

OVERVIEW: TEN KEY FINANCIAL ISSUES FOR GOVERNORS

In the following pages a large number of financial issues are identified for you to consider as a governor. However, a quick overview of ten key points may be helpful for you to think about:

- 1 The governing body must ensure financial sustainability. This is not just short term, but involves effective long term strategic planning for which governors have ultimate responsibility.

SEE CHAPTER 2 ▶
- 2 Financial management must be effective and robust. The governing body must be confident about this, and that any financial problem areas are being effectively dealt with.

SEE CHAPTERS 4 & 13 ▶
- 3 Cash is the ultimate resource which secures all other resources. So cash forecasts, borrowing limits and banking covenants should be watched carefully. If your HEI is borrowing, as a governor be clear about the reasons and the possible outcomes.

SEE CHAPTER 7 ▶
- 4 Financial information presented to the governing body must be timely, accurate, provide the data required by the governing body, and generally meet good practice standards.

SEE CHAPTERS 8 & 9 ▶
- 5 The governing body must ensure that effective performance management systems are in place, including the use of benchmarking financial performance.

SEE CHAPTER 11 ▶
- 6 Future investment decisions need to be soundly based and carefully assessed, with your HEI investing enough in people, property and systems to survive and prosper. The governing body should ensure that tomorrow is not sacrificed for today.

SEE CHAPTERS 5 & 6 ▶
- 7 The governing body needs to understand where both the current and future major financial risks are, and act accordingly.

SEE CHAPTER 3 ▶
- 8 Enterprise activities sometimes present particular challenges for HEIs, and their governing bodies need to be confident that they are performing well and being effectively managed.

SEE CHAPTER 10 ▶
- 9 The governing body needs to be serious about ensuring the HEI continually seeks better value for money.

SEE CHAPTER 11 ▶
- 10 Finally, looking ahead to the longer term, governing bodies need to encourage a debate in their institutions about what new future business models might be, and what needs to be done to prepare for them.

SEE CHAPTER 14 ▶

1. GOVERNING THE INSTITUTION'S FINANCES

"At my first few board meetings I felt completely lost. At the first one the Finance Director asked members for opinions and I had nothing to say. I felt completely out of my depth"

LAY GOVERNOR

"As a staff governor the thing I struggle most with is understanding finance"

ELECTED STAFF GOVERNOR

- 1.1 On 3 April 2008 the Times Higher Education newspaper⁴ reported a survey of financial data for UK HEIs, including details such as: bank borrowing for each institution (ranging from zero to £197m); net surpluses (minus £10m to plus £55m); and staff costs as a percentage of income (44% to 69%). The variation in this data is striking, and as a governor you have to interpret and assess such information in relation to your HEI: how would you judge what was appropriate? do you have the experience to do it? and are you confident of doing so? This material provides some help.
- 1.2 Whatever your background, as a governor it may be difficult to understand the finances of your HEI. However, you are not alone, and other governors are likely to be in the same position. There are various sources of support. Within the executive three members are crucial: the vice-chancellor or principal as head of institution; the finance director (on whom your board depends for most of its financial information); and the clerk or secretary to your board. Without them, you will not be able to begin to assess whether the finances are in good shape, whether money is being properly applied to agreed objectives, and whether your HEI is using its resources wisely to drive itself forward in the thick of increasingly fierce competition. Other sources of support include: longer serving governors, the internal and external auditors, bankers and the funding bodies. In addition there is, of course, information from the general and specialist press, plus the wealth of information available on the internet. For example, nearly all HEIs publish their annual accounts on their websites, and it is rare not to find something of interest in the small print in each.
- 1.3 Of course, not every governor has to be a financial specialist, and an inquiring mind may be as valuable as a financial qualification. However, to make a significant contribution on financial issues governors have no alternative but to get to grips with the issues discussed in this material.
- 1.4 A member of staff or a student elected to the governing body brings a very different perspective from an external or 'lay' member. They will be in touch with those at the working face of the HEI, and in a good position to understand the financial realities on the 'front line'. These governors will know the institution much better than independents, but the mix can be richer for the presence of both.
- 1.5 All this presents real personal challenges for many governors, so:
 - How comfortable are you in dealing with financial and related issues?
 - How familiar are you with key financial documents for which you (as a board member) are responsible? For example, have you actually read the financial memorandum from your funding body?
 - If you don't understand some financial data what do you do - if anything?
 - If necessary are you able constructively to challenge financial data and the proposals on which they are based?

⁴ Times Higher Education, 3 April 2008, pp 33 at www.timeshighereducation.co.uk

This material is intended to help address some of these challenges, although it is only a starting point. The separate companion volumes on audit and risk also contain valuable information which should be consulted.

What are the key financial tasks?

- 1.6 Governors have lots of important tasks, but governing finance is amongst the most vital. The CUC Guide⁵ summarises a governing body's financial responsibilities as including:
- Ensuring the solvency of the institution and safeguarding its assets.
 - Approving the financial strategy.
 - Approving annual operating plans and budgets, which should reflect the institution's strategic plan (to which should be added the monitoring of financial performance during the year).
 - Ensuring that funding council resources are used in accordance with the terms and conditions specified in the financial memorandum.
 - Ensuring the existence and integrity of risk management, control and governance systems and monitoring these through the audit committee.
 - Receiving and approving annual accounts (audited financial statements).
- 1.7 In a useful document called 'Effective Financial Management in Higher Education'⁶ these responsibilities are summarised by Hefce as stating that "the governing body is responsible for the financial health of the institution", including ensuring effectiveness, efficiency, economy, value for money (VfM), and appropriate asset utilisation.
- 1.8 The Chartered Institute of Public Finance and Accountancy (Cipfa) takes a broader approach to defining financial responsibilities⁷. Discussing the role of financial management more generally (as opposed to the governors' role), it sees three key tasks:
- Securing stewardship - an emphasis on control, probity, meeting regulatory requirements and accountability.
 - Supporting performance - responsive to customers, efficient and effective and with a commitment to improving performance.
 - Enabling transformation - strategic and customer led, future orientated, proactive in managing change and risk, and outcome focused.

This is a useful summary of whether the conduct of financial management as a whole is fit for purpose.

- 1.9 Perhaps the most important point which follows from these statements of responsibilities is that it is the whole board that has a collective responsibility for ensuring financial health, and that this is not something that can be left to the finance committee (or equivalent), still less to the executive. Of course, the board's job is to govern and not manage, but it has ultimate responsibility, and all individual governors need to feel capable of exercising it even though they may not be financial specialists.

"Frankly, I feel I'm wasting my time talking to the governors about finance. There are only two or three of them who understand. The others try but don't really have a clue"

FINANCE DIRECTOR

⁵ CUC, Guide for Members of Higher Education Governing Bodies in the UK, revised version 2009. Available from www.shef.ac.uk/cuc

⁶ Available at www.hefce.ac.uk/pubs/hefce/1998/98_29.htm

⁷ Cipfa, 2005 "Getting the Finances Right: A briefing for non-executive board members of public sector organisations"

Why is it difficult?

- 1.10 There are several reasons, some concerning financial management and others specific to higher education. For governors without a background in finance, the challenge of ensuring financial health can seem daunting. In the past, in a much less competitive and turbulent environment, the governor's role tended to emphasise accountability and ensuring financial control: still potentially challenging, but there was always another member with financial experience or the auditors to get assurance from. However, the emphasis has changed, and the language confronting governors is more difficult: strategic positioning, value for money, ensuring sustainability, achieving optimal asset utilisation, and so on. Throw in future threats to income and costs from demographic trends, the implications of the 'credit crunch' economic meltdown, threats to the future of pensions funds, and so on, and the future financial challenge facing governors is - generally - much greater than in the past. No governor can afford to simply 'leave it to the financial experts'.
- 1.11 Other difficulties come from the nature of many HEIs. Most are complex and multi-faceted, with a mix of teaching, research and enterprise activities. Sources of income may be diverse, and some may receive substantial funds from charities especially if they have a medical faculty. Institutions are often major property owners or occupiers and some operate large accommodation services for students. They may be involved in consultancy or publishing in significant amounts. Some will have substantial investments to manage, perhaps associated with an in-house pension fund.
- 1.12 Ethos is also important. Most academic staff will be committed more to their subject than the financial 'bottom line', and what happens in their own HEI may be of little concern so long as facilities continue to be provided for them. In an HEI there is never a shortage of things on which to spend money, and academics will almost always feel that their own subject area demands investment. Moreover, funding an HEI with a legitimate aspiration for excellence (still more the over used word 'world class') involves very different financial demands from one that simply seeks 'fitness for purpose'.
- 1.13 There is also history - more influential in older universities perhaps. Despite a turbulent external environment, there is still some resistance to a managerial approach, and the belief that collegial decision making is not to be discarded lightly. Such critics are right to argue that plans and priorities handed down from above will not work in a context where management control is rarely tight, but the pace of change in higher education (as elsewhere) argues against too much dependence on consensus, particularly in relation to difficult financial decisions about competing priorities.

"Now I'm retiring from the board, I feel ready (and have the knowledge) to govern the institution!"

LAY GOVERNOR

What's in this material?

- 1.14 Reading this material is not intended to make you a financial expert, but it should help you to identify what you need to do to undertake your financial responsibilities as a governor. It also lists some of the other resources available to support effective financial governance. For example, there are several useful documents for governors listed at the end of this chapter, which you should know about. If you don't, you will have a useful question to ask your clerk or governing body secretary next time you meet.
- 1.15 However, most importantly this material is to help you perform your role effectively. As well as the rules and where to find them, it discusses what the rules don't say and what an experienced governor might say to you at the outset of your time on a board. Good governance is often about knowing what questions to ask, as officials usually wait to be asked - which may be no bad thing if the alternative is bombarding you with information, or, worse still, providing undigested data which you cannot put into context. Long and complex board papers are rarely a sign of good governance.
- 1.16 Of course, good governance is not management. If you study all the guidance you'll be offered, you may be tempted to run away or try to do the management's job. But you must navigate a fine line between governance and management - one that is often unclear and may well shift over time. You may have to test it to find it - but then stay on your side. You need to know, from what you read, see or hear that your HEI's finances are being effectively and efficiently managed, and this material will help you find that out. But don't hesitate to go and see the key players. A good finance director will be pleased to see you, and will not expect you to understand higher education finance beforehand. Indeed, an HEI which takes governance seriously may already have arranged such a meeting for you.
- 1.17 As a first step, you might find it useful to assemble some important source documents (to which reference will be made later):
- The revised version of the CUC Guide for Members of Higher Education Governing Bodies in the UK, 2009 (see footnote 5).
 - Some key institutional documents: the latest financial statements; the financial forecasts; the strategic plan; and the financial strategy.
 - The Hefce publication 'Effective Financial Management in Higher Education' (see footnote 6) - useful even outside England.
 - The financial memorandum for your own HEI as issued by the relevant funding body (see Chapter 9 and footnote 25 for more details).

SUGGESTED TASK

As a governor, reflect on where you find the financial information you need. Does it give you what you want, if not what else do you require, and are key messages being lost in excessive reporting?