

## Board Meeting

Date of Meeting	Monday 15th December 2014
Paper Title	GCSP Progress Report - 2013-14 Financial Statements
Agenda Item	8
Paper Number	BM4-F2
Responsible Officer	Glasgow Colleges Strategic Partnership Principals Lead – Finance Vice Principals
Status	Disclosable– once publication is authorised by the Auditor General
Action	For Noting

### 1. Report Purpose

**1.1** The purpose of this paper is to provide the Regional Board with a summary of the three Glasgow Colleges 2013-14 Financial Statements for consideration. The full Financial Statements at 31<sup>ST</sup> March 2014 of each of the three Colleges have not been attached due to the size of the documents but are available on request. The full Financial Statements will not be publicly available until they have been laid before Parliament, probably early 2015.

### 2. Recommendations

**2.1** The Board is asked to note the summary of the three Glasgow Colleges 2013-14 Financial Statements which are for the eight month period 1st August 2013 to 31st March 2014.

### 3. Background/Objective/Discussion/Proposal

**3.1** The Financial Statements cover the period 1st August 2013 through to 31st March 2014.

**3.2** The appendices show the separate Income & Expenditure Account & Balance Sheet summaries for each College and an overall Regional Total.

**3.3** As a consequence of the reclassification of colleges, the financial statements cover an 8 month accounting period and all three colleges are reporting substantial deficits in the period due to the transfer of previously achieved cash reserves to arms-length foundations.

**3.4** The financial statements have been subject to external audit for each College. The related external audit reports have already been sent to the Auditor General and the SFC. Noted below, for information only, are some of the external auditor's key findings/opinions.

#### **4. Context**

**4.1** There are two specific impacts on the 2013/14 financial statements which need to be highlighted to contextualise the financial statement reported figures. These both relate to the Office of National Statistics (ONS) reclassification of Scottish Colleges as public bodies from 1st April 2014. As a result of reclassification Colleges were advised that they should report to a March period end for the 2013/14 financial period (hence an eight month period from August 2013), and Colleges made transfers to arms length foundations which resulted in reduced cash balances held by Colleges and reported notional substantial "deficits".

**4.2** Colleges in Scotland were reclassified as public bodies from 1<sup>st</sup> April 2014. As a result of the reclassification Colleges have to comply with the Scottish Public Finance Manual and new rules apply as part of Scottish Government accounting from this date for the use of and accounting for funds.

**4.3** Within the ONS reclassification changes from April 2014 Colleges were advised they should report to a March period end hence an eight month period was required to be reported upon. This is however for one reporting period only as there has now been a derogation agreed by Scottish Government that Colleges can report to a July period end from 2015 onwards so the next financial statements will be for the sixteen months 1st April 2014 to 31st July 2015.

**4.4** As Colleges had been operating as autonomous incorporated bodies from 1993 until the end March 2014, they had achieved reserves over a number of years through their efforts in progressing non public funded activities where Colleges provide training on a commercial basis e.g. for individuals or employers. It was agreed by Scottish Government that Colleges

could transfer these cash backed reserves prior to reclassification at end March 2014 to independent arms length foundations.

**4.5** Colleges made these transfers to the arms length foundations prior to 31<sup>st</sup> March 2014 as due to reclassification as public bodies these cash balances would have otherwise effectively become frozen cash and not able to be accessed in future. Each of the three Glasgow Colleges made transfers to arms length foundations and these totalled £39.3Million as at 31<sup>st</sup> March 2014 (transfers of £14.4Million by Glasgow Clyde College, £21.7Million by City of Glasgow College, and £3.2Million by Glasgow Kelvin College respectively). These funds are held by the foundations and Colleges can make applications for funding to these foundations in future.

**4.6** The financial statements for the three Colleges for the eight month period ending 31<sup>st</sup> March 2014 are summarised below. The overall position on operating surplus shows a deficit of £39.7Million due to the transfers to the arms length foundations of £39.3million as indicated above. The true trading position after excluding the impact of the transfers to the arms length foundations and the one-off gain on asset disposal at Glasgow Clyde College is an overall trading deficit of £355k which is made up of a trading surplus of £862k at Glasgow Clyde College, a trading surplus of £9k at City of Glasgow College, and a trading deficit of £1.2Million at Glasgow Kelvin College after inclusion of some costs of merger funded by the College.

**4.7** This is a one-off situation in respect of the reclassification of Scottish Colleges and most of the Colleges in Scotland will be reporting significant deficits as a result of reclassification and the accounting treatment of the transfers to arms length foundations.

## **5. Overall audit conclusion**

**5.1** Each of the Colleges received an unqualified audit opinion on the financial statements. An example of the opinion given is shown below which is extracted from the City of Glasgow College financial statements.

## **5.2 An unqualified audit opinion on the financial statements**

Our independent auditor's report includes an unqualified opinion on the financial statements for the 8 month period ended 31 March 2014.

We are satisfied that the information given in the Operating and Financial Review is consistent with the financial statements.

## **5.3 An unqualified audit opinion on the regularity of transactions**

The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to confirm that, in all material respects, the expenditure and receipts shown in the accounts was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have issued an unqualified opinion on the regularity of transactions in the College's accounts.

**5.4** As indicated in the context and in the figures below the overall summary trading position for the three Colleges combined was a trading deficit of £355k after inclusion of some costs of merger funded by Glasgow Kelvin College.

6. The following provides a brief overview of the 2013-14 financial performance of the Glasgow Colleges for the eight months to March 2014.

<b>Glasgow Region - Summary Results of the Three Colleges</b>				
<b>Income and Expenditure Summary Financial Period 2013/14 - 8 Months to 31 March 2014</b>	<b>Glasgow Clyde College</b>	<b>City of Glasgow College</b>	<b>Glasgow Kelvin College</b>	<b>Glasgow Region Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
SFC Grants	24,857	22,957	18,375	66,189
Tuition fees and education contracts	4,047	11,401	3,729	19,177
Other grant income	675	0	547	1,222
Other operating income	2,846	2,872	601	6,319
Endowment and investment income	253	406	170	829
SFC Exceptional restructuring income	643	0	1,782	2,425
<b>TOTAL INCOME</b>	<b>33,321</b>	<b>37,636</b>	<b>25,204</b>	<b>96,161</b>
Staff costs (Excl restructuring costs)	19,446	26,128	15,592	61,166
Restructuring costs - staff	804	1,604	1,792	4,200
Other operating expenses	9,086	8,192	7,276	24,554
Depreciation/Impairment	3,123	1,703	1,770	6,596
Interest payable	0	0	0	0
Donation to Arms Length Foundations (ALF)	14,400	21,702	3,200	39,302
<b>TOTAL EXPENDITURE</b>	<b>46,859</b>	<b>59,329</b>	<b>29,630</b>	<b>135,818</b>
<b>Surplus/(Deficit) before disposals</b>	<b>(13,538)</b>	<b>(21,693)</b>	<b>(4,426)</b>	<b>(39,657)</b>
Gain/(loss) on disposal of assets	1,683			1,683
<b>Overall Surplus/(Deficit)</b>	<b>(11,855)</b>	<b>(21,693)</b>	<b>(4,426)</b>	<b>(37,974)</b>
<b>Trading Surplus/(Deficit) i.e. excluding transfers to arms length foundations and disposal gains</b>	<b>862</b>	<b>9</b>	<b>(1,226)</b>	<b>(355)</b>
<b>Ratio Analysis</b>				
Operating Surplus as a % of turnover	-40.6%	-57.6%	-17.6%	-41.2%
Trading Surplus as a % of turnover	2.6%	0.0%	-4.9%	-0.4%
Non SFC Income	7,821	14,679	5,047	27,547
<b>Non SFC Income as a % of Total Income (exc. merger funding)</b>	<b>23.9%</b>	<b>39.0%</b>	<b>21.5%</b>	<b>29.4%</b>
Staff Costs (exc. restructuring)	19,446	26,128	15,592	61,166
<b>Staff Costs as a % of total expenditure (exc. restructuring costs &amp; ALF)</b>	<b>61.4%</b>	<b>72.5%</b>	<b>63.3%</b>	<b>66.3%</b>
WSUMs Delivered	163,184	175,276	125,288	463,748
WSUMs Target	162,245	170,619	119,841	452,705

<b>Glasgow Region - Summary Results of the Three Colleges</b>				
	<b>Glasgow Clyde College</b>	<b>City of Glasgow College</b>	<b>Glasgow Kelvin College</b>	<b>Glasgow Region Total</b>
<b>Balance Sheet as at 31 March 2014</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Fixed assets</b>				
Tangible assets	149,504	25,314	64,983	239,801
Investments	0	4	0	4
<b>Total Fixed Assets</b>	<b>149,504</b>	<b>25,318</b>	<b>64,983</b>	<b>239,805</b>
Stock	18	40	32	90
Debtors	6,832	7,579	5,538	19,949
Non Current Assets Held for Sale	0	0	0	0
Short term investments	0	0	0	0
Cash at Bank	5,597	6,100	2,138	13,835
<b>Total Current Assets</b>	<b>12,447</b>	<b>13,719</b>	<b>7,708</b>	<b>33,874</b>
Creditors due within 1 year	(10,443)	(12,156)	(6,987)	(29,586)
<b>Net Current Assets</b>	<b>2,004</b>	<b>1,563</b>	<b>721</b>	<b>4,288</b>
<b>Total Assets less current liabilities</b>	<b>151,508</b>	<b>26,881</b>	<b>65,704</b>	<b>244,093</b>
Creditors due After 1 Year	(2,920)	0	(1,752)	(4,672)
Provisions for liabilities	(3,339)	(4,417)	(3,455)	(11,211)
<b>Net Assets before Pensions</b>	<b>145,249</b>	<b>22,464</b>	<b>60,497</b>	<b>228,210</b>
Pension Asset/Liability	(5,151)	(6,112)	(4,726)	(15,989)
<b>Net Assets including Pension Liabilities</b>	<b>140,098</b>	<b>16,352</b>	<b>55,771</b>	<b>212,221</b>
Deferred Capital Grants	97,155	8,448	44,343	149,946
I&E Reserve	2,794	(3,853)	1,429	370
Pension Reserve	(5,151)	(6,112)	(4,726)	(15,989)
Restricted Reserves	0	510	0	510
Revaluation Reserve	45,300	11,247	14,728	71,275
<b>Total Reserves</b>	<b>42,943</b>	<b>1,792</b>	<b>11,431</b>	<b>56,166</b>
<b>Total</b>	<b>140,098</b>	<b>16,352</b>	<b>55,771</b>	<b>212,221</b>
<b>Ratio Analysis</b>				
Current Ratio	<b>1.19</b>	<b>1.13</b>	<b>1.10</b>	<b>1.14</b>
Cash + short term investments	<b>5,597</b>	<b>6,100</b>	<b>2,138</b>	<b>13,835</b>
Expenditure (excl Depreciation)	<b>44,919</b>	<b>49,523</b>	<b>35,072</b>	<b>129,514</b>
Expenditure per day	<b>123</b>	<b>136</b>	<b>96</b>	<b>355</b>
<b>Days Cash</b>	<b>45</b>	<b>45</b>	<b>22</b>	<b>39</b>
<b>Cash Held by Arms Length Foundations</b>	<b>14,400</b>	<b>21,702</b>	<b>3,200</b>	<b>39,302</b>

## **7. Risk Analysis**

**7.1** All three Colleges transferred accumulated reserves to arms length foundations in March 2014. Each College must apply to the arms length foundation to access funds for a specific eligible project or expenditure. There is a risk associated with the operation of the arms length foundations that applications may be rejected or cash flow problems may arise. It is also essential that the operation and control of the arms length foundations is independent from the Colleges otherwise the foundation could be deemed to be required to be consolidated with the College accounts.

## **8. Legal Implications**

**8.1** N/A

## **9. Financial Implications**

**9.1** All three Colleges are in a healthy and sustainable financial position at 31st March 2014. The impact of the ONS reclassification and the agreed mitigation created a one off large deficit due to the transfer of £39.3Million to arms length foundations. These transfers have also reduced the total Balance Sheet value of the three Colleges but protected the accumulated reserves for future use through applications to the foundations. The Balance Sheet value of the three Colleges at the 31st March 2014 was still £212m after transfers to the arms length foundations.