

Audit and Assurance Committee Meeting

Date of Meeting	Tuesday 5 October 2021
Paper Title	Arm's Length Foundations
Agenda Item	13
Paper Number	AAC1-G
Responsible Officer	Jim Godfrey, Finance & Resources Director
Status	Disclosable
Action	For Noting

1. Executive Summary

1.1. This paper provides briefing on Arm's Length Foundations.

2. Recommendations

2.1. The Committee is invited to:

- **note** the summary of Arm's Length Foundations.

3. Report

- 3.1. In June 2018, the SFC produced guidance in respect of the Financial Forecast Returns. The full guidance is available via the following link:
http://www.sfc.ac.uk/web/FILES/callsforinformation_sfcci032018/SFC_CI_03_2018_Call_for_information_2018_FFR.pdf

- 3.2. This guidance contained a section in respect of Arms-Length Foundations and this is reproduced below:

“Arms-length foundations (ALFs) were established to mitigate the impact of incorporated colleges’ reclassification (as arms-length central government bodies) in relation to cash reserves and future surpluses, and therefore provide colleges with a continuing incentive to generate income from commercial activities. ALFs are independent charitable organisations and are only accountable to the Office of the Scottish Charity Regulator and Companies House where the legal form of the ALF is a company limited by guarantee. Given their independent status, neither the Scottish Government nor SFC can set priorities for how funding from ALFs is utilised.

Colleges can donate a commercial surplus to an ALF prior to the March year-end subject to having both the cash and resource budget cover to make the donation. Donations can be accrued subject to the College having a board minute approving the amount that will be donated by 31 March. Any plans to donate commercial surpluses to ALFs should be clearly set out in colleges’ cash flow returns.

In some circumstances, as an alternative to donating a commercial surplus to an ALF, colleges can consider re-profiling funds through SFC over the financial year-end. This may be appropriate where the timing of expenditure spans the March financial year end. Advance notice and agreement with SFC is required. This option presents less risk, given that there is no guarantee that colleges’ funding applications to ALFs will be successful.

For the avoidance of doubt, ring-fenced funds such as SFC capital grant and student support funds cannot be donated to an ALF. Any underspend on ring-fenced budgets will revert to SFC.

ALF donations and utilisation of grants from ALFs are, and will continue to be, subject to a great deal of scrutiny therefore it is important that colleges maintain robust records and back-up documentation that justify payments, in particular evidencing that there is sufficient resource cover to make the donation. Colleges should continue to maintain records in the resource return format albeit resource returns will no longer be required to be submitted from Financial Year 2018-19 onwards. SFC reserves the right to request further information from colleges in relation to ALF donations.”

- 3.3. As stated above, Arms-Length Foundations are independent charitable organisations governed by the Office of the Scottish Charity Regulator and Companies House. As such, documentation in respect of entity, is placed in the public domain.

3.4. The three Arms-Length Foundations, with particular relevance to the college sector in Glasgow are:

- Glasgow Clyde Education Foundation¹
- Glasgow Kelvin Learning Foundation²
- City of Glasgow College Foundation³

3.5. It is noted that the City of Glasgow College Foundation is a Private Limited Company by Guarantee. Whereas the Glasgow Clyde Education Foundation and the Glasgow Kelvin Learning Foundation are both Scottish Charitable Incorporated Organisations (SCIOs). The different constitutions means that the majority of statutory information relating to City of Glasgow College Foundation is available via the Companies House website. Whereas, for the other two Arms-Length Foundations, the information is available via the Office of the Scottish Charity Regulator.

3.6. Two of the Foundations also maintain websites that provide additional information relating to their aims and activities. The links to the websites are listed below:

<http://foundation.cityofglasgowcollege.ac.uk/>

<http://www.theclydefoundation.org/about-us/>

3.7. The website maintained by the Glasgow Clyde Education Foundation is particularly good, with lots of information about case studies and projects that have been funded.

3.8. The annual financial statements of each foundation provide an overview of the activities during the year, including grants made. The following information has been extracted from the financial statements to show the balance of reserves at each year end:

	31 March 2021	31 March 2020	31 March 2019	31 March 2018	31 March 2017	31 March 2016
	£m	£m	£m	£m	£m	£m
Glasgow Clyde Education Foundation	£5.7	£8.2	£9.4	£9.8	£13.2	£14.2
Glasgow Kelvin Learning Foundation	TBC	£2.0	£2.7	£3.1	£5.1	£2.2
City of Glasgow College Foundation	TBC	£4.7	£4.7	£6.8	£7.9	£10.6
Total	TBC	£14.9	£16.8	£19.7	£26.2	£27.0

¹ Company Number CS001379, Charity Number SC044616

² Company Number CS001383, Charity Number SC044632

³ Company Number SC466171, Charity Number SC044620

3.9. In summary, the Arms-Length Foundations are independent entities and information in respect of their activities is placed in the public domain. The foundations have invested significant resources to the benefit of colleges and learners.

3.10. The level of reserves has halved during the previous 5 years and is expected to reduce further in the future. The reserves held by Glasgow Kelvin Learning Foundation are expected to be utilised by the end of 2022. There is scope for further investment beyond 2022 within the Glasgow Clyde Education Foundation and the City of Glasgow College Foundation.

4. Risk and Compliance Analysis

4.1. This report supports the effective governance of GCRB by providing information in respect of the Arms' Length Foundations in the Glasgow college region. The report contributes to the mitigation of the risk that "Financial sustainability is jeopardised by a reduction in income and/or an increase in costs" (Risk 008).

4.2. There are no legal implications arising from this report.

5. Resource Implications

5.1. There are no direct financial implications to GCRB as a result of this report. The reduction of funds held by Arms' Length Foundations will impact on the long-term financial sustainability within the Glasgow college region.

6. Equalities Implications

6.1. There are no equalities implications arising from this report. However, individual projects, funded by arms' length foundations, may address matters of inequality.

7. Learner Implications

7.1. The Arm's Length foundations have provided financial support to the college, and learners, and it is hoped that this will continue into the future. This financial support has enabled the achievement of college, and individual, ambitions.