Association of Colleges

Improving administrative efficiency in colleges

A paper from the Association of Colleges

May 2008

Improving administrative efficiency in colleges

Contents

1 Purpose and scope of this paper

2 The efficiency targets for colleges
- the Gershon efficiency review
- the targets for colleges for 2004-5 to 2007-8

3 College administrative services
- Customer services
- Human resources, finance and corporate services
- IT systems and services

4 Some ways to improve and measure efficiency
- Working smarter
- Reorganisation of work
- Better transactions

5 Benchmarking

Note

AoC (the Association of Colleges) is the representative body for colleges of further education, including general FE colleges, sixth form colleges and specialist colleges in England, Wales (through our association with *fforwm)* and Northern Ireland (through our association with ANIC). AoC was established in 1996 by the colleges themselves to provide a voice for further education at national and regional levels. Some 95% of the 400 general FE colleges, sixth form colleges and specialist colleges in the three countries are in membership. These colleges are the largest providers of post-16 general and vocational education and training in the UK.

The College Finance Reporting Project is a partnership between the LSC, AoC and College Finance Directors Group (CFDG) to assist improvements in college financial reporting.

Improving administrative efficiency in colleges

Executive summary

Colleges have a target to improve their administrative efficiency by £43 million between 2005 and 2008. This target is separate from procurement and estate modernisation targets.

There are a variety of ways in which colleges can improve their administrative efficiency. This report identifies 11 examples which are classified into three categories:

- Working smarter within existing structures
- Reorganisation of work
- Redesigning transactional services

Working smarter within existing structures
Better management of administrative work
Absence management
Pay modernisation
Intelligent use of technology

Redesigning transactional services
Web enrolment and applications
Exam modernisation
Finance system modernisation
Pay and personnel system improvement

Reorganising work
Restructuring administrative services
Contracting out and contracting in
Collaboration and federations
Mergers

Colleges are complicated organisations and all differ. They will take their own paths to improved efficiency; some will have already taken action in the areas we list. Our list of opportunities is an "a la carte" menu of options not a list of prescriptions. Our list provides a few examples it is by no means exhaustive or prescriptive.

Our aim is to help colleges and the LSC make and record progress towards a specific government target. We have expressed our reservations about the usefulness of this target and we are glad to note that target will not be repeated for the current three year budget period (from 2008 to 2011). Nevertheless colleges could not survive in current circumstances without being efficient. The message of this report is that they must continue to take every available opportunity and must ensure that they take credit for their successes.

Association of Colleges
May 2008

Section One: Purpose of this paper

1. This paper was commissioned by the Learning and Skills Council (LSC) as part of the College Finance Reporting Project.

2. The work was carried out by AoC staff and involved the following:

   - Desk research on the government's efficiency review and on current practice in the colleges
   - Contact with a sample of colleges to identify key issues
   - Collection of views from colleges at a number of AoC regional meetings
   - Evaluation of findings with selected AoC directors

Section Two: The efficiency targets for colleges

The Gershon efficiency review

3. The government identified the need for all public services to improve efficiency with the aim of using public spending to deliver better outcomes. To this end, the Chancellor of the Exchequer asked Sir Peter Gershon to identify new opportunities to improve efficiency. Sir Peter Gershon's report was published in 2004 and identified £21.5 billion of efficiency gains for the public services (www.hm treasury.gov.uk/media/C/A/efficiency_review120704.pdf). The report defined efficiency as:

   "Reforms to processes and resource utilisation that achieve:
   - *reduced numbers of people or assets while maintaining the level of service provision using fewer resource*
   - *lower prices for the resource needed to provide public services*
   - *additional outputs, such as enhanced quality or quantity for the same level of inputs*
   - *improved ratios of output per unit cost of input*
   - *changing the balance of different outputs aimed at delivering a similar overall objective*

4. Sir Peter Gershon suggested concentrating on five areas:
   - back office functions
   - procurement
   - transactional services
   - policy, funding and regulation for the public sector
   - productive time of front line staff

5. There has been a considerable amount of activity in years since Sir Peter Gershon's report was published:

   - The £21.5 billion target has been disaggregated to individual areas of the public services. The LSC expected to deliver efficiency improvements of £264 million between 2004/05 and 2007/08.

   - The LSC agreed a detailed Joint delivery plan with the former Department for Education and Skills (DfES) to achieve its target. A number of

programmes have been put in train to deliver these targets, for example the creation of the Centre for Procurement Performance (CPP).

- Measures have been put in place to monitor progress against the targets, for example through the use of the Efficiency Measurement Model for FE (EMMFE). Progress has been reported on the target at regular intervals.

The targets for colleges for 2004-5 to 2007-8

6. The LSC/DfES joint delivery plan for the further education system allocated the following targets to colleges as their share of the £264 million target:

Cumulative Target savings (£mil)	2005/06	2006/07	2007/08
Improved procurement	-	35	75
Improving back-office efficiency	-	21	43
Modernisation of the further education estate	10	11	11

7. These targets were set in December 2004 and relate only to colleges. Although colleges account for 60% of LSC programme expenditure, they are responsible for 100% of the LSC targets (the other 40% of programme expenditure is spent on schools, universities, private and charitable training providers). Gershon efficiency targets related to public sector spending only. The targets were set for the FE sector not the wider Learning and Skills sector. The FE sector had a shared target whereas other public organisation had been given individual targets.

8. The LSC has usefully summarised these three areas of activity in the user guide for the Efficiency Measurement Model (EMMFE)

Procurement	Using e-procurement, GPC/purchase cards, contracting, tendering, negotiating, use of consortia, collaboration
Non teaching	Reduction in admin costs (not derived from any procurement activity as above)
Capital	Gains from capital improvements e.g. energy savings from more efficient buildings

9. The LSC has not allocated these targets to individual colleges but is keen to encourage an environment in which colleges apply and share best practice. Nevertheless it is important that colleges collectively achieve the targets that have been set for the sector. To this end, the LSC has been using the Efficiency Measurement Model for Further Education since 2006. EMM returns from colleges are voluntary, but colleges are expected to provide summary efficiency data when they make key financial returns. In this way, the LSC will gather data from colleges at three intervals:

- July 2008 (when college financial plans are returned), for all efficiency savings up to the end of July 2008.
- December 2008 (when their accounts and finance records are returned), for all additional efficiency savings not already recorded in the plan to the period to end of December 2008.

- July 2009 (the next stage of college financial plans), colleges will be required to provided all additional efficiency savings not already recorded up to the period ending 31 March 2009. The colleges will also be asked to provide additional efficiency savings data relating to the 2007 spending review targets within the financial plan. The LSC's user guide on the Efficiency Measurement Model (EMM) has 40 different categories of procurement saving under 5 different headings (price reduction, added value, process improvement etc). The LSC is continuing to develop guidance on Non-Teaching efficiency savings and hopes to have this integrated into the financial planning guidance to be issued early summer 2008.

10. An important first step in working out how the three targets can be met is to establish how they relate to existing college expenditure. AoC's interpretation of the targets is summarised in the following diagram, which uses figures from the consolidated 2006/07 college accounts:

Teaching staff £3,182 mil	Teaching supplies £522 mil	Teaching total £3,704 mil
Administrative staff £700 mil	Admin supplies £562 mil	Admin total £1,262 mil
Property staff £149 mil	Property supplies £391 mil	Property total £540 mil
Staff total* £4,031 mil	Supplies total £1,475 mil	Total £5,506 mil

Note: table excludes costs associated with college income generating activities (farming, catering etc) and franchising. Examinations counted as administration.

11. There is some overlap between the three targets in that the procurement target covers all supplies to a college (ie anything within the £1,475 million sub-total) which overlaps with the other two targets. The important point is to ensure that everything is recorded only once.

The targets for colleges for 2008-9 to 2010-11

12. The Department for Innovation, Universities and Skills (DIUS) launched its paper "Value for Money Delivery Agreement" in December 2007, establishing the target savings to be made from 2008 to 2011.

13. The 369 [as at Jan 2008] further education colleges (including sixth form colleges) are expected to make an additional £40 million in procurement savings by 2011.

14. The timetable for adherence to the new recommendations is set out below:

Milestone	Date
Analysis of results from follow up to the NAO 2005 survey of procurement in FE completed	Apr 2008
Procurement road map for the FE system published	May 2008
Regional team members to have contacted all colleges in their area.	July 2008
Results from e-marketplace pilot	July 2008
Completed a review of key consortia, supplier relationships, contracts (updated each year)	Sept 2008
Completed benchmarking exercise (updated in later years)	Dec 2008
80% of colleges to be attending network meetings	Mar 2009
200 colleges to be using a GPC card	Mar 2009
90% of colleges attending network meetings	Mar 2010
300 colleges to be using a GPC card	Mar 2010
All colleges attending network meetings	Mar 2011
All colleges to be using a GPC card	Mar 2011

15. The £40 million target should be achievable but it could prove more difficult to extract savings from a smaller spending base. In addition, DIUS expects £20 million in shared services efficiencies.

Section Three: College administrative services

16. Efficiency will only be improved in colleges if there is good understanding of the environment in which they operate. This next section summarises some of the issues, trends and costs associated with administrative services in colleges to help examine where efficiency opportunities might exist

17. Colleges employ a wide variety of staff in their administrative services. The number of people employed depends on the size of the college, its complexity and services offered, and the extent to which the college has contracted-out services.

18. Administrative staff and services in colleges work to support the teaching operations, to comply with the LSC 'sand other Government body's legislation, cater to the students and other users of college services and to ensure that the college discharges its responsibilities, and fall into three main categories:
    - customer facing services
    - human resources, finance and other corporate services
    - IT systems and services

Customer services

19. Colleges manage a number of customer-facing services to a large day-time population of students. These services are incidental to the core college business of teaching and learning but are often essential for effective delivery. These services are seen as an area of potential saving, as they include the following:
    - reception and security
    - information, applications and enrolment
    - in-course administration (including attendance, examinations, references)
    - advice and guidance
    - assessment and payment of college-based financial support
    - support services for students with learning difficulties or disabilities
    - catering
    - libraries and learning centres
    - childcare (colleges with significant numbers of adult students)
    - home-to-college transport (some colleges in rural areas, depending on extent of local authority services)
    - other transport arrangements, including bus passes
    - in-college residential accommodation (about 50 colleges)
    - assistance with finding non-college accommodation
    - pastoral care (in larger colleges)

    The status of these services in different colleges varies, with the approach taken towards contracting-out services dependent on the costs and complexity of the services, and the experience of the college and the approach taken by the colleges to service delivery.

20. Other services are generally managed in-house by college employees. Most colleges consider services such as information, applications and enrolment and on-course administration guidance to students to be integral to their business.

Human resources, finance and other corporate services

21. Colleges manage a number of back office services to make it possible for them to manage their people, property, finance and systems. These services are incidental to the core college business of teaching and learning but crucial for their survival and effective functioning. The services used by a typical college (not included in the earlier list) include:
    - finance
    - payroll
    - pension administration
    - human resources
    - property maintenance
    - student records
    - secretarial support for managers and lecturers (diminishing because of IT)
    - clerk to governors (i.e. company secretarial) and legal

22. College survival and prosperity since the mid 1990s has been dependent on effective finance, people and property strategies. This is why senior managers in these areas sit on college senior management teams and why governing bodies and principals make sure they have the right advice, whether provided internally or externally. This need for specialist skills and the relatively small size of colleges has contributed to a situation where much professional advice is contracted out. Companies can also provide highly specialised skills that colleges do not need or cannot afford on a full-time basis.

IT systems and services

23. The information technology environment in colleges is complicated because it supports three competing and occasionally contradictory needs:
    - College IT services support the full range of corporate systems
    - teaching staff from different disciplines and with different needs use college software and networks
    - access by students to college systems in classrooms, workshops and learning centres.

24. The complexity of the requirement within colleges and their relatively small size has made it difficult for them to package services in a way that can be contracted out to a single supplier, as has happened in other parts of the public and private sectors. Where colleges have contracted out services, they have generally had to retain an in-house capacity for curriculum needs. Colleges buy a large share of their IT supplies and services from the private sector but many parts of the operation are invariably managed in-house and there is a strong perception that the risks of college data corruption or error by a contracted out agency are greater than the cost savings possible.

25. There is some potential in the group purchasing of software; gains here are limited by the large, often up-front, purchase costs, the varying software requirements of different colleges and the cost and time of retraining staff on new systems. There are also timing issues about need for upgrades and the costs of upgrading all administration computers (if required by the upgraded software).

Section Four: Some ways to improve and measure efficiency

26. The Gerson efficiency review generated a number of projects and initiatives to deliver planned savings. We have reviewed some of the documents associated with these projects on the Cabinet office website. Work in this area has been underway in the college sector since 2006 and may generate longer-term efficiencies. But it has not yet done so and is therefore of limited immediate relevance. Our review of central government advice indicates that it provides some useful ways of thinking about efficiency but that the most relevant issues is whether an initiative works in a college environment. To this end, we have talked with college finance directors and researched individual examples of good practice. This has helped us come up with about 10 initiatives that a college could undertake. We have grouped these into three areas (to make them comparable with Cabinet office advice).

Working smarter within existing structures
- Absence management
- Pay modernisation
- Intelligent use of technology

Redesigning transactional services
- Web enrolment and applications
- Exam modernisation
- Finance system modernisation
- Pay and personnel system improvement

Reorganising work
- Better management of administrative services
- Contracting out and contracting in
- Collaboration and federations
- Mergers

Working smarter within existing structures

Better management of administrative services

27. College managers have handled significant changes in activity in recent years, including new programmes, new courses and increases in student numbers. In the period from 2004-5 to 2007-8, activity has grown or is expected to grow:
    - 66,000 additional full-time 16-18 year olds (growth of about 10%)
    - expected growth in train to gain activity from less than 100,000 trainees in 2004-5 to 500,000 by 2007-9
    - expected rise in success rates from 74% in 2004-5 to close to 80% in 200-8

28. In the same period, colleges have had to manage work resulting from new legal and regulatory changes. Colleges have dealt with the following information requirements in the period under consideration:
    - the national system of education maintenance allowances which requires weekly attendance reports on more than 300,000 young people. The LSC provided £15 million in funding to compensate for these costs.
    - new duties on child protection which apply to the 700,000 under 19 year olds in colleges.
    - the Freedom of Information Act which applies to all colleges.

- the new system of inspection introduced in 2005 and the new system of plan-led funding introduced in 2004. Both reforms cut external scrutiny (inspection and audit costs) but require additional work in colleges to improve internal systems and information.
- the Train to Gain system (and the pilots) which requires a different approach to delivering training and greater administration input

29. Some colleges have managed increased volumes and increased bureaucracy without increasing administrative expenditure. Others have absorbed an increased workload with a proportionately lower increase in administration expenditure. If colleges and the LSC can calculate the t colleges have made and will make between 2004 and 2008. The formula is as follows:

Efficiency saving (£) =	Change in administration expenditure less Inflation less Cost of new regulation less Expected cost of increased volumes

Absence management

30. Absence management is a well-accepted way to improve the performance and efficiency of staff and organisations. Absence management is a hot topic in human resources because of national news headlines and because of concerns relating to long-term absence attributed to work-related stress. Since 2005, AoC's employment team has developed the following data and guidance to help colleges manage absence.

- AoC has carried out two national surveys in 2006 and 2007 which provided benchmarking data for colleges on the level of absence in different colleges.
- AoC ran a series of absence management roadshows in 2006 to provide information for college personnel managers on the topic

31. This information is available to all AoC member colleges (some 96% of the sector) and may help colleges improve efficiency. The survey showed that the average sickness rate in colleges was 8.8 days per employee or 4.0% of available working time but that there was considerable variation between different colleges. For example, absence rates in larger colleges (with more than 750 employees) were 30% higher than rates in smaller colleges (those below 250). The survey shows that the college sector has lower absence rates than education as a whole (9.8 days according to a CIPD survey) or local government (11.5 days average) but higher than the average for CBI member employers (6.8 days).

Efficiency improvement = Average total cost per employee * Number * Days saved

32. For a college with 500 staff, 200 of whom are support staff, an absence management project which reduced absence rates by 0.5 days per employee could be considered to have improved efficiency of:

Efficiency improvement = £27,500 * 200 * 0.5/220 = £12,500

Pay modernisation

33. Pay modernisation is another area where efficiency improvements may be possible for some colleges. Pay modernisation describes the pay recommendations made by AoC in 2004 with the agreement of the national trade unions to rationalise and improve the way in which pay is set and handled in the sector.

34. Colleges were and are free to adopt their own pay structures and policies but those that did adopt pay modernisation took the opportunity to introduce common pay scales for all types of staff, to change the way in which pay progression occurs and to introduce an element of performance management.

35. Pay modernisation is not an uncontroversial area because it often involves up-front costs. Any efficiency improvements only come if the college uses the opportunity of the reforms to end automatic pay increments or to deliver other changes (for example to working hours) which deliver savings.

Intelligent use of technology

36. The growing spread and lower cost of technology creates opportunities for colleges to improve efficiency in a number of areas:
    - use of CCTV to support security staff
    - sharing information with local councils and others to assist in the reduction of crime
    - use of IT tools to improve computer maintenance and diagnostics
    - use of software to reduce requirements for secretarial support

Good Practice
Queen Elizabeth Sixth Form College's external security cameras are linked to the local authority's central monitoring unit, removing the need for the college to employ their own security teams.

Good Practice
Lincoln College's external security cameras are linked to the local authority's central monitoring unit, assisting in the identification and tracking of criminals and improving relations between the organisations.

Squeezing more outputs from current resources

37. It is often possible to encourage growth in learner numbers without having to increase the amount of resources required, but this requires a deal of planning and co-operation. Many colleges have found, however, that expanding numbers does not always lead to an increase in revenue as the LSC might not fund it.

Good Practice
Stamford College operate as a 16-18 college in the day and adult learning centre at night, thus enabling both groups of learners to make use of the same space without impacting on the other group and thus also making it easier for them to monitor costs and profits for each section.

Redesigning transactional services

Information and applications

38. Information, applications and enrolment are important, staff-intensive activities in colleges because of the large number of students (9,000 in an average colleges), the need to place them on the right courses and the complexity of information that needs to be collected. There are also strong arguments for colleges to use face-to face methods for assessing and placing students because of the need to match the individual with the right course. Many students need advice on their study options while colleges are strongly penalised if success rates are low. Nevertheless there are clearly opportunities to improve the way in which transactions are processed and to use IT more extensively to reduce staff processing costs.

On-line enrolment

39. The extent to which an individual student can enrol on-line varies depending on the college and the course. In some cases, the college collects the details from the applicant but requires them to come for an interview to complete the process. Other colleges allow large groups of students – in particular part-time adult students – to apply, enrol and pay online.

40. The following forty-two colleges all operate some form of on-line enrolment:

Askham Bryan College	City College, Manchester	Herefordshire College of Technology	Sixth form College, Farnborough
Aylesbury College	Chichester College	Itchen College	North Devon College
Barton Perivale College	City of Bristol College	Kensington and Chelsea College	Sixth Form College, Solihull
Bede College	City of Sheffield	Richmond Adult Community College	Solihull College
Bexhill College	City of Wolverhampton	Leek College	Somerset College of Technology
Blackburn College	East Berkshire College	Moulton College	South Cheshire College
Bradford College	Eccles College	Newcastle College	Stafford College
Brooksby Melton College	Gateshead College	Northumberland College	West Nottinghamshire College
Castle College	Greenwich College	Orpington College	Woking College
Cirencester College	Hadlow College	Paston College	Worthing College
		Sandwell College	Totton College

Good Practice
Chichester College established web enrolment and on-line payment as an option for their part-time courses. This has helped them to control their back-room administration costs and has provided a good foundation for expanding the use to more of their students. They hope to have the majority of part-time applications processed on-line within the next few years.

Exam modernisation

41. Examination administration is a small but significant area for all colleges. Qualification success rates are the main way in which college performance is measured. Colleges spend a total of £30 million in 2006/07 on examination staff costs to maintain robust systems in managing examinations – from entry to results.

42. The Qualifications and Curriculum Authority, which is a government agency, put in place a programme in 2002 to modernise the exams system. This is focused mainly on awarding bodies but also offers support to exams officers (www.naa.org.uk/examsoffice/eo_index.html). There is evidence that colleges have varying degrees of staffing input on exams and that some colleges are more advanced in entering candidates and receiving results on-line.

Finance system modernisation

43. Colleges were required to establish robust finance systems in the 1990s to deal with the challenges of incorporation and a tough set of budget challenges. Colleges have taken different paths to improve the effectiveness of their finance systems and have faced external scrutiny from audit firms and from the Learning and Skills Council. The current pressure on college budgets means that it is timely to compare college performance against other organisations. A recent initiative from the UK audit authorities has involved the development of a set of indicators to measure the value for money performance of finance functions. The indicators have been tested in 100 organisations and can be found in the report "Value for Money in public sector corporate services" [1]

44. One area where colleges can improve the efficiency of finance systems is in the use of procurement cards. The National Audit Office found that only only 40% of colleges had allocated credit cards to budget holders in 2005. An AoC survey in 2006, however, showed that some 85% of colleges were making use of credit and debit cards to enable purchases on the internet.

45. DIUS has set an explicit target that all colleges should make use of the the government procurement card by March 2011 (see paragraph 14 above). As most colleges will be making use of credit cards by 2008, the total cashablebefore this date, but the total cashable saving from their implementation will be limited.

46. NAO reports have estimated that an efficiency saving of £28[2] per transaction could be achieved through the use of purchasing cards. AoC has have reservations about the appropriateness of this figure for colleges but there are clearly efficiencies from the effective use of procurement cards. More information can be obtained from fecollegeprocurement@lsc.gov.uk or visiting the procurement resource website www.felp.ac.uk.

47. Ten colleges are currently trialling e-procurement software from Unity and the results of this trial are awaited. It is anticipated that e-procurement might enable colleges to reduce their administration costs and divert these resources into front line teaching.

48. Another area where small but significant savings can be made is in reducing or even eliminating the use of cash for receipts and payments. This is not a simple task because many students in colleges have limited funds and sometimes do not have bank accounts. Nevertheless there are a number of areas – from catering facilities to learner support funds – where it is possible to promote and implement cashless transactions. Certainly American colleges and Universities have been implementing cashless transactions on campus over the past few years. This service is offered by USA Technologies: http://www.usatech.com/eport/cashless-payment.php. One example in the UK

[1] "Value for Money in Corporate Services" NAO 2007
[2] "Improving procurement" HC 361-1 12th March 2004

include Bracknell Forest Council (http://www.bracknell-forest.gov.uk/do-it-online/online-smartcard/online-what-does-the-bracknell-forest-smartcard-do.htm) .

Pay and personnel system modernisation

49. Colleges installed pay and personnel systems in the 1990s at a similar time to finance systems to deal with the challenges of incorporation. Many have overhauled their systems since but there are sometimes opportunities for improvement if a college has available cash for the capital expenditure and the management time to implement the system. The pay and personnel environment is complicated in the college sector by the large number of part-time and sessional staff. As with the finance area, the audit authority benchmarks are a useful starting point for possible problem areas.

Reorganising work

Restructuring

50. Restructuring is probably the most common way in which colleges make efficiencies in their administration. Restructuring involves painful decisions about jobs, roles and pay and is generally only undertaken by colleges to achieve significant savings. If successful, restructuring brings larger savings than can be obtained from simply managing a larger workload and is also linked to other initiatives outlined in this paper, for example introducing technology or implementing mergers.

51. Restructuring requires care by colleges to ensure that staff and trade unions are consulted and to avoid costs associated with employment litigation. AoC, as the employer organisation for further education colleges, provides advice to more than 100 colleges a year on restructuring and redundancy issues. Lawyers and consultants advise many more. A central issue for colleges is to also ensure that restructuring does not expose the organisation to unnecessary or unexpected risks. Changing the way in which staff work or reducing the amount of supervision could create risks that need to be addressed in the restructuring process.

52. Restructuring allows colleges to be more flexible in their approach and to be able to alter their delivery more quickly in line with Government policy changes.

Contracting-in and contracting-out

53. Colleges provide some services via longer-term contracts, varying from cleaning to specialist professional advice. The literature on procurement and LSC procurement staff offer plenty of advice to colleges on how to get better value from service contracts.

54. It would appear that colleges might be able to achieve efficiencies by either contracting out a service or contracting it back in-house. If a college is successful in contracting out a service, it may count the saving as a procurement efficiency. However, if, in the process of assessing a contracting out service, a college decides to bring a service in-house, this might also be a procurement savings as well as an administrative efficiency.

55. The trend is generally towards contracting out, but there are cases where colleges can achieve savings by bringing services in-house, for example by appointing IT staff rather than contracting-out software development or by employing short-term capital project managers rather than using companies for large developments.

56. There is an active private sector market for contracted-out services, mostly in security, cleaning, payroll functions and catering, but also including personnel and buildings maintenance. Almost 50% of colleges contract out their catering, which is a £50 million activity in the sector.

57. Some colleges find that it is cheaper to maintain these services in-house, or to bring them back in-house, and it is an area which should be reviewed every few years.

Good Practice
Lincoln College reviewed its cleaning and security contracts and negotiated to take the staff in-house, offering more pay and yet registering a better service and an annual procurement saving of some 30% in addition to administration savings.

Collaboration and federations

58. Many parts of government see large shared services as the route to delivering efficiency savings in this area. Work is underway in the Learning and Skills Shared Services Programme to see if these efficiencies can be secured for colleges. The programme faces difficult challenges in the college sector because of their relatively small size, because of their strong culture of independence, because of their diversity, because of VAT and because of the unstable policy and funding environment. Nevertheless the programme may deliver savings over a 5-10 year period.

59. Local collaborative activity may deliver shorter-term savings and is already well-developed in some areas. Colleges collaborate in one way or another, both with each other and with other public services. These collaborations share specialist staff or ensure that services can be provided to students at lower cost.

60. Some colleges have initiated merged resources with other colleges, schools or other organisations, so that shared resources generate savings for all involved.

Good Practice
North Lindsey College operates a joint education centre with a local school, with the college delivering vocational courses and the school delivering academic ones. Pupils wishing to combine A levels and NVQs are registered at the new entity, thus enabling both college and school to deliver in their areas of expertise without having to recruit any new staff.

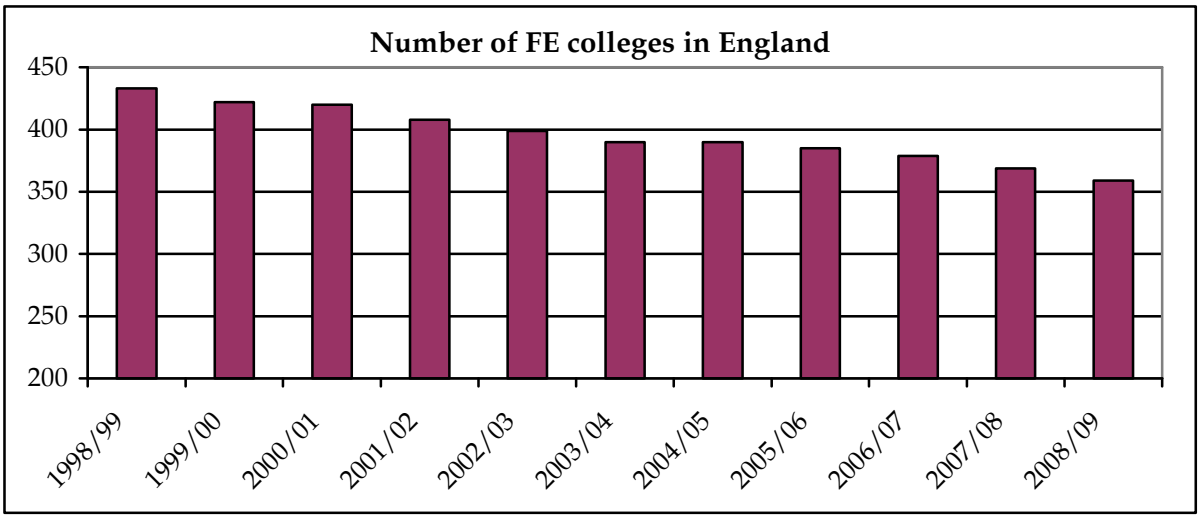
Good Practice
Totton College entered into a partnership with the local rugby club allowing the club to use the college rugby pitch and car park at weekends in exchange for the club paying for maintenance of the playing fields. The rugby club have also built a £1/4m pavilion which the college is allowed to use during the week, saving both organisations considerable sums

Good Practice
Stratford-upon-Avon College share their library facilities with the local council, thereby avoiding the building and maintenance costs of running a library on their own

Mergers

61. There has been a steady stream of college mergers in the last decade prompted by the financial or managerial weakness of one of the parties and the belief that a larger college will be more effective and more competitive. The government has provided funds to colleges to encourage them to consider merger, most notably via a rationalisation fund which existed from 1999 to 2002.

62. Mergers have reduced the number of colleges from more than 450 to 369 (a reduction of 18%), effectively generating efficiency savings through the sharing of services. There have been 20 college mergers from 2003/07 to 2007/08.



63. The issue of mergers is a controversial topic with considerable disagreement about the pros and cons. Where colleges embark on mergers, they generally cite financial benefits arising from greater administrative efficiency, merging corporate departments and greater economies of scale. These savings take several years to achieve because mergers generally add to costs in the short-term as the combined college incurs expenditure in restructuring, redundancies, retraining and new systems.

Section Six: Benchmarking

64. Benchmarking in further education is well-developed in the core college business of improving the efficiency of teaching. Benchmarking uses insights and formulae developed in the 1980s in a Department for Education efficiency drive. This drive – the Joint Efficiency Study – was set up in response to the recently created Audit Commission study in 1985 which identified large areas of wasted expenditure in further education ("Obtaining Better Value from Further Education"). The Joint Efficiency Study ("Managing Colleges Efficiently") had various outputs but one of them was that a few key ratios could be used to measure the internal effectiveness of Colleges. These ratios were the average class size, average student hours, average lecturer hours and the staff student ratio. This work was developed by Ben Johnson Hill associates in the 1990s and by the Tribal Group in the 2000s. The success of their work rests on the participation of a large number of colleges (more than half the sector in some years) and the use of well-established methods for comparing operations. The key formula is shown below:

Income efficiency	=	Average lecturer hours	*	Average class size	*	Units per student hour	/	Average pay per FTE staff

65. Benchmarking is also well developed in the second major area of college expenditure relating to estates. Since 2003, the LSC has worked with funding councils in other parts of the UK to funded and develop the E-mandate system which allows colleges to compare the condition and costs of their property with national benchmarks on a number of measures.

66. Benchmarking is less well developed in college administrative services but has developed as part of the college finance record in the last few years. Colleges return a finance record to the LSC with their accounts. In 2005, the LSC has made available a disc to help colleges compare costs and activities with their peers and since 2007, the work to produce this disc has been part of the college financial reporting project involving AoC, CFDG and LSC. The LSC introduces the framework for excellence in 2008 which will include public information on the use of resources. This could renew external interest in benchmarking

Association of Colleges
May 2008