

Audit and Assurance Committee Meeting

Date of Meeting	Tuesday 10 October 2023
Paper Title	Internal Audit Report – Financial Sustainability
Agenda Item	7
Paper Number	AAC1-C
Responsible Officer	Jim Godfrey, Finance & Resources Director
Status	Disclosable
Action	For Noting and Comment

1. Executive Summary

1.1. The internal audit report on financial sustainability has been prepared by Henderson Loggie and is provided to the committee for consideration.

2. Recommendations

2.1. The committee is invited to:

- **consider** the internal audit report on financial sustainability and **comment** as appropriate.
- **note** that the level of assurance is 'satisfactory' and there is one recommendation arising from this review.

3. Report

- 3.1.** The Internal Auditor has provided a report on financial sustainability using the scope of works approved by this committee at its meeting in April 2023.
- 3.2.** The attached report shows the key findings and the level of assurance, which the internal auditor has stated is 'satisfactory'. There is one recommendation arising from this review.

4. Risk and Compliance Analysis

- 4.1.** The work of the Internal Auditor is informed by an assessment of risk. The approach to audit planning reflects an overall assessment of the relevant risks that apply to GCRB. This ensures that the audit focuses on the areas of highest risk.
- 4.2.** There are no legal implications as a result of this report.

5. Financial and Resource Analysis

- 5.1.** The internal audit programme 2022-23 is based upon a requirement of 17 days of audit activity. This report was scheduled to utilise 5 days of the 2022-23 allocation. The cost per day is based upon the price previously tendered by Henderson Loggie.

6. Equalities Implications

- 6.1.** There are no equalities implications as a direct result of this report.

7. Learner Implications

- 7.1.** Through the conditions of grant associated with the Regional Outcome Agreement, GCRB is required to conduct its affairs in accordance with the expected standards of good governance, which includes independent scrutiny and audit.

LEVEL OF ASSURANCE

Satisfactory

Glasgow College's Regional Board

Financial Sustainability

Internal Audit report No: 2023/02

Draft issued: 3 October 2023

Final issued: 4 October 2023



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Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Issue subjecting the organisation to material risk and which requires to be brought to the attention of management and the Audit and Assurance Committee.
Priority 2	Issue subjecting the organisation to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.



Management Summary

Overall Level of Assurance

Satisfactory	System meets control objectives with some weaknesses present
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Risk Assessment

This review focused on the controls in place to mitigate the following risks on the Glasgow Colleges Regional Board ('the GCRB') Strategic Risk Register:

- GCRB is unable to respond proactively to internal and external change including regional and national reviews and systemic change (net risk score – 6);
- GCRB does not develop/maintain effective working relationships with key external stakeholders (net risk score – 4);
- Opportunities to deliver regional strategy are missed/not resourced appropriately (net risk score – 2); and
- Ineffective collaboration between all partners in the Glasgow college region reduces our collective impact (net risk score – 4).

Background

As part of the Internal Audit programme at the GCRB for 2022/23 we carried out a review of the mechanisms put in place to ensure effective oversight of financial sustainability across the Glasgow region. This is an area where risk can arise and where Internal Audit can assist in providing assurances to the Executive Director and the Audit and Assurance Committee that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.



Scope, Objectives and Overall Findings

The scope of this assignment considered the role of GCRB in overseeing financial sustainability, including financial forecasting for the Glasgow region.

The table below notes each separate objective for this review and records the results:

Objective	Findings			
The objective of our audit was to obtain reasonable assurance that		1	2	3
		No. of Agreed Actions		
1. The mechanisms in place for assessing the ongoing financial sustainability of the Glasgow Colleges are robust.	Good	-	-	-
2. The collective risks arising from the financial plans prepared by the three Glasgow colleges have been assessed and discussed through the appropriate governance channels.	Requires Improvement	-	1	-
3. The basis for the financial forecasting for the Glasgow region is underpinned by accurate and complete data for both revenue and capital.	Good	-	-	-
Overall Level of Assurance	Satisfactory	-	1	-
		System meets control objectives with some weaknesses present		

Audit Approach

Through discussions with the GCRB Finance and Resources Director, and review of supporting information, we have reviewed the role of GCRB in overseeing financial sustainability, including financial forecasting for the Glasgow region



Summary of Main Findings

Strengths

- There are well established reporting mechanisms around the sharing of information which supports the annual Financial Forecast Returns which are submitted to the SFC, and the subsequent Mid-Year returns, recognising that the financial position of each of the three regional Colleges is different and the approach taken to achieve a more stable financial position varies across the Colleges;
- We confirmed that the FFRs for all three regional Colleges have been submitted. However, the 2023/24 budget for Glasgow Clyde College has still to be finalised and any changes to the submitted FFR arising from the approved budget will be reflected in the Mid-Year return;
- While there are significant revenue funding challenges for all three regional Colleges over the next few years, the recent announcement on the reduction of employers pension contribution, for those staff enrolled in the local government pension scheme, will deliver significant savings over the next two years, which will help to alleviate at least some of the cost pressures around pay awards and inflation, which are currently being faced by Colleges against a backdrop of flat cash funding allocations;
- The strategic risk registers for each of the three regional Colleges are submitted to GCRB to allow a summary report of key risks to be presented to the GCRB Audit and Assurance Committee. These risk registers contain risks around financial sustainability and set out the risks to achieving a financial position which meets the expectations of the individual Colleges Boards, the GCRB Board (as Regional Strategic Body) and the SFC;
- It is evident from our discussions with the Finance and Resources Director that there is an in depth understanding within GCRB of the challenges facing each of the regional Colleges;
- It was evident from our analysis that there is detailed overview of the expenditure and income figures produced by each of the regional Colleges, which allows the combined regional position to be assessed; and
- Our 2022/23 review of Budgetary Control / Financial Planning in Glasgow Kelvin College highlighted the constructive dialogue between Glasgow Kelvin College and GCRB in relation to the key assumptions which underpin their financial modelling and therefore confirmed a transparent approach in terms of setting out the basis for revenue and capital projections.

Weaknesses

- It is our view that the scale of the financial challenges facing the Glasgow region should illicit a collaborative approach to managing regional financial risks, which puts learners at the centre of decision making process, in order to challenge the current delivery model and drive efficiencies through significant structural change in terms of what is delivered and where it is delivered.

Acknowledgments

We would like to take this opportunity to thank the staff at GCRB who helped us during our audit.



Main Findings and Action Plan

Objective 1 - The mechanisms in place for assessing the ongoing financial sustainability of the Glasgow Colleges are robust.

We reviewed the report submitted to the 16 March 2022 meeting of the Performance and Resources Committee, and which was subsequently presented to the 25 April 2022 meeting of the GCRB Board as an appendix to the Regional Outcome Agreement) on 25 April 2022.

This report provided the Board with an overview of the challenges and opportunities in respect of regional finance. In exploring these issues, a number of matters were examined in further detail, including the:

- **Functions** of Glasgow Colleges' Regional Board (GCRB), as defined by legislation, are examined. These functions are extensive and provide the opportunity for the Glasgow region to shape its future.
- **Financial Memorandum, and Scottish Public Finance Manual**, specify the governance requirements and assurance obligations. These are the mandatory obligations placed upon GCRB, as the fundable body.
- **Financial Priorities**, differentiating between those that are mandatory and those that have a degree of discretion.
- **Current Financial Climate** and the way this impacts on current strategic choices.
- **Strategic Priorities** of GCRB and the fact that the regional strategic plan will dictate the direction of travel.
- **Funding Strategy** and the different ways in which finance can be used to support the regional strategic choices.

The report set out the relationship between the SFC, GCRB and the regional Colleges and clearly stated the following requirements:

In accordance with the Financial Memorandum, the GCRB Executive Director *"...has a personal responsibility for the propriety and regularity of the public finances provided to the Regional Strategic Body, and for ensuring that funding is used economically, efficiently and effectively. The Chief Officer is appointed by the Regional Strategic Body's Board in terms of schedule 2B to the 2005 Act, as amended by the Post-16 Education Act 2013."*

To meet his responsibilities, the GCRB Executive Director *"...must be satisfied that the governing body of the College meets the requirements of this Financial Memorandum as a condition of receiving grant funding from the Regional Strategic Body. The Regional Strategic Body will therefore seek financial management and other information from the College."*

It is the governing body of each institution (i.e. Glasgow Colleges' Regional Board and Board of Management of a college) that is responsible for ensuring compliance with the Financial Memorandum. The GCRB Executive Director is responsible and accountable to the Scottish Funding Council *"...for ensuring that funds provided to the Body (GCRB) are used for the purposes for which they have been given..."*. In turn, the Chief Executive of SFC is the Accountable Officer, under the terms of the Public Finance and Accountability (Scotland) Act 200), and is responsible and accountable to the Scottish Parliament.



Objective 1 - The mechanisms in place for assessing the ongoing financial sustainability of the Glasgow Colleges are robust.

It was apparent from our discussions with the Finance and Resources director that the relevant roles and responsibilities around delivery of the ROA, and in complying with the Financial Memorandum, are clearly set out and are understood by all stakeholders.

It was also evident that although there are well established reporting mechanisms around the sharing of information which supports the annual Financial Forecast Returns which are submitted to the SFC, and the subsequent Mid-Year returns, the financial position of each of the three regional Colleges is different and the approach taken to achieve a more stable financial position varies across the Colleges. We confirmed that the FFRs for all three regional Colleges have been submitted. However, the 2023/24 budget for Glasgow Clyde College has still to be finalised and any changes to the submitted FFR arising from the approved budget will be reflected in the Mid-Year return.

So for example the approach taken by City of Glasgow College to deal with the future financial challenges has been largely focused around reduction of headcount through a combination of voluntary severance schemes and compulsory redundancy to reduce staffing costs. Meanwhile the approach taken in Glasgow Kelvin College, while initially focusing on the improvement of the College's cash position, has latterly developed into a detailed five year Operating Plan, which sets out a range of efficiency measures (such as reducing the use of temporary staff) and curriculum adjustments focused on increasing class sizes, which will reduce staff costs without the need for compulsory redundancies.

While there are significant revenue funding challenges for all three regional Colleges over the next few years, the recent announcement on the reduction of employers pension contribution, for those staff enrolled in the local government pension scheme, will deliver significant savings over the next two years, which will help to alleviate at least some of the cost pressures around pay awards and inflation, which are currently being faced by Colleges against a backdrop of flat cash funding allocations.

The capital funding position is also challenging, with the assessment of future capital funding needs at different stages within each of the regional Colleges. Although a national review of College estates is overdue, it is anticipated that this will be conducted in order to inform future capital funding allocations, which are currently based on out of date information.

Therefore, while the revenue and capital position for all three regional Colleges remains challenging, despite the steps already taken and planned, we have concluded that the mechanisms in place to assess the ongoing financial sustainability of each College are robust.



Objective 2 – The collective risks arising from the financial plans prepared by the three Glasgow colleges have been assessed and discussed through the appropriate governance channels.

The strategic risk registers for each of the three regional Colleges are submitted to GCRB to allow a summary report of key risks to be presented to the GCRB Audit and Assurance Committee. These risk registers contain risks around financial sustainability and set out the risks to achieving a financial position which meets the expectations of the individual Colleges Boards, the GCRB Board (as Regional Strategic Body) and the SFC.

It is evident from our discussions with the Finance and Resources Director that there is an in depth understanding within GCRB of the challenges facing each of the regional Colleges. What is perhaps less clear is the specific way in which each of the regional Colleges intend to address the risks to financial sustainability which they face. So for example all three Colleges have identified the scale of the financial challenges. However, there are variances in the level of detail provided on the precise way in which each of the individual regional Colleges will respond to address these risks. As a result, the pace of change, and therefore the impact on the financial position of each College is much more transparent for Glasgow Kelvin College, where a detailed five year Operating Plan has been developed, which sets out the impact of the decisions taken, for both staff and students.

Therefore, although the projections produced by each of the Colleges, and submitted in the 2023 FFRs, provides the mechanism to establish the collective risks facing the Glasgow region, the ability to assess the overall risk to financial sustainability across the region is hampered by this variation in transparency on the way in which the financial risks will be managed at College level moving forward.

It was also highlighted that the absence of a GCRB Strategy which challenges the status quo has restricted the ability of GCRB to fully utilise the powers available to alter the funding model and to drive meaningful change to the delivery model across the Glasgow region. As a result, the response to the financial risks identified by individual Colleges have been dealt with in isolation within each College, rather than forming the basis for a regional discussion to assess the collective risks and develop a cohesive, pan-regional response, which will amend the delivery model by putting learners at the centre of future decisions to mitigate financial risks for both revenue and capital. This is explored in more detail below.

The importance of maintaining a strong understanding of the financial position, and the impact on the delivery of strategic objectives was highlighted by the Finance and Resources Director. There have been recent significant changes in the leadership of both City of Glasgow College and Glasgow Clyde College which have resulted in the loss of a significant level of corporate memory from both of these Colleges. Therefore, this may impact on the ability to manage financial risks in at least the short term, while the replacement managers develop the depth of understanding to support the delivery of the transformational change required to manage the unprecedented challenges facing the sector.



Financial Sustainability

Objective 2 – The collective risks arising from the financial plans prepared by the three Glasgow colleges have been assessed and discussed through the appropriate governance channels.

Observation	Risk	Recommendation	Management Response	
<p>Although there is GCRB of the risks facing individual regional Colleges, including financial risks, and there has been the opportunity to assess the scale of the financial challenges facing the three regional Colleges (and by extension the cumulative picture for the Glasgow region) this has not yet been translated into a regional conversation around regional financial risks and the development of a pan-regional approach to managing these risks. While the absence of a Regional Strategy which challenges the status quo is a contributory factor, it is our view that the scale of the financial challenges facing the Glasgow region should illicit a collaborative approach to managing regional financial risks, which puts learners at the centre of decision making process, in order to challenge the current delivery model and drive efficiencies through significant structural change in terms of what is delivered and where it is delivered.</p>	<p>There is a risk that the collective financial risks facing the Glasgow region will continue to be addressed in isolation by individual Colleges, rather than by considering pan-regional solutions to drive structural change and deliver cash releasing savings.</p>	<p>R1 – As part of the 2024/25 budget setting process a collaborative session should be convened, involving Board members and senior managers from GCRB and each of the regional Colleges, to assess the scale and nature of the financial risks facing the Glasgow region, and to identify potential pan-regional solutions which could help in delivering the cash releasing savings required to achieve a financially sustainable model for the Glasgow region while meeting the needs of learners.</p>	<p>Agreed</p> <p>To be actioned by: Finance and Resources Director</p> <p>No later than: 30 April 2024</p>	
			<p>Grade</p>	<p>2</p>



Objective 3 - The basis for the financial forecasting for the Glasgow region is underpinned by accurate and complete data for both revenue and capital.

It was evident from our analysis that there is detailed overview of the expenditure and income figures produced by each of the regional Colleges, which allows the combined regional position to be assessed.

Our 2022/23 review of Budgetary Control / Financial Planning (internal audit report 2023/05, which was issued in May 2023) stated that:

- *“A College Operating Plan Update paper was submitted to the 12 December 2022 meeting of the BOM. This paper highlighted some significant changes which had happened since the initial version 1.0 had been produced. Some of these changes were positive and some negative but the overall impact reported in December 2022 was a positive one;*
- *The College Operating Plan was developed collaboratively and our discussions with budget holders in both academic and non-academic areas confirmed that the challenging financial position had been outlined to managers in the summer of 2022 and that there had been ongoing dialogue regarding the need to revise operational plans in 2022 following the publication of the new Glasgow Kelvin College Strategy 2022 – 2027 in January 2022;*
- *The College Operating Plan sets out the wider economic context, the financial position of the College (and the Arm’s Length Foundation), the need for a radical change management approach across the College, and a detailed Operating Plan showing the Objectives, Actions and Targets required to achieve the required financial position in the future;*
- *The document clearly demonstrates alignment of College Strategic Ambitions (SAs) and Strategic Priorities (SPs) with College Operating Plan (COP) Targets and Faculty / Department Operational Plans (F/DOPs);*
- *A summary of Income, Expenditure and the Underlying Cash result was also provided to provide absolute transparency regarding the forecast position for the next five years;*
- *It is our view that the approach taken by the College is an exemplar approach in terms of generating a long term financial strategy which demonstrates the impact on strategic and operational priorities, whilst clearly setting out the action required across the College to achieve the financial results required to achieve a viable operating model which fits with forecast resource constraints;*
- *A calculation has been conducted and our review of this “FT analysis” confirmed that this is a comprehensive spreadsheet model which calculates the maximum number of classes which will be allowed to run in academic session 2023/24. A working group was convened to examine the FT analysis and the document has been shared with the trade unions;*
- *The College Operating Plan has been developed in collaboration with the Finance and Resources Director in GCRB and we were advised that a good working relationship has been developed which allows open dialogue around the assumptions built into the financial modelling”.*

Therefore, it was clear from this review that there has been constructive dialogue between Glasgow Kelvin College and GCRB in relation to the key assumptions which underpin their financial modelling and therefore a transparent approach in terms of setting out the basis for revenue and capital projections.



Objective 3 - The basis for the financial forecasting for the Glasgow region is underpinned by accurate and complete data for both revenue and capital. (Continued)

In our 2022/23 review of Budgetary Control (including scenario planning), for City of Glasgow College (internal audit report 2023/06, issued in August 2023) we stated that:

“The College, in line with the wider HE/FE sector, faces substantial financial challenges due to continued and persistent inflationary costs pressures, flat cash funding from the SFC, and uncertainty regarding the outcome of future staff pay settlements (particularly if final settlements are above the increases which have been factored into the approved College budget for 2023/24). Whilst the College has undertaken scenario planning and sensitivity analysis to identify potential impacts on budgets, and actions have already been approved to improve future budget outcomes (including organisational restructuring, voluntary severance, and operational efficiency measures) the College must continue to maintain vigilance, through a dynamic review process over the financial position, as it has demonstrated over the last 12 months”.

The Finance and Resources Director did highlight the inherent difficulty in sense checking the projected levels of commercial income presented by individual regional Colleges, which can vary from one financial year to another. In these instances it is extremely difficult to challenge the data, which underpins the income projections for commercial income, simply because the level of commercial activity, and the financial returns they will deliver, are by definition aspirational and unique to the market conditions and opportunities available to each College in a given financial year. This makes these projections less solid than, for example, student fee income, which is largely based on the delivery of student credits, which are supported by a raft of data to support assumptions around student numbers, student retention, and attainment/progression.



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