

Audit and Assurance Committee Meeting

Date of Meeting	Tuesday 10 October 2023
Paper Title	Internal Audit Report – Funding Allocations
Agenda Item	8
Paper Number	AAC1-D
Responsible Officer	Jim Godfrey, Finance & Resources Director
Status	Disclosable
Action	For Noting and Comment

1. Executive Summary

- 1.1. The internal audit report on funding allocations 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 funding allocations and **comment** as appropriate.
- **note** that the level of assurance is 'good' and there are no recommendations arising from this review.

3. Report

- 3.1.** The Internal Auditor has provided a report on funding allocations 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 'good'. There are no recommendations 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 4 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.

Glasgow College's Regional Board

Funding Allocations

Internal Audit report No: 2023/03

Draft issued: 4 October 2023

Final issued: 5 October 2023



Section 1	Management Summary	Page
	<ul style="list-style-type: none"> • Overall Level of Assurance • Risk Assessment • Background • Scope, Objectives and Overall Findings • Audit Approach • Summary of Main Findings • Acknowledgements 	<p>1</p> <p>1</p> <p>1</p> <p>2</p> <p>2</p> <p>3</p> <p>3</p>
Section 2	Main Findings and Action Plan	4 - 8

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

Good	System meets control objectives
-------------	---------------------------------

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.

For 2022/23, the final teaching allocation to the Glasgow college region was £104.6m compared to an allocation of £108.1m in 2021-22. This represented a decrease in total funding of £3.5m (3.2%).



Funding Allocations

Scope, Objectives and Overall Findings

The scope of this assignment focused on evaluation of the systems put in place to calculate and distribute both revenue and capital finding allocations.

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. There is an agreed methodology for calculating the funding allocations which is aligned to SFC requirements and has been discussed with the three Glasgow Colleges.	Good	-	-	-
2. The methodology used to calculate the latest funding allocations has been deployed accurately	Good	-	-	-
3. Any variations to the initial funding allocations have been calculated and distributed appropriately.	Good	-	-	-
4. All funding allocations have been communicated effectively and timeously to both the GCRB Board and the three Glasgow colleges.	Good	-	-	-
Overall Level of Assurance	Good	-	-	-
		System meets control objectives		

Audit Approach

Through discussions with the GCRB Finance and Resources Director, and review of supporting information, we have reviewed the systems put in place to calculate and distribute both revenue and capital finding allocations for the Glasgow region.



Summary of Main Findings

Strengths

- The final GCRB budget for 2022/23 was considered at the June 2022 meeting of the Performance and Resources Committee. In the final allocation to the three Glasgow Colleges, the total GCRB budget remained unchanged from the indicative budget, with a top slice of £496,000 allocated for GCRB running costs and £419,000 ringfenced for the regional programme of action;
- The distribution of various blocks of funding is based on a formulaic approach, which remains largely unchanged from previous financial years;
- The methodology utilised to calculate the distribution of funding is aligned to SFC requirements and has been discussed with the three Glasgow colleges, recognising that the way in which the funding has been distributed in 2022/23 does not utilise the powers available to GCRB to redirect funds to meet agreed shared regional priorities.
- We are also comfortable that the calculation of the distribution of funding has been conducted accurately.
- The year end spreadsheet utilised by the Finance and Resources Director, demonstrates that the additional in year allocations for 2022/23 were distributed in line with the allocations decided through delegated authority (or in the case of FWDF funding by the GCRB Board) and were distributed to Colleges in a timely manner following the decision being taken on the amounts to be distributed to each college; and
- Our analysis of the FWDF reconciliation spreadsheet demonstrated how Glasgow Kelvin College and City of Glasgow College benefited in financial year 2022/23 because GCRB was in a position to fund these colleges additional delivery from the underspend reported by Glasgow Clyde College. This is an example of the regional funding process working to the benefit of the Glasgow colleges, by avoiding the scenario whereby funding would be returned to the SFC by a college which under-delivered in terms of the level of activity attached to the relevant funding.

Weaknesses

- There were no weaknesses identified through the work conducted.

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 - There is an agreed methodology for calculating the funding allocations which is aligned to SFC requirements and has been discussed with the three Glasgow Colleges.

Objective 2 - The methodology used to calculate the latest funding allocations has been deployed accurately

The report entitled 'Final Funding Allocations' was submitted to the June 2022 and advised the GCRB Board that *"For 2022-23, as in previous years, we have sought to provide a clear, low risk approach to the preparation of the final funding allocations. The development of a future regional strategic plan, with clear priorities, will provide an alternative framework upon which to allocate future resources"*.

The final funding allocation from SFC differed from the indicative allocation and SFC did not provide any advance notification to GCRB prior to the publication of the national funding announcement. The change related to 'Reductions in activity targets for large city-centre colleges', resulting in a reduction of 3,000 credits per college region. The final funding allocation letter from the SFC advised that *"We have reduced the student activity targets for two colleges and one region from the indicative announcement whilst maintaining their teaching funding allocations. This will allow for an increase in the price per place for Edinburgh College, City of Glasgow (CoG) College and North East Scotland College (NESCol) to create greater alignment across the sector. As SFC's funding responsibility is to the Glasgow Region, it will be for the Glasgow College (sic) Regional Board to decide how to allocate the reduced credits (and unchanged teaching funding) the Region will receive to its assigned colleges."*

The final GCRB budget for 2022/23 was considered at the June 2022 meeting of the Performance and Resources Committee. In the final allocation to the three Glasgow Colleges, the total GCRB budget remained unchanged from the indicative budget, with a top slice of £496,000 allocated for GCRB running costs and £419,000 ringfenced for the regional programme of action. As highlighted within internal audit report 2023/02 – Financial Sustainability, 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. Although there have been a number of round table discussions around financial sustainability, over several years, but the absence of a shared set of regional priorities means that there has been little impetus in driving a change to the current methodology for distributing funding. Accordingly, the distribution of various blocks of funding is based on a formulaic approach, which remains largely unchanged from previous financial years. So for example, the distribution of student activity (credits) funding is based on the proportion of credits allocated to each College (once the GCRB running costs and the funds for the delivery of the programme of action are stripped out). And if funding is received which is calculated on headcount then this funding will be divided based on the relevant headcount figures for each of the Glasgow region colleges.

Therefore, we are comfortable that the methodology utilised to calculate the distribution of funding is aligned to SFC requirements and has been discussed with the three Glasgow colleges, recognising that the way in which the funding has been distributed in 2022/23 does not utilise the powers available to GCRB to redirect funds to meet agreed shared regional priorities. We are also comfortable that the calculation of the distribution of funding has been conducted accurately.



Objective 3 - Any variations to the initial funding allocations have been calculated and distributed appropriately.

Objective 4 - All funding allocations have been communicated effectively and timeously to both the GCRB Board and the three Glasgow colleges.

As part of our review we examined the following additional in-year funding allocations for 2022/23:

1. Funding for Young Persons Guarantee

The Board were advised of a use of delegated authority in relation to £788,912 in funding received in February 2023 from the SFC. The targeted funding for child poverty was paid to colleges in mid-February 2023, with the main YPG funding subsequently paid in March 2023. The Board were advised that the allocation had *“been discussed with the three college principals and had the support of all parties”*.

The targeted funding to address child poverty was split equally between the three colleges, with Glasgow Clyde College allocated an additional £5,000 to undertake the project administration. The YPG funding was allocated on the basis of a core allocation of £125,000 to City of Glasgow College, with the remaining balance allocated across the three colleges based upon their respective share of the core grant for financial year 2022/23. The higher baseline allocation to City of Glasgow College recognised the YPG activity delivered by the college in previous years.

2. Counsellors

The Scottish Funding Council (SFC) provided funding of £136,000 to the Glasgow college region for the period 1 August 2022 to 31 March 2023 to fund the employment of 2.6 FTE counsellors. This amount was significantly lower than the £404,500 previously provided in 2021-22, which was allowed the employment of 7.75 counsellors. The Board were advised that in each of the previous three years, GCRB had agreed to allocate the funding equally to all three colleges, after meeting the cost of the Togetherall on-line service from March 2020 to July 2022. The Board Chair agreed, in consultation with the Performance & Resources Committee Chair, that the decision on allocation should be made by the Executive Director. The Executive Director approved that the additional funds for counsellors be allocated equally to each college in 2022-23. Under the scheme of delegation, it was determined that each college be allocated £45,333.33 in 2022/23. This amount provided sufficient resources to enable each college to employ 0.87 FTE counsellors in 2022/23 (a decrease of 1.7 FTE counsellors per college).

3. Additional Discretionary Funding

The Scottish Funding Council (SFC) provided an additional £1,229,286 of funding to the Glasgow college region for academic year 2022-23. The funding provided additional discretionary funding to students to address the pressures arising from cost-of-living, and fuel poverty, pressures. The additional funds were allocated, by SFC, in proportion to the region's share of core student support funds and were paid in March 2023. The Board were advised that *“The additional funds are supplementary to in-year requests for additional funding. Within the Glasgow region, City of Glasgow requested, and has been allocated, an additional £310,000 of student support funds. The other two colleges forecast that they have sufficient funding to meet the requirements of their students¹. This allocation will be reported back to GCRB to allow monitoring of overall spend, and all colleges have agreed to an approach which would allow for in-year redistribution if required to maximise in-region benefits”*.



Objective 3 - Any variations to the initial funding allocations have been calculated and distributed appropriately. (Continued)

Objective 4 - All funding allocations have been communicated effectively and timeously to both the GCRB Board and the three Glasgow colleges. (Continued)

4. Flexible Workforce Development (FWD) Fund

The report submitted to the Board on 30 January 2023 sought approval for the allocation of the SFC funding for FWD announced on 17 January 2023. The Board was advised that the initial amounts allocated to the Glasgow college region for Flexible Workforce Development 2022/23 were “much lower than the previous year as follows:

- £1,259,999 – Levy Paying employers (2021-22 - £2,440,224)
- £316,083 – Small and medium-sized enterprises (SMEs) (2021-22 - £428,2701)

The Board approved the split proposed, noting that the proposed allocation of funding to the Glasgow colleges was made using the same methodology deployed in previous years.

We reviewed the year end spreadsheet utilised by the Finance and Resources Director, which contains a ‘Bank’ tab which tracks payments received and paid by GCRB. This demonstrates that the additional in year allocations were distributed in line with the allocations decided through delegated authority (or in the case of FWD funding by the GCRB Board) and were distributed to Colleges in a timely manner following the decision being taken on the amounts to be distributed to each college.

We reviewed two examples of reconciliations conducted by GCRB, which enabled an over-delivery by one college to be offset against an under-delivery by another college. Our analysis of the FWDF reconciliation spreadsheet demonstrated how Glasgow Kelvin College and City of Glasgow College benefited in financial year 2022/23 because GCRB was in a position to fund these colleges additional delivery from the underspend reported by Glasgow Clyde College. This is an example of the regional funding process working to the benefit of the Glasgow colleges, by avoiding the scenario whereby funding would be returned to the SFC by a college which under-delivered in terms of the level of activity attached to the relevant funding. We were advised by the Finance and Resources Director that City of Glasgow College was also a net beneficiary in the equivalent 2021/22 reconciliation through offsetting their over delivery against the underspends elsewhere.

We also noted that the basis for the distribution of additional funding of £84,500 for Free Period Products for academic year 2023/24 was the same methodology deployed in previous financial years.



Funding Allocations

Objective 3 - Any variations to the initial funding allocations have been calculated and distributed appropriately. (Continued)

Objective 4 - All funding allocations have been communicated effectively and timeously to both the GCRB Board and the three Glasgow colleges. (Continued)

GCRB approved the indicative allocations for the Glasgow college region on 25 April 2022. On 26 May 2022, the SFC announced the final funding allocations for 2022-23.

The report entitled 'Final Funding Allocations for 2022/23' was submitted to the June 2022 meeting of the GCRB Board. The Board were advised that the final funding allocation contained some changes to those issued by SFC in the indicative allocations and highlighted that the GCRB Performance and Resources Committee had considered the final regional funding allocations for 2022-23. A link to the full SFC announcement on funding allocations was provided within the report to the June 2022 Board meeting. The report also highlighted that further work would take place to finalise the allocation of credit targets within the regional outcome agreement 2022-23.

The GCRB Board considered, and approved, the final funding allocations for 2022-23, noting the changes to the indicative allocations, which were highlighted under Objective 1 above.

Based on our analysis of the calculation and distribution of variations to the initial funding allocations, focusing on additional in-year allocations, we are content that these have been calculated in line with the agreed methodology, communicated to the Board, and distributed to the three Glasgow region colleges timeously.



Funding Allocations

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.



Aberdeen 45 Queen's Road AB15 4ZN
Dundee The Vision Building, 20 Greenmarket DD1 4QB
Edinburgh Ground Floor, 11-15 Thistle Street EH2 1DF
Glasgow 100 West George Street, G2 1PP

T: 01224 322 100 **F:** 01224 327 911
T: 01382 200 055 **F:** 01382 221 240
T: 0131 226 0200 **F:** 0131 220 3269
T: 0141 471 9870

Henderson Loggie LLP is a limited liability partnership registered in Scotland with registered number SO301630 and is a member of PrimeGlobal, a global association of independent accounting firms, the members of which are separate and independent legal entities. Registered office is: The Vision Building, 20 Greenmarket, Dundee, DD1 4QB. All correspondence signed by an individual is signed for and on behalf of Henderson Loggie LLP. Reference to a 'partner' is to a member of Henderson Loggie LLP. A list of members' names is available for inspection at each of these addresses.

