

Performance and Resources Committee Meeting

Date of Meeting	Wednesday 7 March 2018
Paper Title	Development of Financial Monitoring Arrangements
Agenda Item	11 (d)
Paper Number	PRC4-M
Responsible Officer	Jim Godfrey, Finance and Resources Director
Status	Disclosable
Action	For Noting

1. Report Purpose

- 1.1. To update the Committee on the systems, and procedures, for monitoring the finances of the assigned colleges.

2. Recommendations

- 2.1. The Committee is asked to:

- **Note** the significant volume of financial monitoring activity currently undertaken.
- **Request** that the Finance and Resources Director provides a progress report to each meeting of the Performance and Resources Committee identifying the monitoring work undertaken and any issues arising.
- **Request** that Finance and Resources Director continues to develop, and strengthen, both external and internal collaborative relationships to inform effective financial monitoring and scenario planning.
- **Request** that the Executive Director develops a contingency plan for the financial monitoring arrangements, and grant payments to colleges, in the event of the unplanned absence of the Finance and Resource Director.

3. Background

- 3.1. The monitoring of the financial performance of the assigned colleges is an important component of the role of Glasgow Colleges' Regional Board¹. The responsibilities are set out in the Financial Memorandum between Scottish Funding Council² (SFC) and GCRB and between GCRB and the Assigned Colleges. An extract of the relevant section of the Financial Memorandum is outlined below:

¹ Referred to as GCRB throughout the remainder of this document.

² Referred to as SFC throughout the remainder of this document.

“Assurance

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.

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.

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.”

- 3.2.** The matter of financial monitoring is also something that has been raised in previous audit reports.
- 3.3.** The Internal Auditor recommended (in 2016) that the “Performance and Resources Committee should agree what financial monitoring report/s they should receive in each of their annual cycle of four meetings. The format (both headings within the narrative section of the report, and the layout of the financial information) should also be agreed”.
- 3.4.** The External Auditor observed (in 2017) that the “financial monitoring reports to date have focused solely on the performance of the Board running costs against budget. As a result of achieving fundable body status the Board has a responsibility to monitor the financial health of the regional colleges. The Board has made arrangements for obtaining key financial information from the regional colleges. This will be increasingly important in light of the financial projections to 2021/22. There will be significant challenges in delivering balanced budget while maintaining the quality of service”.
- 3.5.** As a result the External Auditor recommended that the “Board should consider how the information from the regional colleges is monitored and reported. The Board should establish how it supports the region in creating plans to bridge the budget gap”.

4. Report

- 4.1.** In respect of the audit recommendations above, it is worth noting that the Internal Audit recommendation precedes the granting of Fully Fundable Status to GCRB. It also pre-dates the recruitment of the Finance and Resources Director. The audit recommendations above, seek to address a common theme but the recommended approach is different. For the purpose of developing an approach to financial monitoring, greater emphasis will be placed upon the recommendation of the External Auditor in 2017.

- 4.2.** As a starting point, it would be helpful to set out the existing arrangements that are in place. These arrangements are part of the internal control framework that exists as part of the governance arrangements within the college and also the arrangements that exist between the SFC and the bodies it funds.

5. Annual Report and Accounts

- 5.1.** The colleges, and GCRB, prepare an Annual Report and Accounts for the year ending 31 July each year. These accounts are audited by the External Auditor and approved by the relevant Board. The following comprehensive documents are supplied (by the colleges) to GCRB and then onwards to the SFC:

- Signed Copy of the Audited Financial Statements
- Annual Report of the External Auditor
- Annual Report of the Audit Committee
- Annual Report of the Internal Auditor
- Board Report that accompanies the Annual Report and Accounts
- Annual Accounts Return³

- 5.2.** These documents are submitted by 31 December and are subsequently reviewed by GCRB Finance and Resources Director, the SFC and Audit Scotland. These reviews result in queries being raised with the colleges and answers provided. The Annual Report and Accounts are laid before the Scottish Parliament and then approved for publication (around the end of March of the following year).

- 5.3.** A summary of the Annual Accounts of the Glasgow Colleges and Region for the year ending 31 July 2017 has been provided to the Performance and Resources Committee as a separate item on this agenda.

- 5.4.** It is important to note that the work undertaken to prepare, audit and scrutinise this financial information is very significant. Those tasked with this work include college executive officers, independent board members, independent auditors and executive officers of GCRB and SFC. The level of work undertaken enables GCRB to place a significant level of reliance upon these financial statements and accompanying documents.

6. Resource Returns

- 6.1.** The Glasgow college region is part of the Central Government accounting and budgeting regime and subject to the same expenditure controls as SFC and other Government bodies. Colleges are allocated an annual resource expenditure budget and it is imperative that the net expenditure incurred in the financial year is within this Resource Departmental Expenditure Limit (RDEL) or Capital Departmental Expenditure limit (CDEL).

³ This is a comprehensive spreadsheet which is completed by the college showing the income and expenditure for the year in a common format. The spreadsheet provides comparison data, performance indicators and requires explanations of variances to be provided.

- 6.2. Therefore the colleges submit Resource Returns to GCRB enable the resource and capital budgets to be monitored. This information is in turn sent to the SFC and the HM Treasury for consolidation. Resource returns are submitted on 5 occasions during each financial year.
- 6.3. Resource returns, of the individual colleges, are reviewed by the GCRB Finance and Resources Director and in turn by a Senior Financial Analyst within the SFC.

7. Cash Flow Returns

- 7.1. As stated above, GCRB and the assigned colleges are classified as central government entities for the purposes of accounting and budgeting. It is SFC's, and GCRB's, responsibility to allocate both cash and resource budgets to colleges/regions in order to support the delivery of their Outcome Agreements and to distribute cash on the basis of need. Both organisations also monitor cash paid out against the overall financial year budget, monitor spend against financial year resource budget and monitor college sustainability. SFC also provides information to the Scottish Government and HM Treasury.
- 7.2. For several years, colleges have supplied cash flow returns to SFC. In turn, the SFC have reviewed the cash flow returns and made payments to the colleges. From March 2018, GCRB will assume responsibility for the flow of cash to the colleges in Glasgow. Therefore, GCRB will have an increased responsibility for monitoring the cash flow returns and determining payments to colleges. The Finance and Resources Director of GCRB will assume these responsibilities.

8. Annual Budget Return/Financial Forecast Return

- 8.1. The colleges, and GCRB, are required to submit an Annual Budget Return. The Annual Budget Return is populated with the budgeted income and expenditure for the following financial year. It is produced after the Board has approved the annual budget and is used to inform the planned levels of RDEL and CDEL in the Resource Return.
- 8.2. In addition to the Annual Budget, the colleges and GCRB, prepare a Financial Forecast Return. This provides a forecast out-turn for the year just ending, a budget for the coming year and a forecast for the following five years. The Financial Forecasts are prepared on an annual basis using a set of assumptions that are proposed by the SFC following consultation with the sector.
- 8.3. The Annual Budget Returns, and Financial Forecast Returns, are supplied to GCRB for review by the Finance and Resources Director. They are also reviewed by a Senior Financial Analyst at SFC.
- 8.4. The Financial Forecast Returns are consolidated into a Financial Forecast Return for the Region and a report was provided to the Performance and Resources Committee of GCRB in October 2017.

9. Other Monitoring

- 9.1. There are a range of other sources of funding that have specific individual arrangements for monitoring. The following are three such examples:

- **Student Support Funding** – is monitored via the FES⁴ return of student data and expenditure is subject to an annual audit. Reports on student support funding are provided to the Performance and Resources Committee.
- **Flexible Workforce Development Fund** – colleges supply a monitoring report to the GCRB Finance and Resources Director every two weeks. This information is consolidated into a regional return and submitted to the SFC. Reports on Flexible Workforce Development Fund have been provided to each meeting of the Performance and Resources Committee since the fund was launched in 2017.
- **Capital Funding** – is monitored by the GCRB Finance and Resources Director and a report provided to each meeting of the Performance and Resources Committee.

10. Financial Memorandum/Grant Letter

- 10.1.** It is important to consider that the Financial Memorandum sets out the financial responsibilities of the assigned colleges and the monitoring to be undertaken by GCRB. Compliance with the Financial Memorandum is an obligation of accepting the funding.
- 10.2.** GCRB also provides a series of grant letters to the assigned colleges. The grant letters specify the funding to be provided and the financial responsibilities of the colleges. The letter also specifies the requirements of the specific funding, including expectations around the achievement of regional strategic goals and priorities. The letter is sent following the approval of the final funding allocations (expected to be June each year).

11. Certificate of Assurance

- 11.1.** On an annual basis (April), the Principal of each assigned college provides a Certificate of Assurance to the Executive Director of GCRB. The Executive Director of GCRB in turn provides a Certificate of Assurance to the SFC. The Certificate of Assurance provides confirmation that the college (or GCRB) confirms that Accountable Officers have confidence in the systems of internal control that exist within the college/region. In particular it covers the following matters:
- risk management;
 - the effectiveness of operations;
 - the economical and efficient use of resources;
 - compliance with applicable policies, procedures, laws and regulations;
 - safeguards against losses, including those arising from fraud, irregularity or corruption; and
 - the integrity and reliability of information and data.
- 11.2.** The certificates of assurance process, including the completion and review of the Internal Control Checklists, is subject to review by the external auditors as part of their audit of the accounts. Internal auditors will also require access to these documents as part of their internal review of governance matters.
- 11.3.** The annual review of the Internal Control Checklist was provided to the Audit Committee of GCRB in October 2017.

⁴ Further Education Statistical

12. Collaboration

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

- **Sustainable Institutions Group** – this group meets every two months and includes the Vice-Principals responsible for Finance within each college along with GCRB’s Finance and Resources Director. The meetings provide the opportunity to discuss emerging financial issues that affect the region and identify areas of concern. The Sustainable Institutions Group is accountable to the Glasgow Colleges Group, which is led by college Principals.
- **Finance Meetings** – this group meets every three months and includes the Heads of Finance/Assistant Principals with direct responsibility for Finance. The focus of the meetings is the operational finance matters, for example, the preparation of consolidated accounts and the completion of the monitoring information outlined above.
- **Glasgow Region Procurement Team** – representatives of the colleges meet with colleagues from APUC and the GCRB Finance and Resources Director on a quarterly basis. The purpose of the meeting is to monitor progress on the range of collaborative procurement activities within the Glasgow Region.
- **Strategic Dialogue with SFC** – the GCRB Executive Director and Finance and Resources Director meet with senior representatives of the SFC on a regular basis. These meetings provide an opportunity to discuss strategic matters and risks facing the region. The meetings also enable an exchange of information and enable SFC to monitor the work of the region.
- **Liaison with SFC Finance Team** – the GCRB Finance and Resources Director has a constructive, and positive relationship, with finance colleagues within the SFC. This relationship is mutually beneficial and enables SFC to support the monitoring activities of GCRB and to discuss matters of common concern.
- **Sectoral Support** – the GCRB Executive Director and Finance and Resources Director work closely with other sector representatives, for example Finance Steering Group and Colleges Scotland. Such relationships are important as they help inform SFC policy in respect of how the monitoring arrangements are implemented.

13. Observations

13.1. The following observations are intended to provide some context to the further development of Financial Monitoring Information:

- **Existing Mechanisms** - there is an extensive framework in place to monitor the financial performance of colleges and regions. GCRB is able to place reliance upon these systems which have been developed by SFC over several years.
- **Quality of Information/College Finance Teams** – GCRB’s experience of working with the college finance teams has been very positive. Information has been provided to GCRB in a timely manner and is of a high standard. The flow of information, and strong internal relationships, provides confidence that this collaborative approach to financial management will continue to be mutually beneficial.

- **Scheme of Delegation** – following agreement of, and appointment to, the staffing structure, GCRB has in place a Finance and Resources Director. A large quantum of financial monitoring is undertaken on behalf of GCRB by the Finance and Resources Director. GCRB can take comfort from the fact that this level of monitoring is taking place on its behalf by the Finance and Resources Director.
- **Turnaround Times** – many of the monitoring mechanisms described above often require a very short turnaround time e.g. to meet SFC deadlines. The monitoring is done in a prompt, and timely, manner looking at current data.
- **Internal Controls** – it is appropriate for GCRB to place reliance upon the systems of internal control that exist within each college. It is prudent to rely upon processes that exist within a college and ensure that GCRB does not duplicate the internal controls.
- **Risk Based** – a risk assessment process will be developed by GCRB, which will enable attention and resources to be focussed on higher risks. For example, the prompt and accurate provision of information by a college may support a lower assessment of risk compared to a college which regularly misses deadlines.
- **Resource Availability** – a potential weakness is that a significant volume of information passes between the Colleges and SFC via GCRB. In this process, the whole system is reliant upon one person i.e. the Finance and Resources Director. This risk will be managed by the development of a contingency plan to manage the situation of the Finance and Resources Director being unavailable at a specific time.
- **Emergent Issues** – in many respects it is the emergent issues that are more relevant than the reporting of historic data.

14. Proposed Actions

14.1. The following actions are proposed in terms of the Further Development of the financial monitoring arrangements of GCRB:

- Include a Financial Monitoring Update as a standing item on the agenda for each meeting of the Performance and Resources
- Continue to develop, and strengthen, both external and internal collaborative relationships to inform effective financial monitoring and scenario planning
- Develop a contingency plan for any potential absence of the GCRB Finance and Resources Director

16. Risk Analysis

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

Risk ID	GCRB Risk	Action
0002	Effective working relationships are not developed/maintained with key partners due to a focus on short-term internal priorities.	The monitoring actions outlined identify the importance of effective working relationships with key external partners (for example SFC).
0007	Financial sustainability is jeopardised by a reduction in funding and/or an increase in costs.	The financial monitoring arrangements are intended to support the financial sustainability of the colleges and the region. Through the effective monitoring it is anticipated that any issues will be identified in a timely manner. Identifying issues at the earliest opportunity enables GCRB and a college, or colleges, to work together to develop a shared solution.
0009	Working relationships within the Glasgow College Region (e.g. students, staff, board members) are ineffective and reduces our collective impact.	The financial monitoring arrangements outlined above promote the value of a collaborative approach with regional colleges. The financial monitoring advocated is consistent with that in place for a single college region and GCRB will maximise the use existing sources of information.
0012	There is a breach of legislation/guidance/code of practice and this results in a failure of governance.	The effective monitoring of the financial performance of the colleges is a cornerstone of responsibilities of the Regional Strategic Body. The monitoring arrangements outlined above enable GCRB to fulfil these responsibilities and help to mitigate this risk.

17. Legal Implications

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

18. Resource Implications

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

19. Strategic Plan Implications

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