NOTES OF THE ELEVENTH MEETING OF THE FINANCE AND RESOURCES COMMITTEE, HELD ON 2 MARCH 2016, AT 4.30PM IN THE BOARDROOM, LANGSIDE CAMPUS, GLASGOW CLYDE COLLEGE

PRESENT:

A Muirhead	Committee Chair
D Newall	Committee Vice Chair
A Linkston	Committee Member

IN ATTENDANCE:

J Thomson	Vice Principal Resources
T Elliott	Director of Finance
D Forsyth	College Accountant (until end of item 16.05)

APOLOGIES

S Walsh	Principal and Committee Member
S Henson	Committee Member
H Moran	Committee Member

ACTION

16.01 WELCOME AND APOLOGIES

A Muirhead welcomed everyone to the meeting and apologies were noted from S Walsh, S Henson and H Moran. Members noted that, in the absence of a Secretary to the Board, the minutes were being taken by J Thomson.

16.02 DECLARATIONS OF INTEREST

A Muirhead declared an interest in agenda item 16.13 as he is a trustee of the GCEF Board.

16.03 MINUTES OF THE MEETING HELD ON 18 NOVEMBER 2015

The following amendment to the minutes of the meeting of 18 November was noted:

Page 3 paragraph 1 – In the second sentence where it stated that Colleges "would" not be able to access any cash relating to this period to fund the award, this should read "may" not be able. Page 10 paragraph 3 – the first sentence should be revised to say in respect of Anniesland campus car parking "a number of complaints have been made to MSP Bill Kidd". Page 11 paragraph 2 – in sentence 3 "owed" should be revised to "owned"

Clerk to the Board

		ACTION
	With this amendment the minutes were approved as a true record of events. Also thanks were given to the minute taker for the previous minute, A Green, and J Thomson stated that she would pass on those thanks from the Committee.	JT
16.04	**MATTERS ARISING**	
	A Muirhead raised the current position on the pay award negotiations and it was noted that the Board needed to consider whether to pay an uplift before end of March or whether to wait and have to pay two years uplifts in one fiscal year. A Muirhead indicated that his view was to pay in this fiscal year as the College may not have funding available in the next year.	
	A Linkston confirmed that the Board intended to sign the NRPA if the Chairs and Principals in Glasgow can have assurance that Colleges Scotland will set up a suitable employers group as part of the negotiating framework. It was noted that he and the Principal were reviewing the position and will act in advance of the next Board meeting providing they are satisfied that the future framework is appropriate. He indicated that he would seek Board members approval via email if required.	
	D Newall queried what was the payroll cut off deadline and it was noted that payroll were planning for the pay award/ uplift to be processed in March as discussed at the Board at its Extraordinary Meeting in February.	
	The Committee noted the progress on actions within the action grid.	
	There was a discussion on the planned training on SFC funding and it was agreed that dates should be set up in the near future once the 2016/17 funding allocation for the Region is available. J Thomson to liaise with the new Clerk to the Board.	JT/Clerk to the Board
16.05	**IMPLICATIONS OF NEW STATEMENT OF RECOMMENDED PRACTICE FOR FURTHER AND HIGHER EDUCATION**	
	T Elliott introduced this item and tabled a paper which provided an overview of the implications of the new Statement of Recommended Practice and presentational options available. T Elliott took the members through the tabled paper and then D Forsyth gave a presentation on the implications of the two possible models of accounting treatment which could be adopted for the treatment of government grants. The models available were either the accruals model or the performance model.	

ACTION

A Muirhead queried whether there were any implications for the new financial software system depending on which model was chosen and T Elliott confirmed that there would be no impact providing the chart of accounts was set up in the correct way. It was noted that in terms of reporting internally the College will continue to report on the College operating position as that is the true results for the College. However additional information will be included in future reports to outline the forecast position which will be presented in the College financial statements.

Also A Muirhead queried how this would potentially link with GCRB reporting. T Elliott indicated that the College are still reporting mainly to SFC and expect to report to GCRB in parallel in future. J Thomson confirmed that the Regional reporting had commenced with a summary report on the three Colleges Financial Forecast Returns having been reported to the GRCB Performance and Resources Committee in December 2015 and a summary of the latest management accounts for the three Colleges being reported to the next GCRB Performance and Resources Committee.

A Linkston indicated that the GCRB are hoping to have fundable body status by August and that the interviews for the Executive Director post were being held in mid-March.

It was agreed that it was important to keep the central GCRB team lean. It was noted that the three Colleges were working well together and should ensure they continue to do so to compile reporting as required to ensure there was not unnecessary growth in the central Glasgow Regional team.

There was a discussion on how the sharing of information across the Region was working and J Thomson provided an overview of the Glasgow Colleges Group Sustainability Group and the related information exchange.

In discussion on the new Statement of Recommended Practice (SORP), D Forsyth indicated that the College accounting policies would be updated and the main effect would be that some information would be moved from the notes on to the primary financial statements to the new presentational statement of comprehensive income and expenditure (SOCIE) format and this was discussed at the meeting.

ACTION

It was noted that previously the bottom section of the balance sheet had consisted of a number of lines including the significant deferred capital grants release. The new reserves level under the SORP would be a relatively low value subject to which model was used and could vary depending on accounting adjustments. It was highlighted that the deferred capital grants value of reserves was unusual and that really what the College have in reserve is base line cash balance.

T Elliott highlighted that certain aspects of a College's accounting treatment under the new SORP will have an impact on the income and expenditure statement and the Scottish Government and SFC accept that some accounting adjustments may result in Colleges reporting a technical deficit however this will be taken into account by them. It had been previously unacceptable to declare deficits which were related to sustainability issues however it is now being accepted that some Colleges may have to declare a surplus or a deficit as a result of their accounting treatment under the new SORP.

There was a discussion on the information being sent to SFC on GCEF and T Elliott confirmed that the information on foundations was mainly being collated by Colleges Scotland.

A Linkston emphasised that austerity is the new norm in public sector funded organisations and that the SFC capital funding which the College has is unlikely to increase in the short to medium term, therefore his view is that the College should elongate the use of the foundation funding.

It was noted that the College have costed plans in place for use of the Foundation funding although this will have to be agreed with GCEF over an appropriate timescale and with consideration of their investment strategy.

D Forsyth highlighted the two possible presentations of deferred capital grants on the balance sheet.

There was a query on depreciation of assets and T Elliott explained that regular asset revaluations are required and that different buildings have different lifecycles. The College has depreciation ranges based on the asset life of buildings and life cycles range from approximately 15 years to 60 years in the latest valuation report.

The link to net depreciation was highlighted and the resultant impact on budget cover for the College. There was a discussion of the treatment of public grants and non- public grants and it was highlighted that if the College adopt the performance model then

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there is less volatility on the balance sheet but much more volatility on the income and expenditure position. If the College use the accruals model for government grants then there is a one-off adjustment to the balance sheet and less volatility on the income and expenditure position annually going forward.

The impact of GCEF grants in future was discussed. These will be non- government grants hence must be reported on a performance model basis and, as such, these will generate surpluses in the year that the funding is recognised and deficits in future years when the related depreciation impacts are reflected.

It was noted that it is hoped that the presentation of the government reporting may change in future and highlighted that some other government departments use different financial reporting formats.

A Linkston flagged the potential political implications of Colleges across the sector posting significant deficits and reductions in net assets as a result of a purely presentational change following the SORP and his concerns in this regard. T Elliott confirmed that the sector is working to make this situation known and emphasising the need to ensure all groups have an understanding of the real position.

It was noted that under the accruals method the net assets of the College would be £41Million, whereas under the performance model the net assets would remain at £135Million. However under the performance model there would be greater volatility on the College income and expenditure account every year due to the treatment of government grants. Therefore the paper recommended using the accruals model which was similar to the approach being adopted by other Colleges.

It was highlighted that the proposed accounting policies on this basis are being taken to the Audit Committee at its March meeting next week and thereafter a paper was planned to be taken to the Board. It was agreed that the full Board needed to have a full understanding of the potential future impacts on the accounts of the decided model and accounting treatment, and needed examples to illustrate the impacts. The format of the data presented to the Audit Committee and the Board would be adapted following feedback from today's discussions.

A Linkston indicated that depending on the size of the agenda this item could go the Board at its March meeting or if that agenda is fairly full then could be held over until the June meeting. TE

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D Forsyth highlighted the impact of the new SORP on employee benefits. The College need to recognise all benefits in the financial year hence will need to do a holiday pay accrual at July each year, although it was indicated that this is unlikely to be significant as the College holiday year is to August. It was noted that there is a larger accrual as at March for the resource return which is required to be submitted to Scottish Government then.

D Forsyth also highlighted the new requirement for the treatment of leases although it was noted that the College don't have any leases at the moment. However a review of existing College contracts is planned to identify if the College has any embedded leases which may require to be treated differently under the new SORP. There was a query on leases for photocopiers or vehicles and how these would be treated. D Forsyth confirmed that the treatment depends on the leases arrangements where for finance leases the College would recognise the asset and the liability, whereas for an operating lease the treatment in the new SORP is the same as before.

16.06 FINANCIAL REPORT TO JANUARY 2016 AND FORECAST OUTTURN TO JULY 2016

T Elliott presented the paper to the Committee. The covering paper explained the position on depreciation cash and the College was forecasting a deficit equivalent to its depreciation cash figure. T Elliott referred to the first two attachments which provided the year to date budget and actual position to January and the full year forecast against budget.

It was noted that in the year to date position the variances were either timing differences or they were explained in the full year forecast.

For the full year forecast it was noted that childcare income was lower than budget and this was fully offset by expenditure as this was funding which was distributed to students on behalf of SFC. There was also an increase in other income as a result of increase in contracts, and increased staff costs mainly due to the pay awards/uplifts now being included.

There was a discussion on net depreciation, as can be calculated between lines 8 and 30 of the income and expenditure account, and T Elliott explained that the issue is that the SFC income is in cash terms however the net depreciation is regarded differently in Government Accounting terms. The Government have indicated that Colleges can use the depreciation cash for pre-determined purposes which are student support funds, 2015/16 1% pay award, or loan repayment (the College does not have any

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loans to repay and for the Lennartz liability the College has retained the cash to settle the outstanding amount).

It was noted that net depreciation will increase going forward due to the new SORP and that the main issue for the Scottish Government is remaining within budget cover.

Overall T Elliott summarised that most of the variances in the financial report are relatively low value.

The Committee queried the variance of £392k favourable on commercial income and it was discussed that the main reason for this was an additional tranche of a Saudi related contract to train educationalists in Scotland.

It was noted that for Foundation grants to the College no income had been included in the original budget as this was not known at the time of budget setting, however an income figure was now included in the College forecast which was offset by expenditure.

T Elliott highlighted that the full year financial forecast, as shown in the report, will be used for future reporting purposes as the flexed budget for monitoring against actuals to the end of the financial year.

A Muirhead queried the wording on the pay award in the attachments, and for clarity, requested review of the wording for future reporting.

It was noted that premises expenditure was forecast to increase due to additional planned expenditure.

D Newall queried how the 7% non-staff costs reductions were being managed and T Elliott confirmed that budget holders were managing within the reduced budget levels for this year and had removed any non-recurring spend items from the previous year.

T Elliott indicated that the FRS17 forecast is a broad estimate at this stage. The key overall variance is estates maintenance increased expenditure and the use of the contingency budget is enabling these works to be progressed.

T Elliott also referred to the new cash flow report indicating that the cash flow was broadly in line with expectations with the pattern being that the cash is expected to reduce in March because this is when the College balance to their base line cash position plus the balance held to settle the Lennartz liability. The cash position is expected to rise in the period to July as that is

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when the College draws down the remaining SFC funding for the academic year.

It was noted that a sector group on cash management is likely to be set up. Also T Elliott confirmed that there were no significant short term cash implications for the College based on current estimates.

16.07 ESTATES UPDATE

A Muirhead invited J Thomson to talk to the report issued with the agenda.

J Thomson highlighted the next tranche of capital works to be undertaken were the heating and ventilation upgrade, lifts upgrade and switchgear replacement at the Cardonald campus, the Tower Building new roof at the Cardonald campus, and the Mary Stuart Building and Litehouse Building upgrades at the Langside campus. It was noted that Foundation bids had been submitted for funding for the four project areas at the Cardonald campus and it was intended to submit a funding application for the Mary Stuart and Litehouse Buildings upgrade to the Foundation at its May meeting.

An update of the proposed sale by the administrator of the lease of the Langside residences was given and it was noted that the College had now been informed that the administrator had a preferred bidder following their recent “soft” closing date. However as per the requirements of the lease the administrator cannot assign the lease without the College’s prior written consent, and to gain this consent the assignee has to be demonstrably capable of fulfilling the lease obligations which require them to deliver high quality student residential accommodation. The College has not yet been approached to give consent and as part of the sale any bidder will also have to be able to undertake the significant dilapidations claim already submitted by the College to the administrator in respect of the residences. The name of the preferred bidder was noted by the Committee and it was indicated that the bidder appears to be a small private development company therefore the question of whether they are demonstrably capable of fulfilling the lease requirements will need to be fully tested as will their ability to address the dilapidations works. The College is progressing this with Macroberts solicitors who have been involved with the lease for the College since before the merger.

J Thomson indicated that she would email the preferred bidder details to the Committee Chair. JT

ACTION

It was noted that a revised planning application has been submitted for the proposed new build of landscaping and horticulture teaching facilities within the Langside campus and the determination deadline date is 11th March. A Muirhead suggested that A McGhee check the Council website for any updates as papers are usually posted one week before the determination date. AMcG

It was noted that the College had recently initiated an extensive survey within its Cardonald campus to review all the fire compartmentation areas in the Tower Block Building given the date of its construction being over forty years ago and given that there had been a range of works completed since that time. The surveyor had advised some improvement works to be undertaken which they had indicated is not uncommon for the age and construction type of the building, and where the responsibility for upgrading to modern regulatory standards would only trigger should a works package to those areas be proposed. It was indicated that the College is progressing these works proactively and they will be completed in two phases during April and then by the summer.

It was noted that the review of the cleaning contract and future cleaning service will be taken forward with the first meeting with two volunteer Board members to be held in March.

It was noted that a planning application has been submitted in respect of the Anniesland car park to create 25 additional spaces which will assist with the limited parking on that campus.

A Muirhead queried the comment in the paper under resources in relation to legal and associated consultancy costs in moving forward the residences matter and whether the College had accrued for these costs. J Thomson indicated that they were not expected to be significant costs and that the College would not normally accrue for future professional services.

16.08 CAPITAL EXPENDITURE AND CAPITAL MASTER PLAN

J Thomson was invited to talk to the report issued with the agenda.

Members were provided with details of the capital expenditure from 1 April 2015 to date, which shows the College has spent £1.178 Million against the capital masterplan. She indicated that the Capital Masterplan had now been extended through to 2020/21 based on best known information at this stage.

ACTION

J Thomson provided an overview of the projects within the capital masterplan and that they would be taken forward based on priority and affordability. It was noted that it was intended to submit bids to the Foundation for the majority of the items on the masterplan and the timing of the projects would be dependent on finalising the funding availability.

D Newall asked whether the College was content that this plan would deliver what was needed over the five year period.

It was indicated that the capital masterplan was a costed plan providing a forward forecast for the five year period which was taking into account the estates condition survey and based on best available information at this stage which should meet the needs of the College for that period. However delivery of the plan relied on funding from the Foundation, in addition to the limited SFC capital funding.

The Finance and Resources Committee noted the Capital Expenditure and Capital Master plan Update.

16.09 PROCUREMENT UPDATE

A Muirhead invited T Elliott to talk to the Procurement paper issued with the agenda.

T Elliott highlighted the four main sections of the report which covered the Glasgow Region Procurement Team (GRPT), notable tender activity, procurement savings, and progress status on contracts.

A Linkston asked whether the GRPT was a virtual team or whether these were staff and T Elliott advised that it was a shared service team of seconded procurement professionals from Advanced Procurement in Universities and Colleges (APUC), one based in each of the three Colleges in Glasgow.

T Elliott highlighted within the notable tender activity the new finance system procurement which is being taken forward in a collaborative tender exercise with City of Glasgow College and West College Scotland, and that the College now makes full use of the APUC Framework Agreement for legal services as outlined in the paper.

There was a discussion on the procurement savings schedule and it was noted that the total cash procurement savings in the table for 2013/14 and 2014/15 were £445k and the non-cash savings were £174k.

T Elliott referred to the contracts schedule which shows progress through the range of contracts being procured and this now includes a contract start date column as previously requested by Committee.

The Finance and Resources Committee noted the Procurement Update.

16.10 SCOTTISH FUNDING COUNCIL INDICATIVE FUNDING ALLOCATION 2016/17

A Muirhead invited J Thomson to talk to the report issued with the agenda.

J Thomson summarised that the SFC funding allocation to the Region for 2016/17 was not yet available, having originally been advised it would be received at the end of February the SFC have now informed the sector that it will not be available until mid-March. It was highlighted that once the Region allocation is known there will then require to be agreement of the split of the funding across the three Colleges in Glasgow and work is already underway to try to agree the principles for the split of the funding.

An overview of the four main elements which make up the total SFC funding allocation was given i.e. core teaching grant, European Social Fund, student support funds, and capital allocations and the 2015/16 levels of each fund was discussed. J Thomson highlighted that there was a transition arrangement for core teaching funding across the sector in 2015/16 where movements were capped at 1% increase or decrease for each Region. This resulted in the increase to the overall Glasgow Region core funding being capped at 1%, and meant that £585k of funding was not available for the Region and was allocated to smooth transition for other Regions across the sector. Therefore it is anticipated that this element of transition for core teaching funding will be re-allocated to the Glasgow Region in 2016/17.

It was indicated that based on announcements to date the overall budget for the College sector is expected to be flat cash which is a real terms reduction as a result of increased cost pressures from increased employers contributions for teachers' pensions, national insurance changes, and potential pay awards for teaching and support staff. The College will need to closely review how the overall flat cash position translates to the Regional allocation and then to Glasgow Clyde College.

ACTION

There was a discussion on activity levels across the sector and it was noted that SFC were reviewing how Colleges were performing in achieving their credits activity targets for 2015/16, and whether there were potential impacts for 2016/17.

The Finance and Resources Committee noted the paper on the SFC Indicative Funding Allocation.

16.11 RISK REGISTER – FINANCIAL RISKS

J Thomson was invited to talk to the report issued with the agenda.

At the last meeting it was requested that the risk register be submitted to each Finance and Resources Committee and hence a copy of the risk register was included with the papers highlighting the financial risks within the register. J Thomson indicated that the risk register will be submitted to the Audit Committee and to the Board of Management at their March meetings and that the College risk management process will be reviewed in the coming months.

A new area of financial risk was highlighted to the Committee in relation to College funding which was for HN Associate students who study at the College however are funded through university funding. These students articulate on to universities following completion of their Higher National studies. The College have recently been made aware of a change by SFC in these funding arrangements which will reduce this area of funding for the College. A paper on the number of students involved and what subjects they study was tabled at the Committee.

D Newall indicated that this related to the widening participation funding for Higher Education Institutions and was linked to their outcome agreements.

A Linkston highlighted concerns over the impact of this change on widening access and there was a discussion on how this arrangement currently works for students. J Thomson agreed to provide more information to the Committee on how the model works currently. JT

The Finance and Resources Committee noted the paper on the Risk Register – Financial Risks.

ACTION

16.12 LENNARTZ UPDATE

A Muirhead invited T Elliott to talk to the report issued with the agenda.

It was indicated to the Committee that the main update was that the procurement exercise to appoint a Vat advisor has now been completed, and that following a tender exercise through the APUC Framework Agreement for VAT services, Ernst & Young had been selected. Their letter of engagement proposes a fee on a commission only basis and, as such, the fee payable would be wholly contingent on a successful outcome hence all financial risks of the work being undertaken sit with the VAT advisor.

It was noted that the maximum value of the fee could be significant if the full amount of potential VAT recovery was achieved. Given the level of the maximum fee the letter of engagement would be signed by the Principal when finalised.

There was a discussion on the accounting treatment of any potential recovery and payment of the related fees and it was indicated that this would require to be discussed and agreed with SFC and the government accounting team. T Elliott highlighted that any Lennartz recoveries were likely to take a long time to resolve, and if Glasgow Clyde College was successful in achieving Lennartz VAT recovery then the other Colleges with Lennartz schemes would be too hence the accounting treatment will have to be considered and agreed across the sector, including impacts of the new Statement of Recommended Practice.

The Committee agreed with the proposed approach and confirmed that the College should proceed on that basis to review the engagement letter and subject to the details being acceptable in procurement terms, the College to appoint Ernst & Young to act on its behalf in this respect. TE

The Finance and Resources Committee noted the Lennartz update and T Elliott was thanked for progressing this procurement to achieve the agreed level of commission based fee.

16.13 GLASGOW CLYDE EDUCATION FOUNDATION UPDATE

The Committee Chair invited J Thomson to talk to the report issued with agenda.

ACTION

The Committee noted the projects supported by the Glasgow Clyde Educations Foundation as per the summary sheet with the papers. J Thomson highlighted that one of the projects i.e. the Landscaping and Horticulture Teaching Accommodation project requires Board approval of the updated capital masterplan at the £100k higher level of £1.54Million which is due to the location on a different part of the Langside campus with additional car parking works, and the installation of Photovoltaic panels on the new building.

J Thomson indicated that a new internal College projects approvals process has been developed and a copy of the process was tabled. The process was being trialled with the proposed Cardonald campus car park project. A Muirhead requested that a flowchart be prepared for the process to provide a helpful visual of the stages in the process. JT

It was noted that the timing of the potential cash flows of the College's projects would need to be considered in relation to the Foundation's investment strategy.

The Finance and Resources Committee noted the Glasgow Clyde Education Foundation Update report.

16.14 EQUALITIES IMPACT ASSESSMENT ON DECISIONS MADE

The Chair queried the origin of this item in relation to the Finance and Resources Committee agenda and it was noted that it was an item on all Board agendas although not many of this Committee's decisions were likely to have an equalities impact.

There were no equalities impacts on decisions made at the meeting.

16.15 REVIEW OF PAPERS

The Committee were content with the papers and thanked those who had prepared and presented the papers.

16.16 ANY OTHER BUSINESS

D Newall asked for information on the timetable for agreeing the 2016/17 budget for the College.

T Elliott indicated that the budget would be submitted for approval to the Board in June. The College were currently working on outline forward forecasts and scenario planning. The key issues are SFC funding, the voluntary severance applications and the

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request for SFC funding to support these linked to curriculum and estates review, the management review, staffing costs and commercial income. She indicated that the College need to build a budget for 2016/17 which includes risk measures including a contingency budget.

A Linkston queried whether the 2016/17 budget will include an allowance for a pay award as he believes the College need to build something in otherwise it would not be a meaningful budget.

T Elliott outlined the process which had taken place for the 2015/16 budget where two versions had been prepared for the Board in June 2015 one of which indicated a deficit budget. The Board had decided that it wanted to submit a balanced budget and hence no pay award was included at that point.

There was a discussion on the potential cost of a 1% pay award for 2015/16 and it was stated that the employers need to work together in future negotiations. It was noted that there were variances in Colleges pay structures across Scotland, and a comparison was made to local government where there were core conditions which were national and then there was a range of scales applied. The position for the College sector needs to be looked at over the next five years and need to look at proposals under modernising the workforce.

It was noted that a letter was being sent to staff explaining why the Board had agreed to “impose” the 1% for teaching staff at this stage and that the Board was operating in the best interests of the workforce. It was stated that the process needs people at the negotiating table who are directly responsible for the workforce and a strategy for harmonising and modernising the workforce going forward.

A Muirhead thanked everyone for the input and closed the meeting.