# Governance Effectiveness Review

## SRUC

Report compiled by Jan Polley

Polley Solutions ltd

January 2018

**Polley Solutions**

**Overview**

1. This independent governance review was undertaken by Polley Solutions Ltd. This report records its main findings. The review was conducted in an open and engaged manner and included:

   - several discussions with the Appointments and Remuneration Committee which acted as a steering group for the review
   - one-to-one structured confidential discussions with all board members of SRUC and some of SAC Commercial (some new members have been appointed since this review), and a number of senior staff who engage regularly with the Boards
   - a desktop review of SRUC's governance documentation
   - a facilitated discussion with board members at which they provided feedback on the emerging recommendations from this review.

2. SRUC has experienced considerable change in recent years, at Board and senior staff levels. It is also in the process of developing a new strategic plan for the organisation. It was clear from this review that all concerned with its governance were keen to use this exercise to consider how governance systems and practices could be adapted to reflect those changes. The aim of all involved was to ensure a governance system that fulfilled the organisation's legal duties, but also added real value to the leadership of SRUC.

3. In summary, this review has identified no substantial issues of compliance with the Scottish Code of Good HE Governance. SRUC has a range of robust systems in place to ensure compliance with the Code. Any small suggestions for improvement are incorporated in the recommendations below. The main focus of this report is therefore on suggestions for how to generate a high performing governance culture that fully harnesses the expertise of the Board to support the organisation's future strategic direction. Accordingly the recommendations are grouped into the four areas that make up a high performing governance culture –

   - The governance structure

   - The role of the Board and its committees

   - The role of staff and their governance processes

   - The contribution of individual board members.

4. SRUC's status as a higher education body that undertakes significant further education is reflected in this report, as is the fact that it is also a charity, a limited company and designated as a public body for certain purposes.

### The governance structure

5. Like most institutions, SRUC's legal structure has developed piecemeal over the years. As a result, it has the main organisation SRUC, overseen by a Board, which employs all the staff and owns the resources. There is also a charity, the SAC Foundation, which is governed by a company SAC Corporate Trustee Ltd which, in turn, has a subsidiary SAC Commercial Ltd. Originally, the Foundation was established in order to provide an arms-length vehicle for any of the organisation's assets which did not belong in the public sector. In practice, however, this purpose was never needed. The only part of this additional structure which operates on a day to day basis is SAC Commercial which, as its name suggests, oversees a range of commercial activity - undertaken by SRUC staff.

6. In governance terms, the Board members of SAC Corporate Trustee Ltd are appointed by the SRUC Board, and the directors of SAC Commercial are appointed by SAC Corporate Trustee Ltd. This means that both sets of directors/board members have all the normal duties and responsibilities for their body under company and charity law. In other words, they must act in the interests of their body, irrespective of how they were appointed, and ensure it fulfils its objects and meets its legal requirements. A number of SRUC board members and staff raised a question during the review of whether this was the best legal structure given the closeness of the operational and strategic links between SRUC and SAC Commercial. There was also some confusion as to the demarcation between the roles of the various legal entities.

7. From a governance perspective, this structure, and the way it is currently being operated, appears unduly complex and confused. The number of legal entities and directors with their own fiduciary responsibilities between the main SRUC Board and the work of SAC Commercial is a clear governance risk.

8. Many higher education institutions and charities have their own commercial subsidiaries. Indeed, in the case of charities, this is obligatory if too much of a charity's business relates to 'non-primary purpose' trading and could put the main charity at financial risk. In most cases, the relationship is fairly straightforward – the parent Board appoints the directors/board members of the trading subsidiary and sets out, within the overarching business plan, the objectives they expect the subsidiary to deliver. The Board of the subsidiary is then held to account by the main Board for the delivery of its business objectives and any income generated can be gift aided to the parent charity as desired. I suggest that SRUC give consideration to moving to this simpler structure taking into account, of course, any implications for the fiscal and legal responsibilities of the Board, and the importance of ensuring any new structure permits the normal commercial operation of raising funds, match funding, protection of IP and commercialization of businesses.

9. This process would also be assisted by reviewing the remit of SAC Commercial so that it is focused clearly on profit making activity and commercialisation (in the same way as many other higher education institutions), leaving any public good activity undertaken in return for grant funding and other public funds in the main part of SRUC. The parent SRUC Board would remain responsible for ensuring cohesion between the strategic objectives of all parts of the business but this would allow the subsidiary Board to focus on its core responsibility of commercialisation. This change would also mean that it was easier for staff to understand what business was the responsibility of which Board, reducing the duplication of papers and uncertainty over accountability.

---

**Recommendations – the governance structure**

1. Clarify and simplify the governance status of SAC Commercial by
   a. Consider making SAC Commercial a trading subsidiary of SRUC rather than a trading subsidiary of SAC Corporate Trustee Ltd
   b. Clarify the remit of SAC Commercial so that it focuses on its core role of profit making and commercialisation

---

## The role of the Board and its committees

10. Both Board and staff members are keen to make better use of Board meetings and to find new ways of harnessing the considerable expertise and diversity around the Board table. A strategic Board has three basic roles –

    - deciding what needs achieved (including strategically, financially and legally);

    - monitoring whether those goals are being achieved; and,

    - if they are not, understanding why and what needs to change.

11. An effective Board must therefore pay close attention to its meeting timetables and agendas to ensure that it focuses its limited time on those matters, and within timeframes that meet the needs of the business. To assist with this, it can be helpful if Board agendas are split into matters *For Decision, For Monitoring Progress (against agreed performance milestones and targets) and For Noting.* Papers for decision should generally come first and papers for noting should only be discussed in exceptional circumstances. A Board may also have a category on its agenda of items *For Early Discussion* where early Board views or steers would be helpful on major strategic matters that will come back to the Board for final decision. These early discussions can take place during normal Board meetings or in separate 'workshop' discussions.

12. SRUC is engaged in a major strategic overhaul of its business at the moment and many of those I spoke to noted that the timing of Board meetings does not always coincide with business needs. It may be helpful therefore if consideration is given, in the short

to medium term, to the Board meeting more frequently so members can be involved in key decisions without delaying the business of the organisation.

13. Another way in which board members can play their part during this period of change might be to consider the establishment of short life working groups, or committees, in the key business areas of education, research and change management. This could be especially useful in assisting staff to evaluate the options, risks and opportunities as they develop advice for the Board on the strategic objectives and performance frameworks that will be required to support SRUC's new overarching strategy.

14. The Scottish Code of Good HE Governance requires the establishment of Nominations, Audit and Remuneration committees for reasons of transparency and control. Other committees need only be set up when there is a clear requirement for them and where their relationship with the Board is set out clearly in their remit. A good committee remit is one that is clearly linked to the work of the Board, not operational matters, and sets out what the committee is advising the Board on, or when it is taking decisions on behalf of the Board. I suggest SRUC reviews the existence and remits of its current committees, especially the Finance and General Purposes Committee, to ensure they are neither duplicating nor impinging on the work of the Board.

15. The Scottish Code of Good HE Governance also makes clear that the Board has responsibility for the effectiveness of the Academic Board. The role of this body is still evolving as SRUC beds in its constitutional arrangements but, as the main SRUC Board develops its own strategic role and focus on the organisation's new strategic plan, it may be helpful if it were also to review what it needs from the Academic Board. The main Board currently receives regular updates from the Academic Board but it could help both bodies if this engagement were focused more on strategic business e.g. advising the main Board on what the organisation should be seeking to achieve academically, how it could monitor progress towards those goals and providing information on any matters where progress is inadequate.

---

**Recommendations – the role of the Board and its committees**

2. Review the agendas for and use of Board meetings in order to reinforce its strategic leadership and scrutiny role
3. Review whether there is a need to adjust the timing and frequency of Board meetings in order to meet the current needs of the business
4. Adjust the use of Board committees in order to clarify their strategic purpose and avoid them impinging on or duplicating the Board role, in particular
   a. Review the need for and terms of reference of the Finance and General Purposes and Appointments and Remuneration Committees to ensure their roles are clearly delineated from those of the Board and state clearly whether they are advising the Board or making decisions on its behalf
   b. Consider the establishment of short life Board working groups covering SRUC's core business

of education, research and change management to support staff on the development of advice to the Board on the new strategic goals and performance frameworks used to track their progress that will be required to implement the new strategic plan

   c. Review the membership and terms of reference of the Remuneration and Nominations Committees, as required by the Scottish Code of HE Governance

   d. Support the development of the Academic Board and review what the Board requires from it in order to support the latter's strategic role.

## The role of staff and their governance processes

16. Good governance is essentially a partnership between board members and the staff who support the Board. The systems and processes established in an organisation can have a considerable impact on the standard of governance. There has been significant change amongst senior staff in SRUC and it was clear during this review that the new senior team is keen to ensure that they play their part in ensuring a high performing governance culture. They want to ensure that staff understand what business should go to the Board or one of its committees, and what is a matter for the senior team. Some of the changes that could support this effort have already been mentioned in this report e.g. the use and frequency of Board and committee meetings and the clear purpose of agendas.

17. Other important contributors to strong governance are

- Tightening up the purpose and content of papers provided by staff so that they focus more on what the Board needs to do (decide, monitor or note) and provide the information required for that task,

- Develop a calendar of Board business that ensures discussions begin early enough to allow appropriate Board engagement in strategic decisions, and

- Establish performance frameworks for key areas of the business that permit board members to track progress towards strategic goals rather than relying on staff 'updates' of activity. (A strategic Board monitors progress towards its goals by using performance metrics of what has been achieved, rather than spending time reviewing how it is done)

18. These changes will take time to bed in but it is clear from this review that staff and board members are enthusiastic about developing this approach.

19. SRUC is currently recruiting a new Company/Governance Secretary. This is individual has an important role in promoting a good governance culture and it will be vital that they understand it. Working directly to the Board and reporting to the Chair in respect of their governance responsibilities, this person provides support to individual board

members and also advises staff on how to best support good governance with their systems and processes.

20. It may also be helpful to underpin the existing Statement of Primary Responsibility with a formal list of the responsibilities delegated by the Board to the Principal. This might helpfully include the standard responsibilities of the Principal as Accountable Officer to advise the Board on matters of financial propriety, regularity and economy as well as ensuring systems are in place within the organisation to ensure good financial control.

<table>
<tr><td colspan="1"><strong>Recommendations – the role of staff and their governance processes</strong></td></tr>
<tr><td>5. Provide a template, support and training for staff who submit papers to the Board and its committees to ensure they understand the new roles and terms of reference and have a clear strategic purpose to their papers</td></tr>
<tr><td>6. As far as possible, work with the Board to plan ahead the Board and committee calendars of business to ensure discussions begin early enough so that decisions can be taken in a timeframe that meets business needs</td></tr>
<tr><td>7. Develop performance frameworks and metrics to support the new strategic plan, agreeing with the Board what short, medium and long term success will look like in each area of the plan, how progress will be measured and how often it will be reported to the Board or relevant committee</td></tr>
<tr><td>8. As required by the Scottish Code of Good HE Governance, ensure the appointment of the new Company/Governance Secretary is a matter for the Board as a whole, and that the appointed person understands their personal governance responsibilities, is solely responsible to the Board for those duties, and has a direct reporting line to the Board Chair</td></tr>
<tr><td>9. Support the existing Statement of Primary Responsibility with a written statement of those responsibilities that have been delegated to the Principal by the Board. This might helpfully include the standard responsibilities of the Principal as Accountable Officer</td></tr>
</table>

## The contribution of individual board members

21. As mentioned earlier in this report, SRUC has a good range of Board members who reflect the diverse business of the organisation. All concerned were keen to ensure that they maximised their contribution to SRUC and were able to develop their skills and knowledge accordingly. The recommendations in this section of the report are designed to support that aspiration. Members of any high performing Board should see their own ongoing development in the following four areas as an important contributor to good governance –

- Understanding of the business, its staff and customers

- Understanding of the external environment and stakeholder perspectives

- Contribution to the work of the Board through willingness to take on roles, move around committees and support/mentor fellow board members

- Review and seek feedback on their contribution and skills as a non-executive.

22. The Scottish Code of Good HE Governance requires that all board members receive a full induction that reflects the needs of the business and the background of the individual, opportunities for ongoing development and a chance, at least every two years, to discuss their contribution and development with the Chair. Particular emphasis is put on ensuring the student board member, given their short tenure, has sufficient ongoing support and training to allow them to make a constructive contribution as quickly as possible.

23. In addition to reviewing support for the student member, I suggest that consideration is given to how to support the staff member of the Board. While that individual has a longer tenure in which to make a contribution, and their role is exactly the same as every other member, a high performing Board should give careful consideration to how it maximises the contribution of its staff member. Tailored induction and ongoing support from the Chair and Governance Secretary can be especially helpful and experience elsewhere suggests that staff board members make the best contribution when they are not seen simply as a source of information on staff matters, but are encouraged to contribute to the full range of Board business.

24. Counterbalancing that, it is very important that all board members take time to meet staff and students and build their own perspective on the organisation's 'frontline'. This serves two main governance purposes – first, it helps board members to understand the reality of the business when they are making strategic decisions and, second, it offers an important source of independent evidence and assurance that complements the information provided by senior staff in Board and committee papers.

25. For similar reasons, it is also important board members take time to understand the external environment in which the organisation operates. Some board members will already have experience in some aspects of that but it is incumbent on all members during their board tenure to build a rounded understanding of the external and stakeholder environment. This ensures a richer and more nuanced debate around the Board table.

26. Finally, as the employer of all SRUC staff, it is important that staff understand the role of the Board and the range of expertise offered by its members. While it is the role of senior management to run the organisation and provide day to day leadership for its staff, it can be helpful for staff to be kept informed of the work of the Board and the key themes underpinning its decision making.

27. Board members are, of course, usually very busy people and the time they have available is limited. It can therefore be extremely useful if each member identifies in

discussion with the Chair, as part of a regular review process, where they wish to focus their development each year. This also allows the Chair to ensure that member development is meeting the succession planning needs of the Board and is also resulting in appropriate engagement with staff, students and external stakeholders.

<div style="border: 2px solid blue; padding: 10px;">

**Recommendations – the contribution of individual board members**

10. Support the development and contribution of the staff and student board members through tailored and comprehensive induction, ongoing support, including from the Governance Secretary and the Chair and, in the case of student members, support to ensure they can contribute as quickly as possible

11. Review board member induction, training and development, including regular discussion with the Chair of their contribution and development plans, to maximise their contribution to strategic board decision making

12. Develop a Board engagement plan that ensures staff understand the work of the Board and both enables and requires all board members to take part in systematic engagement with staff, students and external stakeholders. This should reflect the development needs of individual members and also the strategic requirements of the Board as part of its ongoing succession planning.

</div>

## Conclusion

28. Board members and staff have taken part in this review in an open and engaged manner, with all concerned showing enthusiasm and commitment for building a high performing governance culture. This review found a strong foundation of systems and processes designed to ensure good governance compliance and so was able to focus on recommendations designed to support the development of a strong governance culture of continuous improvement.

29. Polley Solutions thanks everyone at SRUC for their help and support in the compilation of this report.