

**CIPFA's COMMENTS ON  
MERCER OF THE FE AND  
THE FUNDING COUNCILS &  
TERTIARY EDUCATION  
(FUNDING ETC)  
(SCOTLAND) BILL**

JULY 2004



CIPFA is the leading professional accountancy body for the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. CIPFA provides advisory, information and training and consultancy services to public service organisations. CIPFA is the leading independent commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at [www.cipfa.org.uk](http://www.cipfa.org.uk) and at [www.cipfascotland.org.uk](http://www.cipfascotland.org.uk)

Contact: Don Peebles  
Policy & Technical Officer  
CIPFA Scotland  
8 North West Circus Place  
Edinburgh EH3 6ST  
Tel 0131 718 2713  
e-mail [don.peebles@cipfa.org](mailto:don.peebles@cipfa.org)

## 1. OVERVIEW

CIPFA is pleased to comment on the consultation document on the proposed merger of the Scottish Further Education Council and the Scottish Higher Education Funding Council. The paper properly focuses upon setting out the policy intention. CIPFA declines however to comment on the policy intention of the Scottish Executive. Comments are however offered on the basis that the merger will proceed and consequently, focus upon the practical challenges to be faced in achieving the highest standards in the following areas :

- Corporate Governance;
- Financial Management; and
- Financial Reporting.

Reorganisation on the scale envisaged in terms of both policy and practice will result in benefits to the delivery of tertiary education in Scotland. The consultation paper outlines those benefits. Inevitably however, there are consequent risks. Clearly, it is essential that all such risks have, as far as is practicable, been evaluated and identified and appropriate steps taken to alleviate them. The initial stages of the merger will represent the appropriate and indeed only opportunity to properly account for all such risks. CIPFA, in the spirit of resolution, sets out to identify a practical framework of solutions for active consideration by the Scottish Executive and the merged Council.

As the leading professional accountancy body for the public services and the leading independent commentator on public money, inevitably CIPFA possesses the financial and governance skills which will be critical to ensure the future success of the proposed Scottish Tertiary Education Funding Council. Where appropriate, CIPFA would be prepared to work directly with the Scottish Executive to discuss and develop ways forward in both the short term and the long term.

## 2. DETAILED COMMENTS

**CORPORATE GOVERNANCE** Corporate governance will represent a major challenge for each of the respective stakeholders namely, the Scottish Parliament, the Scottish Executive, the Tertiary Education Funding Council and the providers. It is essential that there is a clear understanding of the governance role for each of the bodies.

The proposal to set up a merged Council would, by design, introduce a formal and different relationship between the providers and the Council. It is at that point that both parties will require to be clear on the corporate governance arrangements to be put in place.

CIPFA are presently a partner contributor to the independent Commission on good governance in the public services. The Commission has observed that there is at present no overarching framework to ensure high standards of governance on a universal basis. The proposed output from the Commission will inform corporate governance arrangements for all parties.

Previously however, CIPFA in association with SOLACE developed a *Corporate Governance in Local Government A Keystone for Community Governance Framework* and an associated *Guidance Note*.

The *Guidance Note* has proved to be a useful tool in assisting local authorities to implement the principles of corporate governance. The existing Framework could however, in the interim, be used as a base model to develop a practical governance template for the relationship between providers in the form of Specified Tertiary Education Providers (STEP's) and the Council. This can be further utilised for the conditions for achieving and maintaining STEP status as referred to in Annex 2 which require that “..good corporate governance..” should be demonstrated. Annex 2 does not however define good corporate governance.

**Recommendation:** A practical governance template which aids risk assessment should be developed. The governance template should clarify the respective governance roles of the Scottish Parliament, the Scottish Executive and the Tertiary Education Funding Council. CIPFA would be pleased to assist the Scottish Executive in addressing this matter.

In any reorganisation, risk is an inevitable factor. Against that general background of potential risk, any transitional arrangements prior to merger of the Councils should incorporate strong managerial, financial and operational controls, the key elements of which are:

- Policies, objectives and plans;
- Codified guidance;
- Organisation structures;
- Budgetary systems;
- Personnel arrangements;
- Supervision;
- Management review and monitoring;
- Physical safeguards;
- Segregation of duties;
- Arithmetic and Accounting;
- Authorisation and Approval;
- Information systems; and
- Management controls.

These controls can be further categorised:

**Preventative** - for example, segregation of duties, authorisation procedures, physical custody, access limitations;

**Detective controls** – arithmetical and accounting checks, consistency checks, continuity checks; and

**Directive controls** – written policies and procedures, reporting lines, supervision and management and training.

It is noted that the consultation paper declines to set out any issues on organisational structure although this is a key area of control and consequently, an area of potential risk.

**Recommendation:** A practical framework which ensures that all necessary controls are in place, including organisational structure, should be developed for the transitional period and beyond.

#### FINANCIAL MANAGEMENT

CIPFA notes that consideration of financial management is not an integral part of the consultation or indeed the Bill. Given the ongoing management of public funds of in excess of £1B, clearly this should be a key consideration for the both Scottish Executive and the proposed Tertiary Education Funding Council.

Each of the present stakeholder bodies will have lines of accountability and those roles will necessarily change as a

consequence of the proposed merger. It is essential that the new roles and the lines of accountability are set out and clarified at the outset.

Clarification of the scrutiny role for the Scottish Parliament, the Scottish Executive and the proposed Tertiary Education Funding Council will, in part, make clear the respective scrutiny roles for each stakeholder.

Specifically, the disbursement and subsequent allocation of resources will be a key area. Clarification of the roles and lines of accountability will therefore assist in subsequent assessment of performance in disbursement and allocation.

CIPFA has previously undertaken work in related aspects of this area. The CIPFA publication entitled *Resource Allocation Models in Further and Higher Education: A Compendium* may be of specific interest.

**Recommendation:** The role in accountability and scrutiny should be set out for each of the stakeholder bodies, the Scottish Parliament, the Scottish Executive and the proposed Tertiary Education Funding Council.

Merging of financial systems and the introduction of new financial systems within a transitional period represents risk to the ongoing business arrangements as well as to public funds. It is essential that the necessary financial and performance management information required by the proposed new body, the Scottish Executive and the Scottish Parliament is clearly identified at the outset. Systems must be then designed and introduced which are capable of providing that management information to enable future assessment of performance.

**Recommendation:** Arrangements which ensure that risk is minimised to effective financial management should be set out. A structured assessment of future management information should be undertaken.

CIPFA have developed a financial model *The CIPFA FM Model - Improving Financial Management and Effectiveness in the Public Service*. The model is based on 42 good practice statements and can be modified to a specific organisation. Three managements styles cover:

- Leadership;
- People;

- Processes;
- Stakeholders; and
- Results

The model enables an organisation, at a point in development, to self assess performance and identify strengths and weaknesses. The model can initially be used as a checklist of all financial management issues which need to be considered in the establishment of the Council. Thereafter, the model can be used as a basis for determining continuous improvement.

The model will shortly be released by CIPFA and is commended to the proposed Tertiary Education Funding Council. A demonstration of the model can be sourced at [www.cipfa.org.uk](http://www.cipfa.org.uk)

**Recommendation:** CIPFA would recommend that the FM Model be applied to the proposed Tertiary Education Funding Council. Clearly, the model will also be of specific benefit to STEP's and in future to proposed STEP's.

Section 24 of the Bill requires that each provider must prepare an annual development plan and that the timescale relates directly to a financial year. It may be that the development plan represents an opportunity for each provider to provide forward assurance on the financial management arrangements in place for management of public funds. Clearly, this would contribute directly to the stated intention to increase accountability.

**Recommendation:** CIPFA would recommend that the development plan be considered for utilisation as an instrument of accountability, with particular regard to financial management. By way of example, the plan could incorporate a statement of the financial management arrangements in place which may include:

- description of financially/professionally qualified staff; and if appropriate; and
- a description of any scheme of financial delegation.

## FINANCIAL REPORTING

At present the external financial reporting arrangements of FE and HE institutions are determined by the Statement of Recommended Practice – Accounting for Further and Higher Education (the SORP). This Code is prepared and reviewed under the formal arrangements required by the Accounting

Standards Board (ASB) and effectively sets proper accounting practice for FE and HE institutions.

The paper also refers to the Scottish Public Finance Manual which it is proposed should extend to STEP's. The Scottish Public Finance Manual (SPFM), it is understood, does not take the role of setting proper accounting practice but in fact has a broad role designed, inter alia, to ensure compliance with statute and the Executive's own system of devolved financial management. Prior to extending the requirements of some or all of the SPFM to STEP's, the rationale for extension and the purpose to which it is intended to be used should be clarified. I

**Recommendation:** A structured and critical review of the appropriateness of the SPFM should be undertaken prior to being rolled out to all STEP's.

The consultation paper proposes that existing providers will be reclassified as STEP's on enactment of legislation. These providers will therefore continue to prepare annual accounts as required by the SORP. The paper however also states that other bodies can in future be specified as STEP's and as a consequence will become eligible for funding. The proposed conditions state that achievement of STEP status will require that the annual accounts be made available for scrutiny by the Auditor General for Scotland.

**Recommendation:** CIPFA would recommend that STEP status should require that annual accounts should be compiled on a basis which adheres to the Statement of Recommended Practice. The benefit of this to the Tertiary Education Funding Council would be that financial information would be presented and submitted in a formally recognised format and be capable of comparison with other STEP's. Compilation under this specified format could be a condition of funding although clearly, that is a matter for the Funding Council.

A further matter for consideration is that the substance of the Scottish changes may require to be input to the SORP review process to ensure the currency of the UK SORP.

**Recommendation:** The relevant accountancy staff within the stakeholder bodies should ensure that the SORP review process is suitably informed.

The paper makes clear that the proposed Tertiary Education Funding Council will be expected to achieve Best Value. The

paper is however silent on how that should be achieved, reported or indeed monitored. The present model within local authorities under the Local Government in Scotland Act 2003 sets out a statutory framework underpinned by statutory guidance. Arrangements are monitored and formally reported upon by Audit Scotland. The benefits from Best Value and the monitoring arrangements within local authorities could usefully be extended to the new body.

#### **SUPPORT FROM CIPFA**

CIPFA recognises the magnitude of the proposed change and the potential impact on the organisations and their resources. The consultation paper properly focuses upon the policy issues. During major organisational change, necessarily, scarce staff resources cannot address all possible issues. CIPFA's experience is that it is imperative that all financial management issues should be given sufficient time and resource at an early stage. CIPFA is keen to support the Scottish Executive in addressing these financial management issues. Further assistance, initially on an informal basis, can be obtained by contacting Jim Rooney at CIPFA on 0131 718 2752

Clearly, it is not possible within these comments to provide detail on all associated issues. CIPFA has a record of active support for financial management in the FE and HE sector in the following specific areas:

- Mergers and Collaborations –within Further and Higher Education Institutions;
- Development of a Model Financial Regulations for for Further and Higher Education Institutions; and
- Development of a Resource Quantification Model: Case Study from the Further and Higher Education Sector.