
Board Meeting

Date of Meeting	Monday 31 October 2016
Paper Title	Scottish Funding Council GCRB Fundable Body Status Report
Agenda Item	7
Paper Number	BM2-D
Responsible Officer	Michael Cross, Interim Director Scottish Funding Council
Status	Disclosable
Action	For Discussion

1. Recommendations

The Board are asked to discuss this report which sets out “Regional Strategic Body Financial Monitoring and Reporting Requirements”.

Regional Strategic Body Financial Monitoring and Reporting Requirements

Purpose

This paper seeks to set out the requirements of the GCRB financial monitoring framework which would properly reflect the new responsibilities of GCRB in relation to its assigned colleges and accurately capture GCRB's accountability to SFC. In addition to the development of an appropriate financial monitoring framework, GCRB will require to design and implement processes and protocols in relation to assigned college funding allocation and potential recovery.

Background

John Kemp, SFC Interim Chief Executive, wrote to the GCRB Chair on 21 September 2016 to provide formal feedback on SFC's observations of the Board and interviews with the Principals of the assigned colleges and the Executive Director of GCRB over the summer. SFC confirmed that it was clear from these observations that Regional Board and its members have made significant and effective progress in operating effectively as a Regional Strategic Body in line with the post-16 legislation and fulfilling their role in securing coherent provision of high quality fundable further and higher education in Glasgow's colleges. SFC is also reassured that the operational and management arrangements have had time to settle in over the last six months following a period of focused activity.

The letter also made reference to the remaining issues to be addressed, in particular the appropriate procedures and processes required for the GCRB to assume full monitoring, reporting and financial responsibilities required by a fundable body. We agreed that SFC would work with the Executive Director during October to identify the elements of an appropriate monitoring framework to enable SFC and GCRB to carry out their statutory duties, without any unnecessary duplication, and in an efficient manner. As a starting point we would identify the key tasks and begin to map out a plan and timeline for ensuring these structures are in place prior to GCRB assuming full fundable body status.

A key issue requiring further consideration is whether funding should flow through GCRB, or whether there is a case for SFC to continue to disburse funding on the instruction of the GCRB. To be clear, GCRB would retain all of its duties and responsibilities as the RSB, but SFC could action the payment of funds to the assigned colleges on GCRB's behalf. SFC and GCRB will agree a final arrangement on this.

Regional Strategic Body Financial Monitoring and Reporting Requirements

A) Background

1. The Post-16 Education (Scotland) Act 2013 restructured the college sector on a regional basis. Colleges in the three multi-college regions (Glasgow, Highlands and Islands and Lanarkshire) have been assigned to a Regional Strategic Body (RSB). In the Glasgow region the RSB is the Glasgow Colleges' Regional Board. From the date of assignment, SFC's relationship with colleges has changed, with RSBs assuming new responsibilities within their regions.
2. An appropriate monitoring framework is required that will enable SFC and RSBs to carry out their statutory duties, without any unnecessary duplication, and in an efficient manner.
3. This paper seeks to set out the requirements of the GCRB financial monitoring framework which properly reflects the new responsibilities of GCRB in relation to its assigned colleges and accurately capture GCRB's accountability to SFC. SFC is responsible for assessing and enhancing the performance of Regional Strategic Bodies.
4. In addition to the development of an appropriate financial monitoring framework, GCRB will require to design and implement processes and protocols in relation to assigned college funding allocation and potential recovery.

B) Statutory and regulatory framework

SFC's statutory responsibilities

5. SFC's statutory responsibilities set out in the 2005 Further and Higher Education (Scotland) Act, as amended by the Post-16 Education (Scotland) Act 2013, are as follows:
 - responsibility for securing coherent provision of fundable further and higher education;
 - review "whenever it considers appropriate" assigned colleges against fundable body criteria;
 - responsibility for securing provision for assessing and enhancing the quality of fundable further and higher education;
 - right to address meetings of the board of the fundable body;

- make provision for assessing/enhancing the performance of RSBs; and
 - Ministers may give direction to SFC to provide financial support (including to RSBs in the event of financial mismanagement).
6. Assigned colleges are currently still fundable bodies. They will be removed from the list (Schedule 2 of the Further and Higher Education (Scotland) Act 2005) when SFC is assured that the RSB is managing colleges' funding effectively.

GCRB's statutory responsibilities

7. GCRB's statutory responsibilities as set out in the Post-16 Education (Scotland) Act 2013, include:
- securing coherent provision of high quality fundable further and higher education in its region;
 - having regard to the economic and social needs of the region (its skills needs, social inclusion needs and equalities needs) and to seek to improve the economic and social well-being of the region; and
 - monitoring the performance of its assigned colleges.
8. GCRB is accountable to the SFC under the Financial Memorandum between it and SFC, and responsible for delivery of the Regional Outcome Agreement (ROA) in return for SFC funding (including delivery of student activity targets). Until SFC grants fully-operational fundable body status to GCRB, SFC will administer funding on its instruction.
9. The assigned colleges are accountable to GCRB and GCRB must be able to gain a reasonable level of assurance in order for it to have confidence that the assigned colleges will collectively contribute to the delivery of agreed regional aims and outcomes. Therefore monitoring of the assigned colleges is vital, given the importance of strong governance and financial management in ensuring their financial sustainability. The following section describes the expected scope of GCRB financial monitoring arrangements.

Requirements under the Scottish Public Finance Manual

10. Both assigned colleges and GCRB must follow the requirements of the Scottish Public Finance Manual (SPFM). These requirements are set out in the Financial Memorandum between SFC and regional colleges/RSBs, and include specific circumstances where institutions must obtain prior permission or approval from SFC before taking certain actions.

11. Where such permission or approval is required, the assigned college must seek that approval from GCRB, and GCRB submit a request to SFC on the college's behalf.

C) Financial Monitoring Frameworks

12. As a fully-operational fundable body, GCRB will require to take responsibility for financial monitoring functions.
13. Currently, SFC collects annual accounts (together with related audit reports) and financial forecast information from the assigned colleges, which help, at different points in the annual cycle, to inform an assessment of individual colleges' financial sustainability and quality of governance.
14. As a result of reclassification, it is SFC's responsibility to allocate both cash and resource budgets to college regions, and to provide information in relation to these budgets to Scottish Government and HM Treasury. Scottish Government budgeting and accounting requirements mean that incorporated colleges are now required to provide SFC with monthly cash flow and quarterly resource information (monthly in the last three months) to 31 March each year, to ensure they balance their books on both a resource and operational basis and in order that cash is not paid out in advance of need. These returns also provide useful information about colleges' financial sustainability, although they are not sufficient by themselves to make a full assessment.

SFC's financial monitoring framework

15. The financial returns that form SFC's financial monitoring framework are as follows:
 - ***monthly and annual cash flow returns***: provides details of colleges' projected grant-in-aid requirements and projected cash flows, allows SFC to get an early indication of and manage any anticipated expenditure for the financial year and over/under spends at sector level, ensures that colleges do not receive payments in advance of need, SFC reports sector level information to Scottish Government;
 - ***quarterly/monthly and annual resource returns***: allows SFC to monitor sector's adherence to resource and capital budgets and report to Scottish Government, colleges are expected to balance their budgets in cash and resource terms;
 - ***in-year Annual Managed Expenditure (AME) return***: AME consists of impairments, movements on net return on pension scheme assets /

- liabilities and creation of or movement on provisions, return allows SFC to monitor closely and will inform Scottish Government whether AME spend is expected to rise above budgets set by HM Treasury;
- **Whole of Government Accounts (WGA) return:** information contributes towards WGA consolidation, increasing transparency and accessibility of information about public finances (includes all public bodies classified by Office for National Statistics), data provided will be extracted from colleges' year-end accounts, reported to Scottish Government. These will not be required until 2016-17;
 - **Annual accounts return:** provides audited annual accounts and related audit reports, allowing an assessment of the quality of governance and financial management, and of colleges' financial sustainability; and
 - **Financial forecast return:** longer term financial forecasts which assist in assessing colleges' financial sustainability.
16. The Scottish Government budgeting and accounting requirements mean that incorporated colleges will be expected to balance their books both in cash and resource terms in each financial year to 31 March, and minimise cash balances. There will therefore be a need for closer monitoring of resource and cash flow to ensure that colleges keep within resource limits and that cash is not paid out in advance of need.
17. An overspend in any financial year may result in a reduction to the budget for the following financial year equal to the overspend. In multi-college regions, which are funded on a regional basis, any overspend would be calculated for the region as a whole, and any consequent reduction in future funding would be applied to the regional funding allocation for which the RSB is accountable.
18. **Annex A** provides details of the timings for submission for each of the returns to SFC in respect of each return. Our expectation is that GCRB will take responsibility for ensuring these returns are provided to SFC on behalf of the Glasgow College Region.

Development of GCRB's Financial Monitoring Framework

19. GCRB will require to undertake reviews/analysis of financial returns and ensure that its governance arrangements are able to effectively monitor assigned college and regional financial management.
20. It is the responsibility of GCRB to decide on the form that this monitoring will take. SFC has a responsibility to monitor the performance of RSBs, and will, as

part of its ongoing monitoring, carry out its own assessment of the suitability of these processes in relation to GCRB's responsibilities as an RSB.

21. We would normally expect all returns would go from the assigned colleges to GCRB and then from the GCRB on to SFC.
22. However, because of the very tight time constraints/reporting deadlines for submission and processing of ONS-related returns, in some exceptional cases it may be necessary for colleges to share these returns simultaneously with both SFC and GCRB.
23. There is no specific requirement for colleges to balance their books for the academic year. However, it is still important for GCRB to monitor this as an operating deficit in the academic year, depending on its cause, may be an indicator that a college is in financial difficulty. The risks attached to this are described in paragraph 25 below.
24. It is essential that the GCRB monitors the colleges' performance against their financial year resource/cash budgets, and this should form part of the performance monitoring framework.
25. GCRB is responsible for securing coherent provision of fundable further and higher education in its region. This might be jeopardised in the event that an assigned college became financially unsustainable. GCRB must consider this aspect when deciding on the amount of funding each college is to be awarded. It is, in the first instance, the responsibility of GCRB to provide appropriate support to its assigned colleges in the event of failures in governance or financial management.

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SFC Financial Returns

Financial return	Frequency	Date request issued	Submission deadline
Initial budget information for year to 31 March	Annual	Mid-May	End June
Annual cash flow	Annual	31 January	28 February
Monthly cash flow	Monthly	19 th -27 th each month	6 working days later
Annual resource	Annual	December/January	28 February
Quarterly resource	Quarterly then monthly in quarter 4	Middle of month preceding quarter/month end	Middle of month following quarter/month end
In-year exercise to capture AME	Annual	Autumn (TBC)	Autumn (TBC)
Whole of Government Accounts (from 2016-17)	Annual	August	30 September
Financial forecast return	Annual	Mid-May	30 June
Annual accounts return	Annual	Mid-November	31 December