For further information, please contact the appropriate Learning and Skills Council office. Contact details for each office can be found on the LSC website: www.lsc.gov.uk

Learning and Skills Council

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1. Introduction

1. The primary purpose of this document is to provide information, advice and guidance to the 100 colleges and work-based learning (WBL) providers (Appendix 3) that will be piloting the prototype Framework for Excellence (the Framework) from September 2007 to March 2008. It will also be of interest to:

- all other colleges and WBL providers that need to prepare for the Framework being applied to them in September 2008
- all other providers that will be brought into the Framework from September 2009 onwards, such as Personal and Community Development Learning Sector and specialist further education (FE) colleges
- all colleges and providers with a regulatory or representational role in the FE system.

2. This guidance document complements the Learning and Skills Council’s (LSC’s) publication Framework for Excellence: How the Framework will work, published on 20 June and available at: http://ffe.lsc.gov.uk/ - that publication is a useful introduction to this detailed pilot guidance.

3. This is a “live” document, which will be updated during the course of the pilot, for example to clarify issues or to disseminate key messages. Each pilot institution has a nominated liaison officer, who will be notified by e-mail alert to any changes in this document.

4. For the pilot process this document sets out:

- the composition of the Framework
- a detailed timetable for the pilot phase
- what pilot institutions will be required to do
- the lines of communication with pilot institutions, and the support that will be available to them
- evaluation of the pilot process.

5. The 100 pilot institutions have been chosen by reference to several criteria: institution type, location and current performance (inspection grades and success rates).

6. KPMG is managing the pilot process on behalf of the LSC.

7. The LSC is arranging for each pilot institution to receive an honorarium of £1,000 in recognition of the additional administrative and management tasks involved in taking part.
2. Objectives of the Pilot

8. The Framework for Excellence is designed to be an effective and trusted method of raising standards within the FE system, and to inform choice and improve the quality of decision making for learners and employers. It will provide a single, unified framework for assessing and reporting achievement in all key areas of performance.

9. The first pilot phase of the Framework is designed to aid the development of a robust performance assessment framework suitable for implementation by colleges and WBL providers in September 2008. A second pilot phase in September 2008 will be necessary for other types of provider.

10. The role of the pilot institutions will be to help test:

- the definition of each of the proposed Performance Measures (PMs) and their associated Assessment Criteria
- the rules governing the aggregation of the grades for Performance Indicators (PIs) to Key Performance Areas (KPAs), Performance Dimensions (PDs), and the Overall Performance Rating (OPR)
- the additional administrative commitment, for example as a result of new data-collection processes
- the value of the Framework in acting as a stimulus to improve performance
- the value of the Framework to address the needs of learners and employers in informing their choices.

11. The LSC will also use the pilot programme for developing, testing and trialling other PIs that may be included in the Framework; non-pilot FE colleges and WBL providers will be also invited to participate in this work.

12. The Framework is still under development, and there remain a series of issues to be explored and resolved. Some are of a cross-cutting nature, such as how contextual factors are best taken into account, and some relate to specific PIs, for example dealing with low response rates in learner surveys.

13. The types of issues to be resolved are:

- those cross-cutting issues that relate to the overall development and implementation of the Framework, and involve pilot institutions (Section 8)
- those that relate specifically to each individual PI (Appendix 1: Specifications for Individual Performance Indicators)
- those cross-cutting issues that involve the main stakeholders: the Department for Education and Skills (DfES), the LSC, the Office for Standards in Education (Ofsted), and the Quality Improvement Agency (QIA).
3. Roles and Responsibilities

Pilot Institutions

Information and Data Generation

14. In terms of generating the data for the pilot it is envisaged at this stage that the main tasks for providers will be to:

- administer a learner views survey and return the completed questionnaires to the LSC
- support the learner destination survey by cleaning their learner contact data, where necessary
- administer an employer survey (some pilot providers may need to clean their employer register in preparation for this survey).

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

15. With the following provisions, the LSC expects to base all other data and information required for the pilot programme on sources that it already holds:

- the Quality of Provision KPA will be based on Ofsted’s current opinion on the overall effectiveness of a provider; Ofsted will assess its level of confidence in the reliability of each provider’s self-assessment report
- the Financial Control KPA will be based on audit assessment tools - the most recent Financial Management and Governance (FM&G) review in the case of colleges, and tools such as the Provider Control Risk Assessment (PCRA) and Business Environment Questionnaire (BEQ) for other providers. Where this information is not current – for example, FM&G reviews are conducted in line with the inspection cycle – some follow-up review work with providers may be required
- the Use of Resources KPA is still under development: there may be some new data requirements, but it is envisaged that colleges will already hold much of this additional data and therefore the additional administrative commitment will not be significant.

16. Full details of the roles and responsibilities of pilot providers for the specific PIs are included in Appendix 1 of the document.

Output and Issues Resolution

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

18. During the pilot phase, pilot institutions will need to:

- attend a national briefing on either 4 July (The Queens Hotel, Leeds), 6 July (The Holiday Inn, Birmingham) or 10 July (The New Connaught Rooms, London)
- attend a national mid-pilot event on either 14 November (Leeds), 16 November (Birmingham) or 20 November (London)
- attend a national end-of-pilot event in March 2008 (dates to be advised);
- attend other meetings, which may include virtual or telephone events
- complete evaluation questionnaires, which may be sent to different audiences, such as governing bodies and senior management teams
- facilitate occasional site visits during the pilot by KPMG
- provide information about the level of their own input to assist in carrying out an assessment of the additional workload to providers
- organise and ensure attendance at workshops designed to solicit their views and discuss proposed action following the results of the Framework being communicated
- organise and host focus groups/workshops of learners and/or employers to test the value of the Framework’s output to them.

Learning and Skills Council

19. The LSC will:

- generate four-point grades for PIs and supplementary measures
- determine the four-point rating for the KPA, PD and the OPR, using scoring and aggregation rules
- disseminate ratings to pilot providers
- consult with pilot institutions on the processes and outputs of undertaking the Framework for Excellence exercise
- evaluate the outputs, and model findings where appropriate
- explore the use of the Framework in the LSC’s business processes during the first phase of the pilot programme.

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

Ofsted

21. Ofsted will:

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

22. Contact details for Ofsted are set out in Appendix 3.
Quality Improvement Agency

23. The QIA will appoint a contractor to:

- be the first point of contact for non-pilot providers, answering queries and disseminating knowledge about the Framework’s development and application
- develop peer review, working with 100 groups comprising pilot and non-pilot institutions
- explore how to use the Framework in its business processes.

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

KPMG

25. In supporting the pilot phase of the Framework, KPMG will:

- be the first point of contact for pilot institutions
- facilitate group meetings of pilot institutions
- make visits to specific pilot institutions, where required
- update liaison officers with developments in the Framework
- consult with wider stakeholders
- organise and jointly host briefing and evaluation events.

26. Contact details for KPMG are set out in Appendix 3.
4. Timetable (subject to change)

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Task</th>
<th>Responsible Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22 May</td>
<td>List of 100 pilot providers finalised</td>
<td>LSC</td>
</tr>
<tr>
<td>June 2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>01 June</td>
<td>Request to pilot sites to nominate liaison officer</td>
<td>LSC</td>
</tr>
<tr>
<td>05 June</td>
<td>Providers requested to correlate employer contact details and forward to FfE communications team</td>
<td>LSC</td>
</tr>
<tr>
<td>15 June</td>
<td>Pilot sites deadline for nominating liaison officer</td>
<td>Pilot providers</td>
</tr>
<tr>
<td>20 June</td>
<td>Ministerial launch of June policy document</td>
<td>DfES</td>
</tr>
<tr>
<td>22 June</td>
<td>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</td>
<td>LSC</td>
</tr>
<tr>
<td>29 June</td>
<td>Pilot Guidance placed on LSC website</td>
<td>LSC</td>
</tr>
<tr>
<td>late June</td>
<td>Briefing events for regional LSC staff</td>
<td>LSC</td>
</tr>
<tr>
<td>July 2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-31 July</td>
<td>Data-matching for learner destinations indicator</td>
<td>RCU/LSC</td>
</tr>
<tr>
<td>04 July</td>
<td>First national briefing event for pilot sites (Leeds)</td>
<td>KPMG</td>
</tr>
<tr>
<td>06 July</td>
<td>Second national briefing event for pilot sites (Birmingham)</td>
<td>KPMG</td>
</tr>
<tr>
<td>10 July</td>
<td>Third national briefing event for pilot sites (London)</td>
<td>KPMG</td>
</tr>
<tr>
<td>13 July</td>
<td>System of alerts to guidance changes for pilot sites</td>
<td>LSC</td>
</tr>
<tr>
<td>13 July</td>
<td>Providers that have not provided employer contact details to be contacted</td>
<td>LSC</td>
</tr>
<tr>
<td>16 July</td>
<td>Telephone survey for learner destinations indicator commences</td>
<td>RCU/LSC</td>
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<tr>
<td>20 July</td>
<td>Issue of Addendum to Pilot Guidance</td>
<td>KPMG</td>
</tr>
<tr>
<td>20 July</td>
<td>Cut-off date by which providers are requested to return employer contact details</td>
<td>Pilot providers</td>
</tr>
<tr>
<td>31 July</td>
<td>Cut-off date for providers to return requested information for the learner views PI</td>
<td>Providers/LSC</td>
</tr>
<tr>
<td>31 July</td>
<td>Bulletin to pilot site liaison officers - including FAQs (repeated monthly)</td>
<td>KPMG</td>
</tr>
<tr>
<td>end July</td>
<td>KPMG teleconference/phone-in for pilot providers (repeated monthly if required)</td>
<td>KPMG</td>
</tr>
<tr>
<td>end July</td>
<td>Production of pilot provider profiles</td>
<td>LSC</td>
</tr>
<tr>
<td>August 2007</td>
<td></td>
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<tr>
<td>early August</td>
<td>Set up composition of and terms of reference for development groups for (1) specific PIIs; (2) cross-cutting issues groups</td>
<td>KPMG</td>
</tr>
<tr>
<td>August</td>
<td>Timetable and set up workshops and events for pilot programme</td>
<td>KPMG</td>
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<td>August</td>
<td>Develop questionnaires for evaluation</td>
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<tr>
<td>mid-August</td>
<td>Centrally administered surveys begin</td>
<td>LSC</td>
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<tr>
<td>31 August</td>
<td>Issue letter to pilot providers inviting participation in development groups</td>
<td>KPMG</td>
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### September 2007

<table>
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<tr>
<th>early September</th>
<th>Pilot providers send out employer surveys (indicative)</th>
<th>Pilot providers</th>
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<tbody>
<tr>
<td>01 September</td>
<td>Pilot providers reminded of need to confirm number of questionnaires/envelopes for the learner survey at the end of the month</td>
<td>LSC/RCU</td>
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<tr>
<td>04 September</td>
<td>Confirmation of questions for learner views survey</td>
<td>LSC</td>
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<tr>
<td>26 September</td>
<td>Batch of learner views questionnaires sent to piloting providers for non-completers</td>
<td>RCU</td>
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<tr>
<td>28 September</td>
<td>Providers confirm number of questionnaires/envelopes required for the learner views survey and return information to RCU Ltd.</td>
<td>Providers/RCU/LSC</td>
</tr>
<tr>
<td>end September</td>
<td>Revised SARQ available for comment</td>
<td>LSC</td>
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<tr>
<td>end September</td>
<td>Revised BEQ / PCRA document available for comment</td>
<td>LSC</td>
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</table>

### October 2007

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<th>October onwards</th>
<th>Piloting of revised SARQ at colleges</th>
<th>LSC</th>
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<tr>
<td>early October</td>
<td>Telephone survey for learner destinations indicator finishes</td>
<td>RCU/LSC</td>
</tr>
<tr>
<td>01 October</td>
<td>Commence inclusion of learner views survey in exit process for learners who leave a programme early</td>
<td>Pilot Providers</td>
</tr>
<tr>
<td>October</td>
<td>Confirmation of estimate of number of learners within scope for web based learner views survey</td>
<td>Pilot providers opting for a web-based approach to survey learners</td>
</tr>
<tr>
<td>22 October</td>
<td>Learner views survey questionnaires/information about accessing web resource sent to providers for fixed window survey</td>
<td>RCU</td>
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<tr>
<td>mid-October</td>
<td>All learner destination data combined and made available</td>
<td>RCU/LSC</td>
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</table>

### November 2007

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<th>early November</th>
<th>Production of headline learner destinations results</th>
<th>RCU</th>
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<tbody>
<tr>
<td>early November</td>
<td>Commence 'fixed window' learner views surveys</td>
<td>Pilot providers</td>
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<td>early November</td>
<td>Update events for LSC regional staff</td>
<td>KPMG and LSC</td>
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<td>November</td>
<td>Analysis and modelling of learner destinations data</td>
<td>RCU/LSC</td>
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<td>November</td>
<td>Five pilot site progress visits</td>
<td>KPMG</td>
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<td>14 November</td>
<td>First national mid-pilot evaluation event (Leeds)</td>
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<tr>
<td>November</td>
<td>Centrally administered survey data available</td>
<td>LSC</td>
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<tr>
<td>15 November</td>
<td>Pilot provider returns of employer survey to LSC (indicative)</td>
<td>Pilot providers</td>
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<tr>
<td>15 November to mid-December</td>
<td>Ofsted consideration of latest inspection grade for overall effectiveness</td>
<td>Ofsted</td>
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<tr>
<td>16 November</td>
<td>Second national mid-pilot evaluation event (Birmingham)</td>
<td>KPMG</td>
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<tr>
<td>20 November</td>
<td>Third national mid-pilot evaluation event (London)</td>
<td>KPMG</td>
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<tr>
<td>late November</td>
<td>Development Group for phase 2 providers in the pilot</td>
<td>KPMG</td>
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<tr>
<td>30 November</td>
<td>Make changes in ILR</td>
<td>LSC</td>
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<tr>
<td>30 November</td>
<td>Employer views data available</td>
<td>LSC</td>
</tr>
<tr>
<td>30 November</td>
<td>QSR PI grades made available</td>
<td>LSC</td>
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<tr>
<td>December 2007</td>
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</tr>
<tr>
<td>13 December</td>
<td>Conclude all learner views surveys</td>
<td>Pilot Providers</td>
</tr>
<tr>
<td>14 December</td>
<td>Return of completed learner views questionnaires to RCU via a courier</td>
<td>Pilot providers/RCU</td>
</tr>
<tr>
<td>December</td>
<td>Five pilot site progress visits</td>
<td>KPMG</td>
</tr>
<tr>
<td>15 December</td>
<td>Analysis paper on employer survey returns sent to pilot providers and key stakeholders for comment</td>
<td>IFF and LSC</td>
</tr>
<tr>
<td>mid-December</td>
<td>Ofsted report on reliance of inspection grade (taking account of other evidence)</td>
<td>Ofsted (with LSC and KPMG)</td>
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<tr>
<td>31 December</td>
<td>Completion of Development Group work for fast-track developed PIs.</td>
<td>KPMG</td>
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<tr>
<td>31 December</td>
<td>Employer views Performance Measure calibrated</td>
<td>LSC</td>
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<tr>
<td>31 December</td>
<td>Quality of Provision grades made available</td>
<td>LSC</td>
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<tr>
<td>31 December</td>
<td>Finance Records submitted to LSC</td>
<td>LSC</td>
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<tr>
<td>mid-December</td>
<td>Unadjusted assessment criteria made available</td>
<td>RCU/LSC</td>
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<tr>
<td>January 2008</td>
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<tr>
<td>January</td>
<td>Ten pilot site progress visits</td>
<td>KPMG</td>
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<tr>
<td>January</td>
<td>Plan regional demonstrator site events</td>
<td>KPMG</td>
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<tr>
<td>mid-January</td>
<td>Employer focus groups (selected pilots) on Responsiveness to Employers KPA</td>
<td>KPMG/LSC/pilots</td>
</tr>
<tr>
<td>January</td>
<td>Analysis of survey data and modelling of assessment criteria</td>
<td>LSC</td>
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<tr>
<td>January</td>
<td>Decision conference on output of Development Groups on specific PIs</td>
<td>KPMG/LSC/pilots</td>
</tr>
<tr>
<td>January</td>
<td>Unadjusted performance ratings available</td>
<td>RCU/LSC</td>
</tr>
<tr>
<td>31 January</td>
<td>Modelling and analysis of destinations data by learner and provider type</td>
<td>RCU/LSC</td>
</tr>
<tr>
<td>31 January</td>
<td>Employer views PI grades made available</td>
<td>LSC</td>
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<tr>
<td>February 2008</td>
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<tr>
<td>early February</td>
<td>Production of unadjusted learner views performance ratings</td>
<td>RCU/LSC</td>
</tr>
<tr>
<td>February</td>
<td>Analysis of response rates by learner type and impact of learner mix and type on assessment criteria and performance ratings.</td>
<td>RCU/LSC</td>
</tr>
<tr>
<td>February</td>
<td>Ten pilot site progress visits</td>
<td>KPMG</td>
</tr>
<tr>
<td>late February</td>
<td>Production of adjusted learner views performance ratings and assessment criteria</td>
<td>LSC/RCU</td>
</tr>
<tr>
<td>28 February</td>
<td>Discussion paper circulated on options for publication and dissemination of Framework output</td>
<td>KPMG and LSC</td>
</tr>
<tr>
<td>28 February</td>
<td>Financial Health grades calibrated</td>
<td>LSC</td>
</tr>
<tr>
<td>28 February</td>
<td>Adjusted performance ratings made available</td>
<td>RCU/LSC</td>
</tr>
<tr>
<td>March 2008</td>
<td></td>
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</tr>
<tr>
<td>early March</td>
<td>Dissemination of learner destinations data</td>
<td>RCU/LSC</td>
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<tr>
<td>early March</td>
<td>Calibration and dissemination of indicative OPRs</td>
<td>LSC</td>
</tr>
<tr>
<td>early March</td>
<td>Statistical analysis of correlation between PIs and potential contextual factors, regional analysis, distribution of grades by provider type, etc</td>
<td>LSC</td>
</tr>
<tr>
<td>early March</td>
<td>Moderation, sensitivity testing of ratings</td>
<td>LSC and other key stakeholders</td>
</tr>
<tr>
<td>early March</td>
<td>Dissemination of learner views performance ratings and additional learner views data to providers</td>
<td>LSC/RCU</td>
</tr>
<tr>
<td>early March</td>
<td>Update events for LSC regional staff</td>
<td>KPMG and LSC</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Responsible Party</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>w/c 17 March</td>
<td>Publication/dissemination of results workshop (London) - mixed audience of stakeholders and pilots</td>
<td>KPMG</td>
</tr>
<tr>
<td>April 2008</td>
<td>Begin mock appeals process</td>
<td>LSC</td>
</tr>
<tr>
<td>April</td>
<td>Event or 1x1 discussions - how does output inform work of external stakeholders</td>
<td>KPMG and external stakeholders</td>
</tr>
<tr>
<td>April</td>
<td>Learner focus groups - evaluation of FFE information on learner choice/decisions</td>
<td>LSC</td>
</tr>
<tr>
<td>April</td>
<td>Employer focus groups - evaluation of FFE information on employer choice/decisions</td>
<td>KPMG and LSC</td>
</tr>
<tr>
<td>April</td>
<td>Event: LSC (national/regional) - evaluation of FFE output on commissioning and market management</td>
<td>KPMG and LSC</td>
</tr>
<tr>
<td>April</td>
<td>Analysis of pilot provider evaluation questionnaires and distribution to interested stakeholders</td>
<td>LSC and KPMG</td>
</tr>
<tr>
<td>April</td>
<td>Development Group for phase 2 pilot providers in the pilot</td>
<td>KPMG, LSC and subset of pilot providers</td>
</tr>
<tr>
<td>April</td>
<td>Workshops: series with sample pilot providers’ governing bodies, senior management teams - evaluation of FFE output on plans, performance improvement, etc</td>
<td>KPMG and LSC</td>
</tr>
<tr>
<td>16 April</td>
<td>First national end pilot evaluation event (Leeds)</td>
<td>KPMG</td>
</tr>
<tr>
<td>18 April</td>
<td>Second national end pilot evaluation event (Birmingham)</td>
<td>KPMG</td>
</tr>
<tr>
<td>22 April</td>
<td>Third national end pilot evaluation event (London)</td>
<td>KPMG</td>
</tr>
<tr>
<td>end April</td>
<td>Draft evaluation report with recommendations for Version 1 of the Framework</td>
<td>KPMG</td>
</tr>
<tr>
<td>late April</td>
<td>Completion of Development Group work for cross-cutting issues</td>
<td>KPMG</td>
</tr>
<tr>
<td>April / May</td>
<td>Regional ‘demonstrator’ pilot events held</td>
<td>Providers / KPMG</td>
</tr>
<tr>
<td>May 2008</td>
<td>Meeting with main stakeholders to discuss evaluation report and implications for Version 1 of the Framework</td>
<td>DfES/Ofsted/QIA/LSC and KPMG</td>
</tr>
<tr>
<td>June 2008</td>
<td>Publication of Framework Guidance Version 1 of the Framework</td>
<td>LSC</td>
</tr>
</tbody>
</table>
5. Communication and Support

28. It is vitally important that there are clear, consistent and simple channels of communication between the pilot institutions, the LSC, QIA, KPMG and other interested parties.

29. There are two main features to the communication system:

- each pilot institution has a nominated a liaison officer, who will disseminate information relating to the pilot within their organisation, co-ordinate responses and returns to the LSC, and attend the national briefing and evaluation events
- each pilot institution will be allocated a KPMG adviser, who will be their first point of contact (Appendix 3); where KPMG is unable to answer queries, it will refer them onto the LSC’s Framework for Excellence communications team, which will arrange for a direct response to the pilot institution and forward a copy to KPMG.

30. An exception to the above rule will be issues around the management and administration of the learner views survey and the employer survey, because of the technical aspects of this work. For technical queries relating to the learner views survey, pilot institutions will need to contact learnersurvey@lsc.gov.uk and for technical queries relating to the employer survey, pilot institutions will need to contact employersurvey@lsc.gov.uk.

31. Also, the LSC has set up a forum on its Framework for Excellence website, giving all providers the opportunity to discuss the Framework and share their experiences. Details of the forum, as well as the complete list of institutions participating in the pilot nationally, are on the Framework for Excellence website, http://ffe.lsc.gov.uk/.

32. There will also be regular communication between the LSC/KPMG and pilot institutions, which is likely to include:

- monthly bulletins/newsletters from the LSC communications team
- a system of e-mail alerts for changes in the pilot guidance document
- teleconferences on specific issues hosted by KPMG.

33. Some pilot institutions may find it useful to share experiences either with groups in their geographical area or with similar institutions across England. Moreover, the LSC is keen to encourage those institutions that are not participating in the pilot programme to prepare for implementation of the Framework in 2008/09.

34. For pilot institutions working with regional LSC staff, the LSC will establish regional support networks and other mechanisms to enable discussion and mutual support from September 2008.

35. By participating in the QIA’s new programme Support for Excellence – Self-Assessment, Self-Improvement and Self-Regulation (SfE), colleges and institutions outside the Framework pilot group will have the opportunity to use the emerging PIs in their own organisations and in peer review and development activities. The programme will give this wider group the chance to hear about the experience from participants in the pilot programme, and provide feedback on the Framework. More details of the Support for Excellence programme are available at www.qia.org.uk.
36. A significant element in delivering SfE will be supporting provider-based peer review and development activities, which will include aspects of the implications of Framework for Excellence. Pilot and non-pilot institutions will be welcome to join the SfE peer group activities. The output of the peer review and development work will inform the arrangements for implementing the Framework in 2008/09.

37. During the first phase of the pilot programme, the regional LSCs and Partnership Teams will be working with all colleges and providers to assist them, through:

- the existing regional networks
- other networks developed through KPMG and QIA
- regular channels of communication with individual colleges and providers.
6. How the Framework Works

Structure

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

Diagram 1

- Overall Performance Rating
  - Responsiveness (Dimension)
    - Responsiveness to Learners (KPA)
    - Responsiveness to Employers (KPA)
  - Effectiveness (Dimension)
    - Quality of Outcomes (KPA)
  - Finance (Dimension)
    - Financial Health (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)
  - Responsiveness to Learners (KPA)
    - Learner Views (PI)
    - Learner Destinations (PI)
  - Responsiveness to Employers (KPA)
    - Employer Views (PI)
    - Amount of Employer Training (PI)
    - New Standard Accreditation (PI)
The Framework for Excellence uses a four-point grading system, in line with the Common Inspection Framework. Performance indicators are attributed a grade of between 1 and 4, which are then combined and given an appropriate grade of between ‘inadequate’ and ‘outstanding’ (Tables 1 and 2).

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.

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.

The proposal for the overall scoring of the Framework is based on a number of commonsense assumptions. For example, if all KPAs in a dimension have the same grade, the grade for the dimension must be that for the KPAs. Also, if the three dimensions have the same grade, then the OPR must have the same grade as the dimensions.
43. In addition, the following will apply:

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

**Combination of Grades**

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

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

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

<table>
<thead>
<tr>
<th>Standard for the Dimension</th>
<th>Assessment Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade 1</td>
<td><strong>Outstanding</strong> Sum of grades for constituent KPAs is 2</td>
</tr>
<tr>
<td>Grade 2</td>
<td><strong>Good</strong> Sum of grades for constituent KPAs is 3 or 4</td>
</tr>
<tr>
<td>Grade 3</td>
<td><strong>Satisfactory</strong> Sum of grades for constituent KPAs is 5 or 6</td>
</tr>
<tr>
<td>Grade 4</td>
<td><strong>Inadequate</strong> Sum of grades for constituent KPAs is 7 or 8</td>
</tr>
</tbody>
</table>
Table 2: Combining KPA grades for a dimension with three KPAs or three dimension grades into the OPR.

<table>
<thead>
<tr>
<th>Standard for the OPR</th>
<th>Assessment Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade 1</td>
<td>Outstanding</td>
</tr>
<tr>
<td>Grade 2</td>
<td>Good</td>
</tr>
<tr>
<td>Grade 3</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Grade 4</td>
<td>Inadequate</td>
</tr>
</tbody>
</table>

Exemptions

46. When deriving the OPR, consideration has to be given to whether each KPA or PI applies to a provider. For example, some sixth-form colleges may argue that their mission is to prepare young people for higher education and, therefore, that a Responsiveness to Employers KPA is not relevant to them. Under these and similar circumstances, it is proposed that some colleges and providers will be granted an exemption from one or more KPAs being used in the derivation of their OPR.

47. As a principle, any exemption should be objective, to enable effective cross-sector comparisons. Therefore, there will be rules applied to determine whether a provider is exempt from a particular KPA. Colleges and providers will not be able to elect for themselves which KPAs apply to their provision.

48. It is proposed for the pilot that all KPAs apply, except where the specific circumstances of certain types of provision or provider make it inappropriate. It will be part of the pilot programme to determine the exemption rules and in what circumstances they apply.

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

50. Ratings derived during the pilot phase will be reviewed by the LSC, as well as provided to pilot providers for assessment and comment. There will be an opportunity for the pilot providers to report to the LSC their views of the rating system and any issues of contextualisation which may have impacted upon their score. Section 9 ‘Moderation’ sets out the detail of this process.

51. The LSC will undertake all calculations of scoring, for example generating the KPA, Dimension, and OPR scores. Pilot providers are not required to undertake this exercise. The LSC will provide pilot providers with all data and scoring mechanisms, and will consult them on their use and development.
7. Performance Indicators

52. The LSC expects that all of the PIs listed in this document (Appendix 1) will be used to generate the OPR during the first phase of the pilot programme; some of these indicators are already well developed and ready to use. Other indicators, in consultation with pilot providers and other stakeholders, will be subject to rapid development in the early part of the pilot programme; these are discussed in the next section.

53. Appendix 1 sets out for each PI:

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

54. Other PIs may be added to the Framework at a later date. It is a fundamental principle of the Framework that it should provide a balanced picture for all providers, and it may prove necessary to introduce one or more indicators to achieve this aim. From summer 2009, the Framework will apply to all providers that receive some element of LSC funding, for example adult and community learning and specialist colleges; the Framework may need adapting to ensure that the performance of these other provider types is addressed adequately and equitably.
8. Issues to be Resolved

Development Groups - Individual PIs

55. The LSC will use the pilot programme to test and resolve many practical issues that are specific to the application of individual PIs; a list of these issues is given for each indicator in Appendix 1.

56. For certain indicators, rapid development is required to ensure they are available to contribute to the OPR. KPMG and the LSC will draw up detailed plans for their design, testing and trialling. In July 2007, the LSC will share these plans with pilot providers and invite them to contribute to one or more Development Group. These groups will be run in much the same way as the Solutions Groups which met during March and April 2007 to help develop the prototype Framework.

57. For each of these indicators KPMG will put together a small group of representative providers to work with them and LSC specialists. Providers will be free to decide how much they wish to participate. If necessary, invitations will be extended to non-pilot providers. The output of each Development Group will be a draft specification for a PI similar to that set out for other indicators in this guidance document.

58. The PIs that are likely to be the subject of these Development Groups are:

- learner views – treatment of learners on short courses, or courses with flexible start dates
- learner destinations (although this is already at an advanced stage)
- employer views survey – there are some specific aspects of this indicator, for example ensuring there is an accurate and comprehensive employer database, which requires provider involvement
- employer fees and training volumes
- Use of Resources – revenue measures, principally those relating to delivery against the funding allocation and the unit cost to the LSC of a successful outcome
- Use of Resources – capital measure.

Development Groups – Cross-cutting Issues

59. Development Groups will also be established to resolve a series of cross-cutting issues. These groups will include representative providers and other stakeholders, with an appropriate balance for the issue under consideration. The groups envisaged are listed below, with a cross-reference to the LSC’s June policy document publication Framework for Excellence: How the Framework will work:

- dealing with consortia (paragraphs 16 and 17 of the June policy document)
- assessment criteria for each PI (paragraph 23)
- taking account of the impact of contextual factors and contextualisation (paragraph 26)
- exemption rules for KPAs and PIs (paragraph 30)
- implications of using validated data from different time periods, including dealing with evidence that is not current, for example Ofsted inspection grades, FM&G reviews (paragraph 47)
- examining the trend/volatility of performance data between years (paragraph 62)
- publication (format, dissemination) of the OPR results (paragraph 71).
9. Analysis of Grading

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

61. 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.

62. However, because this is a pilot year, the LSC will wish to carry out an exercise to determine if changes should be made to the grading process, including:

- analysing the overall distribution of ratings for the 100 pilot providers for each PI, KPA, PD and the OPR. Does the output of the prototype Framework discriminate effectively and fairly between good and poor performers? Do the boundaries of the rating bands need to change (and with it the assessment criteria) to provide a distribution that is broadly in line with inspection outcomes?
- analysing the statistical correlation between ratings for PIs, KPAs, PDs and the OPR against:
  - types of provider
  - potential contextual factors that are largely outside providers’ control and may have a significant effect on one or more of their PIs.
- considering circumstances around college and provider performance that are not taken into account in the prototype Framework. In this first phase of the pilot programme, the LSC plans to fully test the robustness of the Framework and will be receptive to comments and representations made by pilot providers. The results of any statistical analysis will be shared with all pilot providers.

63. 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.

64. 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

65. For the LSC it is critical that the Framework is seen to be applied fairly and equitably. Providers will also need confidence in the process, given that performance information will be in the public domain. Additionally, it is important for:

- learners and employers who may rely on its output to make choices
- regulators, inspectorates and other intermediary bodies whose own work programmes may be influenced by the Framework’s output
- the LSC in its role of market management and commissioning.

66. The LSC’s established appeal process will form the basis of an appeal system, and it is envisaged that:

- there will be clearly defined grounds for appeal
- providers will have the opportunity to present evidence (in a prescribed format)
- pilot providers will be consulted about how the process should work
- the appeals process will be ready for implementation in the summer of 2008.
11. Testing the Response to the Pilot Framework Outputs

67. 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.

68. Throughout the pilot programme, pilot providers will be expected to do some or all of the following:

- complete evaluation questionnaires which, for example, may be sent to different audiences, such as governing bodies and senior management teams
- facilitate occasional site visits during the pilot by KPMG
- provide information about the level of their own input to assist in carrying out a regulatory impact assessment
- attend evaluation events which will be held in November, and at the end of the first pilot phase in March 2008
- organise and ensure attendance at workshops designed to solicit their views, and discuss proposed action following the communication of the results of the Framework
- organise and host focus groups/workshops of learners and/or employers to test the value of the Framework’s output to them.

69. 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.

70. 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?

71. A series of events will be arranged to take these forward (Section 4: Timetable).
12. Evaluation of the Framework for Excellence

72. There will be a separate three-year evaluation looking at the trialling and implementation of the Framework. The LSC is currently drawing up a specification to appoint an independent organisation to carry out this evaluation. The three-year evaluation will focus more on the impact of the Framework, its outcomes and the benefits realised by providers, learners and employers.

73. Proposed themes are:
- evaluation of the pilot and subsequent implementation
- application of lessons learned from the 2007/08 pilot to improve subsequent piloting and implementation
- evaluation of how learners and employers are using the Framework to inform the choices they make about learning and training
- evaluation of the benefits of driving improvements in the FE system and the supporting moves towards self-regulation
- evaluation of the benefits in shifting resources from the regulatory system to frontline delivery
- evaluation of benefits to the LSC in securing optimal outcomes relating to its commissioning and capital investment in the FE system
- evaluation and comparison of the introduction of the Framework, with the introduction of other public service performance assessment frameworks, such as Local Authority CPA, and schools’ quality performance indicators.

Methodology

74. Over the phases of the evaluation, the evaluation methodology is anticipated to include:
- feedback from LSC, Ofsted and QIA
- feedback from relevant national stakeholders
- feedback from providers
- feedback from customers (learners and employers)
- a quantitative aspect – to measure outcomes and impact
- a qualitative aspect – to deepen the understanding of perceptions and to build on the quantitative analysis
- desk analysis of other documentation and data.
Appendix 1: Specifications for Individual PIs

Responsiveness to Learners

Performance Indicator 1: Responsiveness to Learners – Learner Views

Applicability

75. The PI is applicable to all provider types.

Definition

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

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

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

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

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

Methodology of calculating the score

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

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

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

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

Timeline

82. 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.

83. During the Framework pilot, the LSC has commissioned RCU Ltd. to support the collection and analysis of data relating to learners’ views. Piloting providers will chose either a paper- or web-based approach and undertake a census survey of priority learners’ during November and December 2007. In order to capture information from learners who leave before the end of a programme, piloting providers will be required to ask all priority learners who leave their programme prematurely during October 2007–December 2008 to complete the survey as part of their exit process.

84. The LSC will supply paper-based questionnaires or a prototype web-based questionnaire. During June-July 2007, piloting providers will be consulted to identify:

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1 Priority learners include: all 16-18s (regardless of programme length); all learners on programmes that can contribute towards a full level 2 or full level 3; all learners on target-bearing Skills for Life (SfL) programmes; all work-based learners; all learners not included in the above categories with learning difficulties and disabilities.
- whether they want to opt for a wholly web- or paper-based approach
- any special requirements to ensure the survey is accessible to all target learners.

85. Providers will be required to estimate the number of learners who will be undertaking the survey:
- providers opting for a web-based approach will need to provide an estimate of the number of learners within scope for the survey before the end of October
- providers opting for a paper-based approach will be required to provide an estimate of the number of questionnaires and number of ‘group’ envelopes they will require by the end of September 2007, to allow sufficient time to produce the questionnaires. The concept of a ‘group’ is for administrative purposes only and it is entirely up to providers to decide the easiest way to group learners together to complete the questionnaire. After the learners within a group have completed the survey, the questionnaires will be placed into the group envelope and sealed. Each envelop will have full instructions printed on the back to guide staff administering the survey.

86. Providers will need to generate lists of learner reference numbers (as recorded on the Individualised Learner Record) and ensure that learners have access to these while completing the survey. The learner reference number is needed for validation purposes. It also simplifies and shortens the survey, preventing the need to ask background questions about the learners and their learning.

87. Questionnaires and on-line data will be returned to the LSC on a specific given date for analysis. RCU Ltd. will arrange for a courier to collect the completed paper-based questionnaires from each provider.

88. The LSC will undertake:
- analysis of the returned questionnaires to establish an overall learner response score and a performance rating for the learner survey indicator for each provider
- the generation of benchmarking data.

89. The LSC will return the following information to the piloting providers:
- performance rating for the learner survey indicator
- overall learner response score for the 10 questions
- percentage responses for each question
- benchmarking data.
Performance Indicator 2: Responsiveness to Learners – Destinations

Applicability

90. The PI is applicable to all provider types.

Definition

91. 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.

92. 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

93. The score is likely to be a single figure for each provider. This will give the proportion of learners (net of planned inactivity, for example gap years) found to be in a positive destination. It is not clear yet whether untraced learners would count against the provider but the pilot will reveal whether, for example, there is a significant variation in the proportion of inaccurate contact details at different providers. The initial assessment criteria will be defined by the collection of destinations data during the pilot; these criteria will be available during January 2008.

94. 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.

95. The initial evidence base will relate to the 2005/06 leaving cohort from the 100 pilot providers, tracked to determine their 2006/07 activity (measurement year).

96. There are two phases to the derivation of results. During July and August 2005/06 priority learners2 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.

97. During July through to early September 2007, RCU Ltd. will conduct a telephone survey and attempt to interview learners who were untracked by the data-matching process.

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2 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

98. 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.

99. 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.

100. Comments on these matters will initially be sought from pilot providers at the mid-pilot events in November.
Responsiveness to Employers

Performance Indicator 1: Employer Views

Applicability

101. The PI is applicable to all providers directly contracting with employers.

Definition

102. Summary measure of employer satisfaction views with provider’s during any period of the Framework.

103. 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.

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

Methodology of calculating the score

105. A decision is yet to be made as to which type of survey will be the most appropriate – centrally administered by the LSC or provider run. If provider run, the survey will consist of standard questions (based on New Standard assessment criteria), supplied by the LSC, and providers will be required to return their responses to the LSC for analysis.

106. This survey will be developed in two phases: the first will develop the questionnaire and will run in 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 providers in 2008/09.

107. 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.

Issues to be resolved by the pilot programme

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

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

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

Data and recording of data

110. A new survey of employers directly contracting with providers.
Performance Indicator 2: Employer Volumes

Applicability

111. The PI is applicable to all providers directly contracting with employers.

Definition

112. The indicator will be a measure based on:

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

113. There are a number of options for the definition of the employer fees and volumes measure, but there are difficulties in the interpretation of these, given variations in a provider’s location and mission.

Issues to be resolved by the pilot programme

114. The pilot programme will help determine whether workable indicators can be developed and which, if any, fee income and volume measures should be included in the Framework. Specific issues to be looked at are:

- the proportion of fee income that should inform the assessment criteria
- the extent, if any, that changes in the proportion of fee income may inform the assessment criteria
- the extent to which the volume of funding engaged in employee training programmes inform the KPA.

Data and recording of data

115. The data sources are:

- financial returns
- Train to Gain data.

Other options are being considered, including the ILR.

116. All data is held by the LSC.
Performance Indicator 3: Achievement of the New Standard for Employer Responsiveness

Applicability

117. The PI is applicable to all providers directly contracting with employers.

Definition

118. The New Standard for employer responsiveness will be a comprehensive badge for employers across the entire training market. Assessment is voluntary and will be verified in consultation with employers. The New Standard will be rolled out in summer 2007, and will be applicable across publicly and privately funded provision. Accreditation to the New Standard will be based on assessment against a number of criteria which look at the processes providers have in place to meet employers’ needs, and the outcomes achieved by providers.

119. 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. Achievement of the New Standard will be reflected in the Framework through the use of this indicator, and the proposal is that providers who have achieved the New Standard will not have to submit information on employer responsiveness for the Framework until they are due to apply for New Standard reaccreditation. Instead, it is currently planned that such providers will automatically score outstanding on the employer responsiveness key performance area within the Framework, although this will be tested further in the pilot period.

Issues to be resolved by the pilot programme

120. The objective of the pilot phase is to:

- assess the implications of not submitting information on employer satisfaction on an annual basis
- explore the ramifications of providers slipping below expected performance on the fee income and volumes measures in the inter-accreditation period.

121. A questionnaire will be issued to pilot providers concerning these matters, and they will again be discussed at the mid-pilot events in November. Further development plans will be announced following these events.

Data and recording of data

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

Applicability

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

Definition

124. 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

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

Issues to be resolved by the pilot programme

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

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

Data

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

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

Applicability

129. The KPA is applicable to all provider types.

Definition

130. The quality of provision KPA has one PI: Ofsted’s current judgement on the overall effectiveness of the college or provider. This is because the LSC considers that the Framework should be based on objective indicators and evidence.

131. 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.

132. 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.

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

Methodology to calculate scores

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

Data and recording of data

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

What happens when

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

Applicability

137. 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.

138. 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.

139. For example, a provider would be classified as financially secure if, on a continuing basis, it was able to 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.

140. 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).

141. Detailed definitions for each Financial Health ratio are shown in Annex 1: of the three proposed ratios, solvency and status can be more readily evaluated, as they compare directly with existing individual ratios. Borrowing is more complex, as it will replace two existing ratios which, for colleges, are measured by:

- general reserves as a percentage of adjusted total income
- total borrowing as a percentage of adjusted total income

and for WBL providers by:

- interest cover
- total borrowing as a percentage of net tangible worth.
142. 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:

```
A → 1
B → 2
C → 3
```

143. 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.

144. 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.

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

146. It is proposed to explore whether there is a need to apply a different approach where a non-college provider only receives a small proportion of its funding from the LSC.
147. 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

148. During the pilot we will explore a number of issues, including:

- how providers are likely to respond to the publication of financial health grades, for example in making management decisions
- the implications of putting financial health grades in the public domain
- dealing with the variation in the ratios from year to year
- the impact of major capital investment projects on colleges’ financial health
- the possible need for different assessment criteria for different provider types
- the most appropriate approach to validation of data.

Deriving the KPA

149. The final KPA score for Financial Health will be the sum of the scores for the three ratios, plus any additional score to “reward” consistent good performance above a particular threshold. This final score, up to a maximum of 400, will be converted into a four-point score (Table 3).

Pilot activity and what we want pilot providers to do

Colleges

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

151. Prior to the pilot, the Finance Record 2006/07 was amended to include additional fields for memorandum calculations for the three ratios proposed under the Framework for Excellence.

152. The Financial Plan will be completed and returned to the LSC by 31 July 2007 and will include the forecast out-turn for 2006/07, plus three future years (and up to 10 years if the plan includes capital expenditure).

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

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

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

**WBL and other providers**

156. 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.

157. 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.

158. 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**

159. The Financial Health score will take the four-point score of each of the three individual ratios and averaged to produce a final four-point score. This will then be translated into outstanding, good, satisfactory or inadequate, in line with the Framework’s scoring.
For colleges, the scoring will be modelled with and without incentives for stability (Tables 1, 2, and 3):

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**

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

Step 2: Additional points for stability

**Table 2: Recognition of Stability**

Two ratios >= 50 add 50 points
Three ratios >= 50 add 100 points

Step 3 – Grade scoring

**Table 3: Translating the Financial Health Score**

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

161. Scoring and rating for WBL providers has initially been based on the scoring table in step 1 for the three ratios, but as the pilot develops, this may differ slightly to the scoring table for colleges to reflect provider types.

Evaluation Arrangements for Piloting Work

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

- the 100 pilot providers
- all remaining colleges
- a representative sample of WBL providers.

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

#### Solvency

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>For colleges:</td>
<td></td>
</tr>
<tr>
<td>Adjusted current ratio:</td>
<td>Current Assets* [ Current Liabilities ]</td>
</tr>
<tr>
<td>Whereby current assets = Finance Record 05/06 Table 2 section 2</td>
<td>current liabilities = Finance Record 05/06 Table 2 section 3</td>
</tr>
</tbody>
</table>

Current Assets (Finance Record 05/06 - Table 2 section 2):

- 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 05/06 - Table 2 section 3)

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: Current Assets \[ Current Liabilities \]
Sustainability

For colleges:

Operating surplus before tax:

Underlying operating position* Finance Record 05/06 Table 1:18h
Income used in ratio analysis Finance Record 05/06 Table 4: 1

The underlying operating position is derived as follows:

Income: - funding council grants
- tuition fees and education contracts
- other grants and contracts
- other income
- endowment and investment income.

Less Expenditure: - staff costs
- other operating expenses
- depreciation
- interest payable.

= operating surplus (deficit) before tax **

Adjusted for: - exceptional support income
- pension finance income
- other exceptional income
- FRS 17 adjustments
- staff restructuring
- estates’ relocation costs charged to income & expenditure account
- other exceptional expenditure.

= Underlying operating position.

** FE corporations are exempt from most taxation

For all WBL and other providers:

Net profit after tax
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)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Traditional</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>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.</td>
</tr>
<tr>
<td>B</td>
<td>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.</td>
</tr>
<tr>
<td>C</td>
<td>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.</td>
</tr>
</tbody>
</table>

### Financial Health – Proposed Definitions (Annex 3)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Traditional</th>
<th>Alternative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Outstanding</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Providers with excellent/good indicators for solvency (current ratio), margin (operating surplus/profit), and status (gearing).</td>
</tr>
<tr>
<td>2</td>
<td>Good</td>
<td>Providers with sufficiently robust finances to discharge their contractual obligations and to deal with most circumstances likely to occur over the next few years.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Providers with at least two good indicators for solvency (current ratio), margin (operating surplus/profit), and status (gearing).</td>
</tr>
<tr>
<td>3</td>
<td>Satisfactory</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Providers with at least two satisfactory indicators for solvency (current ratio), margin (operating surplus/profit), or status (gearing).</td>
</tr>
<tr>
<td>4</td>
<td>Inadequate</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Providers with at least two inadequate indicators for solvency (current ratio), margin (operating surplus/profit), or status (gearing).</td>
</tr>
</tbody>
</table>

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

Applicability

163. 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

164. 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.

165. 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

166. LSC auditors will assess a provider’s financial controls and determine a grade of outstanding, good, satisfactory or inadequate for this PI, based on a consistent approach to their reviews of:

- providers’ financial management and governance
- providers’ internal controls and use and application of LSC funding streams.

167. 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.

168. 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.

169. The basis for the Financial Control score for colleges will be the annual Self-Assessment Report Questionnaire (SARQ) which is validated during the LSC’s FM&G reviews during college inspections. The LSC audit team’s opinion will be expressed as a score on a scale of 1 to 4. During the pilot, the current scoring mechanism for Effectiveness will be used, and where colleges are currently scored either a 4 or 5 during FM&G reviews, this will be categorised as inadequate under the Framework for Excellence. After the
pilot, a revised SARQ document will be used as part of the FM&G review, to aid the four-point scoring under the Framework.

170. 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

171. 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.

172. 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.

173. 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

174. 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

175. 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.

176. 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.

177. 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

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

179. All pilot colleges will be consulted on key issues surrounding the Financial Control KPA.
Non-college providers

180. All pilot providers will be sent the revised Financial Control audit document and guidance for comment in autumn 2007.

181. Any of the pilot providers which are due an audit visit from autumn 2007 onwards will be audited by the regional PFA teams against the revised document.

Current audit regimes

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

Colleges

182. 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.

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

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

Non-college Providers

184. As for colleges, there is a well-established audit regime in place for other providers that will be used to inform the Financial Controls KPA. The main sources of information will be:

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

185. The Use of Resources KPA considers value for money, focusing mainly on efficiency (the ratio of inputs to outputs), but also effectiveness (the achievement of objectives).

186. The PIs that will contribute to the Use of Resources KPA will be under development in the pilot phase. Pilot providers and other stakeholders will be closely involved with this process. The indicators will combine a range of learner, estates’, and financial data, to assess aspects of business performance.

187. It is envisaged that the Use of Resources PIs will be piloted between November 2007 and February 2008, to confirm which will be included in the final Framework. The scores will then be incorporated into the OPR for the Finance Dimension and the overall Framework at the end of the pilot.

188. The Use of Resources KPA is shown diagrammatically below:

```
USE OF RESOURCES KPA

Revenue PI

Funding Measures 1, 2, 3

Capital PI

Expenditure Measure 4

Capital Measure 5
```

189. The Use of Resources KPA incorporates a Revenue PI and a Capital PI that are equally weighted. The Revenue PI in turn incorporates three funding measures and one expenditure measure.

190. The Use of Resources KPA incorporates a Revenue PI and a Capital PI that are equally weighted. The Revenue PI in turn incorporates three funding measures and one expenditure measure.

191. All PIs and measures will be relevant to colleges, however, for non-college providers, the Capital PI will not be relevant in the first instance, and some of the Revenue measures may not be relevant to all providers. The applicability to non-college providers may be determined with reference to factors such as size (turnover), type of legal entity, proportion of LSC/public funding, and size of LSC contract.
192. The table below shows that data for the three funding measures will be taken primarily from the Individualised Learner Record (ILR), and for the expenditure measure (benchmarking) from the Finance Record. The Capital PI for colleges will draw on information mainly from their e-Mandate estates’ management data returns, but it may also draw on other data, where available:

<table>
<thead>
<tr>
<th>Data Source</th>
<th>UOR Ref</th>
<th>Proposed measure</th>
<th>Notes</th>
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<td>Capital Measure</td>
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Proportion of income spent on priority provision

193. This measure considers the proportion by value of LSC funds received by a college or provider that is applied to either LSC national priorities, regional priorities, or both; it is derived from the Individualised Learner Record (ILR).

194. Many providers continue to deliver funded learning that is not an LSC priority. It is an established concept in the LSC’s existing operations that the LSC already takes a view on providers’ performance against funding allocation and may act to address underperformance against funding allocation. The LSC also takes a view on delivery of non-priority provision; meanwhile, providers are also concerned with the efficiency of their own operations.

195. During the pilot, the LSC will work to develop this indicator using data already available from the ILR. Pilot providers will be asked to review the results and consider the application of this measure under the Framework.
Issues to be explored in the pilot programme

196. During the pilot, the LSC will work to resolve a number of issues relating to the proportion of income spent on priority provision:

- definition of income
- definition of priority provision and how this definition changes year on year
- assessment criteria
- impact of demand-led funding
- development of a suitable analysis tool
- relevance to non-college providers.

Delivery against funding allocation

197. This measure is being scoped and will consider the assessment of providers’ actual performance/delivery compared to their contracted/funded levels of activity each year. Delivery against funding allocation can be expressed as the monetary value of LSC funds that are allocated and paid to a college or provider that have been earned through actual delivery by the college or provider. It can be derived from the Individualised Learner Record (ILR) together with contract/allocations data.

198. During the pilot, the LSC will work to develop this indicator using data already available from the ILR and other LSC records. Pilot providers will be asked to review the results and consider the application of this measure under the framework.

Issues to be explored in the pilot programme

199. During the pilot, the LSC will work to resolve a number of issues relating to delivery against funding allocation:

- definitions
- assessment criteria
- applicability across provider types and funding streams
- scoring.

Funding for a successful outcome

200. Funding for a successful outcome is the relative cost to the LSC of the delivery of a successful outcome in a programme area between different colleges or providers. It can be derived from Individualised Learner Record (ILR) data. ‘Cost per successful outcome’ was the original DfES Value for Money (VfM) indicator for New Measures of Success, and this measure (Funding for a successful outcome) seeks to build on previous work.

201. The cost per successful outcome to the LSC is dependent on a combination of learner retention, success rates and funding levels. The actual funding per successful outcome will vary in relation to both:

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

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

Issues to be explored in the pilot programme

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

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

Benchmarked Expenditure

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

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

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

207. Providers currently analyse their costs according to their business needs. For the college sector, the Finance Record return analyses both income and expenditure on a consistent basis, and it is proposed to work with the Association of Colleges and college representatives to refine this analysis for use in sector benchmarking. In addition to income and expenditure data, it is proposed to incorporate core data on resource levels, for example teaching
staff utilisation, and relate this data to units of activity. The finance record incorporates numerous data fields and the LSC aims to balance any additional data requirements by removing some of the less-used existing data fields.

208. The Scottish Funding Council has developed this type of model, with their equivalent of the Finance Record analysing elements of both income and expenditure expressed in terms of their equivalent of the SLN. The Scottish model has been in use for over three years and the LSC has the opportunity to draw on Scottish colleges’ practical experience in developing a benchmarking performance indicator for Framework for Excellence. It is envisaged that, as the unit of activity will be common to most if not all providers, non-college providers will be able to apply at least the top level benchmarking indicators to their own provision. The pilot will explore to what extent it will be possible and appropriate for non-college providers to provide benchmarking data for the purpose of the Framework.

209. In addition to benchmarking expenditure across the Learning and Skills sector, the development work will explore how to incorporate reference to cross-public sector benchmarks, mainly in relation to non-teaching activity.

Issues to be explored in the pilot programme

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

- systems/data available for measuring and monitoring unit costs
- which are the ‘key’ indicators which can be applied across provider sectors
- standards and scoring
- development of the college sector finance record return
- requirements of the new Statement of Recommended Practice (SORP) for colleges
- implications and data sources for non college providers
- cross-government benchmarks
- findings and recommendations of the LSC’s current Benchmarking Feasibility Study.

Capital

211. The FfE consultation document published in July 2006 stated that ‘the criteria for financial health should be sufficiently robust to ensure that well-planned capital investment does not have an inappropriate impact on the overall judgement’. Initial development of the Financial Health KPA focused on this and it was, as far as possible, defined to recognise where a college provider was addressing the LSC’s capital agenda. In particular, the initial scoring system was designed to reward reasonable levels of borrowing for capital purposes. Following consultation with the college sector (and WBL sector representatives), however, capital considerations were removed from the Financial Health KPA and the capital assessment was identified as a separate performance indicator under the Use of Resources KPA.
212. The Capital PI aims to reflect the quality of colleges’ current learning environments, the extent to which they meet expected standards, and the steps that they are taking to reach these standards, where necessary. The Capital PI will not be capable of application to non-college providers, at least for the first iteration of the Framework.

213. Colleges already participate in the e-mandate estate management data benchmarking programme, and the LSC is exploring to what extent the data for the capital performance indicator can be drawn from e-mandate and the ILR. The LSC’s property team currently reaches assessments of providers based on these two data sources, and it is proposed to develop this approach further for incorporation in the Framework. Colleges grade their own accommodation within e-mandate, using a three-point scale, and the development work on the Capital PI will also consider whether this might be incorporated. During the pilot, the LSC will work with pilot providers to develop a relevant Capital Indicator for incorporation in the Framework for Excellence. This is likely to consist of a scoring matrix to reflect:

- a provider’s current infrastructure needs
- a provider’s future infrastructure needs
- progress already made and progress in hand towards meeting current needs and future targets

Issues to be explored in the pilot programme

214. During the pilot, the LSC will work to resolve a number of issues relating to capital:

- definitions
- in the wider context of the LSC’s capital priorities, how the PI can be used in relation to regional capital plans and the assessment of capital project proposals
- development of a scoring matrix
- possible implications for non-college providers.
## Appendix 2: Glossary

<table>
<thead>
<tr>
<th>Grade</th>
<th>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.</th>
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<tbody>
<tr>
<td>Overall Performance Rating</td>
<td>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.</td>
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<tr>
<td>Performance Dimension</td>
<td>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.</td>
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<tr>
<td>Key Performance Area</td>
<td>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.</td>
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<tr>
<td>Performance Indicator</td>
<td>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.</td>
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<tr>
<td>Performance Measure</td>
<td>An absolute measure of performance such as the outcome from a learner survey or a qualification success rate.</td>
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<tr>
<td>Assessment Criteria</td>
<td>The criteria used to derive a grade (give an absolute judgement) for a performance measure or combination of performance measures, to give a PI.</td>
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<tr>
<td>Scoring</td>
<td>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.</td>
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<tr>
<td>Score</td>
<td>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.</td>
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</table>
Appendix 3: Directory

LSC:

Framework for Excellence Programme Director: Paul Martinez, paul.martinez@lsc.gov.uk

Framework for Excellence Responsiveness Dimension: Berni Henson, berni.henson@lsc.gov.uk

Framework for Excellence Effectiveness Dimension: 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: learnersurvey@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:

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**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