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# Further education governance update

29 April 2024

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## Agenda

- Introduction & virtual housekeeping – Katharine Patel
- Setting the scene – FE governance framework – Katharine Patel
- Recent trends and challenges – Shachi Blakemore
- College financial handbook 2024 – Chris Patterson, ESFA
- Q&A – Chaired by Katharine Patel
- Close

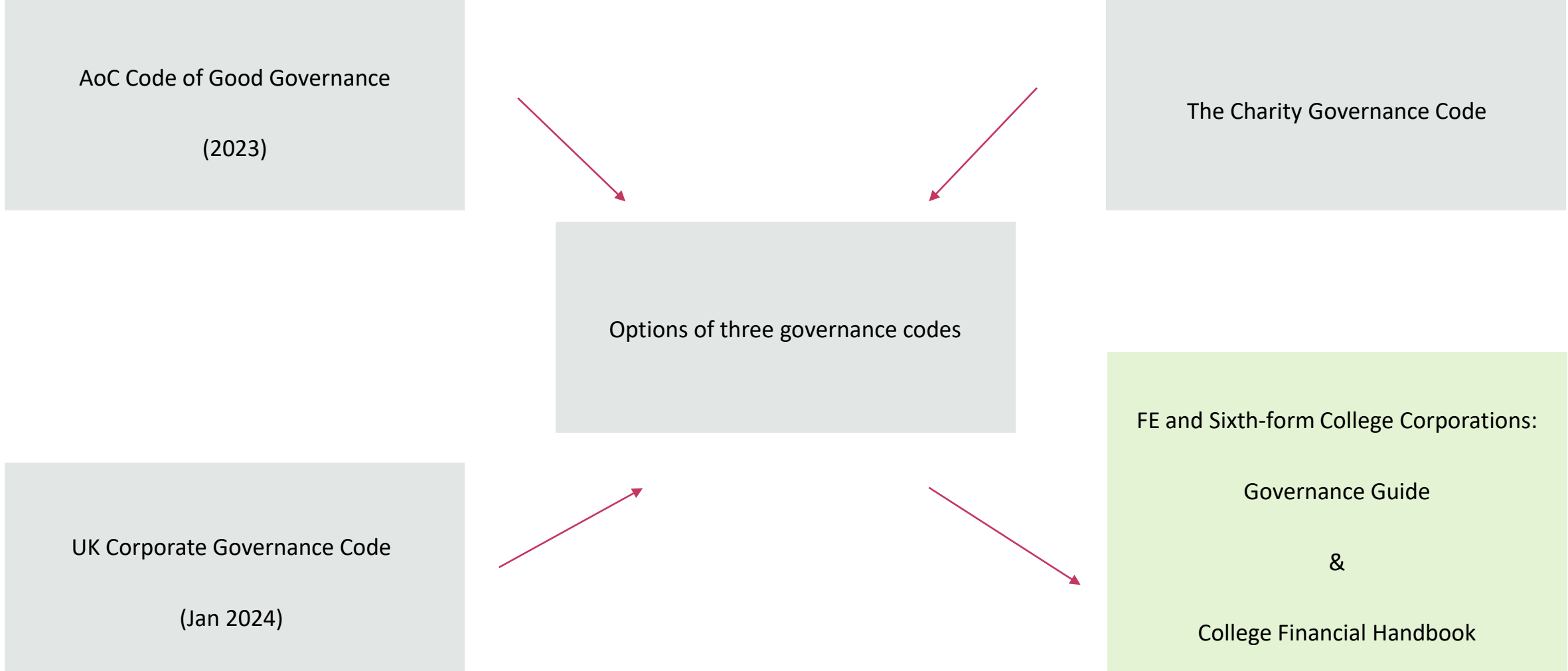
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# Setting the scene: FE governance framework

Katharine Patel, Partner  
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## Governance requirements



## Role of the Governors/Board

- Select a governance code to follow
- Reference to 'Instrument & Articles of Government' and 'Standing Orders'
- Four core functions of the Corporation Board (Governance guide):
  1. Determining College's educational character
  2. Setting and communicating strategy and goals
  3. Holding executive leaders to account for the educational performance and quality of the college, and performance of staff
  4. Exercising effective control to ensure that funds and assets are protected, the college remains solvent and legal obligations met
- Plus: Six duties under charity law
- Plus: Governor conduct to follow the Nolan '7 Principles of Public Life'

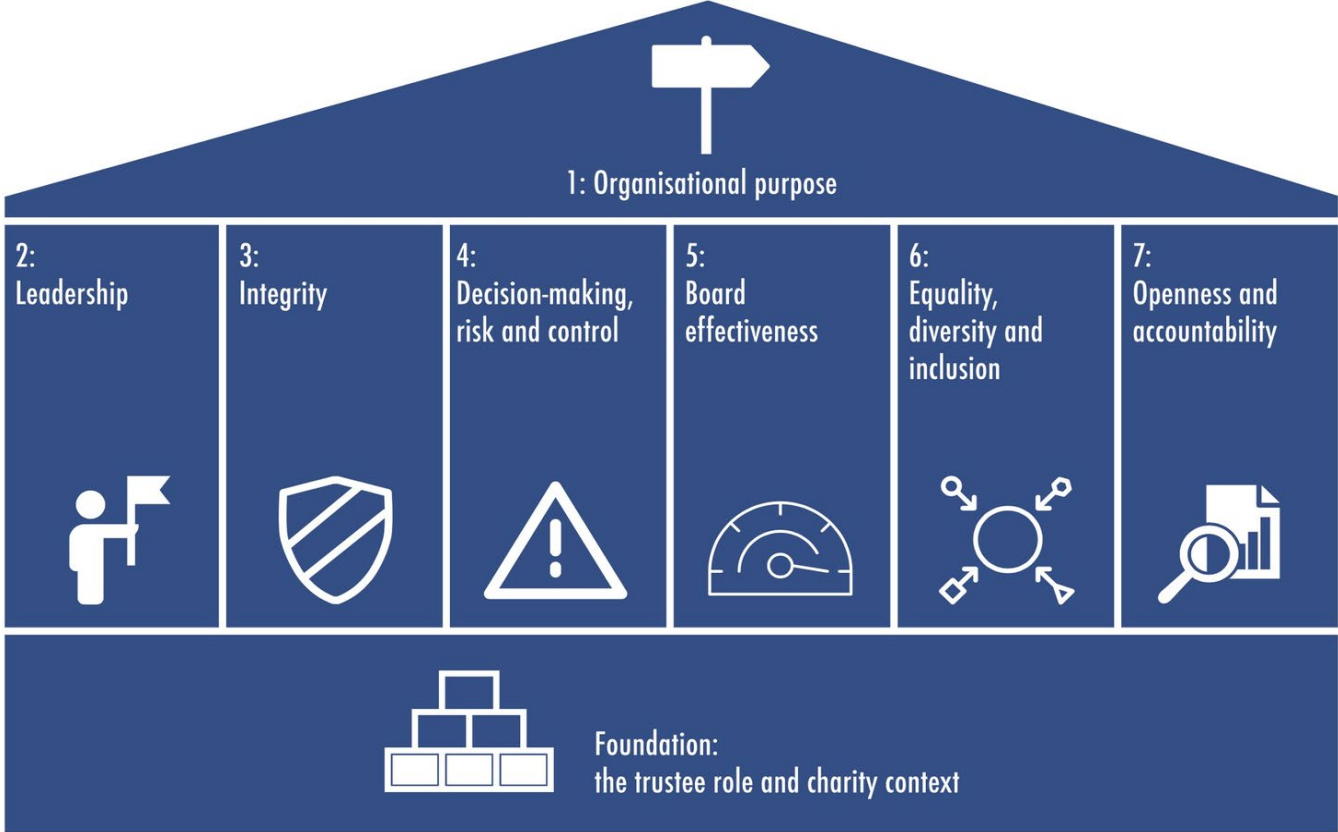
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## AoC Code of Good Governance

- FE specific and centred around six Governance Principles:
  1. Determination of organisational aims and strategic oversight
  2. Responsibility and accountability
  3. Leadership and integrity
  4. Collaboration and stakeholder engagement
  5. Regulatory compliance
  6. Board and organisational effectiveness
- Code of Good Governance template: [AoC-Code-of-Good-Governance-Template.docx \(live.com\)](#)
- And (again) the Nolan '7 Principles of Public Life'

## The Charity Governance Code



## UK Corporate Governance Code

- In so far as it applies to college corporations as charities:
  1. Board leadership and company [organisational] purpose
  2. Division of responsibilities
  3. Composition [of the Board], succession and evaluation
  4. Audit, risk and internal control [including the role of the Audit Committee]
  5. Remuneration



## DfE Governance Guide (Feb 2024)

- Roles, including 'Governance professional'
  - Managing conflicts of interest
  - Equality, diversity and inclusion
  - Fraud & cyber security
  - Financial sustainability and solvency
  - Risk management
  - External governance review every 3 years (a must)
  - Annual governance self-assessment
- 
- New: College Financial Handbook (Issued March 2024 – effective 1 August 2024)

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## Emerging issues

Shachi Blakemore, Partner  
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## Key areas for consideration - summary

Cyber risk	Thorough risk assessment Proactive management of the risk	<a href="#">Cyber security standards for schools and colleges - Guidance - GOV.UK</a>
		<a href="#">Indicators for potential fraud: a generic checklist for education providers - GOV.UK</a>
Trading companies	Good use of the College's funds?	<a href="#">Letter of Support   ICAEW</a>
Reserves policy	Engagement in setting the policy Active monitoring of actual vs policy	<a href="#">Charity reserves: building resilience (CC19) - GOV.UK</a>
Auditors' findings	External factors vs structural Prioritisation and processes to monitor follow-up	

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## Cyber security

- With time, risk mitigation will need to get stronger
- Significant financial, reputational and operational impact
- Education sector risk is higher
- Approaches differ based on resources, finances, risk assessment
- Common measures used
- Emerging good practice – **thorough risk led approach** to determine mitigation

## Fraud and cyber security (Governance Guide)

“Your board should ensure that:

- **counter fraud, fraud response and cyber security strategies or plans are in place and are regularly reviewed** - these should encompass the prevention, detection, investigation and recording of fraud and cyber security incidents
- fraud and cyber crime risks are regularly reviewed as part of its **risk management strategy**
- **appropriate counter fraud and cyber security measures are in place**, such as awareness training for staff”

## Trading companies

- Activities that help generate funds and are not part of primary purpose of the College
- Tax reason for setting up a subsidiary (profits are gift aided back to the College)
- There may be subsidiaries set up for other reasons also
- If the trading company is loss making and not financially viable?
- ONS reclassification and MPM rules – any letter of support to the trading subsidiary or debt write off needs ESFA consent
- Investment motive needs thorough assessment and professional advice needs to be undertaken proactively alongside any consent needed from ESFA

## Subsidiary companies (College financial handbook, CFH)

5.20 The college must **obtain DfE's prior approval** for the following transactions beyond the delegated limits described below:

- **writing-off debts and losses**
- entering into guarantees or **letters of comfort**
- entering into indemnities which are not in the normal course of business

5.21 It is important to note that the requirement to obtain such permission by a college **extends to any such write-off, guarantee, letter or comfort or indemnity offered to or by any of the college's subsidiaries.**

5.26 Boards of governors also need to consider the legal and regulatory requirements of **issuing a guarantee or letter of comfort to support a loss-making subsidiary company.**

## Trading and investment (Governance guide)

Extracts:

- **“Funding a trading subsidiary is an investment of funds for profit**, with returns being passed to your corporation, usually via gift aid.
- **Where a trading subsidiary needs more than a nominal subscription of share capital to operate effectively**, your corporation may only provide this if the payment can be **justified as a suitable investment**.
- **your board must always put the interests of your corporation before those of the subsidiary**
- **your board must monitor the performance of the subsidiary** and your corporation’s investment in it, **to ensure that the investment remains a good use of funds”**



## Reserves policy

- College should have a reserves policy (CFH 2.8)
- What are reserves for a College?
- An area that needs to develop further in the sector
- Key consideration in financial management and going concern assessment
- Level of reserves – contingency, cashflow needs, future plans including capital projects
- To consider at least annually as part of budget setting and risk management

## Audit findings

- Boards must ensure there is timely response to finding of external auditors (4.12 CFH)
- Post audit report is submitted to the ESFA with the financial statements
- Some of the challenges since 2020
- Assessment of structural issues vs one-off circumstances
- Areas to consider by Audit Committee members: number, grades, historic issues, management response, basis of any qualifications, lots of audit adjustments made to the figures, etc
- The above in the context of: internal audit findings, financial health assessment, funding audits



Education & Skills  
Funding Agency

# College financial handbook – Buzzacott colleges update

**Chris Patterson**  
**ESFA Financial Frameworks**  
**Team**  
**May 2024**

# Today's Session

- How we got here
- Rationale and aims for a handbook
- College Handbook content
- What next for the CFH
- Questions

# How we got here

- November 2022: reclassification announcement & DAO letter
- January 2023: 6 x “bite size” guides
- Spring/summer 2023: drafting of handbook
- Autumn 2023: final draft impacted for feedback
- 20 March 2024: publication (incl ESFA Update & DAO letter)
- 1 August 2024: comes into effect

# So why a handbook?

## Certainty

- **Provides a framework** for financial management and governance so that colleges can be certain of the key elements
- **Accountability agreements:** compliance a requirement

## Support

- **Aims to help colleges improve** and enhance their financial management and governance
- **Recognises the sector's diversity** and so takes an approach based on principles rather than detailed detail
- **Identifies requirements but also good practice**
- **Developed with the sector**

## Assurance

- **Enables DfE / ESFA to better understand** and manage financial and other risks within the sector
- **Helps reduce the risk of loss** of public funds
- **Provides assurance to DfE / ESFA / HMT** that compliance will be better understood

# Sector engagement process

- First draft shared with working group in April 2023
- WP consisted of:
  - 10 College CFOs (FECs & SFCs)
  - Association of Colleges
  - Sixth Form Colleges Association
  - The Chartered Institution for Further Education
  - National Governance Professionals Group.
  - Catholic Education Service
  - 3 experienced college audit firms (Incl Buzzacott)
- Iterative process: 3 WP meetings
- Engagement process complete by September 2023



# Sector engagement findings

- Principles not detail (“what” not “how”)
- Sector specific (“we are not big schools!”)
- “One stop shop” combining:
  - Existing elements (e.g. procurement law, charity rules)
  - New MPM rules (e.g. thresholds and restrictions)
  - Governance & assurance requirements (e.g. duties of the AO)
  - Best practice (e.g. FEC guidance on budget-setting)
  - Links to other resources
- Simplify the rest of the framework
- “Good product”
- “No surprises”



# Sector engagement findings

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# Contents

## Introduction

- High level messages
- Who it's for
- Terminology
- How CFH fits in with rest of the framework

## 1. Roles & responsibilities

- The accounting officer
- The CFO
- The governance professional

## 2. Main financial requirements

- Financial oversight
- Control principles
- Procurement & spending
- Income generation
- Risk management
- Whistleblowing
- Provision of information
- Governance
- Conflicts of interest

## 3. Audit committee & internal review

- Role of the audit committee
- Scope of internal review

## 4. Annual accounts & audit

- Preparation & audit of accounts
- Review of regularity
- Oversight of external audit

## 5. Delegated authorities

- When DfE approval required
- NCR transactions
- Special payments
- Losses & write-offs
- Asset disposal
- Leasing
- Gifts
- Borrowing

## 6. The regulator & intervention

- Oversight & access rights
- Funding audit
- Fraud & cybercrime
- Statutory intervention
- Role of Charity Commission & NAO

# Expectations

## What it is

- A principles-based framework for financial management and governance so that colleges can be certain of the key elements
- A document that has been developed with the sector
- A blend of “musts” and “shoulds”
- A codification of the regularity framework for colleges
- Reflective of existing policy & requirements
- Less than 50 pages long

## What it is not

- A series of lists
- A substitute for a college’s own financial regulations & procedures
- An attempt to explain ESFA / DfE / HMT / CC’s various delegations and authorities
- Full of stern messages about non-compliance
- A lot of surprises

# Reaction

Tuesday, 09 Apr 2024

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Policy

## College Financial Handbook 2024: making the best of a bad job

Instead of delivering a more streamlined system, the new College Financial Handbook adds to the sector's over-regulation and confusion



**Mark Taylor**  
Partner, Shakespeare  
Martineau

8 Apr 2024, 5:00



[See discussion](#)

- *“But there is nothing outrageous in the Handbook; none of the new obligations on colleges look unfairly limiting and the sector and DfE have done a good job of producing something with which colleges can work.”*
- *“... the DfE and their consultees have done a good job in tailoring the Handbook to the further education sector.”*
- *“DfE have done a good job of producing something with which colleges can work”*
- *“none of the new obligations on colleges look unfairly limiting”.*

# What next?

- Effective from 1 August 2024
- Integrated with accountability agreements & oversight, support and intervention framework from AY 2024/25
- Period from 20 March to 1 August enables colleges to:
  - familiarise themselves with the handbook
  - baseline their existing financial management and governance regulations & procedures against the requirements and recommendations in the handbook, and
  - prepare and adapt to comply with requirements applicable to them from 1 August
- Further sector feedback and dialogue important to us
- Develop further best practice guidance
- Periodic/annual reviews



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## Q&A

Chaired by Katharine Patel, Partner  
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Thank you for attending