



## Effective Governance Case Study 6

### Financial Strategy & Audit

#### Summary

This case study explains how a National Leader of Governance (NLG) can support a college in ensuring the activity is cost effective and financial measures of performance underpin academic performance.

#### Code of Good Governance

This case study underpins principal responsibility 6 – Financial Strategy & Audit.

#### Issue to be resolved

Governors feel they do not get the information they need to ensure value for money.

#### Context

A medium/large sized college (graded 3 by Ofsted). The college has been running a deficit budget but is projecting to run with a small surplus this year. The governing body and the executive have had to take some very difficult decisions to ensure a balanced budget and governors now feel they should be spending more time looking at other aspects of college work in similar detail.

#### Methodology

The clerk contacted the Association of Colleges (AoC) Governance Unit and asked for a NLG experienced in value for money processes and techniques. The NLG visited the college and interviewed several governors and asked them what they wanted.

Some governors were familiar with balanced score cards and wanted the college to develop one. They said there did not seem to be any management disagreement with the idea, but it is just not happening. One governor said they had spent so much time on finance that there had been little time for anything else. At the end of the session, the NLG defined the college's problems. The main themes were:

1. Now the finances were balanced, how could they ensure financial decisions continued to underpin the academic programme?
2. Governors were keen to reduce the volume of the paperwork they received while at same time focussing on the key strategic issues.
3. Some governors wanted to be able to drill down into the college to ensure there was line of sight between the strategic intent and implementation.

The NLG followed up the visit with a review of board meetings, papers, self-assessment reports and annual accounts.



## Findings and Actions

From the individual discussions with governors and a review of the paper work, the NLG found that governors were being swamped with papers and it was difficult for them to see what was really important. In trying to move up an Ofsted grade, the executive were giving the governing body everything - in most instances, benchmarked against sector averages. The governors were putting in a lot of extra hours and the partnership between the executive and governors was very good.

The NLG returned for a second meeting and gave a presentation on different reporting tools, including an electronic balanced score card. The NLG showed them different examples and the one favoured by the governors is attached (Annex 1).

The NLG explained the typical challenges encountered when introducing a balanced score card underpinned by a performance management system:

### 1. Disconnect between finance, strategy and programme delivery

It was agreed that the mission was still relevant but the plan needed to be updated to take on board recent:

- Disconnect between the performance management process and organisational strategy.
- Performance management systems which are often inadequately linked to an organisation's business drivers.
- Poor design leading to sub-optimal results for the organisation, such as unclear value of employees to the organisation, loss of high-return talent, and most critically, little or no impact on business results.

### 2. Lack of senior managers' input

- Insufficient management focus and lack of skill. While managers are supportive of performance management in principle, many factors often prevent them from dedicating enough time and effort to performance management.
- Organisations report that managers frequently lack the skills required for performance management led activities.

### 3. Employee ownership

A lack of awareness and accountability from teachers and support staff. Employees may genuinely lack the connection and understanding of the performance management process and system, including their understanding of the process and required standards, as well as the belief that they are held accountable for the things that matter.

### 4. Credibility of the system chosen

Systems are often perceived to lack credibility and fairness, and fall short of the critical elements vital to a performance management system, such as 360-degree reviews, forced ranking, a number of formal reviews and the presence and challenge of development plans.



To overcome these issues, the NLG suggested they set up a small team made of governors including the staff governor, the directors of Finance and MIS, Head of Quality and the clerk to work through a set of key performance indicators (KPI), deciding which headings and information should be on the balanced score card. This was agreed and the group was tasked with reporting back to the next governing body meeting with the aim of having a system in operation from the start of the next financial year.

## **Results**

The team kept to the deadline and the governing body agreed the outline of a balanced score card and set of key performance measures in each of the main areas. They agreed to run it as a paper version for the first year and then consider whether they should invest in an electronic version which would allow governors to drill down into the information.

## **Conclusions and next steps**

Although the exercise was extremely time consuming, the college governors felt they had a much better handle on how they could use finance to underpin the academic programmes. The college executive team (although initially reluctant because of the time implication) are now firm advocates and are using it as a tool to manage the performance of staff.

## **References and useful material**

[Skills Funding Agency](#) (SFA)

[Education Funding Agency](#) (EFA)

[Higher Education Funding Council for England](#) (HEFCE)

[Student Loans Company](#) (SLC)

[Accounts Direction Handbook](#)

[Financial memorandum and related documents](#)

[Statement of Recommended Practice: Accounting for Further and Higher Education](#) (FE/HE SORP)

[Joint Audit Code of Practice](#) (JACOP) sets out how the funding agencies will work together and how colleges should demonstrate assurance.

The financial reporting requirements are set out in the funding agencies' [Accounts Direction](#)

Introducing a new [funding system](#) based on student loans

[Mides](#)

[Ofsted Data Dashboards](#)

[More Financial Strategy and Audit governance resources](#)



**Annex 1 - Balanced score card**

Success Measures KPI	Responsiveness KPI
<ul style="list-style-type: none"> <li>• Learner Qualification Success Outcome Measures:               <ul style="list-style-type: none"> <li>&gt; Progression</li> <li>&gt; Employment</li> <li>&gt; Earnings</li> <li>&gt; Ofsted</li> </ul> </li> <li>• Meeting SFA /EFA Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Satisfaction:               <ul style="list-style-type: none"> <li>&gt; Employers</li> <li>&gt; Student</li> <li>&gt; Parents</li> </ul> </li> <li>• Opinion of former Local Enterprise Partnerships (LEP)</li> <li>• 360° with other partners e.g. EFA, SFA, schools, colleges, universities</li> </ul>
Financial Efficiency KPI	People KPI
<ul style="list-style-type: none"> <li>• Meeting Annual Financial plan:               <ul style="list-style-type: none"> <li>&gt; Benchmarked against sector</li> <li>&gt; Surplus</li> <li>&gt; Reinvestment</li> <li>&gt; Efficiency targets:                   <ul style="list-style-type: none"> <li>○ Student staff ratio</li> <li>○ Room utilisation</li> <li>○ Use of IT</li> <li>○ Staff salary</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Leadership Skills</li> <li>• Motivation- pulse survey results</li> <li>• Efficiency</li> <li>• Qualification and Development</li> <li>• Investors in People (IIP)</li> <li>• IT proficient</li> <li>• Safeguarding</li> </ul>
<p><b>Good Governance- 360° appraisal of governors</b></p>	