

Board Meeting

Date of Meeting	Monday 15 December 2014
Paper Title	GCRB Finance and Funding Project
Agenda Item	7
Paper Number	BM4-E
Responsible Officer	Julia Henderson, Advisor to the Board Riona Bell, SFC Finance Director
Status	Disclosable
Background	<p>Members will recall that the Board asked the Advisor to the Board to work with the SFC's Finance Director, Riona Bell, to produce a project specification and project plan for a project to design financial, funding and performance reporting systems. The terms of the project stipulated that the solution devised must provide the Board with good quality, accurate and appropriate information to enable it to fulfil its statutory responsibilities and comply with principles of good governance. The SFC's Finance Director led the project and worked with the Advisor to the Board and directly with the Vice Principals of Finance at the assigned colleges. The report attached prepared by Riona Bell narrates the proposed solution as scoped to date.</p> <p>The Principals of the three assigned colleges have agreed to the following endorsement of the report:</p> <p><i>'The Principals of the three assigned colleges support the general approach taken in this paper. They are aware that there is still detailed discussion needed on how to implement the recommendations, and careful communication required, which will be undertaken in liaison with the Glasgow Colleges' Strategic Partnership regional working groups.'</i></p>
Action	<p>The Board approves the direction of travel and that further work is done to translate the proposal in to an operational model.</p> <p>That discussion and development work is concluded and progress is reported to the Resources and Performance Committee at a meeting to be arranged in January 2015.</p>

Glasgow Colleges Regional Board

Recommendations on financial, funding and performance reporting systems

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R Bell
6 December 2014

Executive summary

This report sets out the reporting needs of the Glasgow Colleges Regional Board (GCRB) and identifies the best way to meet these needs. In the context of the regional strategic body's duties in relation to funding, planning and performance monitoring, it sets out information requirements, recommends sources of information, sources of assurance and related administrative arrangements. Recommendations are highlighted in bold in the text, and are summarised at the end of this report. Annexes provide suggested reporting timelines and report content. Links are provided to relevant background documentation.

Project remit

The remit of this project is to establish and specify the reporting needs of GCRB and identify the best way to meet these needs. The key aspects are:

- what information GCRB needs to agree, allocate responsibility for, and monitor the delivery of the Region's Outcome Agreement and to take decisions as a result;
- what information and systems GCRB needs to allocate budgets and targets and allow payments to be made to the region's colleges;
- what information, policies and systems are required for GCRB to allow payments to be made for its own running costs;
- what systems are needed to collect and monitor information to allow GCRB to monitor performance of the colleges and take decisions as a result; and
- what information GCRB needs to ensure compliance with and reporting against its obligations under the Financial Memorandum.

GCRB statutory duties

Funding

As regional strategic body, under the Post 16 Education (Scotland) Act 2013 <http://www.legislation.gov.uk/asp/2013/12/contents>, GCRB is responsible for administering the funds provided to it by the Scottish Further and Higher Education Funding Council (SFC) for the provision of further and higher education (FE and HE) by the regional strategic body's assigned colleges, including provision of facilities and related services.

GCRB may make grants, loans or other payments to any of its assigned colleges or any other 'person' for the provision of FE and HE. These can be subject to such terms and conditions as GCRB considers it appropriate to impose, which would include passing on of any conditions of grant applied to GCRB by SFC. However, these conditions of grant may not cover the setting of commercial fees or the application of non-SFC funds, and GCRB must consult the colleges before applying conditions.

Therefore GCRB needs systems for allocating grants, for securing payment of grants to its colleges and for monitoring compliance with conditions of grant.

Planning

GCRB has a duty to exercise its functions with a view to securing the coherent provision of a high quality of FE and HE in the localities of its colleges (provided by its assigned colleges and by other colleges), ensuring that funds are used as economically, efficiently and effectively as possible.

GCRB is a strategic body, not a delivery body. In order to deliver its Strategic Plan, GCRB must plan for how it proposes its assigned colleges should provide FE and HE, and this needs to flow through into the individual colleges' plans. In practice, this will best be achieved by effective collaboration between GCRB and the colleges.

SFC has a similar statutory duty to secure the coherent provision, by the college regions as a whole across Scotland, of high quality FE and HE. In providing its funding, the means through which SFC delivers on this statutory duty is through Regional Outcome Agreements (ROA). ROAs set out what college regions plan to deliver in return for their funding from SFC, with a focus on the contribution that the colleges make towards improving life chances, supporting jobs and growth, and ensuring sustainable post-16 education. Therefore, for delivery against its strategic plan, and to fulfil its own statutory duties, the ROA will be the key management tool for GCRB.

GCRB, in signing up to its ROA, needs assurance that the planned outcomes will meet the needs of the region, and targets will be deliverable by the colleges through their individual plans.

Performance monitoring

GCRB has a statutory duty to monitor the performance of its assigned colleges. This may include the **quality** of FE and HE delivered by the colleges; their **impact** on students, the colleges' locality and Scotland; and their **financial affairs**.

There are already formal systems for monitoring quality of provision in the sector, and GCRB's monitoring should place reliance on those. Monitoring of impact should be embedded in the monitoring of delivery of the ROA.

Monitoring of the colleges' financial and other affairs is important because the colleges need to be financially sustainable in order to be able to deliver high quality

FE and HE for the region. It is also important for colleges to keep within Government budgetary controls, in order to avoid potential financial penalties.

GCRB also has a statutory duty in its monitoring to avoid any unnecessary duplication of monitoring by SFC or Scottish Government.

Therefore, GCRB will require (efficiently provided) information on delivery against ROA outcomes, on quality of provision at the colleges, and on their financial position, with appropriate assurance on the quality and reliability of this information.

Other considerations

Although not at present in force, Scottish Ministers intend Regional Boards to be bound in due course by the Equality Act 2010. This will place public sector equality duties on GCRB in relation to its own activities. The colleges are already bound by the 2010 Act. There will be no need for GCRB to consolidate equalities reporting. However, in its monitoring of college performance, GCRB may wish to seek assurance that the colleges are fulfilling their public sector duties under equalities legislation.

The legislation sets out other matters which GCRB needs to have regard to, and also requirements on consultation and collaboration, but these are outside the scope of this report.

Information requirements/sources

General principles

Reporting to GCRB should follow the following general principles, to ensure maximum efficiency and minimum cost of production:

- Regional reports should be a summation of college reports, presented at a high (strategic) level, but with the option to drill down to greater detail (operational level) if required
- Reliance should be placed on college self-evaluation where available, with deeper enquiry on an exceptions basis
- There should be clarity for the regional board on sources of assurance
- Timing of reporting should be aligned to natural cycles (for finance, ROA etc)

To minimise the administrative burden of data sharing, arrangements should be made for a central location to hold information that is to be shared. So that there can be clarity as to what (if any) information is confidential to individual college(s),

a data sharing agreement should be put in place. This agreement should also meet best practice in standards of data handling to ensure compliance with Data Protection legislation. A common publication scheme could also be considered, covering things such as publication of board papers, to ensure a consistent approach to transparency and compliance with Freedom of Information legislation.

Sources of assurance

Management information should be reliable, timely, complete, transparent and consistent.

Some information provided to GCRB will be from external sources, but much of it will come from the colleges themselves, largely drawing on management information that is prepared for their own governance purposes. GCRB can draw on various sources of assurance, both general and specific, internal and external, in relation to information provided by the colleges. External sources will include the assurances provided by the assigned colleges' own internal and external auditors.

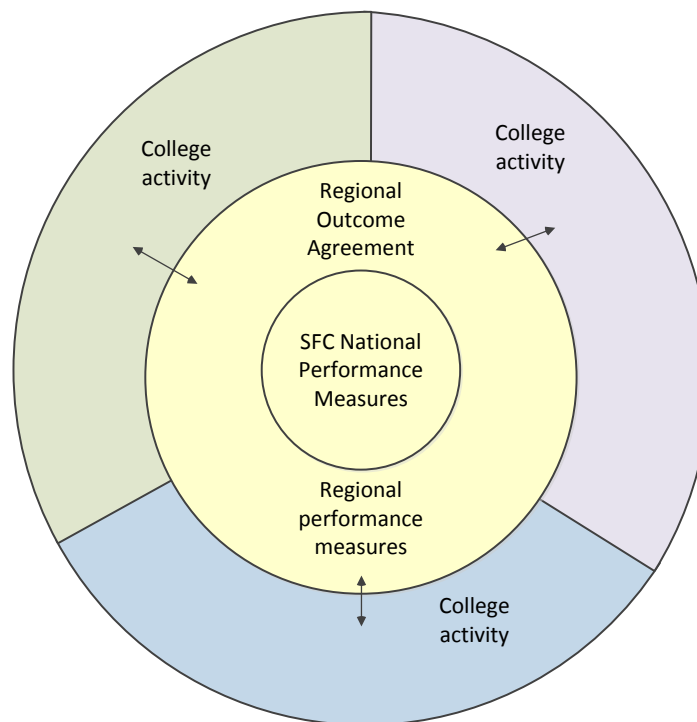
Wherever possible, information for GCRB should be drawn from information produced for the colleges' own boards and committees. The assigned colleges work within a similar governance framework to GCRB. They will be subject to a Financial Memorandum which requires the governing body of the college to comply with the principles of good governance set out in the Code of Good Governance for Scotland's Colleges.

Colleges and GCRB are required to comply with the Scottish Public Finance Manual, whose requirements include a statement in their audited annual report and accounts giving specific assurance about performance and risk management throughout the year. The colleges (and GCRB itself) will be required to provide, at the end of March each year, a statement of assurance on internal controls to the chief executive of SFC who, as Accountable Officer, is answerable to the Scottish Parliament for the propriety, regularity and value for money of use of public funds by the colleges.

GCRB will have access to internal audit reports for the colleges and can, where it would add value, have its own internal audit reviews carried out (see Finance section below).

Regional Outcome Agreement

Planning provision – what goes in ROA



The ROA is agreed with SFC in the context of statutory responsibilities and Ministerial priorities (usually set out in an annual guidance letter <http://www.sfc.ac.uk/aboutus/letterofguidance/letterofguidance.aspx>), and is based on annual Outcome Agreement Guidance issued by SFC <http://www.sfc.ac.uk/guidance/outcomeagreements/CollegeOAGuidance.aspx>.

ROAs are negotiated annually between SFC and college regions, setting out plans for a three year period. They are intended to enable colleges and SFC to demonstrate the impact of the sector and its contribution to meeting Scottish Government priorities. SFC takes a partnership approach to outcome agreements, aiming to build better relationships with colleges and stakeholders to enhance accountability and drive continuous improvement. Each region has a designated Outcome Agreement Manager at SFC, who is key in managing the relationship with the region, and the ROA process. *Annex 1* sets out the ROA cycle of development, agreement, monitoring and evaluation.

As well as regional context information and planned activities and outcomes, the ROA will contain performance measures and targets. As illustrated above these will encompass SFC's national priorities (including a set of National Performance Measures), with which college regions will be measured at a national level. Added to those will be local priorities that address the specific regional context (Regional Performance Measures). For 2015-2020, a Glasgow College Region Curriculum and

Estates Plan is being developed which will inform the Regional Performance Measures over that period.

The individual colleges' annual plans will set out how they intend to achieve:

- their individual college contribution to the ROA, including their own particular specialisms
- their college's role in regional activities, including their contribution to the plans of regional operational groups
- other college activity and activities outside the ROA, for example commercial activity.

In approving its ROA, GCRB needs to be provided with assurance that;

- **The ROA meets SFC's requirements**
- **It is consistent with its view of the regional context**
- **It is consistent with the Regional Board Strategic Plan**
- **Due consideration has been given to the statutory 'have regard to...' matters**
- **The colleges are in agreement to delivering their share of the ROA (including conditions of grant), and they have been given, and accepted, their specific share of the regional targets.**

Regions should give SFC a well-developed draft by early December. Outcome agreement managers will discuss potential amendments in December and January in the light of SFC sector-wide consideration of how well the outcome agreements address the Scottish Government's aspirations. The final outcome agreement should be submitted by mid February. GCRB and college board meetings will have to be scheduled to allow consideration of the ROA before it is submitted to SFC.

Allocation of funds to deliver provision

The ROA will include an allocation of funding for the region. **It will be GCRB's responsibility to allocate funds to the individual colleges from the regional total.** The funds allocated to the region by SFC are to cover the cost of all fundable activity. After deduction for regional costs (GCRB administration, plus any activity that may be organised and delivered on a regional basis), the balance should be allocated to the individual colleges for them to deliver their share of regional activity.

SFC allocates funding nationally to college regions on a needs basis, targeted on each region's socio-economic and demographic need, and linked to the ROA through the volume and type of provision to be delivered. SFC develops its funding methods in collaboration with the college sector, and recently has worked with principals and regional chairs to develop a simplified approach to funding colleges. If GCRB were to depart from the sector funding approach, this would risk creating unfairness

compared to colleges outside the region, and could put at risk the region's ability to deliver against the national priorities which are reflected in the national funding mechanism. In addition, it would not be consistent with the requirement to minimise administrative cost for GCRB to gear up to be able to calculate funding allocations.

The recommendation is therefore that **SFC should provide GCRB with an indicative allocation for each college within the region for teaching and fee waiver grant and student support using input information provided by GCRB.** The amount to be top-sliced for regional activity and a sub-division of the regional input parameters will have to be provided to SFC to enable them to do this, including each college's share of the overall regional activity (credit) target and other indicators of type of provision to be delivered. **These parameters, for college funding allocation, should be the product of discussions between SFC, GCRB and the colleges, held during the ROA development process, that will include the agreement of regional and individual college targets and contributions to efficiency gains.**

In deciding on allocations from the regional total to the colleges, GCRB will need to have regard to financial sustainability of the colleges. Particularly if there were to be decreases in funding, or increased expectations of efficiency gains, it is important that any changes in funding are manageable by the colleges. GCRB will therefore have to have an understanding of the colleges' financial position to inform its view of the manageability of any changes in funding or efficiency requirements. This may require more than one iteration of the funding calculation in any year in which there are significant funding changes.

The board of SFC will meet to approve outcome agreements and make indicative funding allocation decisions in January. Allocations remain indicative at this time as the Scottish Government Budget will not be finalised until February.

In order to ensure that colleges will deliver the required outcomes in return for payment of funds, and to pass on conditions of grant, **GCRB will need to make a formal offer of funding to its colleges, and the colleges will be required to confirm that they accept the funding, undertake to deliver their share of the ROA and will comply with the associated conditions of grant.** SFC's standard conditions of grant for 2014-15 can be found at the following link:

<http://www.sfc.ac.uk/funding/OutcomeAgreements/CollegeOASectorInformation.aspx>

This, in effect, parallels SFC's formal sign off of ROAs with the college regions.

The full timetable for the 2015-16 ROAs is summarised below:

Activity	Deadline
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Guidance updated and published	6 August 2014
Data sets for FE and HE released to institutions by SFC	September 2014
Self-evaluation progress report on 13-14 OA submitted	31 October 2014
First draft outcome agreement submitted	8 December 2014
Amendments	January 2015
Final Sign-off – funding announced	28 February 2015
Publication of outcome agreements	April 2015

Monitoring delivery of ROA

GCRB will be looking for assurance during the year that the region collectively, and the assigned colleges individually, are projecting to deliver their share of the ROA outcomes. Hard targets include the overall volume of learning provided to students (WSUM or credit target), increases in provision to specific groups of students (eg age groups or those from areas of deprivation or with protected characteristics, such as a disability). They also include output targets, such as proportions of students who successfully complete, or who progress to work and/or further study. The ROA also includes softer targets, such as plans to work collaboratively with others (CPPs, universities etc) to provide new learning opportunities.

Performance against the hard targets is monitored by SFC through collection of FE Statistics (FES). Although admission to full-time courses in August/September is a significant driver of student volume, due to the high proportion of part-time and short course provision by colleges, there is likely to be some variation during the year in the expected total volume of student activity that will be delivered. To ensure that 'real-time' information is available, and to enable any corrective action to be taken should any individual college be projecting to fall short of its overall target, SFC collects FES data quarterly. Final FES data are available October, just after the end of the academic year.

Monitoring at regional level during the year should focus on a set of Key Performance Indicators (KPIs) for Learning and Teaching, drawn from the SFC's national performance measures. Suggested measures are (SFC numbering):

2.	Volume of Credits delivered
5.	Volume and proportion of Credits delivered to learners in the most deprived 10% postcode areas in Scotland
8.	Volume of Credits delivered to learners at S3 and above as part of 'school-college' provision
9.	Percentage of enrolled students successfully achieving a recognised qualification
10.	Number and proportion of successful students who have achieved HNC or HND qualifications articulating to degree level courses with advanced standing
11.*	Number and proportion of full-time college qualifiers in work, training and/or further study 3-6 months after qualifying

*Note that the first full College Leaver Destination survey for all full-time qualifiers from session 2013-14 will be returned by colleges in the spring of 2015. This return will establish a baseline for SFC's national performance measure 11.

GCRB should receive a ROA monitoring report on KPIs for learning and teaching based on the quarterly FES return to SFC. This report should provide an overview of recent data relating to national and regional performance measures identified within the Glasgow Region ROA and a narrative explanation that gives an indication of the full year projection. The reporting to GCRB board should provide assurance and a risk assessment, and should therefore be on an exceptions basis. It should note where there are issues of concern, and the action proposed to be taken by the colleges, or where a decision is required by the regional board.

The best understanding of this regional picture will rest with the assigned colleges working together, and therefore there should be a quarterly report to the GCRB board from the colleges collectively. The report should be considered by the colleges' regional operational group, and proposed actions endorsed by them, before being submitted to GCRB. This would include any proposal to adjust targets in-year to ensure that overall regional outcomes will be met. Further detail should be available to GCRB on request.

A full evaluation of the hard and soft targets in the ROA, in the form of a self-evaluation report, is required by SFC at the end of October each year. This should be a brief factual report containing reflection on available audited statistical data, qualitative and quantitative progress in the preceding year, including specific reference to published ROA milestones (recognising that, for the year in question, audited statistical data will not be available and that we therefore rely on the region's own data at this point in time), early thoughts on progress in the current year (for example, towards recruitment targets, any internal evidence on retention), and a rationale for any proposed changes to targets in the draft outcome agreement.

Annex 2 illustrates how the evaluation and in-year information on delivery are available to inform the next ROA.

SFC publication of key performance indicators (January) provides retrospective information for Scotland as a whole, which enables comparison with other regions. This should help inform the regional context and feed in to the development of the next ROA.

The process for drawing up the self-evaluation should include self-evaluation by both individual colleges and the colleges' regional operational group, including reflection on target achievement, which consolidates individual college contributions to ROA outcomes, and adds an overlay re actions taken at regional level, whether by the colleges acting together or by the regional body itself (eg interaction with schools, businesses, community etc). Thus the regional ROA evaluation should provide a coherent picture of outcomes at a regional level. **The regional evaluation should be approved by the college boards as well as the regional board.**

Annex 3 shows a timeline for board reporting on learning and teaching

Annex G of SFC's Outcome Agreement Guidance sets out the link between Outcome Agreements and funding, and also sets out how SFC will respond to under-delivery.

http://www.sfc.ac.uk/web/FILES/GuidanceOA1516/Annex_G_Outcome_agreements_and_funding.pdf

Any penalty, clawback or other action will be applied by SFC at a regional level.

Quality

GCRB's monitoring of the performance of the assigned college may include monitoring or assessing the quality of education provided by the colleges. SFC has an ongoing duty to secure that provision is made for assessing and enhancing the quality of education provided by the colleges. To prevent unnecessary duplication, GCRB's approach should therefore draw on SFC's quality assurance arrangements.

As it is the colleges, and not SFC, which bear primary responsibility for, and ownership of, the quality of educational provision, in addition to the ROA self-evaluation report, SFC requires individual colleges to provide annual reports on institution-led review and enhancement activities, signed off by the college board.

Institution-led review is the key process by which the quality of students' experience in Scottish colleges is assured and enhanced. This is consistent with SFC's recognition that quality is owned by colleges and that it is a matter for each college to determine how precisely it organises its internal processes for reviewing and evaluating provision. However, SFC has responsibilities for ensuring that institution-led review is comprehensive and rigorous, and considers the full range of issues which may have a bearing on quality.

Each college should provide to SFC an annual report, endorsed by its board, which describes the impact, nature and outcomes of college-led quality review activities, including student engagement arrangements and outcomes, as well as of reviews by professional, statutory and regulatory bodies (PSRBs), which have taken place in the previous academic year, including commentary on actions to be taken to address issues identified.

The format of the annual report is a matter for each college to determine. However, SFC request that it is a concise overview report, highlighting outcomes and impact of college actions on quality. **GCRB should receive for noting a copy of each college's annual quality report to SFC.**

SFC contracts with Education Scotland to undertake independent reviews of provision in Scotland's colleges. Exceptionally, where external review identifies issues of significant concern, SFC will require colleges to prepare a detailed action plan to address deficiencies and to take urgent action, as necessary. The governing body is expected to take ownership of such actions. If such a situation arose in an assigned college, GCRB would be expected to follow a similar approach to SFC in monitoring actions to address any deficiencies.

It should be noted that SFC's system of quality assurance is currently being reviewed, and a new approach is being piloted. As a result, regional reporting arrangements on quality may need to be revised in future. Any revised arrangements should continue to seek to avoid unnecessary duplication with SFC monitoring activity. SFC's current quality arrangements with the college sector are on its website:

http://www.sfc.ac.uk/funding/FundingOutcomes/Learners/qualityassurance/quality_scotlands_colleges.aspx

Finance

Financial monitoring

GCRB is responsible for monitoring the colleges' financial affairs in order to ensure that the colleges are financially sustainable, to keep within Government budgetary controls, and ensure that assigned colleges remain financially sustainable in order to deliver the ROA.

A number of changes to the financial reporting and budgeting arrangements for the college sector were introduced following the Office of National Statistics (ONS) reclassification of colleges within the central government boundary for budgeting and reporting purposes. This includes controls over revenue and capital expenditure and bank balances, as well as additional reporting requirements externally and to SFC. All incorporated colleges have been reclassified as central government arms-length bodies from 1 April 2014.

Robust systems of financial monitoring have been established within the sector, and reliance can be placed on those mechanisms to ensure the key financial information provided by assigned colleges is reliable, timely, complete, transparent, and consistent. Established processes for each college include budget preparation and monitoring, preparation and audit of year-end financial statements and internal audit processes as well as board and committee scrutiny of internal management information.

Regular updates based on the management reports from each of the assigned colleges will assist the GCRB in its responsibilities to ensure the regional colleges are well managed and financially sustainable.

The key dates in the financial reporting cycle corresponding with current budgeting and external reporting deadlines are set out on the timetable for financial reporting at [Annex 4](#).

Financial Memorandum

SFC's Financial Memorandum (FM) sets out the formal relationship between SFC and GCRB <http://www.sfc.ac.uk/financialmemorandum>. A separate assigned college FM between GCRB and the individual colleges will need to be negotiated based on a template provided by SFC.

Responsibility for ensuring that each institution complies with the FM rests with its own governing body, but GCRB will require to ensure that the individual colleges are

financially sustainable, and able to meet their ROA targets. GCRB should also seek assurance that the assigned colleges follow the requirements of the Scottish Public Finance Manual (SPFM), that assigned colleges follow the guidance in the SFC Procedure Note on the Disposal of Exchequer-funded assets, and SFC Accounts Direction.

The SPFM is available on the Scottish Government's website:

[SPFM: Legislative Background and Applicability](#)

Delegated limits for reporting under SPFM have been established by SFC. The annual reports to SFC by the assigned colleges should be made available to GCRB. The delegated limits are set out in the FM and reproduced at [Annex 5](#).

Budgets

GCRB and each assigned college will require to prepare a budget for revenue and capital expenditure on an annual basis, in accordance with SFC's reporting requirements. The budgets should set out the financial impact of plans to deliver the ROA, and reflect the agreed individual targets.

The Scottish Government budgeting and accounting requirements mean that colleges will be expected to at least break even on both an operational and resource basis, and minimise cash balances. GCRB and assigned colleges will require to monitor their budgets and cash flow closely to ensure that they keep within resource budget limits and that grant-in-aid is not drawn in advance of need.

The budget for the GCRB will reflect the planned expenditure for the Regional Board's own overheads and staffing costs, and the amount of grant required in order to meet those costs, and should be approved by the GCRB board. The budget should take account of any planned changes, comply with the FM requirements, and be based on the principle that costs should be kept at a minimum.

The individual college boards will be responsible for approving their own budgets.

A summary of the individual budgets should be made available to GCRB for information, to provide assurance on the financial impact on colleges of plans to deliver the ROA and projected financial position for the forthcoming year. GCRB will be responsible for agreeing the allocation of SFC grant between the assigned colleges, in order to deliver the planned provision as described in the section above 'Allocation of funds to deliver provision'.

The out-turn against the budget during the year should be monitored by a review of assigned college periodic management accounts to ensure key variances and changes to the projected out-turn, and other changes which may affect the assigned colleges

ability to deliver the ROA targets highlighted. As the colleges will require to balance their books both in cash and resource terms, monitoring the projected out-turn will be a key area for scrutiny.

Reporting requirements on budgets and cash flows for SFC monitoring is provided in more detail below.

Management accounts

Management information prepared by individual colleges should provide the basis for accurate timely information in order for the GCRB to monitor the ongoing financial performance of the assigned colleges.

A single sheet with key information and KPI's would provide summary information to enable GCRB to assess the financial security for each of the assigned colleges. An overview showing the current position against budget, and projected out-turn for the year will highlight any aspects which GCRB should be aware of by exception.

A high-level narrative 'Summary of results and key risks' statement should be provided. This will explain significant variances and highlight potential issues which would affect financial sustainability and prevent an individual college from achieving its ROA outcomes and targets. Areas where potential risks may be apparent include pay costs and pay inflationary pressures, student support, ongoing voluntary severance schemes, and levels of commercial activity. Effective collaboration between the individual colleges and through the colleges' regional partnership's finance sub-group should ensure risks affecting the region are highlighted, and potential solutions identified, to ensure ROA targets are achieved. An opportunity for senior finance staff from assigned colleges to attend the Performance and Resources Committee meetings would also allow for discussion on specific areas when required.

A review of the KPI's should have regard to the FM and SFC guidance on cash management, as funds should only be being drawn down when required.

Individual College Income and Expenditure reports and Balance Sheets should also be available as required by the Performance and Resources Committee, but as these will have already been scrutinised by the boards of the assigned Colleges, this should be required by exception only.

A template for KPI's, and an example commentary is included at [Annex 6](#). A specimen risk finance register is shown at [Annex 7](#).

Internal control

GCRB will require to have a system of internal control over its own budgets, including a scheme of delegation for the authorisation of expenditure and monitoring of spend against budgets. Administration of payments for GCRB's own costs and payments to colleges is discussed in the Administration Arrangements section below. **GCRB's system of internal control should be documented so that staff are aware of relevant procedures and to facilitate audit, and to provide evidence for the annual assurance statement that has to be provided to the SFC Accountable Officer.**

Estates

GCRB and the individual colleges are currently agreeing a 'Curriculum and Estates Plan' covering the period 2015 to 2020. The individual colleges are responsible for their own estates maintenance plan and investment plan, and GCRB should ensure that these plans are consistent with the implementation of the regional Curriculum and Estates plan.

The summary budget for each college should include a summary of the maintenance and capital costs for GCRB information. **The region's Estates Workgroup should provide a regular summary report on progress on the Curriculum and Estates Plan to the Performance and Resources Committee, with further details available if required.**

Key risks arising from the estates plan should be highlighted for review by GCRB's Performance and Resources Committee.

Consent is required for disposal of property acquired with public funds – see the 'Financial Memorandum' section above.

Statutory accounts and external audit

External audit appointments are made by the Auditor General for Scotland, and current appointments will extend until completion of the 2015/16 audits. Audit Scotland may in the future appoint the same auditor for GCRB and each of the assigned colleges.

The accounting year-end date for colleges is expected to be reinstated to 31 July with effect from the financial period ending 31 July 2015, which will correspond with the academic year and curriculum planning.

The individual colleges and GCRB are responsible for preparation of their statutory financial statements for external audit and Board approval. As GCRB will require to collate the individual statutory financial statements for consolidation, the external auditors should be consulted at an early date to plan the consolidation, ensure that the accounting policies for each of the assigned colleges are consistent, and plan to obtain other required information – for example intra-group balances.

SFC provides guidance on the format and content of the financial statements and the Accounts Direction is updated for each financial year. Financial statements require to be prepared in accordance with the FE/ HE Statement of Recommended Practice (SORP), and the Government Financial Reporting Manual (FRm).

SFC guidance on financial statements is available on their website:

[Financial sustainability](#)

Internal audit

An internal audit service should provide the GCRB Board with an objective assessment of adequacy and effectiveness of risk management, internal control, governance and Value for Money.

The Financial Memorandum requires the individual colleges to have in place an effective internal audit service, which will provide their boards with an objective assessment of the adequacy and effectiveness of risk management, internal control, governance and Value for Money.

GCRB's own financial systems and processes are likely to be straight forward in their nature. An early task for GCRB internal audit will be a review of the systems and controls put in place for the regional body.

There will be scope to co-ordinate internal audit plans on a regional basis in order to provide assurance in an efficient way, and provide assurance on areas which are relevant to deliver the ROA.

In addition to reports from the activity of its own internal audit function, the annual summary report on internal audit of assigned colleges should be presented to GCRB, and the individual internal audit reports should be available for GCRB to access.

SFC Financial reporting

SFC monitors the financial status of colleges to assess individual college financial sustainability and quality of governance. The ONS reclassification has altered the nature and frequency of financial reporting to SFC, in order to comply with SPFM requirements. For government budgeting and accounting purposes colleges will require to continue to provide SFC with budget and cash flow information to 31 March each year, to ensure that SFC balance their books on both a resource and operational basis and in order that cash is not paid out in advance of need.

The reporting requirements by colleges to SFC include the following:

- Grant-in-aid is drawn-down from SFC by colleges submitting annual and monthly cash flow projections
- Financial Forecast Returns to SFC, covering the current year's outturn and projections for the following two years
- A resource budget breakdown following publication of the annual Budget Bill in the Scottish Parliament
- SFC 'Resource' budget returns are submitted for quarters 1, 2 and 3 of the financial year, with monthly returns for the final quarter, to monitor forecast outturns against HM Treasury budget controls and highlight key Resource differences
- An In-year Annual Managed Expenditure (AME) return to provide details of specific transactions for HM Treasury purposes
- Final SFC 'Resource' returns submitted, based on draft financial statements;
- Annual Financial statements are returned to SFC
- Annual reporting to SFC under the FM for delegated limits

and from 2015-16

- A whole of Government Accounts (WGA) return will require to be returned to the Scottish Government, for HM Treasury requirements.

Reclassification reports for GCRB's own transactions will require to be submitted to SFC. The reports provided to SFC by individual colleges should also be made available to GCRB, with a summary overview only to provide assurance that the assigned colleges are complying with their FM's and on their financial position.

The timetable for financial reporting to SFC is set out at:

[http://www.sfc.ac.uk/web/FILES/Guidance_college_reclassification/Reclassification Checklist October 2014.pdf](http://www.sfc.ac.uk/web/FILES/Guidance_college_reclassification/Reclassification_Checklist_October_2014.pdf)

Administration arrangements

Routine financial management

An arrangement for the use of finance department staff from the assigned colleges would provide flexibility in carrying out routine bookkeeping and collating information. This would also utilise the knowledge and experience of existing finance department staff. Any such arrangement for routine finance work would not preclude GCRB separately accessing independent financial advice if necessary.

The routine work in processing bank transactions, paying invoices and payroll, calculating re-charges, and processing internal re-charges for the GCRB accounting records should be minimal, with some additional time requirement in preparation for Board meetings, and preparation of returns etc.

Grant payments to colleges, following the ONS changes, are no longer able to be made on the basis of a pre-determined profile. Since April 2014, grant payments have been made on the basis of a monthly cash form which sets out the college's cash requirement each month, within the context of its agreed budget. There is a tight turnaround between submission of the cash form and the processing of the monthly payment, during which finance experts in SFC carry out a review of the form to confirm that cash is not being drawn down in advance of need or in excess of budget. To avoid additional administrative burden, potential delay and risk of error, GCRB could enter into an arrangement with SFC whereby GCRB instructs SFC to make grant payments direct to the assigned colleges on its behalf, using the monthly cash form process. Such an agreement would also set out what information would be supplied to GCRB on the payments, and how any issues or problems would be handled.

An estimate of one day per week on average may be appropriate for GCRB's routine finance work, but could be assessed in due course to ensure that the time allocated is appropriate.

Preparation of reports for the GCRB Performance and Resources Committee will require some input from a qualified accountant. The assigned colleges will have suitably qualified and knowledgeable staff, but availability from a senior finance level may be challenging and would have to be carefully planned for.

The technical exercise of consolidating the Regional Board financial statements may be more efficiently out-sourced to a professional accountancy firm due to the time constraints. A professional firm should be able to provide this service for a set fee, and complete the work within a set timescale in order to meet deadlines.

Other administrative capacity

For any staff employed directly on GCRB activity, there will be a requirement for Human Resource (HR) capacity including HR policies and practices, payroll, PAYE and pensions administration. Securing capacity from one of the assigned colleges for this would also offer a cost effective solution. A similar approach could be taken to data management. One option to consider, if the workload of administrative support for the regional body can be spread fairly across the assigned colleges (without compromise to the quality and efficiency of service offered), would be for the services to be provided for no consideration, thus avoiding a top slice on the regional budget.

Shared service arrangements

In any arrangement for shared services careful consideration has to be given to the potential for additional VAT cost, and appropriate professional advice should be taken before any agreement is entered into. Procurement implications also need to be considered.

Summary of recommendations

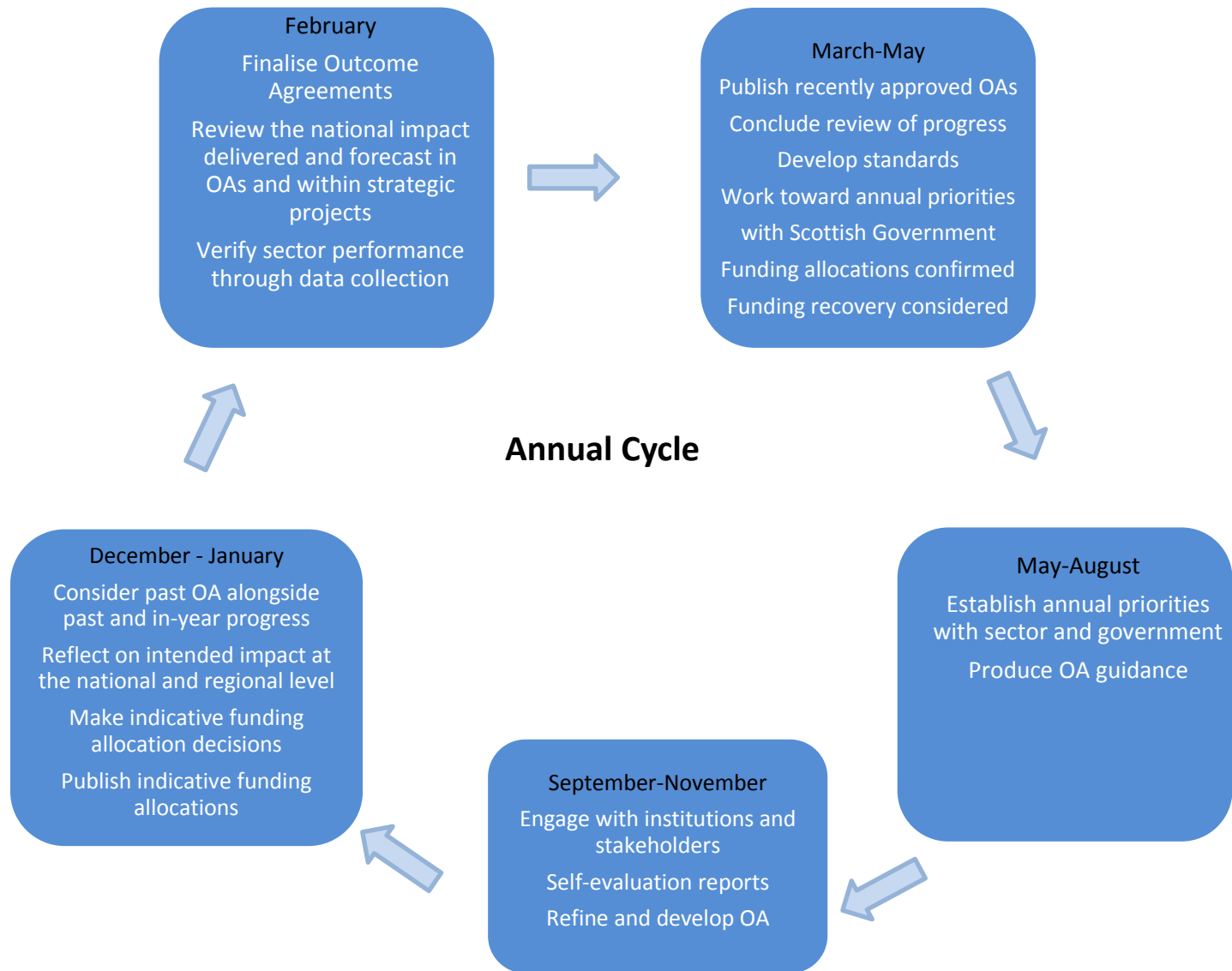
Recommendations in the main body of this report are highlighted in bold. These are summarised below. In addition, a specimen balanced scorecard is shown at [Annex 8](#), and a Board and Committee schedule of meetings with suggested agenda items is shown at [Annex 9](#). It should be noted that the agenda items listed are those related to the content of this report, and therefore do not represent a complete list of Board or Committee business.

- GCRB needs systems for allocating grants, for securing payment of grants to its colleges and for monitoring compliance with conditions of grant.
- GCRB, in signing up to its ROA, needs assurance that the planned outcomes will meet the needs of the region, and targets will be deliverable by the colleges through their individual plans.
- GCRB will require (efficiently provided) information on delivery against ROA outcomes, on quality of provision at the colleges, and on their financial position, with appropriate assurance on the quality and reliability of this information.
- A data sharing agreement should be put in place

- Wherever possible, information for GCRB should be drawn from information produced for the colleges' own boards and committees.
- In approving its ROA, GCRB needs to be provided with assurance that;
 - The ROA meets SFC's requirements
 - It is consistent with its view of the regional context
 - It is consistent with the Regional Board Strategic Plan
 - Due consideration has been given to the statutory 'have regard to...' matters
 - The colleges are in agreement to delivering their share of the ROA (including conditions of grant), and they have been given, and accepted, their specific share of the regional targets.
- It will be GCRB's responsibility to allocate funds to the individual colleges from the regional total.
- SFC should provide GCRB with an indicative allocation for each college within the region for teaching and fee waiver grant and student support using input information provided by GCRB.
- Parameters, for college funding allocation, should be the product of discussions between SFC, GCRB and the colleges, held during the ROA development process, that will include the agreement of regional and individual college targets and contributions to efficiency gains.
- In deciding on allocations from the regional total to the colleges, GCRB will need to have regard to financial sustainability of the colleges.
- GCRB will need to make a formal offer of funding to its colleges, and the colleges will be required to confirm that they accept the funding, undertake to deliver their share of the ROA and will comply with the associated conditions of grant.
- GCRB should receive a ROA monitoring report on KPIs for learning and teaching based on the quarterly FES return to SFC.
- A full evaluation of the hard and soft targets in the ROA, in the form of a self-evaluation report, is required by SFC at the end of October each year. The regional evaluation should be approved by the college boards as well as the regional board.
- GCRB should receive for noting a copy of each college's annual quality report to SFC.

- Regular updates based on the management reports from each of the assigned colleges will assist the GCRB in its responsibilities to ensure the regional colleges are well managed and financially sustainable.
- The budget for the GCRB will reflect the planned expenditure for the Regional Board's own overheads and staffing costs, and the amount of grant required in order to meet those costs, and should be approved by the GCRB board.
- The individual college boards will be responsible for approving their own budgets.
- Management information prepared by individual colleges should provide the basis for accurate timely information in order for the GCRB to monitor the ongoing financial performance of the assigned colleges.
- GCRB's system of internal control should be documented so that staff are aware of relevant procedures and to facilitate audit, and to provide evidence for the annual assurance statement that has to be provided to the SFC Accountable Officer.
- The region's Estates Workgroup should provide a regular summary report on progress on the Curriculum and Estates Plan to the Performance and Resources Committee, with further details available if required.
- In addition to reports from the activity of its own internal audit function, the annual summary report on internal audit of assigned colleges should be presented to GCRB, and the individual internal audit reports should be available for GCRB to access.

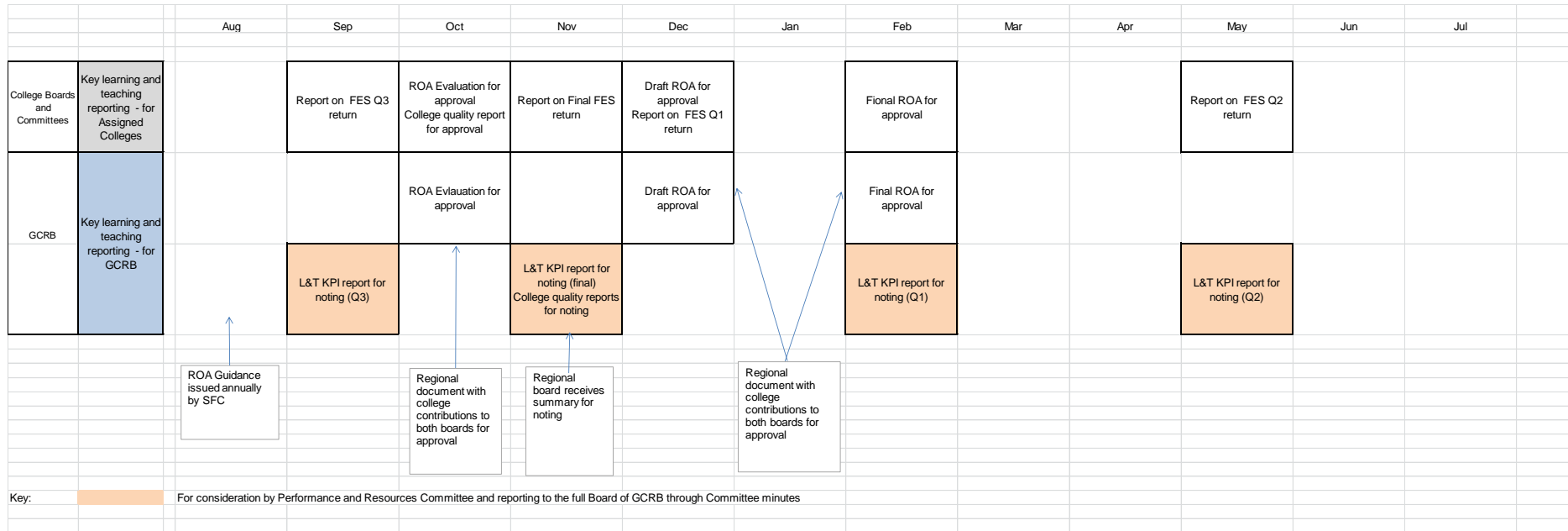
Annex 1 – Outcome agreement annual cycle



Annex 2 – overview of consecutive outcome agreement planning, delivery and review cycles

Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
ROA Development		Recruitment Activity					Delivery of ROA											Review of ROA Achievement																						
											ROA Development		Recruitment Activity			Delivery of ROA							Review of ROA Achievement																	
											ROA Development		Recruitment Activity			Delivery of ROA							Review of ROA Achievement																	
<p>In any one year, there is monitoring and reporting activity relating to three consecutive academic years:</p> <ol style="list-style-type: none"> 1. review of the previous year (including target achievement); 2. delivery of teaching and learning activity for the current year; and 3. development of plans, and admission of students, for future year. 																																								

Annex 3 - timeline for board reporting on learning and teaching

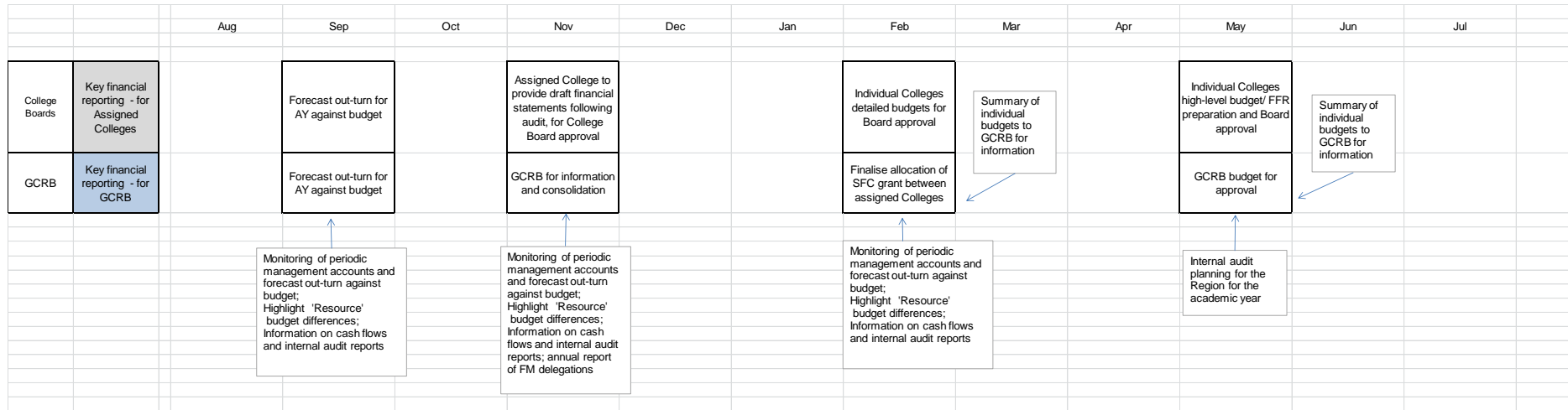


SFC ROA 2015/16 Measures

1. Gross carbon footprint (three-year period)
2. * Volume of Credits delivered
3. Volume and proportion of Credits delivered to learners aged 16-19 and 20-24
4. Volume and proportion of Credits delivered to full-time learners aged 16-19 and 20-24
5. * Volume and proportion of Credits delivered to learners in the most deprived 10% postcode areas in Scotland
6. Volume and proportion of Credits relating to learners from different protected characteristic groups and care leavers (where data is available)
7. Volume and proportion of Credits relating to learners with profound and complex needs enrolled on courses involving formal recognition of achievement
8. Volume of Credits delivered to learners at S3 and above as part of 'school-college' provision
9. * Percentage of enrolled students successfully achieving a recognised qualification
10. * Number and proportion of successful students who have achieved HNC or HND qualifications articulating to degree level courses with advanced standing
11. * Number and proportion of full-time college qualifiers in work, training and/or further study 3-6 months after qualifying (enhanced return to be developed and piloted through 2013-14; baseline to be set autumn 2014)
12. Number of starts for direct contracted apprenticeships (e.g. in construction)
13. Number of full-time learners with substantial placements in business and industry (measure still TBC)

* key national priorities

Annex 4 – timetable for financial reporting



Delegated financial limits and exceptional reporting requirements for Regional Colleges and Regional Boards

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

Exceptional 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

Annex 6 – Financial key Performance Indicators

Financial Information												
Key Performance Indicators												
	<u>City of Glasgow College</u>				<u>Glasgow Clyde College</u>				<u>Glasgow Kelvin College</u>			
	Period to date:		Forecast for year:		Period to date:		Forecast for year:		Period to date:		Forecast for year:	
	<i>Budget</i>	<i>Actual</i>	<i>Budget</i>	<i>Forecast</i>	<i>Budget</i>	<i>Actual</i>	<i>Budget</i>	<i>Forecast</i>	<i>Budget</i>	<i>Actual</i>	<i>Budget</i>	<i>Forecast</i>
Total Income												
Total Expenditure												
Operating Surplus/ (Deficit)												
Non-SFC Income as % of total income												
Staff costs as % of total costs												
Bank balances												
Days cash												

Summary of results and key risks

Overall income and expenditure for the first three months of the financial year are lower than the original budget profile, however as this is considered to be a timing difference, no action is required at this time. The budget and forecasts will be monitored closely over the year to ensure that changes are highlighted in order to ensure that the budget out-turn is within forecasts. A break-even position is budgeted for the period to March and July 2015.

Key financial risks which are currently being monitored by the Board relate to the requirement to deliver further efficiency gains. Tight control over the budget will be required, with the objective of minimising any potential impact on students. Student support funding and future pay awards are the current budget pressures.

Key variances highlighted from SFC Resource Returns:

Movement on pre 31 March 2014 provisions

Net depreciation non-cash movement

Loan and Lennartz payments

Annex 7 – Specimen finance risk register

Key Financial Risks			
Area:	Risk:	Action required:	Review Date:
Budget setting	Ensure key assumptions and estimates are consistent for each college for income and expenditure		
	Balanced Resource budget out-turn for the year		
	Revenue and capital budgets are consistent with the ROA targets		
Financial Performance	Capital developments within budget	<i>some pressures from current developments which will be monitored</i>	Jan '15
	Cash movements within forecasts		
	Maintain minimum bank balances		
	Resource movement and projected out-turn	<i>some movements on provisions - to be reviewed when further details are available</i>	Jan '15
	Voluntary severance scheme costs	<i>ongoing scheme - to be reviewed when further details are available</i>	Jan '15
	Imbalance between demand for student support funds and budget available	<i>awaiting outcome of IYR</i>	Dec '14
	Pay inflationary pressures	<i>monitor/ pay negotiations are ongoing</i>	March '15
Financial statements	Ensure accounting policies are consistent for consolidation across each college		
	Intra group balances available		
Internal and External Audit	High Priority recommendations made		
	Significant risks identified		
Financial Memorandum	Procedures in place to ensure colleges comply with requirements		
	Report available on delegated limits		
	Key reporting deadlines are being met		
Planning	Impact of potential reduction in funding		
	Delivery of further efficiency gains		

Annex 8 – Specimen balanced scorecard

Area	Objectives	Measurement	How well are we doing towards our objectives?	How do we know?
Outcomes				
Learning and teaching	Delivery of ROA targets	L & T KPIs		
Quality of FE and HE	Continuous improvement	College quality reports		
Financial				
Financial security	Balanced I & E	Management accounts		
	Resource outturn within budget	SFC returns		
Business processes				
Development of ROA	ROA agreed with SFC and assigned colleges	ROA timetable goals		
Allocation of grant	Grant allocated to, and accepted by assigned colleges to deliver ROA	ROA timetable goals		
Learning & Growth				
Delivering for Glasgow Region	ROA outcomes meet stakeholder needs	Feedback from employers, CPP and other stakeholders		

Annex 9 – Board and Committee schedule and suggested agenda items

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
GCRB main board			SFC ROA guidance for noting. ROA Evaluation for approval. Committee reports		Annual accounts for approval. Draft ROA for approval. Committee reports		Final ROA for approval, including allocation of grant to colleges. Committee reports				Approve GCRB own budget. Annual governance review. Committee reports	
Performance and Resources Committee		L&T KPI report for noting GCRB forecast AY outturn against budget. Summary of college forecast outturn against budget. Annual Best Value report.		College quality reports for noting. L&T KPI report for noting Draft annual accounts. GCRB management accounts. College Financial KPI summary for noting. Committee annual report.			L&T KPI report for noting GCRB management accounts. College Financial KPI summary for noting. Annual estates report.			L&T KPI report for noting College budgets for noting. GCRB own budget. GCRB management accounts. College Financial KPI summary for noting.		
Audit Committee				Draft annual accounts. Internal control statement. Audit findings report. Internal audit reports. Committee annual report. Annual private meeting with auditors. Review of Internal and External Audit functions.					External audit plan. Internal audit reports. Fraud & whistleblowing annual update.			Internal audit plan for next year. Internal audit reports.

Annex 10 – Links to documentation

Post 16 Education (Scotland) Act 2013

<http://www.legislation.gov.uk/asp/2013/12/contents>

Ministerial letter of guidance

<http://www.sfc.ac.uk/aboutus/letterofguidance/letterofguidance.aspx>

SFC Outcome Agreement Guidance

<http://www.sfc.ac.uk/guidance/outcomeagreements/CollegeOAGuidance.aspx>

SFC standard conditions of grant for 2014-15

<http://www.sfc.ac.uk/funding/OutcomeAgreements/CollegeOASectorInformation.aspx>

Link between Outcome Agreements and funding

http://www.sfc.ac.uk/web/FILES/GuidanceOA1516/Annex_G_Outcome_agreements_and_funding.pdf

SFC's current quality arrangements with the college sector

http://www.sfc.ac.uk/funding/FundingOutcomes/Learners/qualityassurance/quality_scotlands_colleges.aspx

Scottish Public Finance Manual

[SPFM: Legislative Background and Applicability](#)

SFC/GCRB Financial Memorandum

<http://www.sfc.ac.uk/financialmemorandum>

SFC guidance on financial statements

[Financial sustainability](#)

SFC financial reporting timetable

http://www.sfc.ac.uk/web/FILES/Guidance_college_reclassification/Reclassification_Checklist_October_2014.pdf