

Board Meeting

Date of Meeting	Monday 16 March 2015
Paper Title	Financial Memorandum between GCRB and the Glasgow Colleges
Agenda Item	6
Paper Number	BM5-C
Responsible Officer	Julia Henderson, Advisor to the Board
	Principals
Status	Disclosable
Action	For Decision

1. Report Purpose

- 1.1** To seek the Board's agreement to the terms of the Financial Memorandum between the Glasgow Colleges' Regional Board and Glasgow Clyde College, Glasgow Kelvin College and the City of Glasgow College.

2. Recommendations

- 2.1** The Board agrees the attached Financial Memorandum and instructs the Advisor to the Board to pass the approved Glasgow Region Financial Memorandum to the Scottish Funding Council for their approval.

3. Background

- 3.1** The Post-16 Education (Scotland) Act 2013 sets out legislative changes to support the restructuring of the college sector along regional lines. In the three multi-college regions, the Regional Strategic Body (RSB) is responsible for securing coherent provision of further and higher education in its region, through its assigned colleges. However, SFC continues to be accountable to Scottish Ministers for the use of funds allocated to assigned colleges and, therefore has, while recognising the role of the RSB, a clear ongoing interest in the governance, management and performance of the assigned colleges.
- 3.2** The new FM between SFC and the GCRB requires it, in turn, to put in place a FM with each of its assigned colleges. To assist with this requirement, SFC developed, with help from the Advisor to the Board, a template or 'model' FM between RSBs and the Glasgow colleges, which is modelled on the main college sector FM. This ensures that there is symmetry between the accountability and governance arrangements between SFC and RSBs, and between RSBs and their assigned colleges. Importantly, the template set out

the requirements from the SFC perspective, and they did not expect the core elements of the template to be altered. The template and associated instructions from the SFC was issued to the GCRB on 11 December 2014 with a request for a final proposed version of the Region's FM by 20 February 2015.

- 3.3** The SFC expects that the template is tailored to the needs of individual regions; and they looked to the GCRB to work with the colleges to develop the local FM. This FM will be subject to approval by SFC.
- 3.4** Until this local FM is in place, the SFC expects colleges to comply with the requirements of the main FM between colleges and SFC, albeit that the principal relationship is between assigned colleges and the RSB.

4. Discussion

- 4.1** The Advisor to the Board provided the Chairs and Principals with a copy of the draft FM for their consideration on 16 December 2014. This was the first time that the Colleges had seen this template FM and there were a significant number of queries raised initially directly with SFC by the colleges. These were answered on 27 January 2015. The GCRB also had a limited number of queries, which have all been addressed.
- 4.2** The Advisor to the Board then worked directly with each college to understand their concerns and comments and to seek to address these through amendments to the draft FM. All of these amendments were pulled together and the final version was agreed last week by all of the colleges subject to the agreement of the GCRB and the approval of the SFC.
- 4.3** A full marked up version of the FM is attached (appendix 1) along with a clean version for the Board's information (appendix 2). I can confirm that, for the most part, the amendments provide clarification of the role of the RSB through the insertion of text from the SFC/GCRB FM or through the insertion of text lifted from statute. The nature of the amendment is narrated in the comment box alongside the amendment for ease of reference.

5. Risk Analysis

- 5.1** The absence of a template Financial Memorandum and so an agreed Financial Memorandum between the GCRB and the Glasgow Colleges has been a risk listed on every Progress Report provided to the Board since the Board first met in May 2014. It is hoped that this risk can shortly be removed once the Board and the SFC have agreed to the FM.

6. Legal Implications

6.1 Contained within the core report and set out in the Financial Memorandum.

7. Financial Implications

7.1 Contained within the core report and set out in the Financial Memorandum.

7.2 There are no immediate resources implications.

8. Equalities Implications

8.1 None



Model Financial Memorandum between Regional Strategic Body and Assigned College

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FINANCIAL MEMORANDUM

Introduction

Purpose of this document

1. This Financial Memorandum (FM) sets out the formal relationship between the (...) Regional Strategic Body and the (...) College and the requirements with which the College must comply in return for payment of grant by the (...) Regional Strategic Body.
2. The FM also makes it a term and condition of grant from the (...) Regional Strategic Body that the (...) College complies with the requirements of the Scottish Public Finance Manual (SPFM) and sets out the special actions and derogations, which have been agreed with the Scottish Ministers. (DRAFT NOTE: this requirement only applies to incorporated colleges).

Compliance with the Financial Memorandum

3. The responsibility for ensuring that the College complies with this FM rests with the governing body of the College. Questions about the interpretation of the FM may be raised with officers of the (...) Regional Strategic Body.
4. Where the College's interpretation of the FM differs from that of the (...) Regional Strategic Body, the (...) Regional Strategic Body will seek, wherever possible, to reach agreement in a spirit of partnership with the College. However, the (...) Regional Strategic Body's interpretation of this FM shall be final.

4.5. The Regional Strategic Body is required to comply with the Financial Memorandum with Fundable Bodies in the College Sector. The responsibility for ensuring that the Regional Strategic Body complies with this FM rests with the governing body of the Regional Strategic Body.

Comment [JH1]: Clarification added from core FM at request of GCC

Effective date

5.6. This FM shall take effect from ().

Structure of this document

6.7. The FM is in ~~three~~ ~~four~~ parts:

- Part 1: defines the relationship between the (...) Regional Strategic Body and the College and the responsibilities of each for the proper stewardship of public funds
- Part 2: contains the general requirements that apply to the College
- Part 3: contains additional requirements for incorporated colleges

- **Part 4: contains additional requirements for non-incorporated colleges.**

Part 1: The relationship between the (...) Regional Strategic Body and the College

Responsibilities of the (...) Regional Strategic Body

1. The (...) Regional Strategic Body has been established under the Further and Higher Education (Scotland) Act 2005 (the 2005 Act), including as amended by the Post-16 Education (Scotland) Act 2013, to support a regional approach to the planning and funding of college provision.
2. A (...) Regional Strategic Body may make grants, loans or other payments to the governing bodies of colleges assigned to it for the provision of further education, higher education, research and related activities.
3. The legislation also confers certain duties and responsibilities on the (...) Regional Strategic Body, including to exercise its functions with a view to securing coherent, high quality further and higher learning provision in the localities of its colleges, and monitoring the performance of its colleges.

~~3.4.~~

5. In~~Under the~~ terms of the 2005 Act, the (...) Regional Strategic Body may attach terms and conditions to the payment of grant made to its colleges. It is a term and condition of grant payment from the (...) Regional Strategic Body that the governing body of the College and its designated officers comply with the requirements set out in this FM. In terms of the 2005 Act terms and conditions imposed may not relate to the application by the college of any sums which were not derived from the

4. Scottish Funding Council. In terms of the 2005 Act, before attaching terms and conditions the Regional Strategic Body must, except where it considers that it is not expedient to do so, consult the college to which the payment is to be made and, if it considers it appropriate to do so, consult such persons as appear to it to represent the interests of the college or any class of them.

Accountability

6. The (...) Regional Strategic Body is accountable to the Scottish Funding Council (SFC) for the use of public funds provided to it by SFC under the terms of the relevant legislation.
7. SFC is accountable to the Scottish Ministers for the use of public funds provided to it under the terms of the relevant legislation.
- 5-8. The Chief Executive of SFC has been appointed as the Accountable Officer under the terms of the Public Finance and Accountability (Scotland) Act 2000 and is responsible and accountable to Scottish Parliament for ensuring that funds provided to SFC are used for the purposes for which they have been

Comment [JH2]: Amendment requested and agreed by CoGC.

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Comment [JH3]: GKC and GCC requested further detail from the Act to be inserted.

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Comment [JH4]: 5 and 7 inserted from the SFC/GCRB FM to provide clarity - requested by GCC and GKC.

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given, and in ways that comply with the conditions attached to them. The Accountable Officer has a personal responsibility for the propriety and regularity of the public finances provided to SFC, and for ensuring that funding is used economically, efficiently and effectively.

6.9. The Chief Officer of the (...) Regional Strategic Body is responsible and accountable to the SFC for ensuring that funds provided to the Body are used for the purposes for which they have been given, and in ways that comply with the conditions attached to them. The Chief Officer 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 ~~Further and Higher Education (Scotland) Act 2005 Act~~, as amended by the Post-16 Education Act 2013.

Comment [JH5]: Inserted at request of GKC and GCC for clarification of the role of Chief Officer. This is text lifted from the Post 16 Act.

Assurance

7.10. In order to meet his or her responsibilities, the Chief Officer of the (...) Regional Strategic Body must be satisfied that the governing body of the College meets the requirements of this FM 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 but, as far as possible, will rely on data and information that the College has produced to meet its own needs. If further information is required, the (...) Regional Strategic Body will make a specific request in the context of its commitment to efficient regulation.

~~8.11.~~ Where the (...) Regional Strategic Body has concerns or insufficient information to provide the assurance required, it will, in the first instance, seek to resolve matters with the chief executive officer of the College. Where this has not proved possible, or in the case of significant concerns, the Chief Officer of the (...) Regional Strategic Body will inform the chair of the governing body and the College's chief executive officer in writing – and without delay – and will specify what action is required to address these concerns.

~~9.12.~~ Where circumstances warrant it, the (...) Regional Strategic Body's Chief Officer may suspend the payment of any or all grants to the College. The (...) Regional Strategic Body may also use its powers to attend and address a meeting of the governing body.

What the institution can expect of the Regional Strategic Body

~~10.13.~~ The (...) Regional Strategic Body will conduct its affairs to high standards of corporate governance and public administration. It will maintain a complaints procedure and a separate appeals process for funding decisions.

~~14.~~ The (...) Regional Strategic Body will act reasonably on the basis of the fullest available evidence and objective analysis. Subject to any legal requirement to observe confidentiality, it will be open and transparent with the College, and with other stakeholders, and will give or be prepared to give a public justification of its decisions.

~~11.15.~~ The Regional Strategic Body recognises that the College is an autonomous body. The Regional Strategic Body will not substitute its judgements for those which are properly at the discretion of the College. In particular the Regional Strategic Body will seek to maximize the discretion of the College to use grants provided to it by the Regional Strategic Body.

~~12.16.~~ In discharging its responsibilities, the (...) Regional Strategic Body will seek to make regulation efficient and effective.

~~13.17.~~ The (...) Regional Strategic Body will seek at all times to work in a spirit of partnership with the College, including maintaining regular dialogue with the College and, where appropriate, its representative bodies. Representative bodies are defined as the representatives of any trade union recognised by any of its colleges, any other trade union which appears to the Regional Strategic Body to be representative of any staff of any of its colleges and the students' association of any of its colleges, as set out in section 23M of the

Comment [JH6]: This replicates text in the SFC/GCRB FM with the substitution of the parties to the GCRB/AC FM. Requested by GKC, GCC and CoGC.

2005 Act. The shared aim of that partnership will be to work collaboratively to support the College deliver its strategic priorities and commitments in terms of the Regional Outcome Agreement with SFC, and to ensure that the (...) Regional Strategic Body can deliver its regional priorities and undertake its statutory and other functions. The (...) Regional Strategic Body recognises that the College may also undertake activities, and have to comply with legislation and regulation, which may fall outside the scope of this partnership.

Comment [JH7]: GKC, GCC requested clarity on 'representative bodies'. This definition is lifted from the Post 16 Act.

~~14.~~ The (...) Regional Strategic Body will allocate and pay grant to the College in accordance with ~~its~~ current ~~its~~ published policies and procedures and the published policies and procedures of the SFC. The College will be consulted in advance and given reasonable notice, of any significant change to these policies and procedures and of significant changes in overall funding levels. As a matter of good practice the Regional Strategic Body will provide the colleges with a reasonable period of notice of any in-year reduction or increase in grant; which period of notice will reflect the scale of the proposed change.

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Comment [JH8]: Inserted by GCRB and agreed with SFC

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Comment [JH9]: Insertion requested by GKC and further amended by GCC

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The (...) Regional Strategic Body's governance requirements of the institution

~~15.~~~~18.~~ The (...) Regional Strategic Body must be able to rely on the whole system of governance, management and conduct of the College to safeguard all funds of the College deriving from the (...) Regional Strategic Body and achieve the purposes for which those funds are provided.

~~16.~~~~19.~~ The (...) Regional Strategic Body requires the governing body of the College to comply with the principles of good governance set out in the Code of Good Governance for Scotland's Colleges. The (...) Regional Strategic Body also requires the governing body to ensure that:

- Public funds are used in accordance with relevant legislation, the requirements of this FM and only for the purpose(s) for which they were given. Strategic, Capital or other grant funding must only be used for the purpose for which it is provided by the (...) Regional Strategic Body
- Subject to any legal requirement to observe confidentiality, the College will be open and transparent with the (...) Regional Strategic Body and other stakeholders, and will give, or be prepared to give, a public justification of its decisions in relation to the use of public funds
- The College strives to achieve value-for-money and is economical, efficient and effective in its use of public funding
- There is effective planning and delivery of the College's activities in accordance with its mission and its commitments to the Regional Outcome Agreement agreed with SFC
- The College plans and manages its activities to remain sustainable and financially viable. A College is being managed on a sustainable basis if, year on year, it generates sufficient income to cover its costs and allow for maintenance of and investment in its infrastructure (physical, human and intellectual) at a level which enables it to maintain adaptive capacity necessary to meet future demands
- The College has a sound system of internal management and control, including an audit committee, an effective internal audit service, and adequate procedures to prevent fraud or bribery
- The College has an effective policy of risk management and risk management arrangements

- The College has regular, timely, accurate and adequate information to monitor performance and account for the use of public funds. Such

information will be made available to the (...) Regional Strategic Body on request, as necessary, for the exercise of its functions and to gain assurance

- The College is engaged actively in continuously enhancing the quality of its activities and involves students and other stakeholders in these processes

~~17-20.~~ As well as being accountable directly to the governing body for the proper conduct of the College's affairs, the chief executive officer is also accountable directly to the (...) Regional Strategic Body's Chief Officer for the College's proper use of funds deriving from the Regional Strategic Body and its compliance with the requirements of this FM.

~~21.~~ The chief executive officer of the College institution must inform the (...) Regional Strategic Body's Chief Officer without delay of any circumstance that is having, or is likely to have, a significant adverse effect on the ability of the College to deliver its education programmes, and other related activity, including delivery of its commitment to the Regional Outcome Agreement with SFC. He or she must also notify the (...) Regional Strategic Body's Chief Officer of any serious weakness, such as a significant and immediate threat to the College institution's financial position, significant fraud or major accounting breakdown or any material non-compliance with any requirement of this FM.

The SFC's governance requirements of the Regional Strategic Body

The SFC must be able to rely on the whole system of governance, management and conduct of the Regional Strategic Body to safeguard all funds of the Regional Strategic Body deriving from the Scottish Ministers and achieve the purposes for which those funds are provided.

~~18.~~ The SFC requires the Regional Strategic Body to comply with the principles of good governance set out in the Code of Good Governance for Scotland's Colleges.

Revisions to the Financial Memorandum

~~19-22.~~ The (...) Regional Strategic Body will make changes to the requirements of this FM only after consulting the SFC, the College, its representative bodies and other relevant stakeholders.

The Regional Strategic Body will review the FM on a regular basis to ensure compliance with the new legislation, statutory guidance and any relevant changes to sector policy.

Comment [JH10]: Text from the FM between GCRB and SFC imported in following comments from GCC.

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Comment [JH11]: Inserted as a consequence of a request from CoGC.

Part 2: General requirements

1. Unless otherwise stated, the following general requirements apply to the College.

Financial Memorandum

2. It is a term and condition of grant payment from the (...) Regional Strategic Body that the governing body of the College and its designated officers comply with the requirements set out in this FM.

Post-16 Education Body criteria

3. In undertaking its functions, the governing body must keep under review and have in place satisfactory provision in relation to the list of matters set out in section 7 (2) of the 2005 Act, as amended by the Post-16 Education (Scotland) Act 2013.

Outcome Agreement

4. The College must deliver its commitment to the Regional Outcome Agreement with SFC.

Payment of Strategic, Capital or other Grants

5. Where the (...) Regional Strategic Body makes a payment to the College of a Strategic, Capital or other grant, the College will be required to comply with any additional requirements attached to the grant, as well as with this FM.

Changes to grant payments

6. If the Scottish Ministers revise their payment of grant to SFC, then SFC reserves the right to make in-year adjustments to its payment of grant to the Regional Strategic Body. If this is the case, SFC and the Regional Strategic Body may renegotiate the Regional Strategic Body's Outcome Agreement. The Regional Strategic Body should, where practicable, consult the Colleges on any renegotiation to the Outcome Agreement. Consequently if the SFC revises its payment of grant to the (...) Regional Strategic Body, then the (...) Regional Strategic Body reserves the right to make in-year adjustments to its payment of grant to the College.

Comment [JH12]: Request from GKC and GCC to insert the back to back provision from the main FM between SFC/RSB.

Comment [JH13]: Added by JH

Repayment of grant

7. If the College fails to comply with the requirements of this FM, and any other specific terms and conditions attached to the payment of grant from the (...) Regional Strategic Body, it may be required to repay the (...) Regional Strategic Body any sums received from it and may be required to pay interest in respect

of any period during which a sum due to the (...) Regional Strategic Body in accordance with this or any other condition remains unpaid.

8. If, in the reasonable opinion of the (...) Regional Strategic Body, any provision set out in this FM is not observed by the College, the (...) Regional Strategic

Body will be entitled, in respect of the payment of grant from the (...) Regional Strategic Body:

- In the case of funding by way of grant: to require immediate repayment of any and all grants or any part or parts of any grants at any time after the (...) Regional Strategic Body becomes aware of such failure to observe (without prejudice to further demands until the whole of all sums made available by way of grant shall have been paid in full)
- In the case of funding by way of loan (notwithstanding the terms of any agreement attached to the same): to require immediate repayment of the whole or part of each such loan at any time after the (...) Regional Strategic Body becomes aware of such failure to observe (without prejudice to further demands until the whole of all sums made available by way of loan shall have been repaid in full).

Public sector pay policy

9. The College must have regard to public sector pay policy set by the Scottish Ministers.

Tuition fees

10. Where applicable, the College must charge student tuition fees at the levels set by the Scottish Ministers under either the Student Fees (Specification) (Scotland) Order 2006 or the Student Fees (Specification) (Scotland) Order 2011, whichever is applicable.¹ However:
 - the tuition fee levels set by the Scottish Ministers under the student Fees (Specification) (Scotland) Order 2006 do not apply to students who do not have a relevant connection with the United Kingdom and Islands or are not excepted students within the meaning of the Education (Fees and Awards) (Scotland) Regulations 2007; and
 - The tuition fee levels set by the Scottish Ministers under the Student Fees (Specification) (Scotland) Order 2011 do not apply to students who do not have a relevant connection with Scotland or are not excepted students within the meaning of the Education (Fees) (Scotland) Regulations 2011, but any tuition fees charged to students from the rest of the United Kingdom must not exceed £9,000 per year².

¹ The level of tuition fees in 2014-15 for full-time undergraduate first degree students is £1,820. The same fee applies for PGDE and PGDipCE courses. A higher medical fee £2,895 applies only to continuing students. For full-time higher education courses at sub-degree level, a fee of £1,285 should be charged.

² At the moment, this £9,000 limit is not set by legislation but will be once an order is made under section 9D of the Further and Higher Education (Scotland) Act 2005 (as inserted by the Post-16 Education (Scotland) Act 2013.).

Disposal of exchequer funded assets

11. In disposing of exchequer funded assets, the College must follow the guidance in the relevant procedure notes on the SFC website as amended from time-to-time.

Student activity

12. Where appropriate, the College must provide data returns requested by the SFC by the deadlines and to the standards specified. [SFC's Student Activity Data Guidance for Colleges](#) can be found on the SFC website.

Student support guidance

13. Where appropriate, the College's must follow SFC's [Student Support Guidance](#).

European Social Funds

14. Where the College is in receipt of European Social Fund funding, it must follow SFC's [ESF guidance](#).

Audit and accounting

15. The governing body must appoint an audit committee and ensure the establishment and maintenance of effective arrangements for the provision of internal and external audit. For incorporated colleges, Audit Scotland will appoint external auditors.
16. The Audit Committee must produce an annual report to the governing body of the College.

Accounts direction

17. The College must follow the SFC's current [Accounts Direction](#) in the preparation of its annual financial statements.

Internal audit

18. The College must have in place an effective internal audit service. The operation and conduct of the internal audit service should conform to the professional standards of the Chartered Institute of Internal Auditors. For incorporated colleges, the operation and conduct of internal audit must comply with Public Sector Internal Audit Standards and, where relevant the SPFM.
19. The College must inform the (...) Regional Strategic Body when an internal auditor is appointed and must inform the (...) Regional Strategic Body

immediately if the internal auditor is removed or departs before the end of their term of office.

20. The internal audit service must provide the governing body and senior management of the College with an objective assessment of adequacy and effectiveness of risk management, internal control, governance, and value-for-money.
21. The internal audit service must extend its review over all the financial and other management control systems, identified by the audit needs assessment process. It must cover all activities in which the College has a financial interest, including those not funded by the (...) Regional Strategic Body. It must include review of controls – including investment procedures – that protect the College in its dealings with organisations, such as subsidiaries or associated companies, Arms-Length Foundations, students' associations, and collaborative ventures or joint ventures with third parties.
22. The head of internal audit must produce an annual report for the governing body on its activities during the year. The report must include an opinion on the adequacy and effectiveness of the College's risk management, internal control, and governance. The report must be presented to the institution's audit committee and a copy sent to the (...) Regional Strategic Body.

Value for money

23. The College must have a strategy for reviewing systematically management's arrangements for securing value for money.
24. As part of its internal audit arrangements, the College must obtain a comprehensive appraisal of management's arrangements for achieving value for money.

External Audit

25. The external auditor must be entitled to receive all notices of and other communications relating to any meeting of the governing body which any member of the governing body is entitled to receive. They must also be entitled to attend any such meeting and to be heard at any meeting which they attend, on any part of the business which concerns them as auditors.
26. The external auditor must also be entitled to attend the meeting of the governing body or other appropriate committee at which the College's annual report and financial statements are presented.
27. The external auditor is expected to attend, as a minimum, any meetings of the audit committee where relevant matters are being considered, such as planned audit coverage, the audit report on the financial statements and the audit

management letter. It is the responsibility of the secretary to the audit committee to notify the external auditor of such meetings.

28. The external auditors, notwithstanding responsibilities to their clients, are expected to co-operate fully with any enquiries or routine monitoring that the (...) Regional Strategic Body undertakes.
29. The institution must not in any way limit the (...) Regional Strategic Body's access to the [Collegeinstitution](#)'s external auditors.

Part 3: Additional requirements for incorporated colleges

1. The following additional requirements apply to incorporated colleges.

Scottish Public Finance Manual

2. The College must follow the requirements of the Scottish Public Finance Manual (SPFM) except where any special actions or derogations have been agreed with the Scottish Ministers.
3. The derogations and actions in the following paragraphs have been agreed with the Scottish Ministers and must be read in conjunction with the SPFM. Where reference is made to the SPFM, please refer to the relevant section for the detailed requirements.
4. In cases where the SPFM requires bodies to notify or request prior approval from the Scottish Government or SFC, the College must, in the first instance, contact the (...) Regional Strategic Body.

Borrowing

5. All borrowing by the College will require the approval of the Scottish Ministers. Requests to borrow must be submitted, through the (...) Regional Strategic Body, to the SFC in the first instance.

Cash management and banking

6. Grant payment will not be made in advance of need, as determined by the level of unrestricted cash reserves and planned expenditure. Unrestricted cash reserves held during the course of the year must be kept to the minimum level consistent with the efficient operation of the institution and the level of funds required to meet any relevant liabilities at the year-end. Grant-in-aid not drawn down by the end of the financial year shall lapse. Grant-in-aid must not be paid into any restricted reserve held by the institution. Transfers to arms-length-foundations are permitted.
7. Banking arrangements ~~must~~ should ensure they offer best value and comply with the Banking section of the SPFM. The Scottish Ministers have approved a derogation which delays the move to the Government Banking Service (GBS) to 2016-17 at the earliest.
8. The College may extend existing banking arrangements, provided they are not extended beyond Financial Year 2016-17. Any extension beyond Financial Year 2016-17 requires the agreement of the Scottish Ministers

Comment [JH14]: Request from GKC and GCC to ensure the requirement is consistent with the main FM 'should' (less robust) but would be inequitable to require a higher standard of compliance from assigned colleges.

9. The College can operate bank overdraft facilities to assist it in managing the timing of income and expenditure through its bank account. Overdrafts should not be used as a means of increasing borrowing.

Contingent commitments

10. The College must seek, through the (...) Regional Strategic Body, SFC's prior written consent if it intends to lend or give a guarantee, indemnity or letter of comfort. The value of the guarantee should be equal to the total contingent liability over the term of the guarantee. In all cases, the [College institution](#) must take steps to restrict the contingent liability to a minimum and should undertake a careful appraisal of the risks before accepting any contingent liability.
11. The College ~~should~~ **must** also provide assurance that, in the event of the contingent liability arising, it can be met from within the College's own resource, or that appropriate insurance cover has been arranged.
12. However, SFC's written consent is not required for such arrangements if the indemnity is of a standard type contained in contracts and agreements for 'day-to-day' procurement of goods and services in the normal course of business; or

Comment [JH15]: Request from GKC and GCC to ensure the requirement is consistent with the main FM 'should' (as above)

Delegated financial limits and annual reporting requirements

13. The College's specific delegated financial limits are set out in **Appendix A**. The College must obtain, through the Regional Strategic Body, SFC's prior written approval before entering into any undertaking to incur any expenditure that falls outwith these delegations.
14. Prior SFC approval, through the (...) Regional Strategic Body, must always be obtained before incurring expenditure for any purpose that is, or might be considered, novel, contentious or repercussive or which has or could have significant future cost implications.
15. What might be regarded as novel or contentious inevitably involves a degree of judgement. Novel would include proposed expenditure or financial arrangements of a sort not undertaken previously or which is not standard practice. Contentious would include proposed expenditure or financial arrangements where there was any doubt as to its regularity – for example, its compliance with relevant legislation or guidance – or its propriety – for example, compliance with the standards expected of publicly funded bodies or their officials. Proposed expenditure or financial arrangements that might be considered to be sensitive politically would also be regarded as contentious.
16. In addition, any frauds that are detected must be reported, through the (...) Regional Strategic Body, to SFC as and when they occur.

17. The College must establish appropriate documented internal delegated authority arrangements consistent with the Delegated Authority section of the SPFM and this FM.
18. **Appendix A** also sets out the levels for certain categories of expenditure above which the College ~~must~~ report annually to the Regional Strategic Body and to SFC. The report should describe the number of instances and total cost, by category of expenditure.

Comment [JH16]: Added by GCRB

Comment [JH17]: Comment from GKC

Duties to provide information on certain expenditure as required by The Public Services Reform (Scotland) Act 2010

19. As soon as is reasonably practicable after the end of each financial year, the College must publish a statement of any expenditure that it has incurred during that financial year on or in connection with the matters described below.
 - Public relations
 - Overseas travel,
 - Hospitality and entertainment,
 - External consultancy.
20. As soon as is reasonably practicable after the end of each financial year, the College must publish a statement specifying the amount, date, payee and subject-matter of any payment, relating to any of the matters listed above, made during that financial year which has a value in excess of £25,000.

Early departures of staff

21. The College must follow the requirements of the SPFM in determining settlement agreements, severance, early retirement and redundancy arrangements and payments. In addition, the College must have regard to the principles of good practice in managing early departures of staff contained in Audit Scotland's May 2013 report: *Managing early departures from the Scottish public sector.*
22. In line with the requirements of the SPFM, the College's severance scheme must be approved, through the (...) Regional Strategic Body, by SFC. Provided a severance payment is within the parameters of a scheme, which has been approved by the SFC, there will be no need for the institution to seek approval to the individual payment from SFC.
23. However, special severance payments in excess of £1,000 must be approved, through the (...) Regional Strategic Body, by SFC, except where provision for such payments has been included in a severance scheme approved by SFC. (See Appendix A)

External business and management consultancy contracts

24. Any external consultancy contracts with a value of more than £100,000 must be approved in advance, through the (...) Regional Strategic Body, by the SFC.

Impairments, provisions and write-offs

25. Assets must be recorded in the Balance Sheet at Depreciated Replacement Cost for Land and Buildings and at Historic Cost less depreciation for Equipment in accordance with the Financial Reporting Manual (FRM). Where an asset, including investments, suffers impairment, it is important that the prospective impairment and background is communicated, through the (...) Regional Strategic Body, to the SFC at the earliest possible point in the financial year to determine the budget implications. Any significant movement in existing provisions or the creation of new provisions must be discussed, through the (...) Regional Strategic Body, with the SFC.
26. Write-off of bad debt and/or losses score against resource Departmental Expenditure Limits (DEL).

Income generation

27. The College will be able to retain all commercial income, gifts, bequests or donations received. These funds will be in addition to any grant or funding the institution receives from the (...) Regional Strategic Body.

Insurance

28. The Scottish Ministers have agreed a derogation whereby colleges can extend their current commercial insurance arrangements for three years to 31 July 2018. [For the avoidance of doubt this derogation does not apply to the City of Glasgow College's NPD Project for which separate insurance arrangements have been agreed beyond 31 July 2018.](#)

Comment [JH18]: Requested by COGC for clarity in relation to their contractual commitments in relation to the NPD.

Investments

29. The College must not make any investments of a speculative nature without the prior written approval, through the (...) Regional Strategic Body, of SFC.

Procurement and payment

30. The College's procurement processes must reflect the relevant guidance contained in the Advanced Procurement for Universities and Colleges, and relevant policy and advice issued by the Scottish Procurement Directorate. Procurement must be undertaken by appropriately trained and authorised staff and treated as a key component of achieving the institution's objectives consistent with the principles of Best Value, the highest professional standards and any legal requirement.

31. Any proposal to award a contract without competition (non-competitive action) must be approved, through the (...) Regional Strategic Body, in advance by SFC. Specific delegated authority is given to award a contract without competition for £25,000 or less without advance approval. (See Appendix A)

Transfer of surplus funds to arms-length foundations

32. The College may transfer any surplus on its income and expenditure account as at 31 March each year to its arms-length foundation. This transfer must take place in the financial year in which it arises, and is subject to sufficient cash and resource cover being available.

Appendix A

Delegated financial limits and annual reporting requirements for incorporated colleges

Delegated financial limits

External Business and management consultancies	£100,000
Special severance payments	£1,000
Operating leases-non property	£250,000
Procurement non-competitive action	£25,000

Annual reporting requirements

Extra contractual payments	£5,000
Compensation payments	£5,000
Ex-gratia payments	£1,000
Claims waived or abandoned	£3,000
Write-off of bad debt	£3,000
Losses	£3,000
Overseas student irrecoverable loss	£6,000
Fraud loss	£5,000

Part 4: Additional requirements for non-incorporated colleges

1.—The following additional requirements apply to non-incorporated colleges.

Insurance

2.—The College is responsible for taking out and paying for adequate insurance in respect of its assets and activities.

Granting of security

3.—As a result of a condition in SFC's Framework Document with the Scottish Government, the College must seek, through the (...) Regional Strategic Body, SFC's prior written consent if it intends to offer as security for a loan any land or property which has been provided, improved, or maintained with the aid of grant.

Capital finance

4.—As a condition of SFC's Framework Document with the Scottish Government, SFC is required to "make provision for the monitoring and control of borrowing by institutions to protect the public investment in institutions and to maintain accountability for the use of exchequer funds". In order that SFC can discharge this requirement, it has in place a threshold for capital finance above which the College requires, through the (...) Regional strategic Body, SFC's consent to undertake any new borrowing.

5.—The governing body of the College in line with the Code of Good Governance for Scotland's Colleges, must, as a matter of course, satisfy itself that all of the following requirements on capital finance are met:

- The College can demonstrate its ability to repay the finance, and to pay interest thereon, without recourse to requesting additional grant from, through the (...) Regional Strategic Body
- The College can demonstrate that its ability to maintain financial and academic viability will not be impaired as a result
- The College can demonstrate the value to be generated by the transaction, whether it involves refinancing, or purchase of any new investment or assets, the acquisition of which is to be financed by the borrowing
- The College can demonstrate that any such new investment or asset acquisition is in accordance with the College's strategic plan and, where appropriate, its estate strategy

~~6. For the purposes of this document, 'capital finance' includes borrowing, finance and operating leases, and other schemes, such as private finance initiative projects, non-profit distribution projects, loan support projects and revolving credit facilities where borrowing is the substance of the transaction, in line with relevant accounting standards.~~

~~When SFC's formal consent is required in respect of capital finance arrangements~~

~~7. The College must obtain, through the (...) Regional Strategic Body, prior written consent from SFC before it undertakes a level of capital finance where the annualised costs of all capital finance (being the sum of the servicing and capital repayment costs of each loan or other arrangements spread evenly over the period of the relevant loan or arrangement) would exceed 4% of~~

- ~~• Total income as reported in the latest audited financial statements; or~~
- ~~• The estimated amount of total income for the current year, if that is lower.~~

~~8. In assessing total capital finance commitments, the College must ignore low-value financial commitments, provided that the combined annualised servicing costs of such financial commitments do not exceed 0.5% of total income.~~

~~9. A revolving credit facility should be considered in the same way as an overdraft facility; for example, in terms of the College's maximum exposure over the term of the facility. An even annual cost of capital finance is assumed, unless the College can demonstrate otherwise. The College is required to provide the annualised cost of the capital finance calculation with any request to SFC for borrowing consent.~~

~~10. The College must also seek consent, through the (...) Regional Strategic Body, from SFC before raising capital finance on the security of assets in which the Scottish Ministers have an interest. For the purposes of this document, such an interest exists where the College has used funds provided by the Scottish Ministers to acquire an interest in or to develop any land, building or other asset, and where those funds were provided subject to a condition which has the effect of requiring the institution to obtain Scottish Ministers' consent before raising capital finance on the security of those assets.~~

~~11. The Scottish Ministers have directed that SFC will exercise their functions in relation to any such interests.~~

~~12. In seeking SFC's approval, the College must demonstrate to SFC, in writing, its compliance with the requirements set out above.~~

Contingent commitments

13. The College must seek, through the Regional Strategic Body, SFC's prior written consent if it intends to lend or give a guarantee, indemnity or letter of comfort. The value of the guarantee should be equal to the total contingent liability over the term of the guarantee. In all cases, the institution must take steps to restrict the contingent liability to a minimum and should undertake a careful appraisal of the risks before accepting any contingent liability.
14. The College must also provide assurance that, in the event of the contingent liability arising, it can be met from within the College's own resource, or that appropriate insurance cover has been arranged.
15. However, SFC's written consent is not required for such arrangements if:
 - An actual or effective value is less than 4% of total income as reported in the latest audited financial statements or of the estimated amount of total income for the current year if that is lower; or
 - The indemnity is of a standard type contained in contracts and agreements for 'day-to-day' procurement of goods and services in the normal course of business.

Severance payments

16. The College must adhere to the following principles when taking decisions about severance payments, including settlement agreements:
 - The actions of those taking decisions about severance payments, and those potentially in receipt of such payments, must be governed by the standards of personal conduct set out by the Committee on Standards in Public Life (the Nolan Principles)
 - The governing body must take account of the (...) Regional Strategic Body's expectations of the College in this FM regarding the use of public funds.
17. Based on the principles above, the following requirements should be met:
 - The College must have in place a clear policy on severance payments
 - Severance packages must be consistent with the College's policy and take into account contractual entitlements, for example, salary and period of notice, and any applicable statutory employment entitlements. This means that, when entering into employment contracts, remuneration committees should take care not to expose the College to excessive potential liabilities
 - The College's policy must include a formal statement of the types of severance arrangements that should be approved by the Remuneration Committee or equivalent and approved formally by the governing body. These should include any severance package that is proposed for a member

of the senior management team, in recognition of the particular level of accountability that is attached to senior management positions, and also any severance package that would exceed a maximum threshold agreed by the governing body

- Where a severance package exceeds the maximum threshold agreed by the governing body, the College must consult, through the (...) Regional Strategic Body, SFC's Accountable Officer prior to approving the proposed severance package
- The remuneration committee or equivalent, when overseeing and approving severance arrangements for staff, must ensure that all decisions are recorded
- Negotiations about severance packages and payments must be informed, on both sides, by legal advice where appropriate
- When a severance arises following poor performance on the part of an individual, any payment must be proportionate and there should be no perception that poor performance is being rewarded
- Final year salaries must not be inflated simply to boost pension benefits
- Notice of termination of appointments must not be delayed in order to generate entitlement to payments in lieu of notice

18. The College must ensure that its internal auditor includes a regular review of systems for the determination and payment of severance settlements in their strategic audit plan.

19. The College must seek the view of its external auditor if it plans to make what it considers to be any novel or potentially contentious severance payments, including those that exceed the maximum threshold agreed by the governing body.

20. The College's external auditor must review severance settlements. Such a review will normally take place after settlements have been agreed (normally as part of their financial statements audit) and should be carried out by senior audit staff because of the complexity and sensitivity of the issues. If final settlements do not materially conform to the terms of this FM, auditors must report the facts to the institution in their management letter, and inform members of the governing body. The auditors must also recommend that the College informs the SFC immediately.

21.1. Where there are settlement agreements, and it is felt that a confidentiality clause is necessary, this must not prevent the public interest being served and must be consistent with the College's whistleblowing policy.



Scottish Funding Council

Promoting further and higher education

Model Financial Memorandum between Regional Strategic Body and Assigned College

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FINANCIAL MEMORANDUM

Introduction

Purpose of this document

1. This Financial Memorandum (FM) sets out the formal relationship between the Regional Strategic Body and the College and the requirements with which the College must comply in return for payment of grant by the Regional Strategic Body.
2. The FM also makes it a term and condition of grant from the Regional Strategic Body that the College complies with the requirements of the Scottish Public Finance Manual (SPFM) and sets out the special actions and derogations, which have been agreed with the Scottish Ministers. (DRAFT NOTE: this requirement only applies to incorporated colleges).

Compliance with the Financial Memorandum

3. The responsibility for ensuring that the College complies with this FM rests with the governing body of the College. Questions about the interpretation of the FM may be raised with officers of the Regional Strategic Body.
4. Where the College's interpretation of the FM differs from that of the Regional Strategic Body, the Regional Strategic Body will seek, wherever possible, to reach agreement in a spirit of partnership with the College. However, the Regional Strategic Body's interpretation of this FM shall be final.
5. The Regional Strategic Body is required to comply with the Financial Memorandum with Fundable Bodies in the College Sector. The responsibility for ensuring that the Regional Strategic Body complies with this FM rests with the governing body of the Regional Strategic Body.

Effective date

6. This FM shall take effect from ().

Structure of this document

7. The FM is in three parts:
 - Part 1: defines the relationship between the Regional Strategic Body and the College and the responsibilities of each for the proper stewardship of public funds
 - Part 2: contains the general requirements that apply to the College
 - Part 3: contains additional requirements for incorporated colleges

Part 1: The relationship between the Regional Strategic Body and the College

Responsibilities of the Regional Strategic Body

1. The Regional Strategic Body has been established under the Further and Higher Education (Scotland) Act 2005 (the 2005 Act), including as amended by the Post-16 Education (Scotland) Act 2013, to support a regional approach to the planning and funding of college provision.
2. A Regional Strategic Body may make grants, loans or other payments to the governing bodies of colleges assigned to it for the provision of further education, higher education, research and related activities.
3. The legislation also confers certain duties and responsibilities on the Regional Strategic Body, including to exercise its functions with a view to securing coherent, high quality further and higher learning provision in the localities of its colleges, and monitoring the performance of its colleges.
4. In terms of the 2005 Act, the Regional Strategic Body may attach terms and conditions to the payment of grant made to its colleges. It is a term and condition of grant payment from the Regional Strategic Body that the governing body of the College and its designated officers comply with the requirements set out in this FM. In terms of the 2005 Act terms and conditions imposed may not relate to the application by the college of any sums which were not derived from the Scottish Funding Council. In terms of the 2005 Act, before attaching terms and conditions the Regional Strategic Body must, except where it considers that it is not expedient to do so, consult the college to which the payment is to be made and, if it considers it appropriate to do so, consult such persons as appear to it to represent the interests of the college or any class of them.

Accountability

5. The Regional Strategic Body is accountable to the Scottish Funding Council (SFC) for the use of public funds provided to it by SFC under the terms of the relevant legislation.
6. SFC is accountable to the Scottish Ministers for the use of public funds provided to it under the terms of the relevant legislation.
7. The Chief Executive of SFC has been appointed as the Accountable Officer under the terms of the Public Finance and Accountability (Scotland) Act 2000 and is responsible and accountable to Scottish Parliament for ensuring that funds provided to SFC are used for the purposes for which they have been given, and in ways that comply with the conditions attached to them. The

Accountable Officer has a personal responsibility for the propriety and regularity of the public finances provided to SFC, and for ensuring that funding is used economically, efficiently and effectively.

8. The Chief Officer of the Regional Strategic Body is responsible and accountable to the SFC for ensuring that funds provided to the Body are used for the purposes for which they have been given, and in ways that comply with the conditions attached to them. The Chief Officer 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.

Assurance

9. In order to meet his or her responsibilities, the Chief Officer of the Regional Strategic Body must be satisfied that the governing body of the College meets the requirements of this FM 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 but, as far as possible, will rely on data and information that the College has produced to meet its own needs. If further information is required, the Regional Strategic Body will make a specific request in the context of its commitment to efficient regulation.
10. Where the Regional Strategic Body has concerns or insufficient information to provide the assurance required, it will, in the first instance, seek to resolve matters with the chief executive officer of the College. Where this has not proved possible, or in the case of significant concerns, the Chief Officer of the Regional Strategic Body will inform the chair of the governing body and the College's chief executive officer in writing – and without delay – and will specify what action is required to address these concerns.
11. Where circumstances warrant it, the Regional Strategic Body's Chief Officer may suspend the payment of any or all grants to the College. The Strategic Body may also use its powers to attend and address a meeting of the governing body.

What the institution can expect of the Regional Strategic Body

12. The Regional Strategic Body will conduct its affairs to high standards of corporate governance and public administration. It will maintain a complaints procedure and a separate appeals process for funding decisions.
13. The Regional Strategic Body will act reasonably on the basis of the fullest available evidence and objective analysis. Subject to any legal requirement to

observe confidentiality, it will be open and transparent with the College, and with other stakeholders, and will give or be prepared to give a public justification of its decisions.

14. The Regional Strategic Body recognises that the College is an autonomous body. The Regional Strategic Body will not substitute its judgments for those which are properly at the discretion of the College. In particular the Regional Strategic Body will seek to maximize the discretion of the College to use grants provided to it by the Regional Strategic Body.
15. In discharging its responsibilities, the Regional Strategic Body will seek to make regulation efficient and effective.
16. The Regional Strategic Body will seek at all times to work in a spirit of partnership with the College, including maintaining regular dialogue with the College and, where appropriate, its representative bodies. Representative bodies are defined as the representatives of any trade union recognised by any of its colleges, any other trade union which appears to the Regional Strategic Body to be representative of any staff of any of its colleges and the students' association of any of its colleges, as set out in section 23M of the 2005 Act. The shared aim of that partnership will be to work collaboratively to support the College deliver its strategic priorities and commitments in terms of the Regional Outcome Agreement with SFC, and to ensure that the Regional Strategic Body can deliver its regional priorities and undertake its statutory and other functions. The Regional Strategic Body recognises that the College may also undertake activities, and have to comply with legislation and regulation, which may fall outside the scope of this partnership.
17. The Regional Strategic Body will allocate and pay grant to the College in accordance with its current published policies and procedures and the published policies and procedures of the SFC. The College will be consulted in advance and given reasonable notice, of any significant change to these policies and procedures and of significant changes in overall funding levels. As a matter of good practice the Regional Strategic Body will provide the colleges with a reasonable period of notice of any in-year reduction or increase in grant; which period of notice will reflect the scale of the proposed change.

The Regional Strategic Body's governance requirements of the institution

18. The Regional Strategic Body must be able to rely on the whole system of governance, management and conduct of the College to safeguard all funds of the College deriving from the Regional Strategic Body and achieve the purposes for which those funds are provided.
19. The Regional Strategic Body requires the governing body of the College to comply with the principles of good governance set out in the Code of Good

Governance for Scotland's Colleges. The Regional Strategic Body also requires the governing body to ensure that:

- Public funds are used in accordance with relevant legislation, the requirements of this FM and only for the purpose(s) for which they were given. Strategic, Capital or other grant funding must only be used for the purpose for which it is provided by the Regional Strategic Body
 - Subject to any legal requirement to observe confidentiality, the College will be open and transparent with the Regional Strategic Body and other stakeholders, and will give, or be prepared to give, a public justification of its decisions in relation to the use of public funds
 - The College strives to achieve value-for-money and is economical, efficient and effective in its use of public funding
 - There is effective planning and delivery of the College's activities in accordance with its mission and its commitments to the Regional Outcome Agreement agreed with SFC
 - The College plans and manages its activities to remain sustainable and financially viable. A College is being managed on a sustainable basis if, year on year, it generates sufficient income to cover its costs and allow for maintenance of and investment in its infrastructure (physical, human and intellectual) at a level which enables it to maintain adaptive capacity necessary to meet future demands
 - The College has a sound system of internal management and control, including an audit committee, an effective internal audit service, and adequate procedures to prevent fraud or bribery
 - The College has an effective policy of risk management and risk management arrangements
 - The College has regular, timely, accurate and adequate information to monitor performance and account for the use of public funds. Such information will be made available to the Regional Strategic Body on request, as necessary, for the exercise of its functions and to gain assurance
 - The College is engaged actively in continuously enhancing the quality of its activities and involves students and other stakeholders in these processes
20. As well as being accountable directly to the governing body for the proper conduct of the College's affairs, the chief executive officer is also accountable directly to the Regional Strategic Body's Chief Officer for the College's proper use of funds deriving from the Regional Strategic Body and its compliance with the requirements of this FM.
21. The chief executive officer of the College must inform the Regional Strategic Body's Chief Officer without delay of any circumstance that is having, or is likely to have, a significant adverse effect on the ability of the College to deliver its education programmes, and other related activity, including delivery

of its commitment to the Regional Outcome Agreement with SFC. He or she must also notify the Regional Strategic Body's Chief Officer of any serious weakness, such as a significant and immediate threat to the College's financial position, significant fraud or major accounting breakdown or any material non-compliance with any requirement of this FM.

The SFC's governance requirements of the Regional Strategic Body

22. The SFC must be able to rely on the whole system of governance, management and conduct of the Regional Strategic Body to safeguard all funds of the Regional Strategic Body deriving from the Scottish Ministers and achieve the purposes for which those funds are provided.
23. The SFC requires the Regional Strategic Body to comply with the principles of good governance set out in the Code of Good Governance for Scotland's Colleges.

Revisions to the Financial Memorandum

24. The Regional Strategic Body will make changes to the requirements of this FM only after consulting the SFC, the College, its representative bodies and other relevant stakeholders. The Regional Strategic Body will review the FM on a regular basis to ensure compliance with new legislation, statutory guidance and any relevant changes to sector policy.

Part 2: General requirements

1. Unless otherwise stated, the following general requirements apply to the College.

Financial Memorandum

2. It is a term and condition of grant payment from the Regional Strategic Body that the governing body of the College and its designated officers comply with the requirements set out in this FM.

Post-16 Education Body criteria

3. In undertaking its functions, the governing body must keep under review and have in place satisfactory provision in relation to the list of matters set out in section 7 (2) of the 2005 Act, as amended by the Post-16 Education (Scotland) Act 2013.

Outcome Agreement

4. The College must deliver its commitment to the Regional Outcome Agreement with SFC.

Payment of Strategic, Capital or other Grants

5. Where the Regional Strategic Body makes a payment to the College of a Strategic, Capital or other grant, the College will be required to comply with any additional requirements attached to the grant, as well as with this FM.

Changes to grant payments

6. If the Scottish Ministers revise their payment of grant to SFC, then SFC reserves the right to make in-year adjustments to its payment of grant to the Regional Strategic Body. If this is the case, SFC and the Regional Strategic Body may renegotiate the Regional Strategic Body's Outcome Agreement. The Regional Strategic Body should, where practicable, consult the Colleges on any renegotiation to the Outcome Agreement. Consequently if the SFC revises its payment of grant to the Regional Strategic Body, then the Regional Strategic Body reserves the right to make in-year adjustments to its payment of grant to the College.

Repayment of grant

7. If the College fails to comply with the requirements of this FM, and any other specific terms and conditions attached to the payment of grant from the Regional Strategic Body, it may be required to repay the Regional Strategic Body any sums received from it and may be required to pay interest in respect

of any period during which a sum due to the Regional Strategic Body in accordance with this or any other condition remains unpaid.

8. If, in the reasonable opinion of the Regional Strategic Body, any provision set out in this FM is not observed by the College, the Regional Strategic Body will be entitled, in respect of the payment of grant from the Regional Strategic Body:
 - In the case of funding by way of grant: to require immediate repayment of any and all grants or any part or parts of any grants at any time after the Regional Strategic Body becomes aware of such failure to observe (without prejudice to further demands until the whole of all sums made available by way of grant shall have been paid in full)
 - In the case of funding by way of loan (notwithstanding the terms of any agreement attached to the same): to require immediate repayment of the whole or part of each such loan at any time after the Regional Strategic Body becomes aware of such failure to observe (without prejudice to further demands until the whole of all sums made available by way of loan shall have been repaid in full).

Public sector pay policy

9. The College must have regard to public sector pay policy set by the Scottish Ministers.

Tuition fees

10. Where applicable, the College must charge student tuition fees at the levels set by the Scottish Ministers under either the Student Fees (Specification) (Scotland) Order 2006 or the Student Fees (Specification) (Scotland) Order 2011, whichever is applicable.¹ However:
 - the tuition fee levels set by the Scottish Ministers under the student Fees (Specification) (Scotland) Order 2006 do not apply to students who do not have a relevant connection with the United Kingdom and Islands or are not excepted students within the meaning of the Education (Fees and Awards) (Scotland) Regulations 2007; and
 - The tuition fee levels set by the Scottish Ministers under the Student Fees (Specification) (Scotland) Order 2011 do not apply to students who do not have a relevant connection with Scotland or are not excepted students within the meaning of the Education (Fees) (Scotland) Regulations 2011, but any tuition fees charged to students from the rest of the United Kingdom must not exceed £9,000 per year².

¹ The level of tuition fees in 2014-15 for full-time undergraduate first degree students is £1,820. The same fee applies for PGDE and PGDipCE courses. A higher medical fee £2,895 applies only to continuing students. For full-time higher education courses at sub-degree level, a fee of £1,285 should be charged.

² At the moment, this £9,000 limit is not set by legislation but will be once an order is made under section 9D of the Further and Higher Education (Scotland) Act 2005 (as inserted by the Post-16 Education (Scotland) Act 2013.)

Disposal of exchequer funded assets

11. In disposing of exchequer funded assets, the College must follow the guidance in the relevant procedure notes on the SFC website as amended from time-to-time.

Student activity

12. Where appropriate, the College must provide data returns requested by the SFC by the deadlines and to the standards specified. SFC's Student Activity Data Guidance for Colleges can be found on the SFC website.

Student support guidance

13. Where appropriate, the College's must follow SFC's Student Support Guidance.

European Social Funds

14. Where the College is in receipt of European Social Fund funding, it must follow SFC's ESF guidance.

Audit and accounting

15. The governing body must appoint an audit committee and ensure the establishment and maintenance of effective arrangements for the provision of internal and external audit. For incorporated colleges, Audit Scotland will appoint external auditors.
16. The Audit Committee must produce an annual report to the governing body of the College.

Accounts direction

17. The College must follow the SFC's current Accounts Direction in the preparation of its annual financial statements.

Internal audit

18. The College must have in place an effective internal audit service. The operation and conduct of the internal audit service should conform to the professional standards of the Chartered Institute of Internal Auditors. For incorporated colleges, the operation and conduct of internal audit must comply

with Public Sector Internal Audit Standards and, where relevant the SPFM. The College must inform the Regional Strategic Body when an internal auditor is appointed and must inform the Regional Strategic Body immediately if the internal auditor is removed or departs before the end of their term of office.

19. The internal audit service must provide the governing body and senior management of the College with an objective assessment of adequacy and effectiveness of risk management, internal control, governance, and value-for-money.
20. The internal audit service must extend its review over all the financial and other management control systems, identified by the audit needs assessment process. It must cover all activities in which the College has a financial interest, including those not funded by the Regional Strategic Body. It must include review of controls – including investment procedures – that protect the College in its dealings with organisations, such as subsidiaries or associated companies, Arms-Length Foundations, students' associations, and collaborative ventures or joint ventures with third parties.
21. The head of internal audit must produce an annual report for the governing body on its activities during the year. The report must include an opinion on the adequacy and effectiveness of the College's risk management, internal control, and governance. The report must be presented to the institution's audit committee and a copy sent to the Regional Strategic Body.

Value for money

22. The College must have a strategy for reviewing systematically management's arrangements for securing value for money.
23. As part of its internal audit arrangements, the College must obtain a comprehensive appraisal of management's arrangements for achieving value for money.

External Audit

24. The external auditor must be entitled to receive all notices of and other communications relating to any meeting of the governing body which any member of the governing body is entitled to receive. They must also be entitled to attend any such meeting and to be heard at any meeting which they attend, on any part of the business which concerns them as auditors.
25. The external auditor must also be entitled to attend the meeting of the governing body or other appropriate committee at which the College's annual report and financial statements are presented.
The external auditor is expected to attend, as a minimum, any meetings of the audit committee where relevant matters are being considered, such as

planned audit coverage, the audit report on the financial statements and the audit management letter. It is the responsibility of the secretary to the audit committee to notify the external auditor of such meetings.

26. The external auditors, notwithstanding responsibilities to their clients, are expected to co-operate fully with any enquiries or routine monitoring that the Regional Strategic Body undertakes.
27. The institution must not in any way limit the Regional Strategic Body's access to the College's external auditors.

Part 3: Additional requirements for incorporated colleges

1. The following additional requirements apply to incorporated colleges.

Scottish Public Finance Manual

2. The College must follow the requirements of the Scottish Public Finance Manual (SPFM) except where any special actions or derogations have been agreed with the Scottish Ministers.
3. The derogations and actions in the following paragraphs have been agreed with the Scottish Ministers and must be read in conjunction with the SPFM. Where reference is made to the SPFM, please refer to the relevant section for the detailed requirements.
4. In cases where the SPFM requires bodies to notify or request prior approval from the Scottish Government or SFC, the College must, in the first instance, contact the Regional Strategic Body.

Borrowing

5. All borrowing by the College will require the approval of the Scottish Ministers. Requests to borrow must be submitted, through the Regional Strategic Body, to the SFC in the first instance.

Cash management and banking

6. Grant payment will not be made in advance of need, as determined by the level of unrestricted cash reserves and planned expenditure. Unrestricted cash reserves held during the course of the year must be kept to the minimum level consistent with the efficient operation of the institution and the level of funds required to meet any relevant liabilities at the year-end. Grant-in-aid not drawn down by the end of the financial year shall lapse. Grant-in-aid must not be paid into any restricted reserve held by the institution. Transfers to arms-length-foundations are permitted.
7. Banking arrangements should ensure they offer best value and comply with the Banking section of the SPFM. The Scottish Ministers have approved a derogation which delays the move to the Government Banking Service (GBS) to 2016-17 at the earliest.
8. The College may extend existing banking arrangements, provided they are not extended beyond Financial Year 2016-17. Any extension beyond Financial Year 2016-17 requires the agreement of the Scottish Ministers.

9. The College can operate bank overdraft facilities to assist it in managing the timing of income and expenditure through its bank account. Overdrafts should not be used as a means of increasing borrowing.

Contingent commitments

10. The College must seek, through the Regional Strategic Body, SFC's prior written consent if it intends to lend or give a guarantee, indemnity or letter of comfort. The value of the guarantee should be equal to the total contingent liability over the term of the guarantee. In all cases, the College must take steps to restrict the contingent liability to a minimum and should undertake a careful appraisal of the risks before accepting any contingent liability.
11. The College should also provide assurance that, in the event of the contingent liability arising, it can be met from within the College's own resource, or that appropriate insurance cover has been arranged.
12. However, SFC's written consent is not required for such arrangements if the indemnity is of a standard type contained in contracts and agreements for 'day-to-day' procurement of goods and services in the normal course of business; or

Delegated financial limits and annual reporting requirements

13. The College's specific delegated financial limits are set out in **Appendix A**. The College must obtain, through the Regional Strategic Body, SFC's prior written approval before entering into any undertaking to incur any expenditure that falls outwith these delegations.
14. Prior SFC approval, through the Regional Strategic Body, must always be obtained before incurring expenditure for any purpose that is, or might be considered, novel, contentious or repercussive or which has or could have significant future cost implications.
15. What might be regarded as novel or contentious inevitably involves a degree of judgement. Novel would include proposed expenditure or financial arrangements of a sort not undertaken previously or which is not standard practice. Contentious would include proposed expenditure or financial arrangements where there was any doubt as to its regularity – for example, its compliance with relevant legislation or guidance – or its propriety – for example, compliance with the standards expected of publicly funded bodies or their officials. Proposed expenditure or financial arrangements that might be considered to be sensitive politically would also be regarded as contentious.
16. In addition, any frauds that are detected must be reported, through the Regional Strategic Body, to SFC as and when they occur.

17. The College must establish appropriate documented internal delegated authority arrangements consistent with the Delegated Authority section of the SPFM and this FM.
18. **Appendix A** also sets out the levels for certain categories of expenditure above which the College must report annually to the Regional Strategic Body and to SFC. The report should describe the number of instances and total cost, by category of expenditure.

Duties to provide information on certain expenditure as required by The Public Services Reform (Scotland) Act 2010

19. As soon as is reasonably practicable after the end of each financial year, the College must publish a statement of any expenditure that it has incurred during that financial year on or in connection with the matters described below.
 - Public relations
 - Overseas travel,
 - Hospitality and entertainment,
 - External consultancy.
20. As soon as is reasonably practicable after the end of each financial year, the College must publish a statement specifying the amount, date, payee and subject-matter of any payment, relating to any of the matters listed above, made during that financial year which has a value in excess of £25,000.

Early departures of staff

21. The College must follow the requirements of the SPFM in determining settlement agreements, severance, early retirement and redundancy arrangements and payments. In addition, the College must have regard to the principles of good practice in managing early departures of staff contained in Audit Scotland's May 2013 report: Managing early departures from the Scottish public sector.
22. In line with the requirements of the SPFM, the College's severance scheme must be approved, through the Regional Strategic Body, by SFC. Provided a severance payment is within the parameters of a scheme, which has been approved by the SFC, there will be no need for the institution to seek approval to the individual payment from SFC.
23. However, special severance payments in excess of £1,000 must be approved, through the Regional Strategic Body, by SFC, except where provision for such payments has been included in a severance scheme approved by SFC. (See Appendix A)

External business and management consultancy contracts

24. Any external consultancy contracts with a value of more than £100,000 must be approved in advance, through the Strategic Body, by the SFC.

Impairments, provisions and write-offs

25. Assets must be recorded in the Balance Sheet at Depreciated Replacement Cost for Land and Buildings and at Historic Cost less depreciation for Equipment in accordance with the Financial Reporting Manual (FRM). Where an asset, including investments, suffers impairment, it is important that the prospective impairment and background is communicated, through the Regional Strategic Body, to the SFC at the earliest possible point in the financial year to determine the budget implications. Any significant movement in existing provisions or the creation of new provisions must be discussed, through the Regional Strategic Body, with the SFC.
26. Write-off of bad debt and/or losses score against resource Departmental Expenditure Limits (DEL).

Income generation

27. The College will be able to retain all commercial income, gifts, bequests or donations received. These funds will be in addition to any grant or funding the institution receives from the Regional Strategic Body.

Insurance

28. The Scottish Ministers have agreed a derogation whereby colleges can extend their current commercial insurance arrangements for three years to 31 July 2018. For the avoidance of doubt this derogation does not apply to the City of Glasgow College's NPD Project for which separate insurance arrangements have been agreed beyond 31 July 2018.

Investments

29. The College must not make any investments of a speculative nature without the prior written approval, through the Regional Strategic Body, of SFC.

Procurement and payment

30. The College's procurement processes must reflect the relevant guidance contained in the Advanced Procurement for Universities and Colleges, and relevant policy and advice issued by the Scottish Procurement Directorate. Procurement must be undertaken by appropriately trained and authorised staff and treated as a key component of achieving the institution's objectives consistent with the principles of Best Value, the highest professional standards and any legal requirement.

31. Any proposal to award a contract without competition (non-competitive action) must be approved, through the Regional Strategic Body, in advance by SFC. Specific delegated authority is given to award a contract without competition for £25,000 or less without advance approval. (See Appendix A)

Transfer of surplus funds to arms-length foundations

32. The College may transfer any surplus on its income and expenditure account as at 31 March each year to its arms-length foundation. This transfer must take place in the financial year in which it arises, and is subject to sufficient cash and resource cover being available.

Delegated financial limits and annual reporting requirements for incorporated colleges

Delegated financial limits

External Business and management consultancies	£100,000
Special severance payments	£1,000
Operating leases-non property	£250,000
Procurement non-competitive action	£25,000

Annual reporting requirements

Extra contractual payments	£5,000
Compensation payments	£5,000
Ex-gratia payments	£1,000
Claims waived or abandoned	£3,000
Write-off of bad debt	£3,000
Losses	£3,000
Overseas student irrecoverable loss	£6,000
Fraud loss	£5,000