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## Audit and Assurance Committee Meeting

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Date of Meeting	Tuesday 26 March 2024
Paper Title	Arm's Length Foundations
Agenda Item	8
Paper Number	AAC3-D
Responsible Officer	Jim Godfrey, Finance & Resources Director
Status	Disclosable
Action	For Noting

### 1. Executive Summary

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

### 2. Recommendations

2.1. The Committee is invited to:

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

### **3. Report**

#### **3.1. The following guidance was issued by the Scottish Funding Council (SFC) in respect of Arms-Length Foundations:**

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

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

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

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

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

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

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

- Glasgow Clyde Education Foundation<sup>1</sup>
- Glasgow Kelvin Learning Foundation<sup>2</sup>
- City of Glasgow College Foundation<sup>3</sup>

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

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

	<b>31 March 2023</b>	<b>31 March 2022</b>	<b>31 March 2021</b>	<b>31 March 2020</b>	<b>31 March 2019</b>	<b>31 March 2018</b>	<b>31 March 2017</b>	<b>31 March 2016</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Glasgow Clyde Education Foundation	£0.0	£0.1	£5.7	£8.2	£9.4	£9.8	£13.2	£14.2
Glasgow Kelvin Learning Foundation	£1.7	£1.7	£1.8	£2.0	£2.7	£3.1	£5.1	£2.2
City of Glasgow College Foundation	£1.7	£2.7	£4.4	£4.7	£4.7	£6.8	£7.9	£10.6
<b>Total</b>	<b>£3.4</b>	<b>£4.5</b>	<b>£7.5</b>	<b>£14.9</b>	<b>£16.8</b>	<b>£19.7</b>	<b>£26.2</b>	<b>£27.0</b>

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

<sup>1</sup> Company Number CS001379, Charity Number SC044616

<sup>2</sup> Company Number CS001383, Charity Number SC044632

<sup>3</sup> Company Number SC466171, Charity Number SC044620

- 3.7. Glasgow Clyde Education Foundation committed all remaining funds in 2022. However, these grants are being paid in subsequent years. On 31 March 2023, the foundation held funds of £3.6m with £3.2m to be paid to Glasgow Clyde College before 31 July 2024. The remaining funds (£0.4m) are due to be released by the end of 2024.
- 3.8. Glasgow Kelvin College expects to receive £1.1m of funding from Glasgow Kelvin Learning Foundation between 1 April 2023 and 31 July 2024. The balance of funds remaining is forecast to be £0.6m.
- 3.9. City of Glasgow College is not anticipating funds being received in the period from 1 April 2023 to 31 July 2024. The balance of funds remaining is therefore £1.7m.
- 3.10. The level of funding, held by the arm's length foundations on 31 July 2024, is expected to be £2.7m. This equates to 10% of the level of funding held by foundations at the beginning of this reporting period seven years ago. Given that some of this funding has already been committed in 2024-25, the potential funding to support financial sustainability is very limited.

#### **4. Risk and Compliance Analysis**

- 4.1. This report supports the effective governance of GCRB by providing information in respect of the Arms' Length Foundations in the Glasgow college region. The report contributes to the mitigation of the risk that "Financial sustainability and failure to achieve targets is impacted by available funding in the short-term." (Risk 004).
- 4.2. There are no legal implications arising from this report.

#### **5. Financial and Resource Analysis**

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

#### **6. Equalities Implications**

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

#### **7. Learner Implications**

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