 March 2000. In line with the agreed timetable, the final report from the Council will be submitted to Ministers in May 2000.</p> <p>Following consideration by Ministers of the Council's report, the Council will prepare a detailed action plan for implementation of the review recommendations. This will set out how and when the recommendations directed at the Council, Boards of Management and Principals will be implemented.</p> <p><u>Review of Financial Monitoring Framework</u></p> <p>A robust financial health monitoring framework was approved by the Council's Audit Committee in September 1999. The adequacy and effectiveness of this will be monitored by the Council's Audit Committee through the financial health monitoring reports it considers</p>	<p>technology.</p> <p>The Management Review was endorsed by Ministers in June 2000. Since then the Council has prepared an action plan on how it is to take this work forward and issued the report and challenge questions to college Boards of Management and Principals. Recognising the scale of this task the Scottish Executive agreed to extend the deadline for the return of college Action Plans to 31 March 2001.</p> <p>Attached at Annex A to this progress report is a copy of the Council's Action Plan with a commentary of progress to date. A copy of the full Management Review report is also attached.</p> <p>The Council's Audit Committee has met five times since October 1999 to consider detailed financial reports, including those on recovery plan colleges.</p>	<p>SFEFC has now provided sector-wide feedback and intends to provide feedback to individual colleges on the adequacy of action plans in October 2001.</p> <p>Attached at Annex A to this progress report is a copy of the Council's Action Plan with an update on progress since December 2000.</p> <p>The Council's Audit Committee meets at least three times per year and scrutinises in detail financial reports provided to it including those on recovery plan colleges.</p>

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	<p>and may be refined and developed as a result. In addition a formal review of the monitoring framework will be carried out in August 2001, which will consider, in particular, the effectiveness of the Council's action in relation to the College Recovery Plans. (See also later text on Recovery Plans and deficits).</p> <p>Review of Standards & Quality</p> <p>The Council undertook a review of quality assessment in further education colleges in November 1999. On the basis of this, the Council will focus on two areas in the coming months: working with colleges, Scottish Enterprise, Highlands & Islands Enterprise and SQA to reduce the audit burden on colleges in the short term and on developing a more unified system of assessment in the longer term; and revising the quality framework used by HMI in its reviews. The Council will consider how to take this work forward at its May Council meeting.</p> <p>In addition, the Council intends to consider how</p>	<p>The Council agreed a revised methodology for quality assessment which will place more emphasis on the student experience and dissemination of good practice. The new method was launched in September 2000 and the first of the new reviews are now underway.</p> <p>The Council has developed a strategy</p>	<p>The Council introduced its new methodology for quality assessment in AY 2000-01 and seven reviews took place during that session. A further 13 reviews are scheduled for 2001-02 and all 46 colleges will be reviewed by the end of AY 2003-04. The new method is working well and has increased the emphasis on good practice and quality improvement. The Council has also reached agreement with SE, HEI and SQA on the principle of credit transfer as a means of reducing the burden of multiple audits. Work is progressing on implementing a credit transfer process with the first practical benefits in reduction of burden expected in 2002.</p> <p>The Council completed its</p>

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	<p>to develop an effective link or range of links between quality and funding. To assist this it will (1) offer improved guidance on current performance indicators for 2000-01 and (2) it will undertake a review of a broad range of performance indicators used in its work.</p> <p><u>Review of Estates</u></p> <p>Review currently underway, to be reported to the Council in May 2000. Feedback to individual colleges will be provided after the review findings have been considered by the Council. (See also later text on Estates Strategy and Backlog Maintenance).</p> <p><u>Review of Information and Communication Technology</u></p> <p>The Council is to invest £10M in the financial year 2000-01 and £14M in the financial year 2001-02, as part of the CSR funding, in order to</p>	<p>for promoting continuous quality improvement in the sector. This will include clearer sanctions against unsatisfactory provision, and mechanisms to fund the spread of good practice. The Council also conducted a review of performance indicators, which identified a need to improve the current PIs and to develop some new ones, particularly on Widening Access on Teaching Qualifications for FE staff. The Council is currently consulting the sector on both these proposals.</p> <p>Reports considered by Council in May and July 2000. All colleges received individual reports. Council intends requesting annual returns, through the operational plan submissions, which will assist in monitoring the impact of the Council's policies in this area.</p> <p>The Council announced its ICT strategy in May 2000, and distributed funding of £7.5M direct to colleges for</p>	<p>consultation with the sector and has now published its policies on responding to unacceptable quality of provision and the promotion of continuous quality improvement. All colleges will now be required, as a condition of grant, to develop quality improvement strategies as part of their overall planning processes. The Council has continued to support staff development, with funding of £2.75m in 2001-02, and in particular has set specific targets for achievement of teaching qualifications as part of the Council's corporate plan.</p> <p>Annual returns due for submission at the end of October 2001. Assessment of impact of funding will be reported to Council at its meeting on 14 February 2002.</p> <p>The Council has continued to implement its ICT strategy and is investing £15m in this area in</p>

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	<p>develop the FE hub of the National Grid for Learning. The council conducted a survey of existing provision in November 99, and used this to develop a draft strategy which went out for consultation in Feb/March. The final strategy will be announced in May. It's expected that the strategy will address a range of parallel strands including network development, college infrastructure, staff development, content development and promotion of effective college policies. The Council has also decided to join JISC (Joint Information Systems Committee) which will give all FECs high-bandwidth access to JANET (Joint Academic Network)., All colleges will be connected to JANET by March 2001.</p> <p><i>"Action planned to tackle college deficits"</i></p> <p>Through the operation of its financial health monitoring framework the Council will continue to monitor financial performance and to work with colleges on a case by case basis to help deliver any necessary improvements. In addition, guidance on good practice in various aspects of financial management will be developed and disseminated to the sector.</p> <p>A key responsibility of the Council's Audit Committee is to monitor the trend in deficits at the sector and individual college levels, and the impact, in broad terms, of the Council's financial health monitoring framework on these results.</p>	<p>infrastructure and staff development. Colleges were required to produce their own ICT strategies, and the Council has provided feedback on these. The Council has now set specific targets for the provision of computers to students, and will monitor these on an annual basis. Progress continues on connecting all colleges to JANET and the Council expects to meet its deadline of March 2001 for completion of this project.</p> <p>A detailed financial report was considered by the Council and its Audit Committee in November 2000. This showed a steady improvement in the sectors financial health with historic costs surpluses forecast in each of the years 2000/01 – 2002/03. Also the number of colleges forecasting historic cost surpluses is expected to increase from 18 in 1998/99 to 37 in 2002/03.</p> <p>During this year the format of college financial forecasts has been revised to allow more detailed and forward</p>	<p>2001-02. The Council continues to monitor college progress towards meeting sector targets on access to computers for staff and students. All colleges have now been connected to JANET and further enhancements in connection bandwidth are being procured during 2001-02. The Council has also embarked on a major programme (£2m) to procure new online content for use in FE, and has reached agreement on reciprocal access for Scottish colleges to over £5m of content procured by the English FE funding body.</p> <p>The financial forecasts provided by the colleges to June 2001 indicated that 37 colleges were likely to incur an operating deficit during the year, six more than in 1999-00 and that, consequently, 22 colleges are likely to have an accumulated deficit at 31 July 2001, one more than in 1999-00. The overall accumulated deficit across the sector is expected to have increased from £15m in 1999-00 to £15.6m in 2000-01. SFEFC expects that the number of colleges recording operating</p>

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	<p><i>"Improve college management"</i></p> <p>This will be achieved principally through the follow-up work from the management review (see above), but another important area where the Council is already working with the sector is development of improved strategic development planning. (See earlier text on Review of Management).</p>	<p>looking analysis and monitoring. The revised format is also consistent with colleges' strategic and operational planning processes.</p> <p>See earlier text on Management Review</p> <p>See earlier text on review of Strategy.</p>	<p>deficits will fall to 24 in 2003-04.</p> <p>There are 20 Colleges forecasting historic cost deficits in 2000-01: one more than in 1999-00. This is the net result of six colleges with historic cost surpluses in 1999-00 having deficits in 2000-01, and five with deficits in 1999-00 improving to surpluses in 2000-01. The position is also forecast to improve in the next two years, with 8 colleges forecasting historic cost deficits in 2001-02 and 3 in 2002-03. There is a marginal decline in 2003-04, with 5 colleges predicting deficits.</p> <p>See earlier text on Management Review</p> <p>In addition, the Council has recently established a new directorate responsible for FE development. One of its key responsibilities will be to work with college Boards and senior managers to develop management capability in the sector.</p>

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	<p><i>“Rationalise further education provision in Scotland”</i></p> <p>This issue needs to be considered in the context of the other strategic reviews currently underway. Only when equipped with the evidence from these reviews and of financial health matters can balanced and robust decisions about the scope for and benefits of rationalisation be taken.</p> <p>The Council is to report to the Minister by December 2000 on how it proposes to approach any rationalisation of the shape and structure of the sector, to enhance the provision of further education in a regional context and deliver best value for public funds.</p>	<p>A report will be sent to the Minister for Education and Lifelong Learning by end December 2000.</p>	<p>The report was sent to the Minister in January 2001 who welcomed the Council's approach. Some colleagues in Glasgow have already indicated that they are exploring in more detail the possibility of merger following up the external review of provision in Glasgow (see earlier text on review of strategy).</p>
<ul style="list-style-type: none"> <i>Review of the recovery plans</i> 	<p><i>“Review of Recovery Plans at the remaining ten* colleges”</i></p>		

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<p><i>at the remaining 10 colleges in poor financial health, and on the progress made in implementing action plans and improving financial health of the colleges concerned;</i></p>	<p><i>*At the time of the earlier evidence, three of the 13 colleges had agreed recovery plans in place.</i></p> <p>In accordance with the statement given in written evidence, Recovery Plans were either in place or in the process of being prepared by 31 December 1999. At the end of March 2000, agreed Recovery Plans are in place at three colleges; draft Recovery Plans have been reviewed by the Council for a further six colleges; and two colleges are currently in the process of preparing plans which have yet to be reviewed by the Council. In the case of two colleges: Aberdeen and James Watt; the Council is now satisfied that sufficient improvement has been made, or is in train, to obviate the requirement for a formal Recovery Plan.</p> <p>A formal process of reporting progress on Recovery Plans to the Council's Audit Committee has been established. This is a key issue in the remit for this Committee.</p>	<p>Since October 1999 one further recovery plan has been agreed and implementation of the associated action plans for these four colleges is monitored quarterly. Draft recovery plans have been received from the remaining seven colleges and are currently being reviewed by the Council's Executive.</p> <p>Progress in agreeing recovery plans has been slower than originally estimated. The principal reasons for the delay are: the essential lead time in validating, fundamental reviews at a curriculum and business level; in some cases major reviews of physical estates; and the resource input of Council and College staff. It is now estimated that all recovery plans will be agreed by the end of July 2001.</p>	<p>Financial recovery plans are either in place or are at an advanced stage of preparation at 11 of the 19 colleges whose financial health SFEFC assessed as being of most concern. For each of these colleges SFEFC is monitoring the achievement of recovery plans through regular reports and meetings with colleges' Boards and management.</p> <p>In the remaining eight colleges no financial recovery plan has been prepared, largely because action is already in hand or the financial position is forecast to improve in future years. In each of these colleges, SFEFC has informed the Board of Management of its concerns and is monitoring closely the position.</p>

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	<p><i>“Progress made in implementing action plans and improving financial health of the colleges concerned”</i></p> <p>Action plans can only start to be implemented after agreement is reached on the Recovery Plan. At this point the Council will use the action plan as the principal tools for monitoring implementation. The frequency of monitoring will be no less than quarterly. It is intended that Recovery Plans for all of the colleges identified will be in place by the end of the academic year 1999/2000.</p> <p>Staff from the Council are working closely with Colleges and this has encouraged colleges to adopt a very positive attitude to the need for and benefits of Recovery Plans.</p>		<p>The Auditor General's Report on Moray College highlights limitations on the overall framework. There are limits to the powers of the Chief Executive of SFEFC, in his capacity as accountable officer, to ensure propriety and value for money in the stewardship of funds allocated to individual colleges. That extends to obtaining Financial Recovery Plans.</p> <p>The Auditor General recommended that a review of Governance and Accountability arrangements be undertaken and this is being considered. By Ministers. Professor Sizer, in his evidence to the Committee, stated that SFEFC would wish to contribute to such a review.</p>
<ul style="list-style-type: none"> <i>Review of the estates strategy and the scale of any backlog maintenance and plans to invest further in</i> 	<p><i>“Review of the estates strategy”</i></p> <p>Following on from the previous work by the Scottish Executive to develop this area of strategic planning, the Council has reviewed and assessed the estates strategies produced as a result of the guidance issued by the SE</p>		

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<p><i>this key aspect of infrastructure;</i></p>	<p>over several years from 1996. To date [30] colleges have produced estates strategies in accordance with the guidance.</p> <p>While there are some examples of good strategies, the majority lack a strategic focus and fail to provide an effective means for ongoing monitoring by the colleges or the Council.</p> <p>In view of the above, the Council will issue further guidance to the sector by Autumn 2000 and work with colleges to develop robust estates strategies. The Council agreed at its meeting on 30 March 2000 that the delivery of an estates strategy which complies with the Council's guidance will become a condition of grant in the future. The implementation date for this change has yet to be determined, and will need to reflect the scale of the task, given the other demands being faced by colleges.</p> <p><i>"Scale of backlog maintenance"</i></p> <p>The sector wide condition survey will be completed by the end of April 2000 and presented to Council in May. In addition to the condition of survey there is a parallel survey underway of colleges compliance in terms of the requirements set in the Disability</p>	<p>Guidance on the link between college strategic plans and estate strategies, and on investment decision making, was issued to colleges in November 2000.</p> <p>The Council distributed approximately £20m as formula funding to colleges in the financial year 2000-01. Having in place an approved estate strategy is now a condition of grant. All bar two colleges now have estate strategies in place (we have agreed timescales for their production) and the Council is giving feedback during site visits.</p> <p>The DDA survey was completed and the results presented to Council in May and July 2000. Council subsequently agreed to make £5m available to the sector to address compliance with the DDA. The</p>	<p>Council is continuing to provide feedback on all strategies and is developing guidance on space capacity indicators – due to be published in 2002.</p> <p>A further £19m has been made available in AY 2001-02 as formula. The impact of this, in terms of a reduction in backlog maintenance, will be reported to Council in Autumn 2002.</p>

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	<p>Discrimination Act 1995 (DDA). The findings of the survey will also be reported to Council in May.</p> <p>Following the consideration by the Council, colleges' will receive individual reports on the detailed findings from both surveys. These reports will provide colleges with important information in which they will need to evaluate in light of the development of estates strategies (see above).</p> <p><i>"Plans to invest further in this key aspect of infrastructure"</i></p> <p>The findings and conclusion from the condition and DDA surveys will provide the Council with a comprehensive assessment of the sector's backlog maintenance, health and safety and DDA requirements. However, this information must be considered in the context of the other current strategic reviews, in particular of Supply and Demand and ICT, and financial health considerations to enable the Council to arrive at balanced and informed view of the sector's</p>	<p>Council will be monitoring impact of this investment through the operational plans.</p> <p>£15m was made available to colleges to tackle the most pressing estate needs. The Council's draft Corporate Plan contains target to decrease the sector's estate investment needs which are classified as high priority.</p> <p>The Council now has a capital funding methodology which supports strategic investment in capital, including ICT, and is consistent with the development of regional clusters of FE provision and the need to improve and stabilise colleges' financial health.</p>	<p>Council has also approved funding totalling £24m towards the implementation of strategic estates solutions at three colleges. Funds will be made available over the next three academic years. Impact to be assessed as part of annual return analysis referred to earlier and will be reported to Council in December 2001.</p> <p>Two colleges have accepted funds. One more under offer. Assessment process being revised to reflect Area Mapping and Management Review Action Plans and revised circular to be issued in November 2001.</p>

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	infrastructure needs and priorities for the future.		
<ul style="list-style-type: none"> <i>Development of benchmarking, of performance indicators including a "Balanced Scorecard", and plans to improve college costing systems;</i> 	<p><i>"Development of benchmarking"</i></p> <p>As indicated in the evidence given to the Audit Committee the review of management has addressed at the first three stages of the framework for implementing best practice for benchmarking identified in the NAO report. Specifically, critical success factors and their underpinning key processes and these will be used as a basis for ensuring the effective targeting of activities to be benchmarked.</p> <p>The recommendations from the management review which are directed at Boards of Management and Principals will be expressed in the form of a series of "challenge questions" which will be answered through a process of self-assessment against a range of good practice benchmarks. The results of the self assessment exercise will be closely reviewed and, where appropriate, followed-up by the Council.</p> <p>In addition, the Council is currently reviewing the options for developing other forms of benchmarking, including the opportunity to develop further the current practice in relation to "Unit Costs".</p>	<p>As already reported, the Action Plans from the follow-up to the Management Review are to be received by 31 March 2001.</p> <p>As indicated, it is the intention that the Action Plans from the Management Review will provide a clearer focus on key areas to be benchmarked. In addition, the Council agreed it in November 2000 to further develop Unit Costs as a form of benchmarking.</p>	<p>As already reported Colleges have now produced Management Action Plans and are in the process of implementing the recommendations arising from these reports.</p> <p>Unit Cost feedback was not provided in 1999-2000. This was a 16-month accounting period for which there was 12-month activity data. This created difficulties with regard to calculating meaningful unit costs and undertaking other analyses of colleges' financial statements for the purpose of providing feedback to colleges. It was decided therefore not to publish the outcome from the 1999-2000 unit cost exercise.</p> <p>Soundings we have taken from the Sector indicate a positive response to the Unit Cost information. It is therefore our intention that publication will resume following receipt of the audited financial statements for</p>

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Progress to December 2000	Update on progress to October 2001
	<p><i>“Development of performance indicators including a ‘Balanced Scorecard’”</i></p> <p>The Council has agreed to develop performance indicators (PIs) in two ways.</p> <p>Short-term, to improve the definitions of the existing set of PIs, which are narrowly focused. Improved definitions will apply to the generation of PI data for the academic year 2000/01.</p> <p>Long-term, undertake a wider review of the</p>	<p>This development will see Unit Costs used as a more direct measure of colleges relative financial performance.</p> <p>The sector will shortly be consulted on the use of Unit Costs in this way to establish how able it will be to respond to this development. In particular, the Council will seek to assess the robustness of colleges’ costing and management information systems (the Management Review will also inform the process). Feedback on Unit Costs will be provided to colleges in April/May 2001.</p> <p>Revised definitions for PIs were announced in June 2000 and a number of staff developments events were organised. The Council expects this to improve the robustness of PI data collected from 2000-01.</p> <p>The Council conducted a broader</p>	<p>2000-01 in the early part of 2002 calendar year.</p> <p>The Council is, however, currently reviewing its Performance Management information. Accordingly the format and content of the unit cost feedback return for 2000-01 is under review. In the medium term we anticipate developing work in this area with Audit Scotland.</p> <p>Improved definitions for PIs have been introduced and this has improved the robustness of PI data. Further enhancements in the definitions of specific PIs are being introduced on an incremental basis.</p> <p>The Council has completed its</p>

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Progress to December 2000	Update on progress to October 2001
	<p>potential to develop a range of PIs across all major aspects of FE college activity, in other words, applying the principles of the "balanced scorecard". The review process will commence in April 2000 and be reported to Council around February 2001. It is proposed that new PIs will be implemented progressively from the academic year 2001/02.</p> <p><i>"Plans to improve college costing systems"</i></p> <p>As indicated in the evidence, the need to help colleges improve their costing systems is recognised. In addition, the application of management accounting information in the decision making process is an issue identified by the Review of Management as requiring further development by colleges. The Council will take this forward as part of its overall report on the Review of Management</p>	<p>review of performance indicators, which identified a need to improve the current PIs and to develop some new ones; the Council is consulting the sector on these proposals. The Council also intends to further develop a more holistic approach to quality across colleges, but believes this should not begin until after it has reviewed the college responses to the Management Review.</p> <p>See earlier text on Unit Costs benchmarks.</p>	<p>consultation with the sector on broader issues associated with PIs, and has identified a need to develop improved PIs in a number of areas. A working group, involving sector representation and chaired by a college Principal, has been set up to progress these issues.</p>
<ul style="list-style-type: none"> <i>A target for efficiencies that can be achieved without harming the quality of education"</i> 	<p><u>Target for Efficiencies</u></p> <p>The issue of efficiencies needs to be considered at two levels: the sector as a whole; and individual colleges.</p> <p>At sector level, the target is for a 1% annual efficiency gain. The sector has already delivered significant efficiencies since</p>	<p>As noted above, the introduction of the Council's new forward-looking approach to funding has been welcomed by the sector in that it provides colleges with greater funding predictability. This is an improvement on the previous situation where</p>	<p>The Scottish Executive's total envelope of funding to the Council for 2002-03 and 2003-04 is planned to increase only slightly. However, the Council is reviewing the content of that total to re-assess whether certain</p>

Audit Committee's recommendations to the Council	SFEFC's comments on progress reported to the Committee on 28 October 1999	Progress to December 2000	Update on progress to October 2001
	<p>incorporation. There is now a funding model which aims to promote planned and sustainable growth, and colleges are no longer able to secure efficiencies through significant growth. The Government has set out many challenges for the sector, all of which have cost implications - for example the relatively high costs of working with students from excluded communities. Provided the sector is funded to carry out the challenges which Government has set for it, the Council believes that the sector should be able to deliver a 1% efficiency gain without a detrimental effect on quality. The Council has also pointed out that if the sector were permitted to re-invest the expected 1% efficiency gain, then more could be done in addressing the Government's priority areas.</p> <p>At individual college level there is evidence, in the NAO Report and more recently through the work of the Council, to indicate that there is scope to secure efficiencies at certain colleges. Through the work on Recovery Plans and options for rationalisation, the Council will explore the opportunities for efficiency savings. In addition, the Council's development of benchmarks and PIs will provide an effective measure of relative performance and through this the scope for further efficiencies.</p>	<p>colleges did not know the planned level of efficiencies. The recent three year funding announcement has provided significantly increased resources for the sector which will allow investment in all areas of colleges activities. There is also funding available for growth in student numbers. The Council therefore believes that the sector should be able to deliver some efficiency gains over the next three years without a detrimental effect on quality. However, these efficiency gains are unlikely to exceed 1% per annum.</p> <p>Work with individual colleges on financial recovery plans has identified many examples where costs reductions and efficiencies can be achieved. In many cases these have been driven by curriculum based reviews.</p> <p>The good practice identified from this work will be fully analysed and disseminated to the sector in due course.</p>	<p>separate elements (which were previously necessary to meet Council and Scottish Executive strategic priorities) can now be incorporated into mainstream funding. This will possibly ease the extent to which an explicit efficiency gain is required in the value of the main unit of funding for 2002-03. Nevertheless, colleges will still have to aim to work more efficiently in general if they are to meet the greater demands placed on them by, for example, social inclusion.</p>

**Management Review of Further Education Colleges
SFEFC Action Plan-Progress by SFEFC to October 2001**

Action Plan	Progress by SFEFC
<p><i>General</i></p> <ul style="list-style-type: none"> ■ SFEFC will take a proactive role in obtaining Management Action Plans from colleges duly approved by Boards of Management and incorporating their response to relevant questions from Principals. These plans will be subject to periodic review and in the medium term it is envisaged that critical self-assessment and continuous improvement will become embedded within colleges' governance and management processes. ■ SFEFC will prepare an action plan for the development of Performance Indicators adopting the principles of a balanced scorecard approach. ■ SFEFC will work with the sector to develop appropriate benchmarking processes through which colleges may be made aware of emerging good practice with a view to its implementation. ■ SFEFC will encourage colleges to develop mechanisms to help facilitate the production of robust, reliable and relevant management information. 	<p>Management Action Plans have been produced by all Colleges.</p> <p>The Council has completed its consultation with the sector on broader issues associated with PIs, and has identified a need to develop improved PIs in a number of areas. A working group, involving sector representation and chaired by a college Principal, has been set up to progress these issues.</p> <p>The Council has refined the Unit Cost return so that it is more meaningful.</p> <p>The Management Review identified good practice and the Emerging Themes Report has identified where work still has to be done to embed good practice.</p> <p>The Management Action Plans have identified a specific need for the development of management information systems in Colleges.</p>

Action Plan	Progress by SFEFC
<ul style="list-style-type: none"> ■ Colleges will be encouraged by SFEFC to consider more actively collaboration in appropriate partnership arrangements in order to help share and deliver expertise and experience more cost effectively. 	<p>The Council will consider the options for how this might be taken forward.</p> <p>The Council has now begun a comprehensive mapping of each geographical area and of key industrial sectors (4 in 2001-02) due to be complete by 31 March 2002.</p>

<p><i>Governance</i></p> <ul style="list-style-type: none"> ■ SFEFC will, in consultation with the sector, seek to identify training needs for Board members and consider how such needs may be addressed by, for example, the establishment of a training programme for members of Boards of Management. ■ The Council will issue guidance to Boards on self-assessment. 	<p>A Joint Working Group with ASC/SFEU is looking to produce revised guidance for Board Members in this area. It is envisaged that the Joint Working Group will complete its work in this area by the end of the year.</p> <p>The Joint Working Group will consider self-assessment as the next phase. The production of the Action Plans was generally well received as a positive contribution towards the development of the self-assessment process.</p>
<p><i>Financial Management</i></p> <ul style="list-style-type: none"> ■ Good practice in forward looking financial forecasting and reporting systems will be disseminated, with examples giving ideas for content and presentation. ■ SFEFC will refine and strengthen the guidance for colleges requiring to prepare recovery plans. ■ SFEFC, in consultation with the sector, will prepare guidance to help improve decision-making in colleges through more effective management accounting and a more informed approach to risk management. 	<p>The financial model has been well received by the sector and will be subject to refinement.</p> <p>SFEFC continues to work with a number of Recovery Plan Colleges to facilitate the production of robust recovery plans drawing on its cumulative experience. It has been recognised that a standard approach towards preparation of Recovery Plans is difficult to achieve in practice due to the individual causes of Recovery Plan situations. However good practice is identified together with other lessons learned and brought to bear on emerging situations at colleges where a recovery plan may be needed.</p> <p>The analysis of the Management Action Plans has confirmed the need for development in this area. The Council will consider how best to progress this recognising the potential scale of the task.</p>

Estates Facilities

- Once the planned survey of the further education estate is complete, SFEFC intends to provide guidance to colleges which would include guidance on estate strategies and business planning.
- In the context of these strategies, estate management performance indicators, including those for space management, will be prepared and disseminated with college management encouraged to benchmark their own performance and take appropriate action to improve the effective use of their estate.

No further update since December 2000.

Pilot study completed in September 2001 and first annual report will be published in November 2001. Council agreed in September to roll out the study across remaining Scottish colleges. First sector-wide data collection will take place in 2002.

**EMERGING THEMES FOR SCOTTISH
FURTHER EDUCATION COLLEGES
FROM ANALYSIS OF MANAGEMENT
ACTION PLANS**

October 2001

For further information contact:

Liam McCabe
Director of Financial Appraisal and
Monitoring Services
SFEFC
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
0131 313 6524
0131 313 6507
lmccabe@sfc.ac.uk

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Introduction

Background

The Scottish Further Education Funding Council (SFEFC) published its Review of the Management of Scottish Further Education Colleges in September 2000. The report included a series of challenge questions for colleges, to which colleges were to respond by 31 December 2000, later extended to 31 March 2001, in the form of Management Action Plans (MAPs). The challenge questions covered seven key areas of management, Corporate Governance, Strategic and Operational Planning, Quality Assurance (QA), Marketing, Human Resource Management (HRM), Financial Management and Estates and Facilities Management. The MAP is seen as the first step in a process of continual self-improvement throughout the sector.

2. ***Virtually all colleges from whom a MAP was required provided one. We have now, with the aid of consultants assessed and reviewed the MAPs. It is intended to provide individual feedback to each college on their MAP. This report draws out a number of common themes that have emerged from the analysis of the MAPs together with an input from the Executive of SFEFC in relation to certain specific aspects of the seven areas.***

Overview

3. The Boards and Principals have generally responded positively to the challenges of the MAP process. This manifested itself in a clear indication that the Boards of Management of colleges are to take a stronger, more proactive role in terms of Governance and Planning. There was evidence to suggest that Financial Management is an area that requires to be further developed. Marketing, as a strategic function, is at a very early stage of development across the sector. Estates showed signs of improvement and Quality Assurance was generally robust across the sector. There were issues to be addressed with regard to Human Resource Management.
4. A number of good plans were produced but in many cases plans were weak. Clearly the quality of the plan will impact on the effectiveness of the process of continuous improvement envisaged through the MAP process.

Key features of good plans:

5. The key features identified in the better quality MAPs were as follows:

- repeating actions over a longer timeframe in order to embed them fully;
- large actions broken down into manageable stages;
- named individuals and reviewers responsible for delivery of the action; and
- incorporation of the action plan into the strategic plan and the Board's agenda.

Common features of weak plans:

6. Some of the main areas in which there was room for improvement in MAPs are set out as follows:

- actions referred to in the text but not carried forward into the action;
- vague actions;
- actions which reflected normal operations rather than change;
- too many actions scheduled within the timeframe, which affects their deliverability;
- no medium-to-long term actions;
- actions with a vague or no timeframe; and
- too many individuals with responsibility for delivering an action.

Corporate Governance

7. In terms of Corporate Governance, the MAP process has created a clear step-change in the role of the Board. Most plans very strongly indicated that the Board would take a more proactive role. This increased role indicated a greater commitment by Board Members, which could have an impact on recruitment and would need to be supported by training and development. There were different perceptions by the Board of their role. Some Boards clearly expressed an understanding of the high-level nature of their inputs, while others were more "hands-on". This is a particular issue with small colleges, where Boards are relied upon to a greater extent.

Strategic and Operational Planning

8. In terms of Strategic and Operational Planning, most colleges recognised the need for and importance of integrated planning. This is said to be, in part due, to the MAP challenge questions on the subject. In practice integrated planning is still at varying degrees of development across the sector. Many colleges relied upon cross-membership of Board Committees and circulation of minutes as the prime methodology for promoting integrated planning, but this, in itself, does not guarantee integration. Generally, strategic and operational plans were linked to some degree. This was usually in respect of financial and estates issues although this tended to be restricted to new projects or initiatives, rather than ongoing operations. Similarly, risk management tools were generally used for new projects rather than ongoing operations. However most colleges had plans to improve their use of such tools.
9. Opportunities for staff to contribute to planning existed to varying degrees depending on the culture of the college, some being more top-down and centralist than others. In some cases the Board away-day was the primary method used for the Board to contribute to the strategic planning process. The situation with regard to ICT varied, some had strategies and reported that they had taken full account of the implications of ICT into their planning, while others did not.

Quality Assurance

10. Quality Assurance was a relatively strong area for most colleges, showing the beneficial impact of the guidance available on the topic. It was also the area where collaboration was most advanced and there were examples of good practice. However, for infrastructural or capacity reasons the smaller colleges have an issue in achieving and embedding the full spectrum of requirements and might therefore wish to consider whether collaboration with other colleges might help. Quite a few colleges are concerned about the issue of rolling QA processes out to support staff, and guidance in this area would be helpful. The issue of how quality assurance links with human resource planning was sometimes not well understood or implemented.
11. The ICT dimension to quality assurance was also not always fully understood. The Council is supporting a project to extend self-evaluation to cover ICT services and the effective use of ICT in college activities with the allocation of £250k in AY 2001-02. The need for

colleges to build upon quality assurance to develop quality improvement strategies will be all the more important following the Council's decision in April 2001 to introduce a condition of grant. From AY 2001-02 each college will have to develop and implement a satisfactory quality improvement strategy, to be incorporated into the strategic and operational plans which the college submits to the Council in 2002 and beyond.

Marketing

12. A few colleges had already grasped in a practical sense the strategic importance of this function. Very few Colleges used the marketing process to drive their strategic plan but most gave signs of beginning to do so, possibly as a result of the MAP process. Good practice in this area was identified in the SFEFC report *The Way Ahead*. It was found that most colleges could benefit from closer Board involvement and increased time on this activity, particularly by obtaining and analysing market information. In addition many colleges lacked staff with relevant expertise or specialist staff in this area. There was little evidence of collaboration although joint initiatives by neighbouring colleges may achieve better value-for-money than a series of individual college initiatives.

Human Resource Management

13. In terms of Human Resource Management (HRM), there were clearly some colleges which retained a Personnel approach, in which staff are deployed, rather than a HRM approach, in which staff are developed. In particular smaller colleges expressed difficulties in adopting the good practice identified. In most cases it was difficult to tell whether managers truly received the support they needed solely from the evidence of the responses.
14. Most colleges had identified actions for increased senior management development. Some colleges considered that the concept of succession planning restricted the pool of choice while others interpreted it as meaning general staff development. The best answers related to the use of training programmes and rotational deputising. HRM reporting and management information varied across the sector. Overall, this was a strong area for inter-college collaboration and benefited accordingly.

Financial Management

15. In overall terms Financial Management appeared to be a weak area in the sector as a whole. This is especially the case with regard to financial strategy, resource management and decision making. However, it is recognised that some colleges were more expert in these areas. Financial Management is an area where collaboration, joint provisioning and development of standard approaches may result in higher standards of performance.
16. A number of colleges identified resource issues. Some colleges have put forward actions to review the issue of resourcing while others have been less proactive. There was little evidence of contingency cover arrangements. For some colleges, particularly those in financial difficulty, there is a recognition that adequate resourcing of the finance function is a worthwhile investment. However, other colleges in need of financial expertise, have not made a similar commitment. Resourcing of this area is crucial if colleges are to develop costing for core activities and commercial operations. Several colleges rejected the need for course costing or said it was too difficult to achieve. However, the question here may be one of balancing the degree of provision required in relation to the level of decision being considered.
17. There is little evidence across the sector of long-term planning beyond three years. It was suggested that this was, in part, due to perceived uncertainties of funding. Scenario planning might allow longer planning horizons to be achieved.
18. Devolved budgeting is at various levels of development across the sector. However, some colleges particularly those which are financially fragile, prefer the security of centralised control for the moment and note the need for investment in managerial training which would be necessary if budgets were to be devolved in a controlled manner. Some Benchmarking comparison may assist colleges with this issue.
19. Zero-based budgeting is undertaken at a minority of colleges, and sometimes only for new developments or individual aspects of provision rather than across the board. There was commonly only one financial objective, to balance the budget or some similar goal. A more broadly based approach is required.

Estates Management

20. Estates Management showed the beneficial impact of the guidance recently issued by the Council. Most colleges either had or were about to develop estate strategies and costed option appraisals in line with the guidance, although some intended to apply it only to new developments initially. The extent to which estate strategies were integrated with strategic and financial planning and with ICT strategies was variable across the sector with significant weaknesses evidenced in some colleges.
21. One example of good practice outlined in the Management Review was effective space utilisation. However, responses to the MAP questions rarely mentioned how room utilisation, as a fundamental benchmark against which to measure effective and improving performance, was being optimised, although some colleges may have procedures in place in this regard which their responses did not fully demonstrate. Only some colleges indicated that they used software for timetabling.
22. With regard to facilities management, the responses demonstrated that tendering took place to some extent for most services across the sector, but there was evidence of a varying degree of commitment to the concept of using private contractors. It is likely that more detailed work may be required by colleges to ensure that the best value for money is being achieved in all circumstances. Colleges may wish to consider external auditors undertaking this as part of their value-for-money programme.
23. The responses presented little evidence of actual or potential sharing of facilities or services management, or evidence, where appropriate, of the shared use of the estate with other colleges.

Management Information

24. Clearly, effective management is dependent on the timely provision of accurate and reliable management information presented in an appropriate level of detail and in a user-friendly format. While it was not a specific focus of the Management Review and the subsequent review of MAPs, management information is critically important. In general terms there is evidence across the sector that management information and administrative systems have scope for significant development in terms of better meeting the information needs for monitoring and decision making purposes. There is also scope for better integration of different aspects of management information systems within individual colleges.

AUDIT COMMITTEE 1st REPORT 2000

Scottish Further Education Colleges: Managing Costs

ANALYSIS OF THE SCOTTISH FURTHER EDUCATION FUNDING COUNCIL'S RESPONSE OF 24 OCTOBER 2001

(The Committee originally requested that by December 2000, the Council should report its progress on a number of fronts. On 22 December 2000, Professor Sizer wrote to the Committee and informed them that in recognition of the scale of the task the timetable had to be extended. He therefore proposes to report to the Committee on this again in the summer of 2001. Professor Sizer has now written to the Committee again with an update in each of the areas.)

<i>Audit Committee recommendation</i>	<i>Summary of the Council's reported progress to December 2000</i>	<i>Summary of Council's reported progress to October 2001</i>
1. Report from the Council on root and branch review of the sector and on the action planned to tackle college deficits, improve college management, and to rationalise further education provision in Scotland;	The Council has considered a report on the review of supply and demand in the sector. This indicated provision meeting demand at a national level but further work on mapping supply in major subjects is being undertaken to assess the relative adequacy across areas. (Page 1)	The Council expects to complete mapping of supply and demand for geographical areas and for certain industrial sectors by March 2002.
	The Council has established and is chairing a joint steering group with the Glasgow Colleges Group to analyse available data on need and provision in Glasgow and to commission an analysis of strategic options for Glasgow. (Page 2)	Analysis of the Glasgow position by external consultants was completed in March 2001 and has since been the subject of a consultation exercise. The council expect to publish the results of consultation in October 2001.
	The Council's new forward-looking approach to funding was welcomed by colleges as being more transparent and predictable. Coupled with the recent announcement of increased funding over the next three years this should ease some of the problems colleges faced. (Page 3)	The Council is further developing the funding mechanism through the introduction of an 'Activity Measurement Method' which seeks to measure funded activity to reflect different modes of delivery and subjects. Following consultation the Council is to consider how to take forward this development by the end of 2001.

	<p>The Management Review – covering various aspects (financial monitoring, standards and quality, estates, IT/Comms)(Page 4-7)</p> <p>The Council reports a steady improvement in the forecast financial health of the sector, with 37 colleges forecasting a historic cost surplus by 2002/2003, up from 18 in 1998/99. (Page 7)</p> <p>A report on the Council's approach to rationalisation of further education provision in Scotland was going to the Minister for Enterprise and Lifelong learning by the end of December 2000. (Page 8)</p>	<p>The Council's assessment of the progress made against an action plan for taking forward recommendations is set out at Annex A.</p> <p>The Council expects to provide each college with feedback on the adequacy of their individual action plans by October 2001.</p> <p>The council forecast that for the financial year 2000-01 37 colleges will incur an operating deficit and 20 will incur historic cost deficits. By 2003-04 the Council expect that the number incurring operating deficits will fall to 20 and the number incurring historic cost deficits will have fallen to 5.</p> <p>The Minister welcomed the Council's approach.</p>
2. Review of the recovery plans at the remaining 10 colleges in poor financial health, and on the progress made in implementing action plans and improving financial health of the colleges concerned;	<p>Of the ten colleges from whom the Council had originally requested a recovery plan in mid 1999, seven of the plans are still in draft form only. The date set for the finalisation of all recovery plans is the end of July 2001. (Pages 8&9)</p> <p>No commentary has been provided on the extent of any progress made at those colleges with a recovery plan.</p>	<p>Financial recovery plans are either in place or are in an advanced stage of preparation at 11 of the 19 colleges whose financial health the Council assess as being of most concern. In the remaining eight colleges no financial recovery plan has been prepared largely because other action is at hand to improve the situation.</p>
3. Review of the estates strategy and the scale of any backlog maintenance and plans to invest further in this key aspect of infrastructure;	<p>The Council completed its consideration of the review of college estates in July 2000 and the Council reports increased capital funding to the sector. There is no mention in the response of the findings of the estates review or the scale of backlog maintenance. (Pages 6, 10, 11 and 12)</p>	<p>Council is continuing to provide feedback on all strategies and is developing guidance on space capacity indicators – due to be published in 2002</p>

4. Development of benchmarking, of performance indicators including a "Balanced Scorecard", and plans to improve college costing systems;	The Council agreed in November 2000 to further develop Unit Costs as a more direct measure of colleges' relative financial performance. The sector is to be consulted to see how it will respond to this development and the Council will be assessing the robustness of college's costing and management information systems. (Page 12)	Colleges have produced management action plans and are in the process of implementing these recommendations.
	Revised PI's have been introduced for 2000/01 and the council is developing a more holistic approach to quality across the colleges; but will not tackle this until the colleges' response to the management review has been received. (Page 13)	Improved definitions for PIs have been introduced and this has improved the robustness of Pis. Further enhancements of definitions are being introduced.
5. A target for efficiencies that can be achieved without harming the quality of education. “	The council is sticking with the 1 per cent efficiency gain across the sector in each of the next three years that it reported in 1999. However, the Council recognises that “Work with individual colleges on financial recovery plans has identified many examples where cost reductions and efficiencies can be achieved (Page 15)	Changes to the funding of colleges is leading the Council to re-consider its approach to monitoring efficiency gains in the sector.

Overall

The Council's response records significant initiatives which are being taken to improve management within the FE sector. Many of these initiatives will take time to bear fruit. The AGS has already produced his first overview of the FE sector and future reports will monitor progress of certain initiatives related to the financial health of the sector. Other initiatives designed to monitor the performance of colleges will be covered by the AGS plans to report on performance measurement in the sector.

Scope of the activities of the Auditor General for Scotland

Background

The Minister for Finance and Local Government has written to the Committee seeking comments and views on his proposals to use his powers under the Public Finance and Accountability (Scotland) Act 2000 to extend the powers of the Auditor General for Scotland. The letter is circulated as committee paper AU/01/16/4.

Proposal

The Minister proposes changes in three areas. Firstly, he signals his intention to use his powers under section 23(2)(b) to extend the bodies or office-holders that may be the subject of economy, efficiency and effectiveness examinations. Secondly, he will lay an order under section 24(5) to extend the bodies that the Auditor General or an auditor appointed by him which are obliged to provide access to documents or information in connection with section 21 or 22 audits. The list of bodies that the Minister intends to include in these two orders are listed in an attachment to his letter.

Finally, the Minister proposes to lay an order under section 26(2) amending legislation setting up the Scottish Tourist Board and the Scottish Hospital Trust in order that they are brought into the scope of the PFA Act. The Minister's position is that these bodies should have been included in the Act initially, but were overlooked and this order is to rectify that situation.

By virtue of section 27(2), the order under section 26(2) will be an affirmative order. This requires a debate on an Executive motion. It is likely that the Minister who puts down the motion will attend the committee meeting to take part in the debate and will therefore be available at that time to answer any questions that members have. Members should be aware, however, that it will not be possible at that stage to amend the order, the committee's role being only to decide whether or not to recommend to the Parliament that the instrument be approved.

Next steps

The Executive has instructed drafting of the three orders and the Minister's letter is designed to allow the committee to feed any comments into that process. Members are therefore invited to consider the Minister's letter and to decide whether any comments should be submitted at this stage. Members may wish to welcome the extension of the application of the Auditor General's powers in ensuring propriety and value for money in the spending of public money.

David McGill
November 2001

Minister for Finance & Local Government
Angus MacKay MSP

Victoria Quay
Edinburgh EH6 6QQ

Andrew Welsh Esq MSP
Convenor
Audit Committee
The Scottish Parliament
Edinburgh
EH99 ISP

Telephone: 0131-556 8400
scottish.ministers@scotland.gsi.gov.uk
<http://www.scotland.gov.uk>

October 2001

SCOPE OF ACTIVITIES OF THE AUDITOR GENERAL FOR SCOTLAND

The purpose of this letter is to seek the Committee's views on proposals to implement the provisions contained in the Public Finance and Accountability (Scotland) Act 2000 (PFA Act) which relate to the activities of the Auditor General for Scotland (AGS).

As you are aware the PFA Act allows the Scottish Ministers to specify, by Order subject to negative resolution, bodies and officeholders (other than those whose audit is already under the control of the Auditor General for Scotland (AGS) such that:

- AGS may conduct value for money examinations into the body or officeholder (section 23); and
- AGS may have access to the books and records of the body of the officeholder in connection with an audit, or value for money study, of a body where he already has powers (section 24).

Section 26 of the PFA Act also allows the Scottish Ministers to amend, by Order, other legislation in consequence of Part 2 of the PFA Act. Such an Order would be affirmative (as opposed to the Orders discussed earlier). We intend making such an Order for two, essentially housekeeping purposes.

The first is that the PFA Act modified the legislation setting up statutory bodies such as some NDPBs and health service bodies to provide for the audit of their accounts under the control of AGS. This applied to bodies which had previously been audited by C&AG, health service bodies previously audited by the Accounts Commission, and some bodies whose auditors had

been appointed by the Department or even, in cases, by the bodies themselves. The Scottish Tourist Board and the Scottish Hospital Trust were inadvertently omitted from these modifications.

I have attached details of the proposals for inclusion in the Orders under sections 23 and 24 of the PFA Act and would be grateful for the Committee's views and comments. I would also be happy to hear your views on the proposals for the orders to update the audit provisions of the other bodies mentioned.

I am happy to meet with the Committee to discuss this further if that would be helpful.

ANGUS MacKAY

ANGUS MACKAY SCOPE OF ACTIVITIES OF AUDITOR GENERAL FOR SCOTLAND

PROPOSALS FOR VFM STUDIES AND ACCESS BY AGS

Body	AGS commission VFM studies?	AGS access under Section 24(2) and (4) of PFA Act?
Careers Scotland	Yes	Yes
Edinburgh World Heritage Trust	Yes	Yes
Glasgow West Conservation Trust	Yes	Yes
Hannah Research Institute	Yes	Yes
Higher Education Institutions	Yes	Yes
Scottish Agricultural College	Yes	Yes
Housing Associations	No	Yes
Local Enterprise Companies	Yes	Yes
Macaulay Land Use Research Institute	Yes	Yes
Moredun Research Institute	Yes	Yes
Post Qualification Education Board for NHS Pharmacists in Scotland	Yes	Yes
Rowett Research Institute	Yes	Yes
Community Learning Scotland	Yes	Yes
Learning and Teaching Scotland	Yes	Yes
Scottish Crop Research Institute	Yes	Yes
Scottish Screen	Yes	Yes
Learndirect Scotland	Yes	Yes
Royal Society of Edinburgh	Yes	Yes