

## Performance and Resources Committee Meeting

Date of Meeting	Wednesday 26 September 2018
Paper Title	Financial Monitoring
Agenda Item	8 (d)
Paper Number	PRC1-G
Responsible Officer	Jim Godfrey, Finance and Resources Director
Status	Disclosable
Action	For Noting

### 1. Report Purpose

- 1.1. To update the Committee on the financial monitoring of the assigned colleges during the period June to August 2018.

### 2. Recommendations

- 2.1. The Committee is asked to **note** the financial monitoring activity undertaken in the last three months.

### 3. Background

- 3.1. The monitoring of the financial performance of the assigned colleges is an important component of the role of Glasgow Colleges' Regional Board<sup>1</sup>. A report outlining the monitoring arrangements was considered by this Committee at its meeting on 7 March 2018.

### 4. Resource Returns

- 4.1. The Glasgow college region is part of the Central Government accounting and budgeting regime and subject to the same expenditure controls as SFC and other Government bodies. Colleges are allocated an annual resource expenditure budget and it is imperative that the net expenditure incurred in the financial year is within this Resource Departmental Expenditure limit (RDEL) or Capital Departmental Expenditure limit (CDEL).
- 4.2. The Colleges were required to submit resource returns to SFC for the financial year 2017-18. In addition, SFC wrote to all incorporated colleges on 14 August 2018 setting out the requirements placed on Finance Directors to provide an annual review certificate. By providing this certificate Finance Directors must ensure that they have completed a series of verification checks as detailed in the letter.
- 4.3. Copies of the Resource Return Review Certificates were provided to GCRB by the 3 colleges by 17 September 2018.

<sup>1</sup> Referred to as GCRB throughout the remainder of this document.

- 4.4.** On 1 August 2018, the SFC's Director of Finance Resource wrote to Incorporated Colleges outlining the outcome of a review of financial monitoring returns. The outcome of the review identified that changes could be made to the current system to make it more efficient. The primary changes are;
- Resource Returns are not required in the future.
  - A Financial Forecast Update will be requested showing the expected outturn for the year by 31 January.

## **5. Cash Flow Returns**

- 5.1.** GCRB and the assigned colleges are classified as central government entities for the purposes of accounting and budgeting. It is SFC's, and GCRB's, responsibility to allocate both cash and resource budgets to colleges/regions in order to support the delivery of their Outcome Agreements and to distribute cash on the basis of need. Both organisations also monitor cash paid out against the overall financial year budget, monitor spend against financial year resource budget and monitor college sustainability. SFC also provides information to the Scottish Government and HM Treasury.
- 5.2.** The colleges supplied cash flow returns to GCRB and SFC in June, August and September 2018. They were all received in a timely manner. As previously noted, these were reviewed by GCRB Finance & Resources Director (and Senior Financial Analyst within the SFC) and some queries were raised with the colleges, which were dealt with promptly, and there are no outstanding matters.
- 5.3.** It is worth noting that the new cash flow forecasts for 2018-19 (incorporating some changes from the SFC review of financial monitoring) have encountered some teething problems. Refinements to the SFC monitoring form are in hand to ensure that they can be further improved.
- 5.4.** The cash flow forecasts identify the future funding requirements and inform the monthly cash payments to each institution. The monthly payments were approved by GCRB in accordance with it assuming its full responsibilities as a fundable body. The Internal Auditors have recently completed a review of funds processing and this will be considered by the Audit Committee on 2 October 2018.

## **6. Flexible Workforce Development Fund**

- 6.1.** The three colleges supplied returns to GCRB Finance & Resources Director on the 30 June 2018. This was the final return for the first year of the Fund. The returns from each college were combined into a single regional return and submitted to the Scottish Funding Council. Following a review of the final returns some additional information has been requested from the colleges. The colleges have provided this information but there was a delay in the receipt of this information from one college. A progress report on the Flexible Workforce Development Fund is a separate item on this agenda.
- 6.2.** The monitoring arrangements for the second year of the fund were published by SFC on 31 July 2018. A monitoring return is due for submission to SFC at the end of September, November, January, March and May. The first return for 2018/19 is due a few days after this committee meeting.

## **7. Capital Monitoring 2017-18**

- 7.1.** The capital progress reports were provided by each college in September 2018 and collated into a single report for this Committee. This report is the subject of a separate item on the agenda.

## **8. Capital Plans 2018-19**

- 8.1.** The capital progress reports were provided by Glasgow Clyde College and Glasgow Kelvin College and incorporated into a report for this Committee. This report the subject of a separate item on the agenda.

## **9. Financial Forecast Returns 2018-2023**

- 9.1.** The colleges, and GCRB, are required to submit a Financial Forecast Return by 30 September 2018. A report on the Financial Forecast Returns is the subject of a separate item on the agenda.

## **10. Collaboration**

- 10.1.** The Colleges and GCRB are collaborating on a range of financial matters. These arrangements enable the free flow of information and identification of risks. The following examples demonstrate the extent of these mechanisms:

- **Sustainable Institutions Group** – met in June and August 2018. The participants included the Vice-Principals responsible for Finance within each college along with GCRB's Finance and Resources Director. Key issues for discussions were National Bargaining, Future Funding Model and Financial Forecast Return.
- **Finance Meetings** – this group meets every three months and includes the Heads of Finance/Assistant Principals with responsibility for Finance and the GCRB Finance & Resources Director. The group met in June and September 2018. The Financial Forecast Return and the consolidated financial accounts were the main items considered.
- **Glasgow Region Procurement Team** – representatives of the colleges meet with colleagues from APUC and the GCRB Finance and Resources Director on a quarterly basis. The purpose of the meeting is to monitor progress on the range of collaborative procurement activities within the Glasgow Region. A meeting of this group took place in August 2018 to review the latest procurement activity throughout the Glasgow Region.
- **Strategic Dialogue with SFC** – the GCRB Executive Director and Finance & Resources Director meet with senior representatives of the SFC on a regular basis. These meetings provide an opportunity to discuss strategic matters and risks facing the region. The meetings also enable an exchange of information and enable SFC to monitor the work of the region. A meeting took place in July 2018 with the next one scheduled for October 2018.
- **Liaison with SFC Finance Team** – the GCRB Finance & Resources Director has a constructive, and positive, relationship with SFC finance colleagues. This relationship is mutually beneficial and enables SFC to support regional monitoring and discuss matters of concern. This process is regular and on-going.

- **Sectoral Support** – the GCRB Executive Director and Finance & Resources Director work closely with other sector representatives, for example Finance Steering Group and Colleges Scotland. Such relationships are important as they help inform SFC policy in respect of how the monitoring arrangements are implemented. The GCRB Finance & Resources Director now attends the national groups responsible for reviewing the Funding Model and also the Colleges Scotland Funding and Finance Committee.

#### 11. Data Return for Funding Purposes (FES return)

11.1. In accordance with SFC/GD/17/2018, colleges are submit their FES return, a college certificate, an audit certificate and an audit report for the academic year 2017-18. The deadline for submission of this information to SFC is 5 October 2018. The colleges will provide a copy of this return to GCRB as part of the assurance process.

#### 12. Student Support Funds 2018-19

12.1. The colleges are due to supply a forecast in December 2018. This will be used to facilitate a potential re-distribution of resources at a regional and/or national level at the start of 2019.

#### 13. Education Maintenance Allowance (EMA) Return

13.1. In accordance with SFC/GD/12/2018 colleges are required to supply an annual return in respect of EMAs for the year ending 2017-18. This is due to be returned to SFC on 21 September 2018 (shortly after these committee papers were issued). The colleges will provide a copy of this return to GCRB as part of the assurance process.

#### 14. Risk Analysis

14.1. The actions set out in the report are intended to mitigate some of the risks contained within the risk register. These risks and the actions are outlined below:

Risk ID	GCRB Risk	Action
0002	Effective working relationships are not developed/maintained with key partners due to a focus on short-term internal priorities.	The monitoring actions outlined identify the importance of effective working relationships with key external partners (for example SFC).
0007	Financial sustainability is jeopardised by a reduction in funding and/or an increase in costs.	The financial monitoring arrangements are intended to support the financial sustainability of the colleges and the region. Through the effective monitoring it is anticipated that any issues will be identified in a timely manner. Identifying issues at the earliest opportunity enables GCRB and a college, or colleges, to work together to develop a shared solution.

Risk ID	GCRB Risk	Action
0009	Working relationships within the Glasgow College Region (e.g. students, staff, board members) are ineffective and reduces our collective impact.	The financial monitoring arrangements outlined above promote the value of a collaborative approach with regional colleges. The financial monitoring advocated is consistent with that in place for a single college region and GCRB will maximise the use existing sources of information.
0012	There is a breach of legislation/guidance/code of practice and this results in a failure of governance.	The effective monitoring of the financial performance of the colleges is a cornerstone of responsibilities of the Regional Strategic Body. The monitoring arrangements outlined above enable GCRB to fulfil these responsibilities and help to mitigate this risk.

**15. Equalities Implications**

15.1. There are no equalities implications as a direct result of this report.

**16. Legal Implications**

16.1. There are no specific legal implications associated with this report.

**17. Resource Implications**

17.1. The actions in respect of financial monitoring are primarily undertaken by the Finance and Resources Director in partnership with colleagues within the colleges and the SFC. No additional expenditure is envisaged as a result of this report.

**18. Strategic Plan Implications**

18.1. The financial monitoring arrangements are a key component of the effective governance of GCRB. As such, this contributes to this ambition within of the Glasgow Region Strategic Plan for College Education 2017-22.



1 August 2018

**To: Principals of Incorporated Colleges**

copied to: College Finance Directors/Managers  
Andy Witty, Colleges Scotland

Dear Principal

**Review of Financial Monitoring Returns**

As a result of the reclassification, by the Office for National Statistics (ONS), of incorporated colleges as arms-length central government bodies in April 2014, and Scottish Government budgeting and accounting requirements, colleges have been required to provide the Scottish Funding Council (SFC) with monthly cash flow and quarterly resource information (monthly in the last quarter) to 31 March each year to ensure that they balance their books on a resource basis and in order that cash is not paid out in advance of need. In addition, SFC's own resource returns to the Scottish Government incorporate the consolidated sector resource position based on the returns received from colleges.

SFC and the Scottish Government have recently undertaken a review of the college reporting processes, taking into account experience over the last four years, to identify whether a more streamlined approach could be achieved.

**Review conclusions**

The main conclusions from the review were:

- Changes could be made to the existing system to bring about a more efficient and less resource intensive process for both colleges and SFC;
- With the addition of some more detail captured in the cash flow returns, the information collected through the cash flow returns, in addition to the Financial Forecast Returns (FFRs) and annual accounts, would be sufficient to enable SFC to monitor the financial health of colleges during the year and report colleges' spend against Scottish Government budget limits in the SFC monthly resource returns; and

- To enable monitoring of the outturn for the academic year, an additional mid-year Financial Forecast Update (FFU) will be requested showing the expected outturn for the year by 31 January. It is expected that this will require minimal extra work from colleges as the information is on the same basis as that already being reported to the college board of management and colleges are familiar with the format.

## **Resource returns**

Based on the outcome of the review, SFC and the Scottish Government have agreed that, with effect from FY 2018-19, colleges will no longer be required to submit resource returns to SFC. However, colleges are still required to submit the final resource return for FY 2017-18 by September 2018.

## **New procedure**

Colleges will continue to provide cash flow forecasts to SFC on a regular basis for the purposes of establishing the drawdown required and also to enable their liquidity position to be closely monitored. The cash flow template is being updated to collect the additional information required, such as information on the disposal of fixed assets, and a copy of the revised template will be shared with the Financial Returns Working Group for their comments and agreement prior to it being finalised.

Although colleges are no longer required to send in resource returns, it is still imperative that colleges operate within the cash resource budget given as any overspends will have a direct impact on the overall resource position. It is expected that college cash balances will remain steady year on year on the basis that colleges report a balanced operating position (subject to working capital movements). Any significant cash movements will be identified and colleges will be asked to give an explanation for the variances.

Due to the importance of having accurate and robust cash flow information, we will require Directors of Finance to sign off the spreadsheet and confirm that the opening balance shown for the month is in agreement with the college's bank reconciliation(s).

Cash balances reported on the cash flow at the end of the academic year should be reconcilable to the audited financial statements.

Details of Annual Managed Expenditure (AME) transactions will be collected separately following the Academic year-end as this is the point when impairments

and pension valuations are identified. In addition, as highlighted above, colleges will also be asked to provide an FFU return in January each year.

### **Donations to Arms-Length Foundations (ALFs)**

As colleges are aware, donations can only be made to ALFs where budget cover is available from net college surpluses arising from commercial activity. Government funds cannot be donated in this way.

It is important that colleges maintain robust records and back-up documentation that justify donations, in particular evidencing that there is sufficient budget cover within the FY to make the donation. SFC reserves the right to request further information from colleges in relation to ALF donations.

If your college is considering an ALF donation, we would request that you contact SFC in the first instance so that we can confirm the source of surplus funds.

### **Financial Forecasts and Annual Accounts**

Colleges will be required to submit an FFR in June<sup>1</sup>, together with an FFU in January, the latter giving the projected outturn for the academic year.

There will be no change to the annual accounts process, with colleges submitting their audited financial statements and supporting documents by 31 December each year.

### **Further Information**

Please contact Dorothy Carson, Senior Financial Analyst (Tel: 0131 313 6607; Email: [dcarson@sfc.ac.uk](mailto:dcarson@sfc.ac.uk)) or Andrew Millar, Assistant Director, Institutional Sustainability & Governance (Tel: 0131 313 6538; Email: [amillar@sfc.ac.uk](mailto:amillar@sfc.ac.uk)) to discuss any aspect of this letter.



**Lorna MacDonald**  
Director of Finance

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<sup>1</sup> 2018 FFR is due to be returned by 28 September 2018