

BOARD OF MANAGEMENT

ANNUAL REPORT FROM THE FINANCE AND RESOURCES COMMITTEE TO THE BOARD OF MANAGEMENT

1 Administrative Matters

- 1.1 The Finance and Resources Committee of Glasgow Clyde College met six times between the beginning of the 2015/16 financial period i.e. 1st August 2015 and the time of reporting the financial statements to the Board of Management in December 2016, with meetings held in August and November 2015, and March, June, October and November 2016. The meeting in October had only two members in attendance hence was not quorate however there were no matters for decision at that meeting.

2 Remit and Membership of the Committee

- 2.1 The remit of the Finance and Resources Committee of Glasgow Clyde College, as approved by the Board of Management, is attached to this report.
- 2.2 For the period of the financial statements and up to the date of this report the Finance and Resources Committee has had two sets of members, with the first set being up to the 8th October 2015 and the second set being from the first meeting of the new Board of Management on 16th October 2015.
- 2.3 The membership of the Finance and Resources Committee between 1 August 2015 and 8 October 2015 was as follows:
Les Jacobs (Chair)
Gordon Reid
Susan Walsh
- 2.4 The individuals listed above were the Committee members until the removal of eight of the College Board members by the Parliamentary order on 8th October 2015. Susan Walsh was not removed by that order.
- 2.5 The membership of the Finance and Resources Committee from 16 October 2015 was as follows:
Alex Muirhead (Chair to 31st August 2016)
David Newall (Chair from 31st August 2016, previously Vice Chair from 18th November 2015)
Alex Linkston (to 14th July 2016)
Susan Walsh
Hollie Moran (from 12th November 2015 to 30th April 2016)
Stephen Henson (from 9th November 2015)
Scott Cooley (from 31st August 2016)

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Amparo Fortuny (from 31st August 2016)

3 Reports Reviewed by the Finance and Resources Committee since 1st August 2015

3.1 Performance Monitoring Reports

- (i) Quarterly Financial Reports
- (ii) Capital Expenditure Reports and Capital Masterplan Updates
- (iii) Financial Forecast Returns
- (iv) Estates Updates
- (v) Procurement Updates
- (vi) Commercial and External Funding Updates
- (vii) Financial Statements for the sixteen months to 31 July 2015
- (viii) Draft Financial Outturn for 2014/15 (verbal report August 2015)
- (ix) Draft Financial Outturn for 2015/16 (verbal report October 2016)
- (x) Financial Statements for the twelve months to 31 July 2016

3.2 Other Reports

- (i) Remit of Committee (November 2015)
- (ii) SFC Financial Memorandum (November 2015)
- (iii) Financial Overview and Scenario Planning (presentations November 2015 and November 2016)
- (iv) Student Support Funds (November 2015)
- (v) Lennartz Updates (November 2015 and March 2016)
- (vi) 2016/17 SFC Indicative Funding Allocation (March and June 2016)
- (vii) Implications of New Statement of Recommended Practice for Further and Higher Education (presentation March 2016)
- (viii) Draft 2016/17 College Revenue Budget (June 2016)
- (ix) Future Cleaning Services Provision (June 2016)
- (x) Board Policies (June 2016)
- (xi) Audit Scotland Colleges Overview Report 2016 (October 2016)
- (xii) Procurement Strategy (November 2016)
- (xiii) Risk Register – Financial Risks (all meetings from November 2015)
- (xiv) Glasgow Clyde Education Foundation Updates (all meetings)

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4 College's Financial Performance for Twelve Months to 31 July 2016

- 4.1 The position for the 2015/16 year before adjustments was a small surplus of £38k. There were however a number of year end adjustments as outlined below and after these adjustments the College's financial statements show a deficit of £1.052Million. These are accounting adjustments and this deficit has no impact on the financial sustainability of the College.

	£'000
Operating Surplus	38
Expenditure Funded by Depreciation Cash	(480)
Funded Pensions - FRS17 Actuarial Adjustment	(979)
Unfunded Pensions - FRS17 Actuarial Adjustment	46
Capital Funding Received from Arms-Length Foundation	323
2015/16 Deficit reported in draft 2015/16 financial statements	<u>(1,052)</u>

The College utilised nett depreciation cash of £480k to cover the costs of 2015/16 pay awards in line with Scottish Government and Scottish Funding Council (SFC) priorities.

5 Glasgow Clyde College's Financial Sustainability

- 5.1 There have been significant SFC funding pressures for the College sector within the last five years with SFC revenue funding reductions from 2011 to 2013 and flat cash in the years through to 2016 which is effectively a real terms funding reduction. For 2016/17 there has been a small increase in SFC funding however this is offset by increased cost pressures particularly in relation to staff costs as a result of increased pension costs and pay awards.
- 5.2 A range of actions have been undertaken since 2011 to secure financial sustainability. Prior to merger each of the three individual legacy colleges undertook financial realignment, with voluntary severance schemes and savings exercises put in place. There was also a significant amount of work undertaken to facilitate the merger as at 1 August 2013 into Glasgow Clyde College, and this required significant staffing reductions which were completed via further voluntary severance schemes at each legacy College. This significant change programme was undertaken with the aim of achieving financial sustainability at the start of the new Glasgow Clyde College. Since that time the College has continued to implement changes in a phased way to aim to achieve sustainability. The most recent changes have been a Senior Management Restructure and changes resulting from the Glasgow Region Curriculum and Estates Review with further voluntary severances involved.

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- 5.3 There are likely to be further future reductions in SFC revenue funding which could be significant and in particular it is known that there will be reductions in SFC European Social Funding to the College from 2018. The College undertakes financial scenario planning to consider potential movements across all College key budget lines and the potential impact on the overall College financial position. A joint session of this Committee together with the Audit Committee and other Committee chairs was held at the start of the November 2016 meeting to consider long term financial scenario planning and the potential financial and staffing impacts and steps which may have to be taken by the College to mitigate the impact of future changes.
- 5.4 One further challenge for the College is that it is now part of the multi-college region of Glasgow. Funding allocations are now made to Glasgow on a regional basis for distribution to the three individual Colleges, and the funding model for distribution of the Regional funding across the three Colleges has not yet been agreed. The SFC funding allocation levels for 2016/17 to each of the three Glasgow Colleges as proposed by the Regional Board were accepted only in terms of the values. The model was not able to be accepted and work is ongoing within the Glasgow Colleges Group to develop a future funding model with the aim of ensuring a financially sustainable position for each of the three Glasgow Colleges as is required as part of the Regional Outcome Agreement.
- 5.5 SFC introduced a new funding methodology from 2015/16 based on credits rather than student units of measurement (SUMs) for all teaching activity. As a consequence of the transition arrangements implemented for the 16/17 funding round, moving from the historical model to the new credits model, Glasgow Region did not receive its full transition funding and it is hoped that this will be remedied for 2017/18. SFC have also set up a group which is reviewing the credits model.
- 5.6 There have also been significant reductions in SFC capital funding with a 25% reduction in funding between 2014/15 and 2015/16 and a further 14.5% reduction in the original SFC capital allocation for 2016/17. In September 2016 there was an additional capital allocation for 2016/17 as a consequence of the Scottish Government's announcement of £10 million for the FE sector and the College was successful in receiving over £1Million of that additional allocation. The College has already had funding approved from the Glasgow Clyde Education Foundation for several projects within its capital masterplan.

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- 5.7 With regards to other funding sources there are many challenges facing the finances of Glasgow Clyde College. The College has a significant level of commercial income and external funding which is an increasingly important part of the College's plans to maintain financial sustainability. The Business Development Team work closely with the four College Faculties to maintain and grow commercial activity wherever possible. Also the External Funding Team pursue all available funds and maintain all required records for reporting to the various bodies within their related criteria e.g. Modern Apprenticeships. However funding is an issue for a number of our customers hence it is an ongoing challenge to seek out and deliver to the target levels of income.
- 5.8 The reclassification of the Scottish College sector as public bodies by the Office of National Statistics from 1 April 2014 caused significant change for financial planning and management for all Colleges. This reclassification involves a new accounting and budgeting framework which the College has to comply with via the Scottish Government and the Scottish Public Finance Manual, bringing with it a range of restrictions and delegated financial limits and significant additional reporting returns which need to be completed throughout the year.
- 5.9 One of the restrictions of the public body reclassification is that the College no longer has the ability to retain its cash backed reserves as previously generated by the College. The College made a donation of £14.4Million from its reserves at March 2014 to an arm's length foundation called the Glasgow Clyde Education Foundation which is a separate charitable organisation. A further donation of £600k was made to the foundation at March 2015 which occurred due to delays in expenditure on premises related activity during the twelve months to March 2015.
- 5.10 This is an extremely difficult period for the college sector and for Glasgow Clyde College due mainly to SFC funding cuts sustained in previous years and potential future SFC and ESF funding cuts, increased cost pressures particularly staff costs, challenges of working within a multi-college region, and classification as a public body. However, the Committee is satisfied that it can report positively on actions taken by Glasgow Clyde College to maintain financial sustainability during the twelve month period of 2015/16. The Committee is also aware that significant efforts are on-going through the financial period to July 2017 to plan for a financial sustainable future for Glasgow Clyde College in the medium term and to achieve its budgeted operating position.

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6 Criteria for Committee's Evaluation

- 6.1 (a) The College plans, conducts and controls its financial affairs so that financial viability is maintained.
- 6.2 (b) The College takes all reasonable steps to ensure that it has sufficient financial resources to meet its needs in the form of cash and other liquid assets or borrowing facilities, or has plans to generate such resources.
- 6.3 (c) The College will take all reasonable steps to plan and manage its use of resources to meet the needs of its students, staff and other stakeholders.

7 Committee Conclusion

7.1 The Committee is pleased to report positively to the Board on the financial affairs of the College as at the end of the twelve month period to July 2016 against a backdrop of significant sector financial challenges due to SFC funding reductions, increased cost pressures, the classification of colleges as public bodies, and the specific circumstances of the College during 2014/15 following the Principal's suspension. In reaching this conclusion, the Finance and Resources Committee used the following as considerations:

- that the criteria outlined above have been met;
- that the Audit Committee and external auditors were satisfied that the financial management of the College was being conducted in accordance with the Financial Regulations;
- the College has achieved a small operating surplus position during the twelve month period ended 31 July 2016 before the year end accounting adjustments which do not impact on College financial sustainability;
- the overall financial health of the College has continued to be stable; and there has been appropriate resource planning and management.

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FINANCE AND RESOURCES COMMITTEE REMIT

(Job titles have been updated following the Senior Management Restructure)

The functions listed here are delegated by the Board to the Finance and Resources Committee.

<p>REMIT</p>	<p>Reviewing the College’s financial monitoring reports in advance of their submission to the Board of Management.</p> <p>Seeking from the Principal, as Analogous Accountable Officer, and the Vice Principal – Resources and College Development, any additional information which it requires in order to form an opinion on the adequacy of the financial management and control systems of the College.</p> <p>In the light of its review of the information indicated in above paragraphs, advising the Board of any causes for concern about the College’s financial performance, financial management and control systems.</p> <p>Considering and reporting on any financial issue including estates and resources implications which may be referred to the Committee by the Board for advice.</p> <p>Producing an annual report for the Board of Management.</p> <p>Liaising as appropriate with the Audit Committee.</p>
<p>MEMBERSHIP</p>	<p>The membership of the Committee is six Board members including the Principal, with one of the Board members providing the role of Chair of the Committee, and one to act as Vice Chair as elected. The Chair of the Committee is elected by the Board and the Vice Chair is elected by the Committee. There should be no overlap of Board members with membership of the Audit Committee. The Board reviews the membership every four years. The Vice Principal – Resources and College Development and the Assistant Principal – Finance and Infrastructure attend the Committee as advisers. The Committee meets 4 times per year.</p>

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QUORUM	The quorum set by the Committee is three members.
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