



## ACADEMIES, COLLEGES AND UNIVERSITIES PANEL E- NEWSLETTER

### Summer 2011

Welcome to the Academies, Colleges and Universities Panel Summer 2011 e - newsletter

CIPFA's Academies, Colleges and Universities Panel is committed to providing quality services for finance professionals working in the academies, colleges and universities sectors.

If you have any comments or suggestions regarding future editions or ideas on work that the Panel might usefully undertake, please submit your comments to Kerry Ace at [kerry.ace@cipfa.org.uk](mailto:kerry.ace@cipfa.org.uk)

The Academies, Colleges and Universities Panel's membership and remit can be found on its web pages at [www.cipfa.org.uk/panels/fehe/index.cfm](http://www.cipfa.org.uk/panels/fehe/index.cfm)

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## CIPFA'S LATEST PUBLICATIONS AND GUIDANCE

### Higher Education Finance (fully revised edition)

Since CIPFA published the 2002 edition of *Higher Education Finance*, higher education institutions across the UK have undergone considerable change. Today they are dealing with the aftermath of the economic downturn and its impact on public funding. The Browne Report and the Government's response are changing the funding model for universities and the way in which higher education institutions view themselves. Student numbers and their expectations continue to rise, along with competition for the best staff and resources in a global market.

*Higher Education Finance* has been developed by CIPFA's Panel on higher education issues whose membership comprises finance practitioners working in the sector and representatives from the funding bodies and audit firms. This volume outlines the essential features of the financial structures, governance arrangements and current funding systems which underpin the higher education sector, and details the regulatory framework within which institutions must operate. It will:

- Act as a useful reference manual for those already working in the sector
- Provide an insight into the complexities of higher education finance for those new to the sector
- Provide guidance for those dealing with the sector from outside or wishing to expand their own activities in universities and colleges
- Provide guidance for governing body members, particularly those serving on finance committees.

*Higher Education Finance* looks at:

- The business of higher education - what a university or college 'does' - its outputs
- How the sector is regulated
- How the sector is governed
- Incoming resources to institutions including funding council grants, contract income, fees, loans, commercial activities and fund raising
- How resources are expended - staff, non-staff and capital expenditure.

It also covers specific issues including strategic financial management, capital and estate management, costing and pricing, subsidiary companies and taxation.

CIPFA is continuing to monitor changes to higher education in England, Scotland and Wales. In England, the long awaited higher education White Paper *Students at the Heart of the System* has just been published and HEFCE has issued *Teaching funding and student number controls* : Consultation on changes to be implemented in 2012-13. CIPFA will be analysing the resulting changes once their impact becomes clear

and will include them in an addendum to *Higher Education Finance* which will be emailed to all purchasers of *Higher Education Finance* free of charge.

To order *Higher Education Finance* in book format or in CD-ROM format visit the CIPFA shop at :

<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/PUBED024H>

### **A Guide to Academies' Finance**

CIPFA's Academies, Colleges and Universities Panel, with the support of the YPLA, is developing a guide to academies' finance. This publication will provide a practical source of advice for academy finance directors, chairs and members of the governing body and head teachers in their role as accounting officer. It will cover the following key areas:

- History and policy background
- Legal and regulatory framework
- Governance
- Planning and resource management
- Sources of funding
- Financial management.

This guide will be available in September 2011. For further information, please see CIPFA's shop at <http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/>

### **CIPFA Business Management Solutions for Academies**

To complement the Guide to Academies Finance, CIPFA Networks is developing guidance aimed at taking a 'hands on' approach to academy financial statements. The following areas will be addressed in detail :

- Introduction to accounting requirements
- Land and buildings - lease arrangements and accounting entries
- Asset management – a practical way forward
- Transfer of surplus balances at the point of conversion - local authority accounting entries
- VAT and tax issues – VAT returns, shared VAT receipts and expenses (between vatable and non vatable items)

- Accounting policies
- Pensions – clarification over Local Government Pension Scheme and valuation, rates and deficits
- Overview of the spreadsheet - purpose of the sheets, how they work
- Detailed guidance - step by step guide to completing the sheets
- Financial analysis.

This guide will be available from September. For further information, please contact Lisa Forster at [lisa.forster@cipfa.org.uk](mailto:lisa.forster@cipfa.org.uk)

## RESPONSES

### **FRED 43 and 44 on the future of UK GAAP**

CIPFA responded to the ASB's proposal on the future of UK GAAP, generally supporting the proposals to base reporting on the IASB IFRS for SMEs, while suggesting that some changes should be made in the interests of improved reporting, and to improve the coherence of UK GAAP across the various reporting 'tiers'.

To download CIPFA's response in full, please [click here](#) [PDF file]

### **Academies Pre-16 Funding: Options for the 2012/13 Academic Year**

To download CIPFA's response in full, please [click here](#) [PDF file]

The full text of all CIPFA's responses can be found at :

<http://www.cipfa.org.uk/pt/responses.cfm>

## EVENT

### **Effective Financial Management for Academies**

CIPFA will be holding an event in the autumn for existing academies and converters aimed at assisting finance practitioners in developing effective financial management in their institutions.

For further information, contact Rikki Ellsmore at [rikki.ellsmore@cipfa.org.uk](mailto:rikki.ellsmore@cipfa.org.uk)

## ARTICLES

## Summary of NAO report, *Regulating financial sustainability in higher education*

In March 2011, the NAO published a value for money report, [\*Regulating financial sustainability in higher education\*](#), examining the Higher Education Funding Council for England's financial regulation of the sector. Published at a time of major change for the sector, the report focused on how well the Funding Council was assessing financial risks in higher education institutions and its capacity to intervene where necessary.

The report concluded that the Funding Council had successfully overseen the financial sustainability of the sector during a period of growth in income and student numbers. The Funding Council's direct costs had been kept low, at around £2 million a year, and it had limited the burdens it placed on the sector. It had therefore delivered value for money.

The sector has achieved increasing robustness in its financial sustainability, although there is wide variation in institutions' financial performance. This is consistent with the Funding Council's view that 'the majority are facing future uncertainties from a sound financial position'.

The report highlighted some important considerations for the future, given that the sector is moving into a period of transition to a very different funding environment. There is a risk that the number of institutions in difficulty could increase, stretching the capacity of the Funding Council to respond. The Department for Business, Innovation and Skills needs to set clear expectations regarding the approach to financial regulation adopted by the Funding Council and what it should achieve. For example, what will be the Funding Council's role with respect to higher education providers that receive no grant funding but do receive tuition fees financed by student loans? The Funding Council has several other issues to consider, including:

- strengthening its requirements for institutions to report material adverse changes in their financial position;
- reviewing risk assessment processes, such as introducing more graduated risk assessment; and
- considering whether its current arrangements for protecting the identity of institutions in difficulty strike the right balance between protecting institutions and their students and enabling prospective students to take more informed decisions on where to study.

The Committee of Public Accounts held its hearing on 31 March, taking evidence from three higher education institutions, as well as the Accounting Officers of the Department and the Funding Council. The [Committee's report](#) was published in June and the [official government response](#) (the 'Treasury Minute') to the Committee's recommendations was published in July and agreed with all recommendations. The picture is becoming clearer with the publication of the White Paper [Students at the Heart of the System](#) at the end of June, and further consultation on the regulatory framework will take place.

This article was written by Paul Wright-Anderson, Audit Manager at the National Audit Office. He is responsible for value for money studies covering further and higher education. Paul is also a CIPFA Panel member.

## Teaching funding and student number controls – ignore at your peril

Hot on the heels of the White Paper came HEFCE's publication "June 2011/20, Teaching funding and student number controls". This is part one of two of a consultation into funding and student number controls for 2012/13 onwards. (It is important not to lose sight of this dual purpose throughout). Responses to this consultation are due (online only) no later than 2 September 2011.

With the exception of those gifted at reading technical papers on funding, the paper is fairly hard going BUT incredibly important – VC's, Registrars, FDs and governors need to be on top of the issues for their HEI and understand the wide reaching consequences of the proposals.

This consultation paper will have a direct impact on finances, financial forecasts and future delivery.

This is simply a brief summary highlighting key issues on the core themes (leaving aside details on non-mainstream allocations and high cost subjects). The detail and relevance to each HEI will still need to be looked at.

HEFCE's paper, in essence, deals with 2012/13 and sets the scene for 2013/14. Some of the content will be very familiar, trailed for some time. Other aspects are aired for the first time.

For those students entering higher education in 2012/13, there will be an interim system of funding to support teaching that will fund provision in price groups A and B only, and at a reduced rate relative to that currently in place. In 2012/13 provision in price groups C and D will not receive the main element of HEFCE teaching funding but will still count towards some targeted allocations such as widening participation.

HEFCE starts with "as an **interim** measure in 2012/13 the student number control will continue in broadly its current form" but then moves the goal posts somewhat in order to line up with Government policy (the White Paper). The current form is there but the detail and allocation for every HEI need looking at.

The document trails some of the issues for stage two of the consultation on funding for 2013/14 and onwards (the next paper is expected to be published in winter 2011).

The Government has yet to confirm HEFCE's final funding beyond 2011/12 (and this will link to affordability and average fees). HEFCE's own funding letter was an indicative amount with a caveat of 'subject to refinement as the student and HEI response to the new HE funding package unfolds'. As Treasury, BIS and others watch, fee pricing is now all but set (and not where it was imagined to be); it is now volume at individual HEIs that is most difficult to call.

HEFCE isn't going to delay finalising its revised approach to funding and numbers control in 2012/13 until all matters coming through the White Paper are resolved (but it is looking to reserve the right to adjust funding retrospectively – see later). HEFCE is looking to make grant announcements in March 2012.

The proposal is to implement a modified version of the current funding approach for 2012/13 only to ease the transition. The next consultation will open up the ongoing approach for 2013/14 and beyond – this is a one year deal.

HEFCE is currently only empowered to fund HEIs and FECs. This consultation is not considering extending HEFCE funding to other providers but HEFCE is likely to need to discuss the extension of funding and student number controls to alternative providers in the second stage of its consultation. Current indirectly funded further education colleges will be able to bid directly for core/ margin places. In looking at the numbers caps, HEFCE does not appear to have any locus in the allocation (and application) from private providers for 2012/13 (though may have other levers through oversight agreements); this is on the radar though for 2013/14 allocations.

HEFCE "will measure volume at a number of stages during this process, with our data becoming increasingly more accurate and less dependent on forecasts and estimates". "The initial grant allocations for 2012/13 will be "highly provisional and subject to adjustment (up or down) as student number data are confirmed". The March 2012 initial allocation for 2012/13 (rough estimate) is then able to be adjusted in March 2013 (better data from the HESES12/HEIFES12) and then finally adjusted in 2014 after the HESA/ILR data. This will create an interesting dynamic and quality demand on data quality and estimates for HEIs.

The big change is a move to funding actual students rather than estimates. This also comes with the removal of the current tolerance band. The initial funding rates for 2012/13 will be based on each HEI's individual position in or outside the 2011/12 tolerance band. Changes however will not be subject to a tolerance band going forward.

Funding for the sector will have a scaling factor (again up or down) which can be applied retrospectively as the impact of price and volume becomes apparent.

As above, the final allocations for 2012/13 are planned to be confirmed "in or around March 2014" – i.e. more than three months after the accounts for 2012/13 are signed off. HEFCE is planning to provide a "web facility in summer 2013 that will allow institutions to see their indicative funding implications of their 2012/13 HESA and ILR data prior to final submission". With funding following students, unexpected (low) recruitment is likely to lead to funding adjustments – the quality of data is going to be vitally important in budgeting and in year changes to income (and, if necessary, expenditure). Add to this the various adjustments to the numbers cap ('AAB+' and 'core and margin' – see below) and there is a recipe for error if not disaster – good forward planning is vital.

HEFCE intends to introduce a new table of data (Table 7) into HESES11 looking at expected students in 2012/13 split between current funding regime and new funding regime. This data will form the basis for initial grant allocations for 2012/13. HEIs need to ensure the highest quality of this data to enable them to budget accurately (and still subject to change by HEFCE at future review points).

HEFCE's proposals on student number controls concentrate on the 2012/13 proposition for full time students. HEFCE doesn't plan to extend entry controls to part-time students in 2012/13 but does anticipate doing so from 2013/14 onwards. The caveat however is that if BIS reduces HEFCE grant if the student support budget is exceeded (not a remote possibility) then HEFCE may revisit the new 'rules' for 2012/13. There is a clear mandate to adjust if necessary to keep a cap on the overall budget (both direct and indirect).

The controls start with reminding the sector that the University Modernisation Fund numbers (7,500) will be redistributed in 2011/12 as an addition to core and removed for 2012/13. Revised baseline student number controls (cap) will be finalised by March 2012.

HEFCE develops its strategy in delivering an 'uncapped position' to students who achieve AAB grades or above ("AAB+ equivalent population"). There will be a top slice reducing the cap for those HEIs with AAB+ students in 2010/11 - and then a limited market whilst clawing back the position, enabling some to expand but at the cost of reduction in others. In future years this may be extended beyond the AAB+ population.

Affecting all HEIs will be the 'core and margin'. This will initially be a slice of 20,000 places, calculated by HEFCE as being "an average reduction of approximately 8 per cent to the student number control of all institutions with an Access Agreement with OFFA". This affects every HEI including those already affected by the AAB+ arrangements. The Government has signalled its intention to increase the size of this margin in future years.

HEIs may only bid for these places to be allocated back if they "have an average full-time fee of £7,500 or less (net of fee waivers) and can clearly demonstrate the quality of their provision. There is no guarantee even then of replacing the numbers as the FE sector is being encouraged to take up provision from this group. Bids will be considered by a panel of experts and allocations made.

Some HEIs could potentially grow their numbers on this basis, others have no starting point and simply a loss of 8% of numbers each year. There are going to be distinct winners and losers and a longer game to be played no doubt around the average full-time fee.

Overall the consultation provides not just food for thought but a platform for the development of policy over the next few months. The deliberations and output will not only be critical to the general funding of HEIs going forward but start to re-shape strategies and finances at an HEI specific level. This is before the private sector gets more involved from 2013/14 onwards, and most likely their numbers will come from within the current caps.

This is a period of change where the detail needs to be understood in order to develop appropriate strategies. HEIs (exec and Board) need to revisit their five year plans and strategies and ensure that the detail and direction of travel fits the new era of funding and competition.

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### **Academies Financial Accountability**

The academies programme has been underway since the earlier years of the last decade and by April 2010 some 203 academies were open. Almost all of these academies had re-launched a school that had been seen as failing educationally and very often also financially. These academies were sponsored by business, faith and other organisations that offered managerial expertise. A further group of seventy one

sponsored academies opened since last September and more are preparing to open this year. Many sponsored academies are part of federations with up to 20 members, although often fewer than this. Federations vary between true groups of companies to looser alliances.

Last spring the government announced a major change to the programme, inviting schools considered as outstanding by OfSTED to voluntarily convert to academies without sponsorship. To July 2011, some 530 schools have voluntarily converted with almost a quarter of these being primary schools. In total academies represent about one in six secondary schools in England and a much lower proportion of English primary schools. The rate of conversion is accelerating and from the autumn the first free schools and university technical colleges and studio schools will start to open.

Legally, all academies are charitable trusts that are companies limited by guarantee. with the secretary of state for education as principal charitable regulator of all academies. Academies account under the Companies Acts to a 31 August year end observing the Charities SORP in their accounts preparation. Academies appoint registered auditors to give a true and fair opinion on their annual financial statements and an opinion the use of funds for the purposes intended

Every academy or federation has a funding agreement with the secretary of state for education setting out key areas of government funding. Most academies receive almost all of their income as general annual grant (GAG) covering their running costs. GAG is currently calculated by replication of the funding formula used by the local authority in which the academy operates and GAG is designed to fund the academy at a value equivalent to local authority funding. An important component of GAG is the local authority central spend equivalent grant (LACSEG). LACSEG compensates academies for those services provided by local authorities to schools that are usually free or at low cost at the point of use. Academies may receive a number of special purpose grants within GAG, such as school lunch grant and start up grants. Academies are compensated for their annual insurance premiums and from this autumn will be able to reclaim VAT on non business activities direct from HMRC (until now VAT was also compensated for by grant). The Department for Education is now consulting on how academies and schools should be funded in future.

Many academies benefitted from Building Schools for the Future and the government is putting proposals in place for new major capital investments in academies and schools. Academies also receive devolved formula capital and can bid for maintenance funding and funding of extra capacity for young people aged 16-19.

General annual grant is paid to academies by the Young People's Learning Agency (YPLA), a non-departmental body sponsored by the Department for Education. Partnerships for Schools (PFS), an agency of the Department, fund academy major capital projects and maintenance. The YPLA acts as the Department's agent for revenue funding, handling a £5 billion academies budget for financial year 2011/12. The YPLA works with academies on monitoring their financial health and in ensuring that public funds have been used as intended. Over the last year the YPLA has worked with academy finance director representatives to change how academies account to the YPLA. In future the YPLA proposes that academies will be asked to return to the YPLA relevant financial information and to self assess their financial health based on this information. Academies will continue to submit to the YPLA at the calendar year end audited annual financial statements to 31 August alongside a self assessment of their financial management and governance.

Both the YPLA and PFS will be wound up from next April with many of their functions transferring to the Education Funding Agency, an executive agency of the Department. Government's relationships with academies is unlikely to change in that academies are independent and autonomous, generating almost all income according to how many young people enrol with them. Academies have to control their costs and cash flow to stay in surplus and solvent, without being able to borrow, as for any small to medium enterprise. Most schools and their bursars have already been well versed in achieving this yet have often had fewer formal requirements for financial reporting required under Companies Acts.

The YPLA and academies have been grappling with the Office of National Statistics' classification of academies as central government public sector bodies. This classification dating from 2005 has been reinforced by Parliamentary interest at the Committee of Public Accounts hearing last October. Parliament clearly sees everything academies do and spend as public money with all of the expectations this confers. A balance has to be struck between academies' autonomy and freedom to manage their finances in the interests of their students with demonstrating how public money is used. The most likely route for assurance will be through the reports of academies' own auditors and their own internal review functions reporting to academy governing bodies. One manifestation of the central government classification is that academies have been included in Whole of Government Accounts (WGA) and are additionally reporting to the government's 31 March 2011 year end to meet the WGA requirement.

Financial management of academies goes well beyond sending in returns to the funding body to the quality of the academy's finance director and their ability to influence academy senior management and the governing body. This isn't a new challenge. Schools have always been required to manage within their means. However, the formal, legal independence of academies has thrown the need for financial stability in to greater focus for many.

The numbers of academies opening will mean that by next March there will have been a major shift in how secondary and to a lesser extent primary education in England is funded and held accountable. The challenge for all involved will be ensuring that academies stay financially strong throughout this change, eliciting greater value from public money and ensuring resources are focused upon improving the quality of education and opportunities available to young people across England.

This article was prepared by Peter Newson, Director of Finance at the YPLA and CIPFA Panel Member

### **The Journey Ahead: The Move to IFRS**

It was Gordon Brown MP who confirmed this public sector journey in one of his last announcements as Chancellor of the Exchequer in 2007. It was a journey which has since been completed by Central Government and the health service. Local authorities are currently in the process of completing theirs. It is a journey which the further and higher education sectors are now about to commence and as noted above academies are adopting through completion of a Whole of Government Accounts return. What is it? It's the journey to implementing International Financial Reporting Standards (IFRS), a journey which commenced several years ago and will be completed in 2010/11 for the majority of the public sector. For the further and higher education sector, while the journey has yet to begin, we outline in this article

some of the key issues that will be encountered along the route and the lessons learned from how the rest of the public sector has fared.

The start of the journey to IFRS transition is of course the existing accounting framework. Further and higher education institutions follow the Statement of Recommended Practice (the SORP). This is published under the auspices of the Accounting Standards Board. It is expected that from 2014/15, the SORP will be replaced by a new Code of Practice based on IFRS. While the governance framework for developing a new SORP (or Code) has yet to be resolved, an IFRS-based Code is likely to draw on International Public Sector Accounting Standards (IPSASs) in a number of areas. These standards are based on IFRS, but also deal with transactions and situations that arise uniquely in the public sector – mainly non-exchange transactions such as tax income and the provision of free goods and services.

Timing is of course critical. Directors of finance in further and higher education institutions are already facing well-documented funding difficulties. The technical and resourcing challenge is something that arguably could not come at a worst time. Yet the rest of the public sector has faced this challenge during the economic downturn - meaning that the further and higher education sector can achieve significant benefit from understanding just what is the best way to implement IFRS from other public bodies. Most of Scotland's local authorities are in no doubt as to the most effective route to implementation.. A unique partnership between the local authorities, PwC and CIPFA resulted in a phased implementation over a period of two years with an implementation assessment, technical support and the construction of models to save staff time and to ease the road to implementation. This phased approach, adapted and developed from its previous successful application in the Private Sector, had already served health bodies well in Scotland, ensuring consistency, best practice (from across the U.K) and guaranteed technical compliance. Commenting on IFRS implementation and the scale of the challenge, Audit Scotland stated that “.NHS bodies managed this well..”

The first milestone in the phased approach is the restatement of the opening IFRS balance sheet with the biggest IFRS technical challenges coming from financial instruments and PFI and PPP arrangements. PFI and PPP arrangements are a particular case in point where many 'off balance sheet' schemes will have to be recognised 'on balance sheet' for the first time.

Prior to data gathering and accounting an initial impact assessment is required along with a detailed project approach. All bodies benefitted from collecting the information needed at an early stage.

Holiday pay, leases, financial instruments and PFI and PPP schemes were the key areas of the focus for public bodies. By way of example, IAS 19 requires entities to accrue for employee benefits earned but not taken at the end of the financial year. Holiday pay is the main benefit here and most public bodies – in line with most entities accounting under UK GAAP – traditionally did not accrue for items such as holiday pay. For further and higher education bodies revenue recognition, government grants, donations, endowments and joint ventures could also become areas of interest in transition

The scale of this work required will vary between further and higher education institutions. Where leave years are aligned with the financial year and the HR system records holiday entitlement and leave taken, then calculating the accrual is

then a simple process. At the other extreme, the leave year can be based on a birthday or an anniversary of joining the organisation, with leave recorded on manual systems. In these cases, sampling techniques were needed to arrive at an estimate for the accrual.

One particular problem area that affected local authorities will also resonate with further and higher education institutions. In schools, teachers have fixed holidays, running from the beginning of term in September to the following August. Most of the leave is taken at the end of this period, so there is a significant accrual at the end of the financial year. The level of the accrual will therefore vary from year to year and the scale of it will be dependent upon when Easter falls.

Further and higher education institutions will need to review their leases to ensure they are correctly categorised under IAS 17. The requirement to separate property leases into their land and buildings elements is the major issue here, and valuers will need to start this review early or be prepared to incorporate the review into their future work plans.

One area worthy of note is the need for closer examination of contracts to see if they contain a lease, (in accordance with IFRIC 4). An example of a public sector contract that might contain a lease is waste collection. Private companies often have contracts to collect waste for a local authority. The refuse collection vehicles may only be used for that contract, and it may even be that they have the authority's name on them. This could well be an arrangement containing a lease under IFRIC 4.

Academies as charities report under the Charities SORP to 31 August. For the last two years, academies have been included in the Treasury's designation orders for Whole of Government Accounts (WGA). In its full form WGA is based on IFRS; academies have been asked to produce a very much simplified version of the WGA return to 31 March and this return interprets IFRS at this simplified level.

So have you thought about starting your journey yet? If not there is a wealth of proven experience out there to assist you and ensure a smooth transition. Crucially it's a journey that you will be expected to complete by 2014/15. If that seems some time away, be aware that the transition date will be in April 2013 and that you will be expected to restate your accounts on an IFRS basis as at that date. This is a journey that no finance director should need to travel alone.

This article was prepared by Don Peebles, CIPFA and Mark White, PwC

For more information on IFRS, Don Peebles and Mark White can be contacted directly on 0131 550 7543 or 0141 3554257

### **Performance Measurement in Academic Departments : the strategy map approach**

Antonella Cugini, Giovanna Michelon and Silvia Pilonato

*This article describes the implementation of the balanced scorecard (BSC) strategy map in a university department. The department is a good example of a complex*

*public sector service organization—therefore the article has relevance beyond universities. The strategy map was found to be an extremely good way of measuring performance. In addition, the BSC/strategy map helps in monitoring and building departmental mission and goals and the authors recommend wider use.*

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Like many public service providers, in most European countries, universities strive to align measures of effectiveness with coherent measures of efficiency and with their mission (Cullen *et al.*, 2003). In the case of universities, this is associated with a need to maintain excellence and to compete nationally and internationally. This requires the development of multidimensional performance measurement systems able to fully capture the overall outcome of the various activities carried on within organizations (Kloot and Martin, 2000; Broadbent, 2007) and to provide decision-makers with all the information they need to manage processes which go (particularly in the public services) beyond the financial dimension (Ceynowa, 2000; Broad *et al.*, 2007).

Many services use the balanced scorecard (BSC) to do this (Kaplan and Norton, 1996; Farneti, 2009). In its most recent versions, which extend the initial ideas, the BSC involves a strategy map (Kaplan and Norton, 2004; 2006). This article describes the use of the strategy map (SM) in an Italian university department. University departments are good examples of public services because they are characterized by multiple inputs and outputs: the process of converting such inputs is complex in nature and some outcomes are very difficult to measure. This article focuses on the processes the department used to develop its strategy map and measurement indicators.

#### *The BSC in the higher education sector*

The BSC is a multidimensional performance measurement system (Kaplan and Norton, 1996) that adds strategic non-financial performance measures to traditional financial metrics to provide a more 'balanced' view of organizational performance. Objectives, measures, targets and initiatives need to be defined for each of the following perspectives:

- Financial perspective: the focus is on the achievement of financial results (both long and short term).
- Customer perspective: the focus is on the users of the product/services offered.
- Internal processes perspective: the focus is on the specific production processes and their efficiency.
- Learning and growth perspective: the focus is on the management of the human, structural and relational capital of the organization.

Each perspective is linked to the strategic objectives of the organization, so the cause-and-effect relationships involved in pursuing the organization's mission are identified.

Other researchers have discussed the application of the BSC to the higher education sector. For example Cullen *et al.* (2003) illustrated how it provides universities with a tool to bring together different objectives in a single structured framework; and Lawrence and Sharma (2002) focused on the financial dimension and on the internal process perspective assessed in terms of the quality of research undertaken by university staff. Kettunen (2005) noticed that, in the public sector, the customer perspective, rather than the financial perspective, should play the most prominent role. Papenhausen and Einstein (2006) emphasised that support from senior administrators is critical to implementing a successful BSC, as it allows the creation of alignment and synergy across the college. Self (2003) described the process of implementation of the BSC at the University of Virginia Library and pointed out the extreme importance of co-ordinating the measures with organizational values.

These earlier studies demonstrated the complexity around the application of the BSC model. This article adds to the understanding we have of the use of BSC/strategy map in complex public service organizations by looking at its use in one of the University of Padova's academic departments. Figure 1 provides a brief description both of the University of Padova and the department analysed here.

### *Research method*

This case study is an 'experimental' one (Yin, 1994; Ryan *at al.*, 2002). The university department needed a performance measurement system that would enable it to fulfil its mission and monitor strategies and the BSC's strategy map model seemed to be the most suitable tool to meet the department's managerial needs.

Our role as researchers was active because we were directly involved in the implementation, supporting the top management of the university department during the definition of the hierarchy of the four perspectives of the BSC and the identification of indicators. However, we did not actively participate in the process of identifying the mission and strategy of the department—instead, we observed and facilitated this process.

Data were first collected through secondary sources, using the internet to obtain preliminary information about the department's profile and organizational structure. Then primary sources were used to get information about the department's mission, strategy, internal processes and procedures, and institutional activities. We conducted 12 in-depth semi-structured interviews\* from May to October 2007: three with the chairman, four with the vice-chairman, and five with the chief financial officer (CFO).

Data from the interviews were analysed following the strategy map approach: a grid was used to identify a first representation of the key dimensions of strategy assessment as well as the underlying indicators. This representation was then discussed with the interviewees. Possible alternative configurations of the system of indicators included in the strategy map were also discussed, and possible inconsistencies clarified.

### *Application of the strategy map*

First, the department's mission and strategy had to be agreed and formalized. The strategic mission and objectives of the department had never been published and been carried out implicitly. The chairman and the vice-chairman held a number of meetings to formalize the strategy. We observed these meetings and interviewed the chairman and the vice-chairman when they were over. The outcome was a formalized mission:

*To promote scientific research and educate the wider community about the research done in the department.*

The process of strategy formalization led to the second step—defining the hierarchy of the four perspectives of the BSC strategy map. The department's stated mission and strategy was clear that the fundamental purpose of the organization was to promote research at a national and international level, as the main customers of the department were the scientific community, external third parties, the institutional financing bodies and PhD students. Therefore, the hierarchical structure of the model put the customer perspective at the highest level (as proposed by Kettunen, 2005).

In the third step, indicators were identified and selected for each of the BSC's four perspectives. To identify the indicators, interviews were carried out with the chairman and the CFO, and reference was made to the university and department statutes, rules and procedures.

The last step was to validate the strategy map. This step involved feedback from the various actors. In particular, the hypothesised cause-and-effect relationships were analysed and discussed with the chairman, vice-chairman and CFO. This meant that each indicator was tested for relevance, completeness, reliability and interpretability. Finally, the strategy map was approved and implemented by the university department.

#### *The framework*

An organization's mission has to be translated into goals, measures, targets and initiatives (Kaplan and Norton, 2001; 2004) to build the strategy map. The strategy map for the case study department is shown in figure 2. The special nature of the research activities, the characteristics of its customers and of the internal processes all have a significant influence on the structure of the BSC and the type of measurements that are needed to monitor the four performance dimensions.

Figure 2 provides a comprehensive description of the department's strategy, translating the strategic themes into objectives and measures and tracing the chain of causes and effects that connects the desired outcomes with their drivers. Based on the department's mission, the BSC strategy map develops three strategic themes:

- International development.
- Innovative research.
- Involvement with the community by offering high-quality research output.

Although the department is an autonomous organizational unit of the university and can decide on its strategic priorities, these strategic themes are in line with the University of Padova's mission, which is to play an important role in scholarly and scientific research at both a European and world level, by collaborating with all the major research universities.

In the adopted model, the learning and growth perspective is placed at the base of the strategic map. The internal process perspective allows identification of the critical internal processes by which the objectives established in the customer perspective can be achieved. Efficient processes enable funding and also allow for improvements in the effectiveness of research processes. The financial perspective serves as a base from which to achieve the objectives of the customer perspective and includes external funding and funding from the Italian government. External funding is used for commercial research activity, while the government's money is mainly used for pure research.

### *Customer perspective*

Table 1 explains the customer perspective. Objective 1 refers to the national and international scientific community (the meta-client). It represents both the benchmark in terms of emerging issues and fields of research, and the contextual environment in which the university department operates. Such an objective is measured by considering the reputation of the department in terms of seminars, conferences, workshops and congresses organized in a year and number and quality of participants at these conferences. The number and quality of publications by the academic staff is another measure of the department's reputation.

Objective 2 addresses another type of customer: the central and local government institutions that provide grants to the department. This goal is measured by the number of research projects financed by such institutions.

Objective 3 includes businesses buying research, as well as other university departments that ask for consultancy. From interviews with the chairman of the department, we understand that purchasers are not always looking for high-quality research—they can be more interested in spendable and commercial research outputs. This situation is problematic in that conflicts with the mission of the department undermining the promotion of high-quality scientific research. Nevertheless, it helps in pursuing the second part of the mission: disseminating knowledge and competencies on the specific disciplines of the department.

Other important customers to consider are the PhD students (objectives 4 and 5).

The department's customer perspective does not strictly follow the classification outlined by Kaplan and Norton (2006). The only objective that can be easily referred to cost leadership is consultancy which is offered at low prices.

### *Financial perspective*

The first objective in this perspective (objective 6) is decreasing the costs related to commercial research activities. This could have two possible effects: it could impact customer satisfaction (with a lower price) and/or generate efficiency savings. This objective is therefore related to objectives 1 and 3: improved efficiency is beneficial both for third-party customer satisfaction and for the reputation of the department in terms of research results.

The department has a well-balanced financial strategy—it pursues a productivity-efficiency strategy (which gives results in the short term) and it addresses growing trends of cash inflow, which affect long-term strategic results.

The financial perspective is outlined in table 2.

### *Internal business perspective*

Table 3 illustrates this perspective. The two main internal processes are research and the PhD programme. With regard to the research process, the main objective (objective 10) is to increase scientific output (publications/events organized).

The only objective for the PhD programme (objective 13) is 'increasing the effectiveness of the teaching method'. The measure is ensuring that the PhD programme has international relevance and recognition (objectives 4 and 5).

This perspective was not constructed strictly according to Kaplan and Norton (2004). Within the research process, the commercial activity of the department could overlap with the operating processes identified by Kaplan and Norton (2004) since it represents the process through which the department produces and delivers a product to the customer. As regards institutional research, it could be referred to as an 'innovation process' (as it is carried on 'for the sake of research' and not for

profit).

### *Learning and growth perspective*

The goals connected to the learning and growth perspective (table 4) are the drivers for obtaining excellent results in the other BSC perspectives. With regard to human capital, four objectives were defined: satisfaction of academic and administrative staff (objective 14); loyalty of administrative staff (objective 15); productivity of academic staff (objective 16); competencies of administrative staff (objective 17)

As regards information capital the main objective (18) was to achieve excellence in IT support, in respect of both the research process and the ordinary administration process.

With reference to organizational capital, the four objectives are to communicate strategy to all staff and instil a culture of performance (objective 19); develop leadership and a sense of responsibility (objective 20); link salaries to performance and align personal objectives to those of the organization (objective 21); and increase the quality of the organizational context by encouraging teamwork (objective 22).

### *Discussion and conclusion*

This article contributes to the literature by investigating and applying the strategy map to an academic department. In the first part of the article we discuss how the BSC is a potentially useful performance model for academic departments. The case shows great emphasis on the mission and the cause-and-effect relationships between desired outcomes and drivers. This link is relevant across the public services.

There are at least four main contributions. First, we contribute to the research by showing that the BSC is a useful performance model for university departments and, therefore, for use in other complex organizations. The strategy map meant that the case study organization was clear about its strategy; identified the links between its mission and strategic objectives; put in place adequate measures to monitor performance; and allocated the resources, both financial and soft, to turn strategy into action.

Second, the article has provided an insight into the process of implementation of the BSC. As Self (2003) explained, the process requires feedback to ensure that the indicators adopted are in line with the mission and strategy of the organization. This article has shown the importance of co-ordination between the different stakeholders involved in improving performance: academic and administrative staff, customers and the community in general. The case shows how co-ordination is managed by the learning and growth perspective, and by linking the objectives of the customer perspective to the mission.

Third, we show that application to a university department requires an adaptation of the strategy map with respect to customers' expectations. The analysis has shown an extension of the conceptual category of customer conventionally considered in the BSC. In our study, the customer perspective encompasses the wider network of stakeholders involved in the diffusion of knowledge and science, such as the scientific community, but also the public in general, financing bodies and PhD students, as well as including the traditional customer (i.e. external third parties for commercial research). Such adaptation confirms Ceynowa's results (2000). The BSC strategy map underlines the importance of the customer perspective and the variety of stakeholders involved, and it is also able to monitor the financial dimension, in line with the general reduction of public funding. The financial perspective must adhere to the objectives linked to the financial autonomy and viability of the department, but also to the quality of the research. Moreover, the adoption of the BSC provides a

focus on internal key processes, such as the research and PhD programme processes, which are the main strategic drivers for improving the reputation of the department and the overall quality of its activities and outcomes.

Finally, this article has important managerial implications for universities. Implementation of the BSC requires absolute certainty about mission and objectives and the identification of the strategic drivers. Implementing the BSC strategy map meant that staff shared opinions, focused on the important topics, and set organizational priorities. The process of implementation also educated both the academic and administrative staff about the importance of performance management, measurement and evaluation.

This case shows that the BSC/strategy map helps monitor and build an organization's mission and goals and it is recommended for wider use. □

*Figure 1. The case study university department in context.*

The Italian universities were reformed in the 1990s to increase financial and managerial autonomy and to improve their efficiency and effectiveness. In Italian universities, 'departments' are the organizational units that do research. They group homogenous fields of research and the incumbent professors may be teaching in different schools and colleges. Departments have their own structures (library, labs, equipment) and have financial autonomy. They are made up of professors and researchers recruited by the schools and colleges.

The University of Padova is an old (founded in 1222) and highly-ranked university. Research is carried out in 67 departments. The case study department was set up in 1984. At the time of the study, it employed 19 full professors, 15 associate professors, 11 assistant professors and 17 administrators. The PhD programme had 22 students. The department is led by an executive committee and a board. These bodies manage the annual plan for research and requests for funding, which must also be approved by the central administration, the management and organization of the PhD programmes and special educational initiatives. They also collaborate with the university schools and colleges in which the professors teach.

Figure 2. Case study department's strategy map.

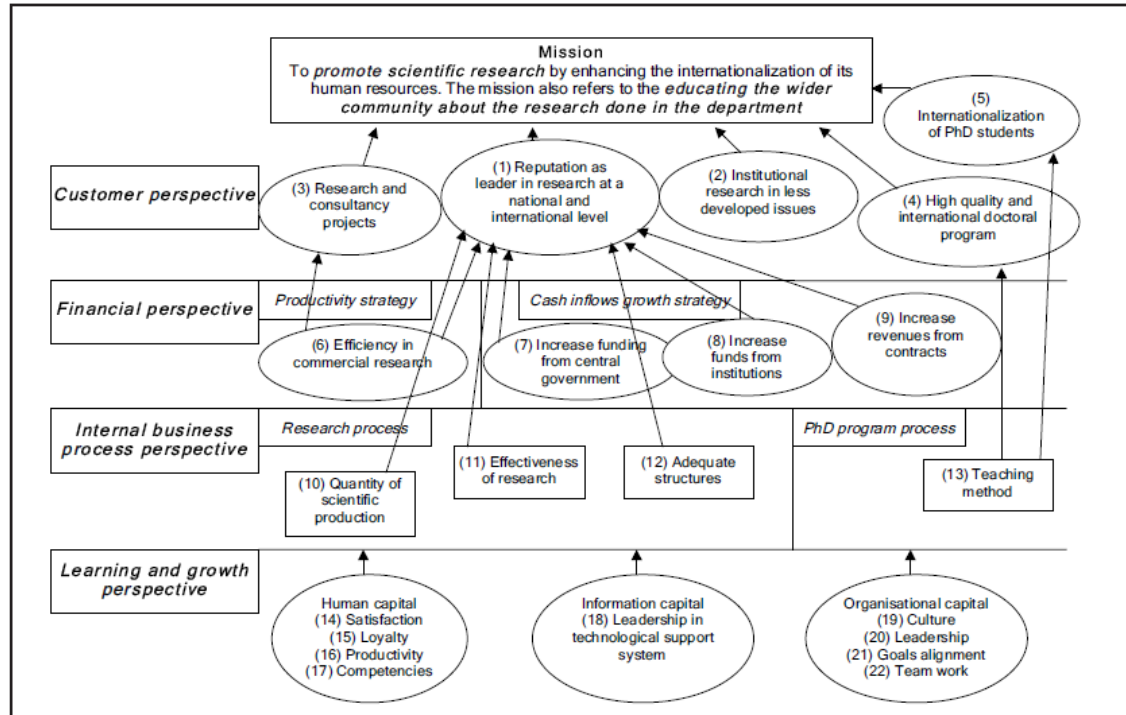


Table 1. Overview of the customer perspective's goals and measurements.

Client	Objective	Measurement
Scientific community	1 Promote the reputation of the department as a leader in research at a national and international level	Reputation index determined on the basis of number of seminars, conferences, workshop and congresses organized by the department Number of international speakers Number of publications
Third parties	2 Carry out innovative research, by investigating less developed issues 3 Offer research and consultancy projects that satisfy customer needs	Number of research projects funded and historical trend Client satisfaction surveys
PhD students	4 Offer a high-quality, internationally relevant PhD programme 5 Offer PhD students the option of studying abroad with highly-cited academics	Student satisfaction surveys Number of students spending a study period abroad

**Table 2. Overview of the financial perspective's goals and measurements.**

<i>Type</i>	<i>Objective</i>	<i>Measurement</i>
Efficiency	6 Decrease costs related to commercial research activities	Percentage year-on-year decrease in costs related to commercial projects (considering volume of activity)
Funding	7 Increase funding from central government	Growth rate of central government funding
	8 Increase funding from other public and private organizations	Growth rate of funding from other organizations
Revenue from contracts	9 Increase revenue from contracts	Growth rate of revenue from contracts

**Table 3. Overview of the internal business perspective's goals and measurements.**

<i>Process</i>	<i>Objective</i>	<i>Measurement</i>
Research	10 Increase scientific production	Number of publications Number of seminars, conferences, workshops and congresses organized
	11 Increase the effectiveness of research	Growth rate in publication
	12 Guarantee adequate support	Funding per academic
PhD programme	13 Increase the effectiveness of the teaching method	Percentage of professors who are internationally recognized

**Table 4. Overview of the learning and growth perspective's goals and measurements.**

<i>Type</i>	<i>Objective</i>	<i>Measurement</i>
Human capital	14 Satisfaction of academic and administrative staff	Academic staff satisfaction survey Wage rise due to commercial research activities Administrative staff satisfaction survey
	15 Loyalty of administrative staff	Number of research monographs published Number of articles published in international journals
	16 Productivity of academic staff	
Information capital	17 Competencies of administrative staff	Percentage of administrative personnel taking internal and external training courses
	18 Excellent IT support	Degree of satisfaction of administrative and academic staff with IT
Organizational capital	19 Communicate strategy to all HR personnel and instill a culture of performance	Survey about the department's mission, strategy and goals
	20 Develop leadership and sense of responsibility	Structure of responsibilities within the department
	21 Link salaries to performance and align personal objectives to those of the organization	Awards and promotions given on the basis of productivity and performance
	22 Increase the quality of the organizational environment by encouraging teamwork	Survey about relationships with colleagues, teamwork effectiveness etc.

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This article first appeared in the July edition of *Public Money & Management*. For further information, please see [www.cipfa.org.uk/pt/pmm/index.cfm](http://www.cipfa.org.uk/pt/pmm/index.cfm)

## PANEL INVITATION

### The internationalization and privatization of higher education

*Public Money & Management* (PMM) wishes to stimulate debate about two quite distinct and rather new challenges that we have recognized in the context of what is already a turbulent time for higher education (HE) in many countries. The two challenges create significant opportunities for those willing to address them. They are the internationalization of HE teaching and research, and the privatization of the HE market. These challenges make significant demands on managers and management of colleges and universities, as well as on policy-makers in the sector.

PMM will be publishing a themed issue on 'the internationalization and privatization of higher education' in January 2013 (Vol. 33, No. 1) to promote understanding of the opportunities that are developing to address the costs of providing HE to a larger and more diverse population who will need to engage and re-engage with HE throughout their lives.

We invite contributions that consider the implications of these changes and the opportunities they provide. Internationalization articles on teaching could include recruiting international students, validation and franchising, overseas centres and campuses, consortia of universities, and the growth of 'regional hubs'. In terms of the research agenda, PMM is interested in international collaboration and sources of funding. Contributions on privatization could look at public-private partnerships, privatization of non-core (and some core) functions, outsourcing, use of private finance, and the emergence of private providers.

PMM publishes main articles, new developments and contributions to debate. *Main articles* (up to 5250 words) must meet high standards of intellectual argument, evidence and understanding of practice in public management. They are double-blind refereed by both an academic and a practitioner. *New developments* (2750 words) focus on the evolution of contemporary public service policy, management or practice and convey the potential or actual impact of change in a detached, informed and authoritative way. These articles are not normally refereed, but are subject to editorial scrutiny. *Debate* articles (1000 words) are personal statements about topical issues, expressing an argument, supported by examples or evidence. They, too, are subject to editorial scrutiny. See <http://www.cipfa.org.uk/pt/pmm/> for information about PMM.

**The themed issue will be edited by Professors Jane Broadbent and Robin Middlehurst. Submissions are required to the managing editor([michaela.lavender@cipfa.org.uk](mailto:michaela.lavender@cipfa.org.uk)) by 31 March 2012.**