

Effective Governance Case Study

Encouraging good financial scrutiny

This case study explains the support given by a national Leader of Governance in order to help ensure a College Governing Body had effective financial scrutiny of its future growth plan, arising out of the Area Review process.

This case study underpins principal responsibility 6 of the Code of Governance– Financial Strategy & Audit

Issue to be resolved

Governors had agreed - as the recommendation arising from the Area Review – to remain independent but also to pursue a growth plan over the next three years; which therefore needed to be delivered and was subject to review. Their challenge was to ensure that Governors had the ability to monitor and challenge this plan over that period and, above all, to ensure its successful delivery by the Senior Leadership Team.

Context

- A smaller College whose independence arising from the Area Review process had been secured through a commitment to an agreed growth plan
- Very tight existing finances
- No natural demographic growth in the area
- Limited financial experience within the Governing Body and a number of new Governors
- Facing key management change in the senior Leadership Team (“SLT”)

Methodology

In a previous year, the Clerk had sought financial training for Governors from an NLG through the AoC governance Unit under the ETF/NLG scheme. New Governors and this new context, arising from the Area Review, brought far greater and more specific challenges.

The AoC Governance Unit was contacted to seek a follow-on session from that original NLG focusing on the specific challenges of growth and to enhance Governors ability to provide constructive current and future monitoring and challenge.

The sessions (over one and a half days) included:

- Training to Governors on their legal and expected financial responsibilities
- Training generally on finance for non-financial specialists. This included including understanding of financial processes, audit, management letters etc.; and understanding key statements such as I & E, Assets & Liabilities and Cash Flow together with specialist aspects around property assets. All within the specific context of the F.E. sector and the College itself.
- Budgets & Forecasting
- Practical Analysis of the College's current financial performance
- How performance was measured in the sector – Understanding key KPIs
- Practical Analysis of current KPI performance
- An NLG moderated whole group session encouraging discussion & debate amongst Governors to assess the current growth plan; challenging growth figures, & assumptions and introducing discussion of new areas and possible future opportunities
- Training to other individual non-finance members of the SLT

Finding & Actions

- (1) Governors were given a detailed presentation to remind them of their key financial responsibilities including some finance & accounting training for non-financial specialists. Detail was provided around key aspects of F.E. College finances generally. These were then related to the specific College.
- (2) Similar detail was given around the criteria applied by the SFA for the financial grading of Colleges, the warning signals looked for by the F.E. Commissioner and the KPIs applied in the sector generally, with some examples of the difficulties in calculation & usage and the consistency of application within the sector.
- (3) Governors then engaged in far-reaching analysis of their current & future results through an NLG-led line by line analysis of the budgets resulting from the

Growth Plan, particularly testing the key assumptions around income growth & cost reductions.

(4) Recent results and management results were viewed & discussed in detail with pointers being given to what Governors should have observed, questions they should or could have asked and warning signs that might have been pointers to the future. In addition the risks of seeking revenue over profit and not jeopardising the college's current financial stability were also discussed.

(5) This served as an introduction to a wide ranging discussion led by the NLG around other aspects to consider, key challenges to the sector etc. Amongst other things this highlighted the fact that Governors had not fully discussed or considered the impact of the Apprenticeship Levy or the use to which their own levy payment might be put. The NLG acted as moderator to an immediate discussion on these topics.

(6) Finally Governors were provided with some tools for the future, through an example list of questions to ask & areas to consider in future Governing Body meetings. An example of this is attached as an Appendix to this case study.

Results

Governors received a comprehensive grounding in finance and financial scrutiny through training and an understanding not only of their responsibilities but how key stakeholders such as the ESFA and the F.E. Commissioner would view them. The latest expected KPIs were explained and benchmarked against the College's own performance so that Governors understood their own College's performance.

Attention was drawn to the key areas of sensitivity in their future growth plan in particular areas of potential optimism or risk that might require future scrutiny. These were discussed, with Governors agreeing future areas for such debate or discussion.

Future potential challenges, generally, for the College were also debated that might impact on their growth plan more generally. Such challenges included the effect of the Apprenticeship Levy, which the Board had not discussed before, the competitive landscape and the question of senior management succession.

Finally, Governors and the SLT viewed a list of questions (attached as an appendix) demonstrating some of the key areas for financial scrutiny through a list of example questions Governors could ask and that their SLT might expect.

Conclusion & Next Steps

Overall, the participants (including the very experienced VP Finance...!) found the NLG engagement of significant benefit.

A number of Governors, both experienced and new, said they appreciated the training and guidance and understood both more about their own Growth Plan and how to review or challenge it in future.

The Chair suggested Governors should have a future seminar/discussion of the Board around apprenticeships.

It was agreed that the growth plan as a whole should be regularly reviewed as well as in year budgets.