6. Finance Dimension of the Framework for Excellence

6.1. The Finance Dimension encompasses two of the key performance indicators (KPIs) of the Framework for Excellence:
- financial health, and
- financial control.

6.2. Both KPIs will be able to draw on existing self-assessment tools and develop these further to support the Framework. Discussions and trials with key stakeholders and pilot providers are under way and will continue during the first half of 2007.

6.3. Financial Health

6.3.1. The aim of the Financial Health KPI is for providers to be able to self-assess their financial health on a transparent and consistent basis, using a robust model suitable for all provider types. Providers will be able to compare their financial health to relevant benchmarks to inform their self-improvement strategies. It is proposed to reduce the six current criteria to three:
- solvency – current ratio
- sustainability – margin, and
- status – gearing (borrowing).

6.3.2. The current self-assessment framework for financial health is well understood and widely accepted across the FE sector and beyond. The proposed change in the ratios, the move from the three current financial health groups of A, B and C to a four-point scale in line with Framework for Excellence, and the extension of this self-assessment approach to other providers represent a significant development for providers.

6.3.3. It is an aim of the new approach that well planned capital investment should not have an inappropriate impact on the overall assessment.

6.4. Financial Control

6.4.1. The Financial Control KPI will assess:
- the effectiveness of a provider’s internal controls
- regularity and propriety in the use of LSC/public funds, and
- the quality of deployment of financial resources to support the achievement of a provider’s strategic objectives.

6.4.2. The Financial Control KPI will draw on evidence from auditors and other financial reviews (including LSC reviews). It will assess qualitative factors in financial management and financial control.
6.4.3. It is proposed that the assessment criteria will reflect three areas of evidence:

- audit opinions and findings
- a self-assessment of risk, controls, governance and management, and
- benchmarking and value for money indicators.