**West College Scotland**

**FINANCE AND GENERAL PURPOSES COMMITTEE**

**TUESDAY 2 JUNE 2020 at 4.00 p.m. to be held via Skype**

**AGENDA**

**General Business**

| | | | |
|---|---|---|---|
| 1. | Apologies | | |
| 2. | Declaration of Interests | | |
| 3. | Minutes of the meeting held on 10 March 2020 | Enclosed | JW |
| | .1 Actions arising from the Minutes | Enclosed | JW |
| 4. | Matters arising from the Minutes (and not otherwise on the agenda) | | |
| | .1 Finalisation of 2018-19 Financial Statement | Verbal | VM |
| | .2 Internal Audit and Other Audit Services | Verbal | AR |

**Main Items for Discussion and/or Approval**

| | | | |
|---|---|---|---|
| 5. | Committee Remit and Proposed Committee Meeting Dates 2020-21 | Paper 5 | SG |
| 6. | Vice Principal Update/Overview Report | Paper 6 | DA |
| 7. | Overview of College Pension Schemes | Paper 7 | AR |
| 8. | SFC Report – Briefing Note Covid-19 Further And Higher Education Financial Impacts | Paper 8 | DA |
| 9. | Management Accounts to 31 March 2020 | Paper 9 | AR |
| 10. | 2020-21 Budget and Financial Plan | Paper 10 | DA |
| 11. | Governance Compliance and ROA Outcomes | Paper 11 | AR |
| 12. | Strategic Risk Register Review | Paper 12 | DA |

**Items for Information**
**Item 13 is considered restricted business**

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|---|---|---|---|
| 13. | WCS Fraud Update | Paper 13 | DA |

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| 14. External Audit Planning Memorandum 2019-20 | Paper 14 | AR |
| 15. Schedule of Business 2019-20 | Paper 15 | AR |
| 16. Any other business | | |

**Next meeting**: TBC

Shirley Gordon
Secretary to the Committee

**FINANCE AND GENERAL PURPOSES COMMITTEE**

**MINUTES:** Tuesday 10 March 2020

**PRESENT:** Jim Hannigan (in the Chair), Liz Connolly, Angela Wilson.

**ATTENDING:** David Alexander (Vice Principal Operations), Alan Ritchie (Director of Finance and Estates), Vivienne Mulholland (Head of Finance and Student Funding), Brian Stobbs (IT Solutions and Development Manager), Shirley Gordon (Secretary to the Committee).

**ATTENDING FOR MIN NO. FPM303:** Roy Miller (Ideal Catering Ltd), Nick Allan (Chair, Estates Committee), John McMillan (Chair, Audit Committee), Peter Thorne (Head of Estates).

**APOLOGIES** An apology for absence was intimidated on behalf of John Leburn.

**FPM303** The Chair welcomed Roy Miller who was in attendance to deliver a presentation on the College Cleaning and Catering Services Review which had been undertaken in late 2019. [redacted]

[redacted]

[redacted]

[redacted]

**FPM304 DECLARATIONS OF INTERESTS**

- Jim Hannigan - NMIS Programme Manager, Skills Development Scotland.
- Liz Connolly - Trustee of the West College Scotland Foundation.
- Angela Wilson – West Dunbartonshire Council.
- David Alexander - Board member of the Scottish Funding Council and as Chair of the Scottish Funding Council Audit and Compliance Committee.

**FPM305 MINUTES**

The minutes of the meeting held on 19 November 2019 **were approved.**

**FPM306 ACTIONS**

The Committee **noted** a report on actions taken since the last meeting.

**FPM307 MATTERS ARISING FROM THE MINUTES (NOT OTHERWISE ON THE AGENDA)**

There were no matters arising not already covered by the agenda.

**FPM308 MINUTES OF JOINT AUDIT AND FINANCE & GENERAL PURPOSES COMMITTEE MEETING**

The minutes of the meeting of the Joint Audit and Finance & General Purposes Committee meeting held on 19 November 2019 **were approved.**

**FPM309 VICE PRINCIPAL UPDATE REPORT**

The Vice Principal Operations provided an overview of the report highlighting several updates in relation to the following:

- Funds arising from net depreciation.
- SFC funding announcements:
  - ❖ The College sector awaited confirmation from the Scottish Government in relation to the employer contribution rate for the STSS pension fund being provided from April 2020 onwards.
  - ❖ No commitment had been made to the additional level of funding the College had received continuing beyond 2019-20 in order to meet student support need. The College remained in dialogue with the SFC regarding this and would await to see how the outcome of the 2020-21 Scottish Government budget process may inform this further.
- Ongoing West College Scotland engagement with the SFC - to date, the SFC had only committed to a change in the College business model ‘in principle’ from 2020-21. This remained to be formally agreed and confirmed. The College was, therefore, undertaking business planning for 2020-21 and beyond based on this ‘in principle’ position.
- National bargaining.
- Information technology.
- Business continuity – the College had completed a questionnaire issued by the SFC in respect of its preparedness in the event of a coronavirus outbreak. This was updated on a weekly basis and an Executive Team subgroup had been established to lead this work within the College in accordance with Government guidance.
- West College Senior Management – changes to management and reporting responsibilities for Estates and Infrastructure.

**The Committee noted the report for information.**

**FPM310 STUDENT SUPPORT FUNDS UPDATE – PRESENTATION**

The Head of Finance and Student Funding delivered a presentation on Student Support Funds. Ms. Mulholland outlined the purpose of the funds, how many students the funds assisted, how they were distributed and some of the funding challenges moving forward. She explained that the College received funding annually from the SFC and from the SAAS to support students in areas such as maintenance / transport support; equipment purchases; childcare support and Educational Maintenance Allowance.

The Head of Finance and Student Funding outlined the role of the Student Support Team in administering the funds and described how it provided support to students requiring funding in accordance with a set eligibility criteria. All funding was subject to an annual external audit and a quarterly submission of student funding expenditure was sent to the SFC.

In addressing some of the challenges going forward, the Head of Finance and Student Funding reported that the 2020/21 student funding applications were scheduled to open at the end of March 2020 (with assessments commencing before the end of April 2020). The national policy guidance from the SFC 2020/21 was awaited and any changes would be implemented accordingly. Further discussions would also take place with the SFC on addressing funding challenges associated with care experienced students.

On behalf of the Committee, the Chair expressed his thanks to the Student Support Team for the outstanding service it provided to students. He thanked the Head of Finance and Student Funding for the presentation which **was noted with interest.**

**FPM311 MANAGEMENT ACCOUNTS TO 31 JANUARY 2020**

The Director of Finance and Estates presented the Management Accounts for the six-month period to 31 January 2020. He provided an overview of those factors with a potential to impact the accounts or which required to be drawn to the attention of the Committee and highlighted the:

- College Business Transformation Plan efficiencies to be achieved and the year to date position.
- Adjusted operating position of the College, which was a key indicator of financial sustainability - the treatment of the College funded voluntary severance payments was under discussion with the SFC with regard to how this was to be recognised in relation to calculation of the adjusted annual operating position
- Key risks which may have an impact on the financial position of the College:
    - ❖ In February 2020, the College received a letter from the SFC indicating that it was looking to recover £100,000 of funding received by the College in relation to the 2015-16 ESF project. This was a sectoral issue with 6 other Colleges receiving similar letters. The College had responded requesting more time to review and respond to the specific queries made by the SFC, which related to the provision of supporting documentation. Meantime, the College had adjusted for the potential loss of income associated with the clawback of ESF funding in 2019-20.
    - ❖ In February 2020, the SFC confirmed that it would meet the College request for additional funding to enable all student support funding requests to be met, and this an additional £1.4m of funding would be received during 2019-20 for these purposes. This additional allocation relieved the financial pressure for 2019-20 but the additional funding required to be replicated in 2020-21 along with recognising the potential impact of the removal of the 26-year-old age cap on those students who were eligible for the care experienced grant. The College

awaited confirmation from the SFC via the 2020-21 budget process as to whether this required level of funding would be provided.

The Director of Finance and Estates led the Committee through the accounts drawing attention to the following:

- The Statement of Comprehensive Income and Expenditure provided a summary of the College financial position and provided a comparison of the approved 2019-20 budget with the full year forecast position to 31 July 2020. This statement also included the audited 2018-19 figures for comparison.
- An analysis of key variances provided detail of the movement between the budgeted and forecast position for 2019-20.
- The Balance Sheet reflected the assets and liabilities of the College.
- The student funding analysis provided a summary of the budgeted and forecast income and expenditure to 31 July 2020 resulting from the processing of student bursary, childcare and discretionary expenditure. The only element which was recorded within the College Statement of Comprehensive Income and Expenditure was childcare income and expenditure as the College was deemed to act as an agent for these funds. All other funds were accounted for through the College balance sheet.
- The cashflow analysis showed the actual cash position and forecasted the cash flows to 31 July 2020.
- The aged debt analysis showed a summary of the age of the sales ledger along with a split between corporate and student debt. The emphasis continued to be the reduction in the level of debt in excess of 3 months.
- The financial graphs and performance indicators provided background information about income and expenditure and highlight the main indicators of financial sustainability.

**The Committee approved the Management Accounts as at 31 January 2020.**

**FPM312 IT STRATEGY UPDATE**

The Vice Principal Operations explained that the West College Scotland IT Strategy was recommended for approval at the Finance and General Purposes Committee meeting on 8 March 2016 and subsequently approved by the Board of Management on 21 March 2016. In approving this, it was agreed that an annual update on progress would be provided to the Finance and General Purposes Committee. As such, the report provided a further update on the progress of the IT Strategy following the fourth year of implementation. The Vice Principal Operations led the Committee through a:

- Summary of activity and progress to date against each of the IT strategic objectives and associated outcomes/indicators of success.
- Summary of key areas and considerations that would arise during the fifth and final year of the current IT Strategy implementation, drawing on recent changes in the IT landscape and upcoming events.
- More detailed review, including a BRAG assessment, of the “How do we get there?” indicators of success that were agreed for monitoring progress against each objective within the IT Strategy.

The Committee thanked Mr Stobbs and his Team for such excellent progress so far and the Vice Principal Operations explained that, going forward, the newly appointed Director of Infrastructure would lead much of this work, building on the solid platform established to date, ensuring IT aligned with the new College Digital Strategy.

**The Committee reviewed and noted the considered progress made in the first four years of implementing the College IT Strategy.**

**FPM313 SCOTTISH GOVERNMENT / COLLEGE CYBER RESILIENCE FRAMEWORK**

The Vice Principal Operations reported that the Committee had been provided with regular updates on the College's response to the Scottish Government's Public Sector Action Plan on Cyber Resilience since March 2018. This had included a paper submitted to the meeting in May 2019 on the draft Scottish Public Sector Cyber Resilience Framework.

On 20 January 2020, the Deputy First Minister wrote to all Scottish Public Sector organisations advising of the release of the Scottish Public Sector Cyber Resilience Framework and Supply Chain Cyber Security Guidance. The Vice Principal Operations provided information on the Cyber Resilience Framework, Supply Chain Cyber Security Guidance and the College's planning for response to these publications.

The Vice Principal Operations described how the Framework itself consisted of a series of requirements across different domains, security categories and sub-categories of control, against which an organisation was required to self-assess. Scoring was assigned against responses entered into the self-assessment tool as per guidance provided. The self-assessment tool was intended to help identify key areas of strength and areas for improvement in current cyber resilience arrangements. The tool had been designed to produce a "dashboard" that could be shared within organisations and with audit bodies to assist decision-making around cyber resilience issues.

The Vice Principal Operations outlined the Scottish Government's proposed approach to implementation and reporting arrangements for the Framework. With these timescales in mind, the College had brought together a group of key staff to build a plan to respond to the Framework and it had performed an initial review of the published documents. A further update would be provided on progress at the next meeting of the Committee. **{ACTION – DA}**

**The Committee noted the implications for the College (as outlined within the Cyber Resilience Framework and Supply Chain Cyber Security Guidance) and the College's planned response to the publications.**

**FPM314 PROCUREMENT (PCIP) AUDIT OUTCOME**

The Head of Finance and Student Support Funding presented the outcome of the Procurement and Commercial Improvement Programme (PCIP) audit which took place in October 2019.

She led the Committee through the audit highlighting the following key points:

- APUC was now required to assess the College every two years.
- The College was last assessed in December 2016 and had been assessed on the same basis in 2019.
- The PCIP contained an updated question set and scoring and performance bandings from those previously adopted by the PCA.
- The assessment methodology required information to be submitted and assessed in advance of the assessment day.

The Head of Finance and Student Support Funding reported that the assessment resulted in an overall outcome rating of 76% which was performance band Gold, a significant improvement on the 2016 rating. Although there was no published sectoral table of PCIP rating reviews, through discussion with APUC staff, the College understood that the Gold banding put West College Scotland near the top of the 2019 PCIP outcomes across all institutions in Scotland. This outcome supported and validated the continuous improvement work and actions detailed within the College Procurement Strategy and Operational Plans, and as reported to the Finance and General Purposes Committee.

The review also identified some areas for continued improvement and the College was developing an action plan to address these and which would be incorporated into the refresh of the Procurement Strategy due to take place towards the end of the 2020 calendar year.

**The Committee noted the outcome of the 2019 College PCIP review.**

**FPM315 INTERNAL AUDIT - FINANCIAL SYSTEMS HEALTHCHECK**

The Director of Finance and Estates explained that, as part of the internal audit programme for 2019-20, Scott Moncrieff conducted an assurance review of College financial systems controls covering expenditure and creditors. He presented the findings from the audit review which concluded that the College accounts payable systems and controls had been well designed and were operating effectively.

The Director of Finance and Estates summarised some of the areas of good practice identified by the review and confirmed that there were no audit recommendations arising from the audit work. On behalf of the Committee, the Chair commended the Director and his team for this achievement.

**The Committee noted the contents of this report.**

**FPM316 STRATEGIC RISK REGISTER REVIEW**

The Director of Finance and Estates reported that, under the Corporate Governance Code, the College Board of Management was tasked with ensuring a framework of risk management and control was in place. He presented the College Strategic Risk Register and provided an update on the actions taken by the College to embed risk management across the organisation.

The Director of Finance and Estates clarified that (as discussed earlier at Minute No FPM309), the handling of the coronavirus outbreak was being managed via the College Business Continuity Plan.

**The Committee reviewed and approved the College Strategic Risk Register and in doing so considered:**

- **The risks included in the register;**
- **The revised risk rating both pre and post mitigation;**
- **Whether any other risks should be considered for removal;**
- **Whether any new risks should be considered for inclusion; and**
- **The progress made in further developing the College Risk Management framework.**

**FPM317 THE FINANCIAL SUSTAINABILITY OF COLLEGES AND UNIVERSITIES IN SCOTLAND**

The Director of Finance and Estates reported that the Scottish Funding Council (SFC), on 11 February 2020, published a report on the financial sustainability of Colleges and Universities in Scotland. The report presented an aggregate picture of the financial health of Scottish institutions, based on an analysis of the information reported to the SFC in September 2019 by each institution. The report highlighted that financial management was a dynamic process. The figures used in the report were subject to change as governing bodies planned and made choices and decisions about the future and as the SFC engaged with institutions about the robustness of their projections and plans.

The Director of Finance and Estates explained that, while the report presented an aggregate picture, the SFC noted that there was significant variation in the financial position of individual institutions.

The Committee welcomed the report but acknowledged reservations around assumptions made in relation to targeted reductions / savings and whether or not funding levels were sufficient to met required outcomes.

The Vice Principal Operations reported that it was likely the sector would take a view on whether to respond to this report as would Audit Scotland.

**The Committee noted the contents of this report.**

**FPM318 SCHEDULE OF BUSINESS 2019-20**

The Committee **noted** its schedule of business for 2019-20 as summarised by the Director of Finance and Estates.

**FPM319 ANY OTHER BUSINESS**

- No other business items were raised.
- Date of next meeting – Tuesday 2 June 2020, Abercorn 2, Paisley Campus.

**Finance & General Purposes Committee: Actions from the Minutes**

| Date of Meeting | Min Ref | Matter for Action | Responsible Person | Action Taken | Timescale (where applicable) |
|---|---|---|---|---|---|
| 10 Mar 2020 | FPM303 | **College Cleaning and Catering Services Review**<br>The Committee concluded it would be useful to have a greater understanding of the actions and associated timelines for delivery of this consistent cleaning approach and the Vice Principal Operations agreed this would be provided to the Committee's scheduled 2 June 2020 meeting. | D Alexander | | June FGPC meeting |
| " | " | **College Cleaning and Catering Services Review**<br>Agreed that an update on improvement actions be provided at the next meeting. | D Alexander | | June FGPC meeting |
| " | FPM313 | **Scottish Government / College Cyber Resilience Framework**<br>Update would be provided on progress at the next meeting of the Committee. | D Alexander | | June FGPC meeting |
| | | **Actions from previous minutes** | | | |
| 19 Nov 2019 | FPM291 | **Business Transformation Plan**<br>FPM226.1 on the action tracker to be amended to clarify that updates on the Business Transformation Plan should continue to be given. | D McGowan | Amendment made | Complete |
| | FPM292 | **Student Support Funding**<br>The Principal to raise issue of care-experienced student funding at the Principals Group. | L Connolly | | March meeting |

| Date of Meeting | Min Ref | Matter for Action | Responsible Person | Action Taken | Timescale (where applicable) |
|---|---|---|---|---|---|
| | FPM292; FPM299 | The Vice Principal to keep the Committee updated on the matter. | D Alexander | | March meeting |
| | FPM292 | **Operational Planning**<br>Vice Principal to keep the Committee apprised of progress in relation to Pentana | D Alexander | | Future meeting |
| | FPM293 | **Financial Statements 31-7-19**<br>Director for Finance and Estates to present Financial Statements to the Joint Audit-Finance Committee | A Ritchie | Presented to the Joint Committee | Complete |
| | FPM295 | **Catering and Cleaning Reviews**<br>The Vice Principal to provide an update at a future meeting.<br><br>Ideal Catering Consultants to attend the next meeting of the Committee to discuss review. | D Alexander<br><br>D Alexander | | Future meeting<br><br>March meeting |
| | FPM302 | **Contract Approval**<br>Contract award presented directly to the Board at the December meeting for approval | J Hannigan | Presented to December Board meeting | Complete |
| 3 Sep 2019 | FPM276.2<br>271<br>252 | **Finance System**<br>Review of the project and report on lessons learned to be brought to November meeting | A Ritchie | | Complete |
| | FPM279<br>261 | **2019-20 Budget and Financial Strategy**<br>Committee supported approach being taken by Management and Model 2 to be submitted to SFC for consideration. Outcomes of discussions with SFC to be reported to Board at its meeting on 7 October 2019 | L Connolly<br>D Alexander<br>A Ritchie | Discussions with SFC were held and outcomes reported to the Board at its meeting on 7 October 2019. Discussions with SFC are continuing and further updates will be provided as appropriate | On-going |

| Date of Meeting | Min Ref | Matter for Action | Responsible Person | Action Taken | Timescale (where applicable) |
|---|---|---|---|---|---|
| | FPM287 | **Catering and Cleaning Services**<br>.1 Catering Services – a Consultant to be brought in to advise the College on best way forward; a survey of staff and students be conducted in order to identify their preferences; the outcomes of this survey to be brought to the November meeting.<br><br>.2 Cleaning Services – the Consultant brought in to review Catering Services should also assist in review of Cleaning services. | D Alexander<br>A Ritchie | .1 Outcome of staff and student survey to be brought to next meeting in November | Complete |
| 27 May 2019 | FPM257.2<br>226.1 | **Business Transformation Plan**<br>Committee to be kept informed of progress with discussion with SFC | L Connolly | Update provided as part of discussion on 2019-20 Budget and Financial Strategy (FPM279) | Ongoing |
| | FPM257.3<br>204 | **Corporate Plan and Regional Outcome Agreement (ROA)**<br>Information showing how annual objectives in ROA tied in with Strategic Plan to be provided | L Connolly | | Future meeting |
| | FPM258.4 | **Information Technology: SFC Strategic Funding**<br>College working with SFC on project on how possible future investment in ICT across the sector might be identified in a consistent way and prioritised. Committee to be kept informed of progress | D Alexander | SFC now working with College Development Network to establish a Digital Strategy for the College sector (FPM276.1) | Complete |
| | FPM263 | **Draft Scottish Public Sector Cyber Resilience Framework**<br>Committee to be kept informed of progress with Scottish Government's | D Alexander | | Future meeting |

| Date of Meeting | Min Ref | Matter for Action | Responsible Person | Action Taken | Timescale (where applicable) |
|---|---|---|---|---|---|
| | | final version of the framework for implementation | | | |
| | FPM245 227 | **College Cyber Action Plan**<br>Annual accreditation to be sought through Cyber Essentials Plus scheme | D Alexander | | Future meeting |

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| **Title:** | **COMMITTEE REMIT, MEMBERSHIP AND DATES OF MEETINGS IN 2020/2021** |
| **Background:** | Following the retirement of the Director IT in December 2019, the College took the opportunity to review the portfolios of the remaining Directors.<br><br>After discussion with the Chair of the Board of Management, the Chair of the Estates Committee and the Chair of the Finance and General Purposes Committee, the College introduced a new position of Director of Infrastructure. This position will provide strategic direction to the estates and IT functions within the College.<br><br>With this change in Directorate portfolios there is a requirement to review the remit of the Estates Committee and the Finance and General Purposes Committee, primarily to transfer the IT element of the Finance and General Purposes Committee remit to the Estates Committee in order that responsibility for all infrastructure resides with one Committee. Appendix 1 provides a tracked change version of the proposed Finance and General Purposes Committee remit for consideration. |
| **Action:** | The Finance and General Purposes Committee is asked to:<br>• Approve the revised Committee Remit (Appendix 1)<br>• Agree the membership of the Committee (Appendix 2)<br>• Approve the 2020/21 proposed meeting dates (Appendix 3) |
| **Lead:** | Shirley Gordon, Secretary to the Committee |
| **Status:** | Open |

**Appendix 1 – REVISED COMMITTEE REMIT**

**West College Scotland**

**Board of Management**

**Finance and General Purposes Committee**

**Statement of Purpose**

The Board provides the principal governance mechanism through which activities are managed in accordance with legislation and regulations, as well as ensuring that systems are in place to provide efficiency, effectiveness and economy. However, the Board has delegated some of its responsibilities to certain committees.

The main purpose of the Finance and General Purposes Committee will be to approve all key decisions taken in relation to finance, procurement~~, information technology~~ and matters of a general nature that do not fall to other standing Committees. The Committee will further ensure that all areas of the College's financial performance, and ~~–~~ procurement ~~and information technology~~ are subject to best practice controls and review, ensuring solvency, sustainability, efficiency and innovation.

## 1. Remit

**Finance**

- To advise the Board of Management on key issues of the College's financial and resource management including:
    - solvency of the College
    - College cashflow
    - effectiveness and appropriateness of the utilisation of College resources
    - Financial Strategy

- To review and approve the Financial Regulations on an annual basis, or more frequently if required.

- To consider and advise the Board on:
    - financial forecasts and budgets in relation to the West Region Outcome Agreement.
    - any relevant taxation issues

- To consider the College's annual financial statements (at a joint meeting of the Audit and Finance and General Purposes committees).

- To monitor:

- the College's financial performance against agreed budgets and make recommendations on major variations
- all income
- all material financial issues
- the management accounts

- To advise the Board on investments and borrowing and to seek appropriate external advice.

- To ensure adherence to statutory requirements related to the College's financial affairs and compliance with the Financial Memorandum, Scottish Public Finance Manual (SPFM) and related guidance (*including Accounting Policies in the Financial Statements)*.

- To receive a regular report on bad debt write offs.

- To consider, review and recommend to the Board, pension arrangements for College staff, in consultation with the ~~Organisational Development and~~ HR and Corporate Development Committee.

- To receive an update on banking arrangements, including the Scottish Government banking arrangements and to approve the bank signatories.

~~**Information Technology**~~

- ~~To agree and approve IT strategy and policies, ensuring these support the priorities and outcomes of the College;~~

- ~~To advise the Board of Management on key issues relating to the College's information technology.~~

- ~~To consider and promote the effective and efficient use of IT services.~~

- ~~To consider information technology initiatives and innovations for use within the College, the resources required to implement these and to identify risks and opportunities associated with proposals.~~

**Procurement**

- To agree and approve financial regulations which ensure compliance with legal obligations in respect of tendering and contract procedures.

- To agree and approve procurement strategy and policies that reflect best practice, ensuring they~~se~~ support the priorities and outcomes of the College and the achievement of efficiencies.

- Approve the awarding of contracts between the values of £250,000 and £500,000.

- To support development of:
    - supplier management and contract monitoring
    - electronic procurement systems
    - procurement performance management systems
    - collaborative opportunities

**Risk**

- To consider risk relating to the matters that fall within the Committee's remit and to agree what mitigating factors/actions are in place and what further action, if any, needs to be taken to address such matters of risk.

**General Purposes**

- Any other factors as required by the Board of Management

## 2. Membership

Membership of the Committee will comprise:

Three members of the Board of Management, one of whom will Chair, and the Principal.

**Attending:**
Vice Principal Operations
The Director of Finance and Estates
The Director of Information Technology

The Committee is empowered to invite other members of the Senior Management/Executive team to attend meetings of the Committee.

The Committee is empowered to co-opt additional members, subject to approval by the Nominations Committee.

Other Board members can attend the meetings, with the approval of the Chair of the Finance and General Purposes Committee.

Committee members will be appointed to serve a four- year term, or for the period of their term of office.

The Chair of the Board of Management will be an ex- officio member of the Committee

## 3. Frequency of Meetings

Normally will meet four times per year, but at least three times per year.  Additional meetings will be convened as necessary.

## 4. Quorum

A quorum will be two members of the Board of Management.

## 5. Secretariat

Secretary to the Board of Management.

Papers for meetings will be sent out 7 days in advance of meeting.

The Committee will report to the Board of Management and the minutes of its meetings will be circulated to the Board for information.

## 6. Review

The Remit will be subject to review annually

**Appendix 2 - Current membership of the Committee**

**Finance and General Purposes Composition**

| **Category** | **Name** |
|---|---|
| Three members of the Board of Management, one of whom will Chair, and the Principal. | Jim Hannigan (Chair)<br>John Leburn<br>Angela Wilson<br>Liz Connolly – Principal |

| **In Attendance** | **Name** |
|---|---|
| Vice Principal Operations | David Alexander |
| Director of Finance and Estates | Alan Ritchie |
| ~~Director of Information Technology~~ | ~~David Black~~ |
| Head of Finance and Student Funding | Vivienne Mulholland |
| Secretary | Shirley Gordon |
| Internal Auditor | Graham Gillespie<br>Stephen Pringle (Wylie and Bisset) |
| External Auditor | Lucy Nutley<br>Joanne Buchanan (Mazars) |

| **Quorum** | **Two members of the Board of Management** |
|---|---|

**Appendix 3 - Proposed 2020/21 Committee Meeting Dates**

- Tuesday 8 September 2020
- Tuesday 24 November 2020
- Joint Audit and FGPC – Tuesday 24 November 2020
- Tuesday 2 March 2021
- Tuesday 1 June 2021

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| **TITLE:** | **VICE PRINCIPAL UPDATE/OVERVIEW REPORT** |
| **Background:** | This paper provides the Finance and General Purposes Committee with updates in relation to:<br>• Funds arising from net depreciation<br>• SFC 2020-21 funding announcement<br>• Ongoing West College Scotland engagement with the SFC<br>• National bargaining<br>• Information technology<br>• West College Senior Management – Estates and Infrastructure |
| **Action:** | The Finance and General Purposes Committee is invited to consider and note the report for information. |
| **Lead:** | David Alexander, Vice Principal Operations |
| **Status:** | Open |

**Vice Principal Update/Overview Report**

## 1.0 Funds Arising from Net Depreciation

1.1 The Finance and General Purposes Committee and Board of Management have previously been made aware of the arrangement put in place between Colleges Scotland, the Scottish Government and the Scottish Funding Council (SFC) to allow the cash balance arising from net depreciation to be expended by the college sector within certain parameters.

1.2 The 2019-20 West College Scotland (WCS) budget approved by the Finance and General Purposes Committee on 27 May 2019 and subsequently by the Board of Management on 17 June 2018, detailed that £1,639,000 of cash arising from net depreciation is available to be utilised during the current financial year. It has been agreed with the SFC that this amount will be applied towards meeting the following College priorities during 2019-20:

- repayment of bank loans (£509,000);
- funding of core College ICT expenditure (£486,000); and
- to meet the cost prior year staff pay increases (£644,000).

## 2.0 SFC 2020-21 Funding Announcement

2.1 The SFC issued Circular SFC/AN/06/2020 - *College outcome agreement funding allocations for Academic Year 2020-21* - on 7 April 2020. The funding decisions set out in this announcement are based on the Scottish Government's Scottish Budget 2020-21, approved by the Scottish Parliament on 5 March 2020. In providing this Circular SFC also advised that there would be no updated Ministerial guidance issued at this point – and that any such guidance would be issued to the sector when received. To date this Ministerial guidance has not been issued to the sector.

2.2 It should be noted that the Circular issued on 7 April 2020 did not confirm all elements of 2020-21 SFC funding. These require to be advised over the coming period to enable the College to approve a budget and financial strategy prior to August 2020.

2.3 Agenda Item 10 (2020-21 Budget and Financial Plan) provides an overview of the 7 April 2020 SFC funding announcement.

## 3.0 Ongoing West College Scotland Engagement with the SFC

3.1 Following the SFC final 2018-19 funding announcement on 18 May 2018 the SFC Interim Director of Access, Skills and Outcome Agreements wrote to the Principal of West College Scotland on 30 May 2018 to confirm that SFC remained committed to working in partnership with the College to support its financial planning and future sustainability.

3.2 The Board of Management meeting which took place on 8 October 2018 resolved that the College business transformation plan, '*Future Proofing our College'*, be approved and forwarded to the SFC to aid discussions with them in relation to financial sustainability. It was also agreed that the Board would focus on different areas covered within the plan at each meeting and that the Finance and General Purposes Committee would have oversight of the Plan.

3.3 The Finance and General Purposes meeting of 3 September 2019 and the Board of Management meeting of 7 October 2019 subsequently considered the College business operating model and approved the actions being taken to deliver a sustainable financial operating position over the next five-year period. The Board meeting of 7 October 2019 approved the approach to be taken in discussions with the SFC in order to progress the Business Transformation Plan and achieve ongoing financial sustainability and asked to be kept informed of progress.

3.4 The SFC committed to a change in the College business model 'in principle' from 2020-21 and the College had been awaiting final agreement and confirmation of this decision. SFC Circular SFC/AN/06/2020 - *College outcome agreement funding allocations for Academic Year 2020-21* – issued on 7 April 2020 - provided this formal confirmation, confirming that there is to be a reduction in credit activity of 5,000 for West College Scotland in 2020-21 – from 157,855 to 152,855 - when compared with 2019-20.

3.5 This change in credit activity is in line with the expectations of the Business Transformation Plan that West College Scotland previously agreed with the SFC. SFC has not consequently reduced associated teaching funding with this movement in credit activity - meaning an increase in £ per credit for West College Scotland which equates to 8.6% - from £255 in 2019-20 to £277 in 2020-21. This reflects discussions SFC has had with the College to recognise our movement towards higher cost activity over the course of previous years. As a condition of this change, the College must reduce its third-party distance learning activity. The College will therefore continue to engage with the SFC regarding the revised business model that is required.

## 4.0 National Bargaining

4.1 On 18 March 2016 the Colleges Scotland board approved the creation of an Employers' Association. This Association has representation from all colleges as employers and has full authority in relation to national bargaining but remains within the Colleges Scotland structure. The Employers Association nominated ten representatives to take forward national bargaining discussions with teaching and support trade unions through a National Joint Negotiating Committee (NJNC). The Vice Principal Operations and Director of Finance and Estates are two of those nominated representatives for 2019-20.

4.2 Existing pay agreements with teaching and support staff trade unions remain in place until 1 September 2020. Trade unions were therefore expected to provide colleges with awareness of their pay claim sometime around spring 2020. To date the EIS have submitted a pay claim on behalf of teaching staff with support staff still to do so. An update will be provided at this meeting.

National Support Staff Job Evaluation

4.3 For support staff, the process of national job evaluation has commenced. The project progress at each key stage is as follows:

- Stage One – Role Outline Questionnaires
  Stage One is the completion, agreement and submission of job role outline questionnaires. This stage is largely complete and as at Monday 4 May 2020, 87% of roles have all documentation returned (questionnaire, job description and signatory sheet). In roles where all the documentation is yet to be submitted, this is primarily due to long term absence, maternity leave and "failures to agree".

- Stage Two – Role Analysis
  Stage Two is the release of sector nominated Role Analysts to deliver role evaluation for a dedicated period of approximately 11 months. This commenced on Monday 6 January 2020 and a total of 21 Role Analysts (19 FTE) have been sanctioned for release, all of whom have undergone a period of training. The start date was slightly later than anticipated due to a delay in agreeing the panel protocol. Work is underway between the project leads from the staff and management side to forecast a revised timescale and budget profile. First panel scoring is currently taking place across 13 colleges with the most returned data. As at Monday 4 May 2020, over 26% of all roles have been through the "first panel" phase and four colleges are nearing completion.

- <u>Stage Three – Implementation</u>
  Stage Three is the implementation stage. Running in parallel to the process of role analysis, considerations of the pay and grading implications of job evaluation will be discussed, developed and costed within the Employers' Association and NJNC forum. This is projected to reach conclusion in mid to late 2021 with all pay adjustments being backdated to 1st September 2018. However, this matter cannot be progressed to the stage of any formal proposals without a significant degree of progress through the role analysis stage and complete clarity on sector pay data – with some colleges still to submit this information.

- <u>Stage Four – Appeals</u>
  Stage Four is the appeal stage. Following implementation of pay and grade outcomes, there will be a right of appeal for employees against the outcomes of job evaluation. This is projected to run for a six-month period from the date of implementation of job evaluation outcomes and therefore likely to run into 2022 with panels consisting of members trained on the National Scheme but not having direct involvement in the previous scoring of the roles.

The Scottish Funding Council (SFC) has set aside an allocation of £12.4 million (equivalent to six percent of the overall sector support staff salary costs) to fund any pay implications as a result of the implementation of job evaluation.

Further updates will be provided to the Finance and General Purposes Committee as this project progresses.

## 5.0 Information Technology

5.1 The College IT team has been focussed over the recent period on supporting the transition of College on-site operations to enable staff and students to teach, learn and work from home as a result of the COVID19 pandemic. This mobilisation required to take place over a short period of time leading up to College closure on 20 March 2020 and the process involved providing staff and high priority students with the hardware and software capability to work from home, with the IT support team continuing to provide a Helpdesk service remotely. The College IT Department will continue to provide this essential support and look to build on the progress that has been made in the levels of technology engagement going forward.

5.2 On 30 July 2019 Microsoft announced Skype for Business would go end of life on 31 July 2021 and that the Office365 '*Teams'* application will be the replacement communications and collaborations software. West College Scotland currently has access to *Teams* via our existing subscriptions and has introduced this across all areas of the College in order to support operations during the COVID-19 lockdown period - with the newly forming College Digital Strategy group having a key role in raising awareness and championing usage and benefits. Further work will be undertaken to build *Teams* into our operating environment going forward. *Teams* and Skype for Business both contain similar features including instant messaging, audio calling, video conferencing and desktop sharing

5.3 *Scottish Government Public Sector Cyber Resilience Framework*
As advised to the Finance and General Purposes Committee meeting of 10 March 2020, The Scottish Government issued information during January 2020 on the new Public Sector Cyber Resilience Framework. Due to recent events arising as a result of the COVID19 pandemic the IT Department has required to focus all resource on supporting business critical operations, however a focus remains on progressing this work within required timescales.

5.4 *Pentana System*
As previously reported to the Finance and General Purposes Committee, Pentana is a management software solution that enables organisations to assign actions and monitor the delivery of plans using a centrally accessible Cloud based system in real time – with the intention being to enhance management information, corporate awareness and performance. The College now has dedicated internal resource in place to support the rollout of the system and commenced training for key administrators and users of Pentana during April 2020. Further rollout out and implementation of the system across the College continues, with a view to having this in place to support reporting on and monitoring of College 2020-21 operational plans. The organisation planning framework and associated reporting is being reviewed in alignment with this.

5.5 *Investment in College ICT and Technology*

As advised previously to the Board of Management and the Finance and General Purposes Committee, the level of SFC operational funding available to the College for 2019-20 and beyond is not sufficient to maintain and develop the basis of a reliable, resilient and responsive ICT infrastructure that the College requires in order to meet 21st century teaching, learning and operational needs. During 2018-19 the College therefore sought to secure funding from the SFC in order to address this, with it being estimated that at least £2.5m of investment would be required – this remains the minimum investment requirement.

However as advised previously to the Finance and General Purposes Committee, the SFC agreed to work with the College Development Network (CDN) to establish a Digital Strategy for the College sector rather than seek to progress this matter directly with West College Scotland, as had previously been considered. The College is represented on the CDN group by Angela Pignatelli, Assistant Principal, Creativity and Skills. This CDN group has now taken on a higher profile in light of the technology developments that have been required to support ongoing college sector operations as a result of the COVID-19 lockdown period and a further phase of review is now in place which is expected to consider the challenges emerging in relation to digital poverty. Given that the requirement for social distancing as a result of COVID-19 is likely to continue going forward, this means College campuses will not be able to support the same level of staff and student physical presence on-site. Digital poverty is therefore expected to be an increasing area of concern and one that the college sector will require to engage with.

## 6.0 West College Scotland Senior Management – Estates and Infrastructure

6.1 As previously discussed at the Finance and General Purposes Committee, the College Director of IT retired in December 2019 and following this a review of Senior Management responsibilities in relation to estates and wider infrastructure has been undertaken. A new post of Director of Infrastructure has been put in place, and this will encompass responsibility for the Estates and IT Departments going forward – interviews for this post took place during March 2020 and an updated will be provided at this meeting.

6.2 With this change there will also be a transition of estates responsibilities from the Director of Finance and Estates to the Director of Infrastructure in the coming months. The existing responsibilities of the Director of Finance and Estates will change to take on a wider responsibility for operational planning, data analysis and business process improvement going forward. The Chairs of the Estates Committee and the Finance and General Purposes Committee have been kept fully appraised of these changes and *Agenda Item 5 (Committee Remit)* reflects proposed revisions to the Finance and General Purposes Committee remit which are in line with this.

## 7.0 Recommendation

7.1 The Finance and General Purposes Committee is asked to consider and note the report.

| | |
|---|---|
| **TITLE:** | **OVERVIEW OF COLLEGE PENSION SCHEMES** |
| **Background:** | This paper provides the Finance and General Purposes Committee with an annual overview of the pension schemes currently in operation within the College. |
| **Action:** | The Committee is asked to consider and note the report. |
| **Lead:** | Alan Ritchie, Director of Finance and Estates |
| **Status:** | Open |

**1. Introduction**

1.1 The remit of the Committee includes the following:

*'To consider, review and recommend to the Board, pension arrangements for College staff, in consultation with the HR and Corporate Development Committee.'*

1.2 This paper is therefore intended to provide the Finance and General Purposes Committee with an overview of the current pension arrangements within the College.

**2. Background**

2.1 West College Scotland has two pension schemes in operation:

- The Scottish Public Pensions Agency (SPPA) scheme, which is accessible to teaching staff; and

- The Strathclyde Local Government Pension Scheme (LGPS), which provides pension arrangements for support staff members.

2.2 Table 1 below shows the level of each scheme membership over the last three years as at 31 March.

*Table 1: Level of pension scheme membership as at 31 March*

| As at 31 March | Number of Pension Scheme Members | Number of College Staff Eligible to Join | Uptake % |
|---|---|---|---|
| **LGPS** | | | |
| **2019-20** | **490** | **626** | **78.3%** |
| **2018-19** | 482 | 629 | 76.6% |
| **2017-18** | 481 | 611 | 78.7% |
| **SPPA** | | | |
| **2019-20** | **558** | **598** | **93.3%** |
| **2018-19** | 541 | 600 | 90.2% |
| **2017-18** | 553 | 613 | 90.2% |
| **Total** | | | |
| **2019-20** | **1,048** | **1,224** | **85.6%** |
| **2018-19** | 1,023 | 1,229 | 83.2% |
| **2017-18** | 1,034 | 1,224 | 84.5% |

2.3 As can be seen from Table ,1 above:

LGPS

- The average up take for the scheme over the last three years has been approximately 78%, with there being a slight increase between 2018-19 and 2019-20.
- The number of staff opting to take up membership has increased by 482 to 490. This represents a total of 490 of 626 eligible staff (78%) who have opted to take up LGPS membership, an increase of over 1% from 30 April 2019.

SPPA

- The average up take for the scheme over the last three years has been 91.2%.
- The number of staff opting to take up membership has increased by 17 from 541 to 558. This represents a total of 558 of 598 eligible staff (93%) who have opted to take up SPPA membership.

2.4 The pattern over the last year has therefore been one of a slight increase in the overall levels of pension membership within the College with this increasing by 25 across both the LGPS and SPPA schemes. The College has 85.6% of its eligible staff enrolled with a pension scheme, an upwards movement of 2.4% compared to the previous year.

**3. Pension Scheme Costs – An Overview**

3.1 Table 2, below, shows the level of employer pension contributions made by the College over the recent period for the year ending 31 March.

*Table 2: Level of College employer pension contributions to 31 March*

| Pension Contributions | SPPA £m | LGPS £m | Total £m |
|---|---|---|---|
| 2019-20 | 4.20 | 2.20 | 6.40 |
| 2018-19 | 2.95 | 2.20 | 5.15 |
| 2017-18 | 3.00 | 2.20 | 5.20 |

SPPA

3.2 The SPPA employer contribution rate increased from 17.2% to 23.0%, an increase of 34%, from 1 September 2019. This rate increase will next be reviewed at 31 March 2023.

3.3 The change in the SPPA contribution rate was announced in January 2019 and is attributable to the UK Government's decision to reduce the discount rate used in the valuation of unfunded public service pension schemes. The College received funding from the SFC to meet this level of increased employer contributions from 1 September 2019 to 31 March 2020.

3.4 Based on the current level of membership the cost for the College 2019-20 financial year to 31 July 2020 is forecast to be £4.2m for SPPA employer's pension contribution costs.

3.5 Based upon the employer's contribution rate remaining static until March 2023 and the expected level of College membership, the 2020-21 financial year budget for SPPA contributions will be set at £4.3m to meet the cost of employer pension contributions.

LGPS

3.6 The employer contribution rate remained at 19.3% and based upon the last actuarial valuation this rate will be applicable to at least 31 March 2021.

3.7 At this time the College has not been advised that the employer contribution rate for the LGPS will increase from 1 April 2021 - this matter has been raised with the pension fund and SFC have been advised that, based on the initial 2020-21 SFC funding announcement made in April 2020, the College does not have any additional funding in place to meet an increased level of contribution should it arise.

3.8 Based on the current level of membership the cost for the College 2019-20 financial year to 31 July 2020 is forecast to be £2.2m for LGPS employer's pension contribution costs.

3.9 Based upon the employer's contribution rate remaining static, the 2020-21 budget for LGPS contributions would be set at £2.3m to meet the cost of employer pension contributions.

3.10 Thus, in summary, for the 2019-20 financial year to 31 July 2020, it is expected that the College will incur £6.4m in relation to employer pension contributions (SPPA £4.2m; LGPS £2.2m) - this represents 15% of the overall forecast College expenditure for 2019-20.

3.10 For the 2020-21 financial year, it is expected that employer pension contributions for the College will be approximately £6.6m (SPPA £4.3m; LGPS £2.3m) based on current membership levels and employer contribution rates.

3.11 However as outlined above, the College will continue to engage with the LGPS pension fund and the SFC regarding any possible changes to the employer contribution rate and the funding of this should it occur from 1 April 2021 – as a similar level of increase to that introduced by the SPPA from 1 September 2020 of 34% would see the College require to pay an additional £750,000 per annum to the LGPS – with four months of such an increase – at an additional cost of £250,000 - falling within the 2020-21 financial year should it occur.

Unfunded Pension Provision

3.12 In addition to the ongoing annual cost of employer pension contributions to the SPPA and LGPS, the College requires to meet the cost of an unfunded pension liabilities in relation to 184 former employees (2018-19: 189). This legacy arrangement costs the College £0.6m per annum and continues until the death of the pensioner or their spouse.

LGPS Annual Valuation

3.13 For the LGPS pension scheme, the College is also required to undertake an annual valuation in accordance with the requirements of FRS 102. This is an accounting standard used to assess the balance sheet impact and pension costs associated with the operation of occupational pension schemes. For defined benefit arrangements the balance sheet asset or liability for the College is calculated as the surplus or deficit of the scheme assessed in accordance with appropriate accounting assumptions. The pension cost is a combination of the cost to the College of providing benefits built up over the past year and an interest charge applied to the liabilities built up in the past, offset by a credit in respect of the expected return on the scheme assets. It is worth remembering that the assumptions used for valuation purposes are no more than assumptions.

3.14 For the 2018-19 financial year, the College was required to recognise a pension cost of £2.5m (2017-18: £1.3m) in relation to the LGPS scheme. A further valuation will be undertaken for the 2019-20 financial statements.

## 4. Conclusion

4.1 The Finance and General Purposes Committee is asked to consider and note the report.

| | |
|---|---|
| **TITLE:** | **SFC REPORT – BRIEFING NOTE**<br>**COVID-19 FURTHER AND HIGHER EDUCATION FINANCIAL IMPACTS** |
| **Background:** | The Scottish Funding Council (SFC) published a report outlining the financial impact of COVID-19 on the Scottish Further and Higher education sectors on 29 April 2020.<br><br>West College Scotland continues to engage with the SFC regarding these funding impacts and the financial sustainability challenges arising from them. |
| **Action:** | The Finance and General Purposes Committee is requested to note the:<br><br>• content of the SFC briefing paper;<br>• financial impacts arising from COVID-19; and<br>• College continues to engage with the SFC in relation to financial sustainability challenges arising from COVID-19 |
| **Lead:** | David Alexander, Vice Principal Operations |
| **Status:** | Open |

**1.0 Introduction**

1.1 The Scottish Funding Council (SFC) published a briefing paper outlining their initial assessment of the financial impact of Covid-19 on the Scottish further and higher education sectors on 29 April 2020

1.2 In releasing the briefing paper the SFC stated that:

*'The Covid-19 crisis presents a unique and significant external shock to universities in Scotland, with critical implications for colleges too. This matters for students and researchers, the pipeline of future skills and talent, for innovation and international competitiveness, and for our social and economic recovery.*

*Our briefing sets out an early analysis of possible financial impacts. This is a dynamic and complex situation. Our analysis will develop as funding availability, mitigation strategies, and responses to the pandemic come into sharper focus. SFC continues to engage; provide stability and flexibility in funding flows; support students; and work closely with governments, funding and regulatory counterparts across the UK, and other key stakeholders.'*

1.3 The briefing paper is six pages in length with the narrative relating to colleges shown on pages 5 and 6.

**2.0 SFC Briefing Paper – COVID-19 Financial Impacts on Colleges**

2.1 The SFC briefing paper acknowledges that the financial position of colleges was already challenging pre-COVID-19 – and that with this the impact of the COVID-19 outbreak on colleges' financial sustainability is significant.

2.2 The 2019-20 college sector adjusted operating position is expected to move from a near break-even position to a deficit of £25 million – with all but three colleges now forecasting deficits in 2019-20. The impact arising from COVID-19 in 2020-21 is expected to be even more severe. The main COVID-19 financial impacts include lower income from the following funding streams: ESF; FWDF; tuition fees and education contracts; SDS; nursery; accommodation; catering; short-courses including evening classes; and other commercial activity including international income. Any savings in costs are minimal and do not offset these income movements.

2.3 Cash will be essential in maintaining ongoing college operations and the SFC briefing paper outlines that sector cash balances are expected to move from £40.8m to £28.4m by the end of 2019-20 – with six colleges projecting to be in an overall negative cash position by the end of July 2020. As outlined under *Agenda Item 8 (Management Accounts to 30 April 2020)*, West College Scotland is not one of these six colleges and continues to have cash in place to maintain business operations for the foreseeable future - however it is important to note that current cash balances are inflated by unspent SFC funds of approximately £2m, relating to high priority maintenance projects that have been unable to be progressed due to the COVID-19 lockdown period.

2.4 The briefing paper outlines how SFC are seeking to assist and engage with the financial sustainability faced by the sector, and that they will continue to work with colleges to establish more accurate forecasts – with the full financial impact being better understood when there is greater clarity about European Social Fund (ESF) activity targets/income, and income recognition for Flexible Workforce Development (FWDF) and Skills Development Scotland (SDS) funding.

**3.0 Conclusion**

3.1 The SFC briefing paper represents an initial high-level summary of financial impacts on the further and higher education sectors arising from COVID-19. The College continues to engage with the SFC on matters of financial sustainability arising from this an ongoing basis and awaits clarification and guidance in relation to a number of key areas – including ESF, Student Support Funds and Skills Development Scotland – in order to form a more detailed assessment of the 2019-20 financial outturn position and put in place a 2020-21 budget and five year financial plan.

3.2 The Finance and General Purposes Committee is requested to note the:

- content of the SFC briefing paper;
- financial impacts arising from COVID-19; and
- College continues to engage with the SFC in relation to financial sustainability challenges arising from COVID-19

# COVID-19 Further and Higher Education Financial Impacts

## University sector

- In this Academic Year (AY) 2019-20, Scottish universities face a loss of around **£72 million** due to COVID-19.
- In optimistic scenario one, where the normal intake of new international students drops by half, Scottish universities face a collective operating deficit of **£383.5 million** in AY 2020-21.
- In pessimistic scenario two, if there is a complete drop in new international students in AY 2020-21, universities could face an operating deficit of **£651 million.**
- Even allowing for some new and returning international students, and further mitigating actions by institutions, we might still expect a significant deficit of at least **£450-500 million**.
- COVID-19 will have cumulative, multi-year impacts well beyond AY 2020-21.
- All 18 Scottish universities will go into deficit in AY 2020-21 (analysis does not include OU Scotland)
- While there are sector-wide COVID-19 impacts, each institution will be affected differently.

1. The COVID-19 crisis presents a unique and significant external shock to the higher education system in Scotland and it is unlikely that the scale of losses in Academic Year (AY) 2020-21 can be bridged by universities at their own hand. We expect COVID-19 will have cumulative, multi-year impacts:

   - The OBR calculates that education will take the single hardest hit, with 90% of output affected.
   - The higher education sector across the UK is particularly exposed to a fall in international students compared to other countries, as international students account for a higher proportion of our student bodies than most other countries.
   - The current funding arrangements in Scotland have encouraged the growth of international and rUK students to cross-subsidise home student tuition, research activities and PhD students that are not funded at full economic cost.

2. We asked universities to tell us their overall financial position if there was a 50% reduction in new international student intakes and a reduction of 30% in international students continuing studies for AY 2020-21. Many universities are modelling 100% reductions in new intakes. Beyond the next AY, there are cumulative annual effects from reduced international student intakes, with many institutions modelling 25-50% reductions in new intakes in 2021-22; 10-25% reductions in 2022-23; and 5-10% reductions in 2023-24. This is a dynamic situation and universities will be considering further mitigation strategies as it evolves. Their governing bodies will start making decisions about budgets and staffing for 2020-21 from mid-May.

3. In AY 2019-20 the sector's overall operating position is expected to reduce by **£72 million** on pre-COVID19 forecasts, to a surplus of £166.5 million. However, based on scenario one (50% drop in new international intakes) this position is expected to deteriorate further in AY 2020-21 to **an operating deficit of £383.5 million,** a reduction of £550 million from the previous year after accounting for a small USS credit in that year. Nine universities had projected deficits before the COVID-19 outbreak. This has increased to 12 in the revised forecast for AY 2019-20 and it is anticipated that **18 universities will report deficits in AY 2020-21** (our assessment does not include Open University Scotland). Scenario two (100% drop in new international student intakes) would result in a further reduction of £267.7 million, increasing the sector **operating deficit to £651 million** in AY 2020-21. Even allowing for some new and returning international students, and further mitigating actions from institutions, we might still expect a significant deficit of at least **£450-500 million**.

4. The main negative financial impacts on surpluses relate to:

   - Tuition fee contribution reductions in overseas, rUK and short course provision.
   - The fall in stock markets and pressures on the local and global economy leading to significant drops in regular donations and income from endowments.
   - Commercial income reductions from residence income, catering and sport.
   - Research activities affected by closures.
   - Additional costs from IT and support costs to support online teaching, and assessment and feedback, along with contract costs associated with the suspension of work on campus redevelopment programmes.

   We have yet to capture fully how overseas campuses affect an institution's financial position.

5. Based on scenario one (50% drop in international intakes), sector cash balances are forecast to deteriorate by £636 million (42%) to £877 million by July 2021. Cash balances would deteriorate by 60% to £609 million under scenario two (100% reduction in new international student intakes).

6. Three universities are projecting to move into a negative cash position by the end of AY 2020-21. The forecast net overdraft position for the three institutions amounts to around £54 million. Cash balances may be artificially inflated by unspent funds, for example, unspent borrowing for capital projects. Universities will have borrowed for different purposes. For some, their borrowing will be tied to their capital programme, and therefore this borrowing cannot be used to sustain operations. That is a condition of borrowing with some lenders. So the cash position of institutions needs to be set in the context of their inability to vire cash to sustain their operations without their lender's permission.

7. Five universities are forecasting negative net cash inflow from operating activities (pre COVID-19: two universities) and this increases to 15 universities showing net cash outflow from operating activities in AY 2020-21.

8. Across all universities, the sector net cash inflow from operating activities as a proportion of total income (a measure that captures the financial health of an institution in terms of its day-to-day operations) has moved from +4% in the pre-COVID forecast to +3% in the revised forecast for AY 2019-20. This reduces to -4% in AY 2020-21. This ratio would deteriorate to -12% on the basis of a 100% reduction in new international intakes.

9. Borrowing at the end of AY 2019-20 is forecast to increase from £1,687 million pre-COVID to £1,740 million, with five universities forecasting additional borrowing in the current year. In AY 2020-21, borrowing is forecast to increase by £20 million to £1,760 million with four universities undertaking additional borrowing. Sector borrowing is forecast to increase from 40% of total income in AY 2019-20 prior to COVID-19 to 45% of total income by the end of AY 2020-21.

10. In terms of other major uncertainties, liability for paused research projects remains unclear and universities are uncertain about the impact of COVID-19 on rUK and EU numbers, and whether funding for EU students will continue in future years. Some institutions have not factored in reductions in accommodation income in 2020-21 as they expect rooms may be filled by second and third year returning students. Universities also project a reduction in income, donations and endowments over the planning period.

11. Mitigations to date include:

- Deferring work on maintenance.
- Deferring decisions on capital works.
- Furloughing staff through the UK Coronavirus Job Retention Scheme (CJRS); to date, mostly commercial staff and a small proportion of research staff only.
- Implementing a recruitment freeze or mission-critical recruitment only, no salary increments, staff redeployment and possible redundancies, with a concern that this may be harmful to a university's ability to recover and operate in future.
- Restricting consumables spend to critical expenditure only.
- Cost cutting reviews to identify savings across all areas of the business.

12. Several universities have highlighted that cash levels could become critical towards the end of AY 2020-21. For some this is despite taking mitigating actions and for others it is due to concerns that mitigating actions will not produce the planned results. Some are planning to use revolving credit facilities to provide cashflow support in the short to medium term. In addition, some universities will seek to access the UK COVID Corporate Finance Facility (CCFF) and/or the Coronavirus Large Business Interruption Loan Scheme.

13. Many institutions have indicated that it is likely that covenants will be breached, particularly in AY 2020-21 and have engaged at an early stage with lenders, including developing an understanding of the additional facilities that may be available. Indeed, short term CCFF and revolving credit facilities may lead to breaches in financial covenants. In the absence of agreement on covenant changes, universities may seek further medium term borrowing within financial covenant restrictions, although this would come at a higher cost.

**Impact on research**

14. Research in universities is, in general, undertaken at a financial loss, in that the funding of research rarely covers the full economic costs (FEC) of doing the research. For example, the UKRI Research Councils fund at no more than 80% of FEC. While the quality-related funding (the Research Excellence Grant) from SFC assists, our funding is also used to support new research areas and the training of PhD students, giving an overall sectoral recovery of research costs in Scotland of 78% of FEC. The balance of costs (£366M in AY 2017/18) is supported, typically, from the profits from international student fees. So, a drop in international students affects research activity.

15. SFC is carrying out a survey of Scottish universities to assess the immediate and longer term impacts of the COVID-19 emergency on research. At the halfway point of the survey, we know that the transition to closed labs and home working has been achieved smoothly, with a wide variation in research continuing. In subjects like chemistry, biology, general medicine, veterinary and physics (where access to labs or equipment is required) research activity is operating at roughly 20-30%; engineering, arts and humanities at around 50-60%; with informatics and maths at around 90%. Activity will decrease as tasks that can be performed remotely are completed. In the short term, the main impacts are cash-flow from paused grants; disrupted recruitment and inhibited staff retention; and the interruption of research. This is likely to be compounded by significant falls in annual funding from charities and industry, amounting to tens of millions of pounds of research funding.

16. In the medium term, predicted impacts are a significant loss of research momentum, a reduction in the volume of new research grant awards from some funders and the creation of a "lost generation"

of PhD students and post-docs whose work will be blighted. In the longer term, universities are highlighting the impact from the start of the new AY being a varied, but in the case of our research intensive universities dramatic and sustained, risk to research capacity which, if not externally compensated for, will lead to hard sustainability choices being faced by universities, a loss of capacity and reputation, and a more limited ability to contribute to the post COVID-19 economic recovery. An unmanaged, significant reduction in research capacity, could lead to many staff losses and we may lose the ability to prioritise research and innovation that matters to Scotland's future. A more strategic, managed reshaping of the research base, over several years would help to preserve key activities that matter.

17. In addition, the full impacts of the end of the transition period following Brexit are still unknown as it is still not clear whether the UK will associate to Horizon Europe or otherwise secure partial access to EU research and mobility programmes. The combined effects of Brexit and COVID-19 on research funding and mobility will place Scottish universities in a particularly challenging position.

18. The UK Government's CJRS furloughing scheme is being used though, at the time of writing, some ambiguity remains in the applicability of that to the researchers supported by UKRI. SFC is open to the potential to re-profile our core grants, including REG, to ease cash-flow as we enter the new AY.

**Why should we help universities?**

19. Universities face a unique external shock that stretches beyond their existing financial capacity to fix. If they are not supported with transitional funding and time to adjust we may lose key national assets and capabilities, including significant international connections. Without time to make the right decisions for Scotland, they may focus on institutional survival alone. They may make decisions with profound consequences for Scotland's economic recovery, research and innovation base, prospects of meeting net zero carbon ambitions, and pipelines of talent for our future workforce.

20. It is unlikely that the international student market will bounce back quickly or in its pre-COVID form, but we must not assume it is lost entirely. Scottish higher education institutions have an outstanding international reputation, and if Scotland can remain a safe, clean, attractive place to study and research, and if young people from India and China, and many other countries, continue to want to study abroad, then there is potential for recovery in the international market. There will be a growth in on-line and remote learning and research collaborations, and we need to reconsider a model that is so highly geared to international and rUK student income, but we should assume that, in time, people from other countries will want to come to Scotland to study and work. This is why bridging support matters – to enable a re-growth of such important international connections that matter for our society, economic prosperity, and student experience.

21. This is not about committing to the current arrangements or constructs – the sector and institutions will need to adapt and adjust. While we recognise that universities need time to do this, as this is a unique shock, a support package provides the opportunity to respond to global change, reconsider the contract between universities and public investment, the shape of provision, and re-establish what we need from universities and tertiary education within Scotland.

## College sector

- For this AY2019-20, Scottish colleges face a loss of around **£25 million** due to COVID-19.
- All but three colleges are now forecasting deficits in AY 2019-20.
- The impact in AY 2020-21 is expected to be even more severe.

22. We are working with colleges to establish more accurate forecasts. The full financial impact will be better understood when there is greater clarity about European Social Fund (ESF) activity targets (SFC can only claim ESF activity once the sector has delivered the core 116k FTE target) and income recognition for Flexible Workforce Development (FWDF) and Skills Development Scotland (SDS) funding. Several colleges have reported shortfalls against core activity and ESF targets, mostly related to the COVID-19 outbreak. We are encouraging colleges to account for all relevant remote activity for 2019-20 against targets. In addition, colleges have yet to reflect the full potential impact of accessing the UK Coronavirus Job Retention Scheme (CJRS) and approaches currently vary across the sector.

23. The financial position of colleges was already challenging pre-COVID. The impact of the COVID-19 outbreak on colleges' financial sustainability is significant. **The 2019-20 sector adjusted operating position is expected to move from a near break-even position to a deficit of £25 million. Six colleges had projected deficits pre-COVID; however, only three colleges (two of which are non-incorporated) are now forecasting surpluses.** Many colleges believe the impact in 2020-21 will be more severe.

24. The main COVID-19 financial impacts include lower income from the following funding streams: ESF; FWDF; tuition fees and education contracts; SDS; nursery; accommodation; catering; short-courses including evening classes; and other commercial activity including international income.

25. The majority of colleges' costs are staff costs which continue to be met for the most part, subject to greater consideration of successfully accessing the CJRS for the portion of college activity that is not supported by public funds. Colleges will generate savings in these areas: academic materials and consumables; utilities; property costs; photocopying; and travel and subsistence. They are incurring additional costs related to online learning and remote working. Student support does not appear to be a cost pressure on the basis of the information returned to us. Repurposing student support funds to hardship funds seems to have helped address this particular cost pressure, although we are keeping this under constant review.

26. **Sector cash balances are expected to move from £40.8 million (FFR) to £28.4 million (MYR)** by the end of AY 2019-20. Six colleges are projecting to move into a negative cash position by the end of the AY. The net overdraft position for the six colleges amounts to around £3 million, noting that cash balances may be artificially inflated by unspent funds, for example, from high priority maintenance funds.

27. Fourteen colleges are forecasting negative net cash inflow from operating activities in AY 2019-20, up from nine last year. Across all colleges, the sector net cash inflow from operating activities as a proportion of total income has moved from 3% in the original forecast to 0% in the revised forecast for AY 2019-20. This measure provides an indication of the financial health of an institution in terms of its day-to-day operations, as it does not include any items of non-cash expenditure (such as depreciation, amortisation and (most importantly) adjustments for pension liabilities), or income

from and expenditure on financing activities.

28. Several colleges have delayed the implementation of voluntary severance programmes as a result of the pandemic. These programmes were being taken forward by colleges in order to secure their financial sustainability prior to the outbreak of COVID-19.

29. Further mitigating actions that colleges may consider to address liquidity challenges include requesting banks to delay loan repayments on pre-April 2014 loans, seeking Time to Pay agreements for HMRC tax, and deferring VAT payments, in line with HMRC guidance. At this point, no college has referred to bank covenants being breached.

**Why should we help colleges?**

30. While the college sector does not face the same absolute scale of impact compared to the university sector, Scottish colleges do not have the range of financing options available to universities, so their position could also be critical. Most immediately, there needs to be greater clarity about European Social Fund (ESF) arrangements, income recognition for Flexible Workforce Development (FWDF) and Skills Development Scotland (SDS) funding.

31. If colleges are not supported and given time to adjust we may lose key national assets and capabilities. Colleges will be instrumental in economic recovery strategies, working with the small and medium enterprise business base, upskilling and reskilling, and fulfilling their civic roles as local anchor institutions.

32. This is not about committing to the current arrangements – the sector and institutions will need to adapt and adjust, to collaborate and to ensure we have a tertiary system that meets Scotland's needs.

## What SFC is doing on financial sustainability

- Continuing to track and assess financial impacts through a fluid and dynamic time.
- Making funding allocations to bring stability and continuity, to enable staff to be paid, research to continue, and students to be supported.
- Offering flexibility in reprofiling grant drawdowns to ease cashflow concerns where possible.
- Providing additional guidance and joining up with other agencies to provide clarity where needed on programmes and funding.
- Reviewing all our non-core funds to assess our ability to repurpose funds.
- Exploring the use of Financial Transactions and shared missions with other funding bodies.
- Keeping in close contact with the Scottish Government and UK counterparts and networks on potential support packages, and on the implications of interventions in further and higher education in rUK that affect Scotland.

**Scottish Funding Council, 29 April 2020**

**TITLE:** **MANAGEMENT ACCOUNTS TO 31 MARCH 2020**

**Background:** This paper presents to the Committee the Management Accounts for the period to 31 March 2020. The COVID-19 pandemic has had a material impact on the operations of West College Scotland and the financial position for 2019-20 and beyond. The March 2020 financial forecast to 31 July 2020 is based upon the current information available to the College. This will require to be updated as further clarification is received from the Scottish Funding Council and other key stakeholders.

**Action:** The Finance and General Purposes Committee is requested to:

- Note the revised 2019-20 adjusted operating position;
- Note the detailed impact that COVID-19 has had on the operations and financial position of the College;
- Note the cashflow position; and
- Approve the Management Accounts for the period to 31 March 2020

**Lead:** David Alexander, Vice Principal Operations
Alan Ritchie, Director of Finance and Estates

**Status:** Open

## 1. Introduction

1.1 The Management Accounts presented are for the period to 31 March 2020 and contain the following information:

- An Executive Summary, which provides a summary of those matters which require to be drawn to the attention of the Finance and General Purposes Committee and an overview of those factors with a potential to impact the accounts.

- The Statement of Comprehensive Income and Expenditure provides a summary of the financial position and shows a comparison of the approved 2019-20 budget with the full year forecast position to 31 July 2020. This statement also includes the audited 2018-19 figures for comparison.

- An analysis of key variances provides detail of the movement between the budgeted and forecast position for 2019-20.

- The Balance Sheet reflects the assets and liabilities of the College.

- The cashflow analysis shows the actual cash position to date and forecasts the cashflow to 31 July 2020.

- The student funding analysis provides a summary of the budgeted and forecast income and expenditure to 31 July 2020 resulting from the processing of student bursary, childcare and discretionary expenditure. The only element which is recorded within the College Statement of Comprehensive Income and Expenditure is childcare income and expenditure as the College is deemed to act as an agent for these funds. All other funds are accounted for through the College balance sheet.

- The financial graphs and performance indicators provide background information about income and expenditure and highlight the main indicators of financial sustainability.

- The aged debt analysis shows a summary of the age of the sales ledger along with a split between corporate and student debt. The emphasis continues to be the reduction in the level of debt in excess of 3 months.

## 2.0 Overview – Management Accounts as at 31 March 2020

2.1 On 23 March 2020 the College Board of Management received the Management Accounts for the 6-month period to 31 January 2020, which forecast an adjusted operating surplus of £25,000 for the 2019-20 financial year, effectively a break-even position. This January 2020 forecast was in line with the 2019-20 adjusted operating surplus as approved by the Board of Management in June 2019 of £25,000.

2.2 However, the COVID-19 pandemic required the closure of all on-site operations on 20 March 2020 – at which point the College had been forecasting an adjusted operating surplus of £35,000 to 31 July 2020, effectively a breakeven position. The College has therefore required to reassess the financial forecast position since 20 March 2020 given the significant operational and financial impacts arising from COVID-19. The Management Accounts as at 31 March 2020 outline those variances which occurred between 31 January 2020 and 20 March 2020 (at which point the College was forecasting a £35,000 underlying surplus position) – and variances arising due to the impacts of COVID-19.

***Adjusted Operating Position as at 31 July 2020***

2.3 As a result of the closure of onsite operations due to the COVID-19 lockdown period, the College is now currently forecasting an adjusted operating deficit of (£3.9m). The College confirmed this revised forecast position and deficit figure to the SFC in submitting a requested financial Mid Year Return (MYR) on 19 May 2020. Until the closure on 20 March 2020 the College was continuing to forecast that the required £1.4m of efficiencies would be achieved during 2019-20 in line with the Business Transformation Plan agreed with the SFC – however ultimately the £1.4m of efficiency savings have been overtaken by the scale of the financial deficit now being forecast due to the impacts arising from COVID-19.

2.4 It should be noted that this current forecast deficit of (£3.9m) is based on information available to the College at this time – and it is likely the forecast outturn position may be subject to some change as further information becomes available from the SFC and Scottish Government over the coming months. Key areas of consideration include:

- the college sector has now been asked by the SFC to consider making an application to the UK Government Job Retention Scheme – and while this is being considered, no funds from this source have been assumed within the current College outturn forecast.

- There are also a number of areas – including income arising from ESF credit activity, Flexible Workforce Development Fund, Skills Development Scotland, commercial activity and tuition fees – where the position remains to be confirmed by the SFC for 2019-20 – and in these cases the College has adopted a prudent approach within the March Management Accounts in assuming no further income is likely to arise during 2019-20.

- While there are some savings arising from the current COVID-19 lockdown – in relation to areas such as utility costs – these are minimal, and far outweighed by the projected loss of significant income.

- The College financial forecast assumes there will be no changes to curriculum delivery with the College remaining closed to on-site delivery until after 31 July 2020.

2.5 However, while it is likely that further guidance and clarification from the SFC and Scottish Government in relation to these areas may result in changes to the outturn position as at 31 July 2020, it is anticipated the College will still have an adjusted deficit position at the year end due to the impacts arising from COVID-19.

***Financial Accounting Position as at 31 July 2020***

2.6 In approving the College budget for 2019-20, the key indicator of financial health that is used– in accordance with SFC and Audit Scotland guidance – is the adjusted operating position. As outlined above, the Board of Management approved budget for 2019-20 forecast an adjusted operating surplus of £25,000, effectively a break-even position. In accounting terms, this would have resulted in a financial accounting deficit of (£2,996,000) as at 31 July 2020 - after adjusting for depreciation and loan repayments. Thus, given that the College adjusted operating position is now forecasting a deficit position due to the impacts of COVID-19, this means there is also movement in the forecast relating to the overall financial accounting position – and the College is now forecasting an overall financial accounting deficit of (£6,908,000) as at 31 July 2020.

2.7 It should be noted that the overall financial deficit of (£6,908,000) currently forecast for 2019-20 is prior to:

- the impact of the annual pension valuation, the outcome of which will not be known until September 2020; and

- any movement in the staff holiday pay provision (non-cash) which will be calculated as part of the year end work. This provision is likely to increase due to staff not taking holiday during the College closure resulting in a higher year end provision and subsequent charge to the profit and loss account.

***Cashflow Position***

2.8 The availability of cash in order to support ongoing College operations is essential. The Management Accounts as at 31 March 2020 show that the College is continuing to maintain cashflow levels that enable this to be achieved – with it being estimated that 32 days of cash will be in place as at 31 July 2020. It is important to note however that the College cash position includes amounts relating to:

- SFC estates maintenance funding. The College currently has £2.0m of cash in place as received from the SFC for projects scheduled to be delivered during 2019-20, - however these projects have now been delayed. £1.2m of this relates to the project to transfer curriculum activity from the Centre for Performing Arts in Paisley to the Renfrew Road Campus. The College is committed to these projects which have been approved by the College Estates Committee and Board of Management and it is intended they will be progressed to completion following the COVID-19 lockdown period;

- ESF funded credit activity. The College is currently forecasting that this credit activity will not be delivered during 2019-20 due to the impact of COVID-19 on operations, thus there is a risk that the College could be asked to repay approximately £1.2m of cash relating to this activity. The College is currently awaiting guidance and clarification from the SFC in relation to this matter.

- Flexible Workforce Development Fund (FWDF). The College is currently forecasting that FWDF training due to be delivered between March and July 2002 will not take place and will require to be rescheduled as required to a later date. There is therefore a risk that the College could be asked to repay cash relating to this activity of approximately £400,000. The College is currently awaiting guidance and clarification from the SFC in relation to this matter.

2.9 As outlined above, the College continues to have cash in place to support ongoing College operations and is forecasting to have a balance of 32 days in place as at 31 July 2020 – however this includes amounts which have been received in relation to estates maintenance projects, ESF credit activity and FWDF training which the College on which clarification and guidance is required from the SFC and Scottish Government. The College will continue to ensure cashflow is monitored on an ongoing basis in order to identify, mitigate and manage any risk which may emerge.

## 3.0 Conclusion

3.1 The full impact of COVID-19 om College operations and finances will continue to be kept continually under review in the coming weeks and months. However, it is expected that, due to the impacts arising from COVID-19, the College will not be in a position to deliver a breakeven adjusted financial operating outturn for 2019-20, as previously forecast in the January 2020 Management Accounts.

3.2 Significant information is also required from the SFC to enable the College to consider and approve a 2020-21 budget and five-year financial plan. More detail on this is provided under *Agenda Item 10 (2020-21 Budget and Financial Plan).*

3.3 The College will continue to:

- Monitor costs and income closely, to enable the College to continually estimate the financial outturn and cashflow position for 2019-20;

- Re-assess the likely impact upon the College financial outturn and cashflow once the clarifications required from the SFC are provided; and

- Engage on an ongoing basis with the SFC in relation to the financial challenges arising as a result of Covid-19.

## 4.0 Conclusion

4.1 The Finance and General Purposes Committee is requested to:

- Note the revised 2019-20 adjusted operating position;
- Note the detailed impact that COVID-19 has had on the operations and financial position of the College;
- Note the cashflow position; and
- Approve the Management Accounts for the period to 31 March 2020

# Financial Information Pack
# 2019-20

**For the period to 31 March 2020**

# Financial Information Pack 2019/20

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**EXECUTIVE SUMMARY**

**1) Budget 2019-20**

The Board of Management approved the 2019-20 College budget on 17 June 2019, which planned for an adjusted operating surplus of £25,000 after accounting for savings of £1.386m. The Covid-19 pandemic required the College to close all on-site operations on 20 March 2020. The impacts arising from Covid-19 has resulted in a forecasted adjusted operating deficit position of (£3,900,000) as at 31 July 2020 . This is based on the core assumption that on-site College operations will not recommence prior to 31 July 2020.

**2) Business Transformation Plan**

The College Financial Forecast Return (FFR), which was submitted to the SFC in September 2019, recognised the requirement to make significant savings over the coming 5 year period. A College Business Transformation Plan has been updated to reflect these savings and has been submitted to the SFC. Ultimately the overall £1.4m of efficiency savings achieved have been overtaken by the scale of the financial deficit now being forecast. The table below shows the position prior to the impacts from Covid-19

| | 2018-19 Actual £'000 | *2019-20 Budget Efficiency Savings £'000* | *2019-20 March-20 Forecast Efficiency savings £'000* | 2020-21 Plan £'000 £'000 | 2021-22 Plan £'000 £'000 |
|---|---|---|---|---|---|
| Growth in income | 100 | *0* | *0* | 0 | 0 |
| Funding to meet nursery costs | 125 | *0* | *0* | 0 | 0 |
| Staff voluntary severance | 565 | *685* | *685* | 0 | 0 |
| Staff cost efficiencies | 275 | *300* | *300* | 0 | 0 |
| Reduction in estate expenditure | 50 | *0* | *0* | 0 | 0 |
| Non-staff cost efficiencies | 100 | *401* | *401* | 0 | 0 |
| Savings required/yet to be identified | 0 | *0* | *0* | 1,377 | 1,367 |
| **Total** | **1,215** | ***1,386*** | ***1,386*** | **1,377** | **1,367** |

Discussions remain on-going with the SFC as to the level of savings / efficiencies required be to achieved by the College for 2020-21 and beyond. It is anticipated that staffing efficiencies will be a key element of any savings required going forward and SFC has advised that any voluntary severance arising will require to be funded by the College from its own resource. The College anticipates achieving the level of staff savings indicated in 2019-20 through the staff who have previously agreed to leave the College. Further updates will continue to be provided to the Finance and General Purposes Committee and to the Board of Management.

The College continues to undertake a review of financial projections in an uncertain environment. It should be noted there are potentially further movements in the projected savings over the 5 year period depending on the outcome of discussions with the SFC regarding business transformation plans; the outcome of the Scottish Government budget for 2020-21; future SFC funding settlements; the operation of the UK Government's Shared Prosperity Fund, which is to replace European funding; and ongoing College review of staff costs/structures within this challenging context. The major risks which may impact the current financial projections are noted within section 6 of the Executive Summary.

**EXECUTIVE SUMMARY (Continued)**

**3) Adjusted Operating Position**

The key identifier of College financial sustainability is the ability of the College to generate an adjusted operating surplus. The table l shows the current 2019-20 adjusted operating position and shows what the position was forecasted to be both pre and post the sta Covid-19 crisis:

| | 2019-20 | | | 2018-19 |
|---|---|---|---|---|
| | Post Covid-19 Forecast £'000 | Pre Covid-19 Forecast £'000 | Budget £'000 | Actual £'000 |
| Financial accounts deficit as per SCI&E | (6,908) | (2,973) | (2,996) | (5,960) |
| Non-cash pension adjustments | 0 | 0 | 0 | 2,834 |
| Financial accounts deficit excluding pensions | (6,908) | (2,973) | (2,996) | (3,126) |
| | | | | |
| Depreciation net of release of deferred capital grant | 3,494 | 3,494 | 3,531 | 3,518 |
| Loss on disposal of assets | 24 | 24 | 0 | 129 |
| Exceptional income - release prior yr. provisions | 0 | | 0 | 0 |
| Revenue funding allocated to loan repayments | (510) | (510) | (510) | (495) |
| | | | | |
| **Adjusted operating surplus for the year** | **(3,900)** | **35** | **25** | **26** |

The table below provides a summary of the variances since the January Management Accounts were presented to the Finance and ( Purposes Committee on 10 March 2020. The table shows the adjusted operating position prior to and after the Covid-19 outbreak.

| Adjusted Operating Position 2019-20 | £'000 |
|---|---|
| **Budgeted Adjusted Operating Surplus to 31 July 2020** | **25** |
| Forecast variances against 2019-20 College Budget as at March 2020 (prior to closure of on-site operations due to Covid-19) | |
| a) Income | 713 |
| b) Salary costs | 133 |
| c) Non-staff costs | (836) |
| **Total Variance – March 2020 Forecast to 2019-20 Budget** | **10** |
| **Adjusted Operating Surplus forecast to 31 July 2020 as at March 2020 (prior to impact of Covid-19)** | **35** |
| Estimated Covid-19 movements to 31 July 2020 | |
| a) Income | (3,992) |
| b) Salary costs | (250) |
| c) Non-staff costs | 307 |
| **Movement to 31 July 2020 as a direct result of Covid-19** | **(3,935)** |
| **Forecasted adjusted operating deficit at 31 July 2020** | **(3,900)** |

Further detail of the above variances can be found on pages 5 and 6 of this pack.

**4) Student Credit Target**

| | 2019-20 | | 2018-19 | 2017-18 |
|---|---|---|---|---|
| | Forecast | Budget | Actual | Actual |
| Core activity target | 157,855 | 157,855 | 158,160 | 160,394 |
| ESF Developing Scotland's Workforce | 0 | 6,264 | 6,368 | 7,086 |
| **Total** | **157,855** | **164,119** | **164,528** | **167,480** |

**5) Balance Sheet**

The College continues to review its forecasted Balance Sheet position.

The impact of Covid-19 on the forecast balance sheet will require the College to engage with the Clydesdale Bank as it will be in breach of the requirement that the adjusted annual surplus is sufficient to cover the principle and interest for that financial year. The Clydesdale Bank loan will have £510,000 remaining to repay at 31 July 2020 and is due to be repaid by 31 July 2021.

The College is forecasting to have £5.3m cash at bank at the end of the year. A full analysis of the College cash flow can by found at page 8 within this pack.

**EXECUTIVE SUMMARY (Continued)**

**6) Key Risks Relating to 2019-20 Accounts**

**1 Impact of Covid-19**

The Covid-19 pandemic represents the most significant challenge faced by the College. It has had a material impact on the operations of West College Scotland and the financial position for 2019-20 and beyond. The College has made an initial assessment of the impact of Covid-19 and this is reflected within the forecast position to 31 July 2020.

The College is currently considering the option and impact of furloughing staff in the support area. The College could potentially furlough up to 150 staff however this requires to be considered against the risk of loss of SDS income.

The College is currently awaiting further guidance and direction from the SFC in relation to several financial and governance matters for the 2019-20 financial position and the 2020-21 budget process and five-year financial plan.

**2 European Social Funding**

In February 2020 the College received a letter from the SFC indicating that it was looking to recover £100,000 of funding received by the College in relation to the 2015-16 ESF project. This is a sectoral issue with 6 other Colleges receiving similar letters. The SFC contend that the College is not able to provide the required documentation to fully support the amount claimed. The College is of the view that the issue at the centre of the matter is the lack of clarity from the SFC as to what evidence is required to support the ESF funding payments - and this clarity has been sought from SFC not just for 2015-16 claims but also for all years since. The matter will be discussed with the SFC and the College auditors and the Committee will be kept informed of the outcome of those discussions.

The SFC has suspended the recovery of these funds due to Covid-19 and will look to engage with those Colleges impacted by the recovery in due course.

**3 Failure to secure funding for future estates / IT investment**

The budget has allowed for an element of maintenance expenditure. However should there be a major failure, this could have a significant impact upon the currently reported position.

**4 National Bargaining**

Job Evaluation

Colleges Scotland has provided the sector with the anticipated costs of Job Evaluation (JE) at a summary college level. The Accounts Direction issued in July 2019 for use in compiling the 2018-19 Statutory Report and Accounts, required colleges to post these artificial figures to the accounts as accrued income and a corresponding accrued salary cost. This project remains ongoing at a national level and there is currently no clarity of what the outcome of the JE exercise will be, or how it may affect the 2019-20 accounts.

National Pay Negotiations

A pay deal has been reached with support staff including the 5 month period from April to August 2020 which therefore aligns both the support and teaching staff pay award date to 1 September each year. The costs have been reflected in the budget and forecast.

**5 Estate Strategy**

The College continues to implement the Estate Strategy however without material investment the delivery of the strategic objectives will prove challenging. For 2019-20 the financial accounts will not be materially impacted by the implementation of this Strategy. The Board has approved the relocation of the New Street campus activities to the Renfrew Road campus which will see a saving in lease and operating costs from late 2020 .

**STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE 2019-20**
**Year to 31 March 2020**

| | Year to date | | | Full Year Budget V Forecast | | | 2018/19 |
|---|---|---|---|---|---|---|---|
| | Budget £'000 | Actual £'000 | Variance (Adv)/Fav £'000 | Budget £'000 | Forecast £'000 | Variance (Adv)/Fav £'000 | Actuals £'000 |
| **SFC Income** | 31,535 | 30,444 | (1,091) | 47,077 | 45,889 | (1,188) | 48,293 |
| **Tuition fees and education contracts** | | | | | | | |
| SDS Income | 441 | 298 | (143) | 1,000 | 557 | (443) | 1,092 |
| Fees | 4,945 | 4,417 | (528) | 5,775 | 4,628 | (1,147) | 5,716 |
| | 5,386 | 4,714 | (671) | 6,775 | 5,185 | (1,590) | 6,808 |
| **Other Income** | | | | | | | |
| Other Income excluding Interest | 1,660 | 1,663 | 3 | 2,496 | 1,995 | (501) | 2,457 |
| Interest Received | 0 | 1 | 1 | 0 | 0 | 0 | 1 |
| | 1,660 | 1,664 | 4 | 2,496 | 1,995 | (501) | 2,458 |
| **Total Income** | **38,581** | **36,822** | **(1,759)** | **56,348** | **53,069** | **(3,279)** | **57,559** |
| **Total Salaries** | **(27,706)** | **(28,312)** | **(607)** | **(41,736)** | **(41,852)** | **(117)** | **(41,928)** |
| Property Costs | (2,165) | (2,093) | 73 | (4,694) | (4,687) | 7 | (5,060) |
| Supplies & Services | (3,848) | (3,901) | (54) | (4,411) | (4,925) | (514) | (4,937) |
| Other Operating Costs | (2,239) | (2,234) | 5 | (3,680) | (3,702) | (22) | (3,780) |
| Finance Charges | (101) | (102) | (1) | (162) | (162) | 0 | (186) |
| **Total Expenditure excluding Salaries** | (8,353) | (8,330) | 22 | (12,947) | (13,476) | (529) | (13,963) |
| **Total Expenditure** | **(36,059)** | **(36,642)** | **(583)** | **(54,683)** | **(55,328)** | **(646)** | **(55,891)** |
| **Deficit before accounting adjustments** | **2,522** | **180** | **(2,342)** | **1,665** | **(2,260)** | **(3,926)** | **1,667** |
| Release of SFC DCG | 769 | 769 | 0 | 1,153 | 1,153 | 0 | 1,247 |
| Release of Non SFC DCG | 123 | 123 | 0 | 184 | 184 | 0 | 184 |
| Depreciation | (3,241) | (3,241) | 1 | (4,868) | (4,831) | 37 | (4,949) |
| Net Depreciation | (2,350) | (2,349) | 1 | (3,531) | (3,494) | 37 | (3,518) |
| Loss on disposal of Fixed Asset | 0 | (25) | (25) | 0 | (25) | (25) | (129) |
| **Deficit after accounting adjustments** | **172** | **(2,194)** | **(2,366)** | **(1,866)** | **(5,778)** | **(3,912)** | **(1,980)** |
| Cash budget for priorities | 0 | 0 | 0 | (1,130) | (1,130) | 0 | (1,144) |
| **Financial accounts deficit** | **172** | **(2,194)** | **(2,366)** | **(2,996)** | **(6,908)** | **(3,912)** | **(3,122)** |

| | Budget £'000 | Forecast £'000 |
|---|---|---|
| **Adjusted Operating Position** | | |
| Financial accounts deficit | (2,996) | (6,908) |
| Add back: Depreciation net of release of deferred capital | 3,531 | 3,494 |
| Add back: Loss on disposal of assets | 0 | 25 |
| Less: Revenue funding allocated to loan repayments | (510) | (510) |
| **Adjusted operating surplus / (deficit) for the year** | **25** | **(3,900)** |

| DETAILED VARIANCE ANALYSIS | Variances pre Covid-19 | Variance arising from Covid-19 | Total Var |
|---|---|---|---|
| | (Adv)/Fav | (Adv)/Fav | (Adv)/Fav |
| | £'000 | £'000 | £'000 |
| | | | |
| **Board of Management approved deficit for 2019-20** | | | **(2,996)** |
| | | | |
| Creation of ESF provision for 2015-16 based on SFC guidance | (100) | | (100) |
| Additional SFC income towards additional teaching pension costs | 378 | | 378 |
| Adjustment to Estate Maintenance Grant income which is matched to expenditure increase in section 2.20 | 359 | | 359 |
| Additional support for mental health activities which is matched to an increased level of staff costs as per section 2.16 | 122 | | 122 |
| Other immaterial movements | 13 | | 13 |
| **Increase in SFC income due to operational matters** | **772** | | **772** |
| | | | |
| 2019-20 ESF income removed due to lower credit delivery than anticipated | | (1,632) | (1,632) |
| Flexible Workforce Development Funding reduced | | (328) | (328) |
| **Decrease in SFC income due to impact of Covid-19** | | **(1,960)** | **(1,960)** |
| | | | |
| **Total decrease in SFC income in the year compared to budget** | **772** | **(1,960)** | **(1,188)** |
| | | | |
| Commercial income forecast increased due to increased student numbers | 250 | | 250 |
| SDS SVQ income reduced due to slower than anticipated uptake of courses | (50) | | (50) |
| Foundation Apprenticeships increased due to better recruitment of student | 50 | | 50 |
| Development funding income increased based on bids delivered | 50 | | 50 |
| Lower than anticipated student numbers on HE courses | (320) | | (320) |
| **Decrease in tuition fees and education contracts due to operational matters** | **(20)** | | **(20)** |
| | | | 0 |
| SDS Modern Apprenticeships / Foundation App / SVQ | | (453) | (453) |
| Development funding (Erasmus project and other similar funding) | | (230) | (230) |
| FE / HE fees repayment of fees provision | | (52) | (52) |
| Cessation of commercial activity and loss of fees | | (495) | (495) |
| Cessation of managing agent (CITB and others) activity | | (250) | (250) |
| International fees reduction | | (90) | (90) |
| **Decrease in tuition fees and education contracts due to impact of Covid-19** | | **(1,570)** | **(1,570)** |
| | | | |
| **Total decrease in tuition / education contracts income in the year compared to budget** | **(20)** | **(1,570)** | **(1,590)** |
| | | | |
| Nursery income reduced due to lower numbers | (28) | | (28) |
| Catering income reduced | (30) | | (30) |
| Other movements | 19 | | 19 |
| **Decrease in Other Income due to operational matters** | **(39)** | | **(39)** |
| | | | |
| Cessation of nursery activity from end of March | | (93) | (93) |
| Cessation of catering function from end of March | | (304) | (304) |
| No further recharges of other education contracts work | | (65) | (65) |
| **Decrease in Other Income due to impact of Covid-19** | | **(462)** | **(462)** |
| | | | |
| **Total decrease in other income in the year compared to budget** | **(39)** | **(462)** | **(501)** |
| | | | |
| **TOTAL DECREASE IN INCOME IN THE YEAR COMPARED TO BUDGET** | **713** | **(3,992)** | **(3,279)** |
| | | | |
| Support for mental health staff costs as per section 2.12 | (122) | | (122) |
| Staffing efficiencies delivered to March 2020 | 275 | | 275 |
| Staff restructuring costs | (35) | | (35) |
| Other immaterial movements | 15 | | 15 |
| **Decrease in Staff Costs due to operational matters** | **133** | | **133** |
| | | | |
| Teaching costs based on contractual obligations | | (250) | (250) |
| **Increase in Staff Costs due to impact of Covid-19** | | **(250)** | **(250)** |
| | | | |
| **TOTAL INCREASE IN STAFF EXPENDITURE IN THE YEAR COMPARED TO BUDGET** | **133** | **(250)** | **(117)** |

| DETAILED VARIANCE ANALYSIS | Variances pre Covid-19 | Variance arising from Covid-19 | Total Var |
|---|---|---|---|
| | (Adv)/Fav | (Adv)/Fav | (Adv)/Fav |
| | £'000 | £'000 | £'000 |
| Utility and operating efficiencies realised to March 2020 | 76 | | 76 |
| Rent increases related to CPA Project | (54) | | (54) |
| Estate maintenance increased costs match to increased income | (359) | | (359) |
| Other immaterial movement in costs | 12 | | 12 |
| **Increase in Property Expenditure due to operational matters** | **(325)** | | **(325)** |
| Utility and operating savings due to closure | | 332 | 332 |
| **Decrease in Property Expenditure due to impact of Covid-19** | | **332** | **332** |
| **Total decrease in property expenditure in the year compared to budget** | **(325)** | **332** | **7** |
| Increased cost of delivery of additional commercial work | (200) | | (200) |
| Increased cost of flexible learning | (130) | | (130) |
| Temporary staff cost increased to cover long term absences | (68) | | (68) |
| Other minor increases in costs | (61) | | (61) |
| **Increase in Supplies and Services costs due to operational matters** | **(459)** | | **(459)** |
| Savings realised in travel, advertising, printing, postage | | 230 | 230 |
| Savings realised in teaching consumables | | 199 | 199 |
| Cost associated with college closure including PPE and contractual payments | | (200) | (200) |
| Catering cost savings due to cessation of trading | | 116 | 116 |
| Business Transformation savings not realised in year due to cessation of operations (see section 2.3) | | (401) | (401) |
| **Decrease in Supplies and Services costs due to impact of Covid-19** | | **(56)** | **(56)** |
| **Total increase in supplies and services expenditure in the year compared to budget** | **(459)** | **(56)** | **(515)** |
| Other movements in expenditure | (52) | | (52) |
| **Increase in Other Operating Expenditure due to operational matters** | **(52)** | | (52) |
| Reduction in staff development activities | | 30 | 30 |
| **Decrease in Other Operating Expenditure due to impact of Covid-19** | | **30** | 30 |
| **Total increase in other expenditure in the year compared to budget** | **(52)** | **30** | **(22)** |
| **TOTAL INCREASE IN STAFF AND NON-STAFF EXPEDNITURE IN THE YEAR COMPARED TO BUDGET** | **(703)** | **56** | **(647)** |
| **NET VARIANCE IN THE YEAR DUE TO OPERATIONAL AND COVID-19** | **10** | **(3,936)** | **(3,926)** |
| **FORECAST DEFICIT BEFORE ACCOUNTING ADJUSTMENTS** | | | **(6,921)** |
| Depreciation adjustment in respect of disposal of asset | | 37 | 37 |
| Loss on disposal of Drumry Road property. College retains sale proceeds for investment in estate. | | (25) | (25) |
| **FINANCIAL ACCOUNTS DEFICIT AFTER ACCOUNTING ADJUSTMENTS** | | | **(6,908)** |
| **Adjusted Operating Position** | **Pre Covid-19** | **Post Covid-19** | |
| | **£'000** | **£'000** | |
| Opening adjusted operating position | 25 | 35 | |
| Impact from operational variances prior to Covid-19 crisis | 10 | | |
| Impact from Covid-19 variances | | (3,936) | |
| **Forecasted adjusted operating surplus / (deficit)** | **35** | **(3,900)** | |

**COLLEGE BALANCE SHEET**

| | As at 31 July 2019 £'000 | *Movement £'000* | As at 31 March 2020 £'000 | *Movement £'000* | Forecast 31 July 2020 £'000 |
|---|---|---|---|---|---|
| **Fixed Assets** | | | | | |
| Tangible Fixed Assets | 101,937 | *(3,402)* | 98,535 | *(1,591)* | 96,944 |
| **Current Assets** | | | | | |
| Stock | 13 | *0* | 13 | *(0)* | 13 |
| Trade Debtors | 215 | *330* | 545 | *(445)* | 100 |
| Other Debtors | 10 | *988* | 998 | *(990)* | 8 |
| Prepayments | 347 | *(327)* | 20 | *242* | 262 |
| Other Accrued Income | 854 | *(854)* | 0 | *60* | 60 |
| Scot. Funding Council Debtor | 407 | *4,305* | 4,712 | *(4,712)* | 0 |
| Scot. Funding Council Debtor - Support job evaluation | 857 | *0* | 857 | *78* | 935 |
| Cash at Bank and in Hand | 5,677 | *(3,322)* | 2,355 | *2,947* | 5,302 |
| | 8,380 | 1,120 | 9,500 | (2,820) | 6,680 |
| **Creditors: Amounts Falling Due Within One Year** | | | | | |
| Bank Loans/Other Loans | (413) | *0* | (413) | *(9)* | (422) |
| Finance lease | (96) | *0* | (96) | *0* | (96) |
| Trade Creditors | (113) | *87* | (26) | *(74)* | (100) |
| Other Creditors | (162) | *105* | (57) | *(43)* | (100) |
| Other Creditors: Support job evaluation | (857) | *0* | (857) | *(78)* | (935) |
| Accruals & Deferred Income | (3,197) | *223* | (2,974) | *(739)* | (3,713) |
| Scot. Funding Council - Creditor | (2,084) | *(1,520)* | (3,604) | *(23)* | (3,627) |
| Deferred Capital Grant SFC | (1,153) | *0* | (1,153) | *98* | (1,055) |
| Deferred Capital Grant Non SFC | (184) | *0* | (184) | *0* | (184) |
| | (8,259) | (1,106) | (9,365) | (867) | (10,232) |
| **Net Current (Liabilities)/Assets** | **121** | ***14*** | **135** | **(3,687)** | **(3,552)** |
| **Total Assets less Current Liabilities** | **102,058** | ***(3,388)*** | **98,670** | **(5,278)** | **93,392** |
| **After One Year** | | | | | |
| Bank Loan | (1,693) | *231* | (1,462) | *191* | (1,271) |
| Finance lease | (128) | *80* | (48) | *16* | (32) |
| Deferred Capital Grant SFC | (23,149) | *769* | (22,380) | *286* | (22,094) |
| Deferred Capital Grant Non SFC | (4,623) | *123* | (4,500) | *61* | (4,439) |
| | (29,593) | 1,203 | (28,390) | 553 | (27,836) |
| **Net Assets Excluding Pension Liability** | **72,465** | ***(2,188)*** | **70,280** | **(4,725)** | **65,556** |
| Net Pension Liability | (22,701) | *0* | (22,701) | *0* | (22,701) |
| **Net Assets Including Pension Liability** | **49,764** | **(2,188)** | **47,579** | **(4,725)** | **42,855** |
| **Restricted Reserves** | | | | | |
| Pension Reserve | (22,701) | *0* | (22,701) | *0* | (22,701) |
| **Unrestricted Reserves** | | | | | |
| I&E Reserve | 14,763 | *(240)* | 14,523 | *(3,856)* | 10,667 |
| Revaluation Reserve | 57,704 | *(1,946)* | 55,758 | *(868)* | 54,890 |
| | 72,465 | (2,188) | 70,280 | (4,724) | 65,556 |
| | **49,764** | **(2,188)** | **47,579** | **(4,724)** | **42,855** |

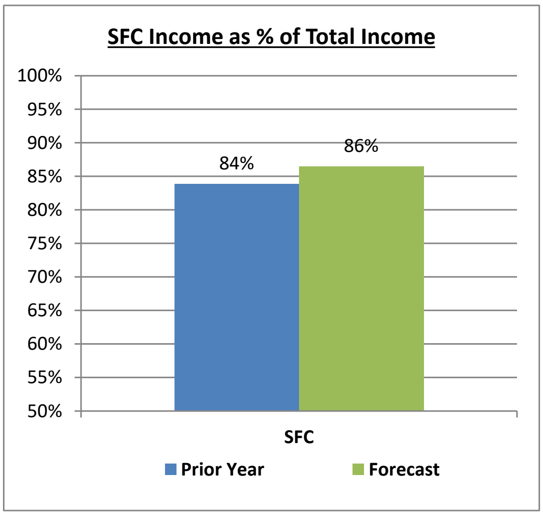
**CASH FLOW FORECAST FOR THE YEAR ENDED 31 JULY 2020**

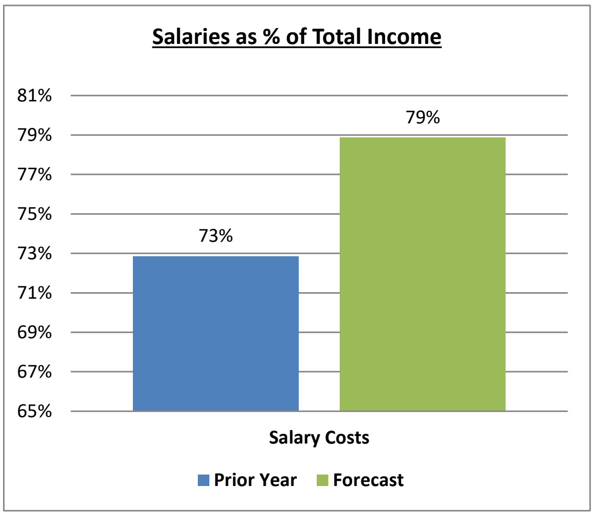
| | Quarter 1 ended Oct 19 Actual £'000 | Quarter 2 ended Jan 20 Actual £'000 | *Quarter 3 ended Apr 20 Forecast £'000* | *Quarter 4 ended Jul 20 Forecast £'000* |
|---|---|---|---|---|
| **COLLEGE CASHFLOW** | | | | |
| **SUMMARY POSITION** | | | | |
| **College opening cash balance** | **5,727** | **4,664** | ***2,503*** | ***2,418*** |
| Net (Outflow)/Inflow in period | (1,063) | (2,161) | *(85)* | *2,478* |
| **Closing Bank Balance** | **4,664** | **2,503** | ***2,418*** | ***4,896*** |
| Cash Days | 31 | 17 | *16* | *32* |
| Included in the above balance at the year end: | | | | |
| i) SFC Estate maintenance funding | | | | *(2,000)* |
| ii) SFC ESF funding - potential clawback | | | | *(1,200)* |
| iii) SFC FWDF funding - potential clawback | | | | *(424)* |
| **Cash balance if these amounts were clawed back** | | | | ***1,272*** |
| Cash Days | | | | *8* |
| Opening College Bank Balance | 5,727 | 4,664 | *2,503* | *2,418* |
| **INCOME** | | | | |
| **SFC Income** | | | | |
| Teaching Grant | 10,500 | 7,000 | *10,206* | *11,386* |
| FWDF | 184 | 122 | *183* | - |
| Estate Maintenance | - | 1,000 | *1,531* | - |
| National Bargaining Harmonisation | 65 | - | *70* | - |
| Teaching pension contribution | 190 | 285 | *186* | *378* |
| ESF Income 2018-19 | 407 | - | *11* | - |
| ESF Income 2019-20 | 306 | 306 | *306* | *306* |
| Other SFC: Sanitary Products and Counsellors | - | 66 | *148* | - |
| **Other Income** | | | | |
| Other Operating Income | 1,336 | 3,997 | *2,634* | *1,259* |
| Inter College receipt from SSF | - | - | - | *1,770* |
| **Total Income** | **12,979** | **12,785** | ***15,275*** | ***15,099*** |
| **EXPENDITURE** | | | | |
| **Staff Costs** | 8,831 | 10,215 | *12,191* | *10,853* |
| Restructuring costs | 487 | 91 | - | *35* |
| **Non Staff Costs** | | | | |
| SFC Estate Maintenance | 494 | 576 | *262* | *159* |
| Other Operating Costs | 2,234 | 3,936 | *2,778* | *1,447* |
| Loan/Lease Repayments | 126 | 128 | *129* | *127* |
| Inter College payment to SSF | 1,870 | - | - | - |
| **Total Expenditure** | **14,042** | **14,946** | ***15,360*** | ***12,621*** |
| **Net (Outflow)/Inflow** | **(1,063)** | **(2,161)** | ***(85)*** | ***2,478*** |
| **Closing College Bank Balance** | **4,664** | **2,503** | ***2,418*** | ***4,896*** |
| **STUDENT SUPPORT FUNDS CASH** | | | | |
| Opening Student Funding Bank Balance | (50) | 2,966 | *1,538* | *3,214* |
| **Income** | | | | |
| Student Funding - SFC FE | 3,280 | 2,700 | *5,203* | *2,132* |
| Student Funding - SAAS HE | 193 | - | *129* | - |
| Student Funding - SFC EMA | 28 | 164 | *140* | *97* |
| Intercompany SSF receipt from College | 1,870 | - | - | - |
| **Total Income** | **5,371** | **2,864** | ***5,472*** | ***2,229*** |
| Student Funding - SFC FE | 2,277 | 4,150 | *3,367* | *3,101* |
| Student Funding - SAAS HE | - | - | *300* | *86* |
| Student Funding - SFC EMA | 78 | 142 | *129* | *80* |
| Intercompany SSF payment to College | - | - | - | *1,770* |
| **Total Expenditure** | **2,355** | **4,292** | ***3,796*** | ***5,037*** |
| **Net (Outflow)/Inflow** | **3,016** | **(1,428)** | ***1,676*** | ***(2,808)*** |
| **Closing Student Support Bank Balance** | **2,966** | **1,538** | ***3,214*** | ***406*** |

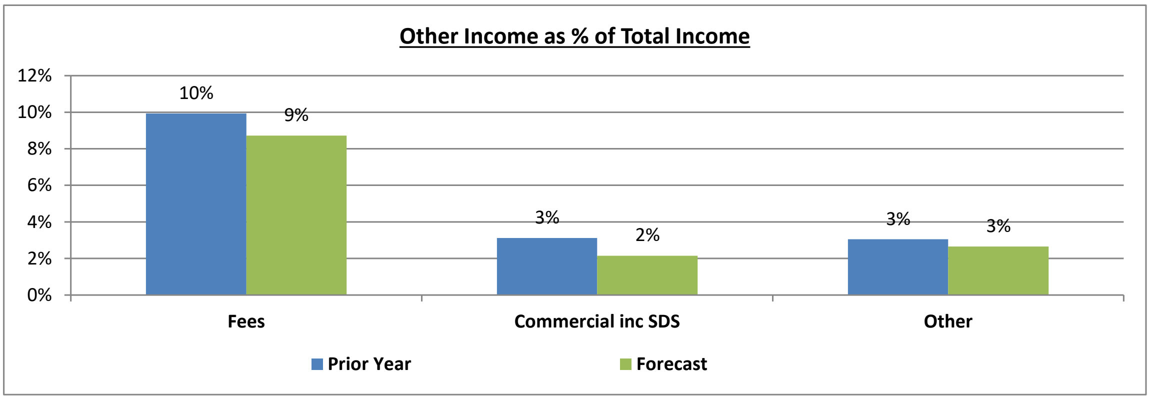
**STUDENT SUPPORT FUNDS BUDGET AND FORECAST**

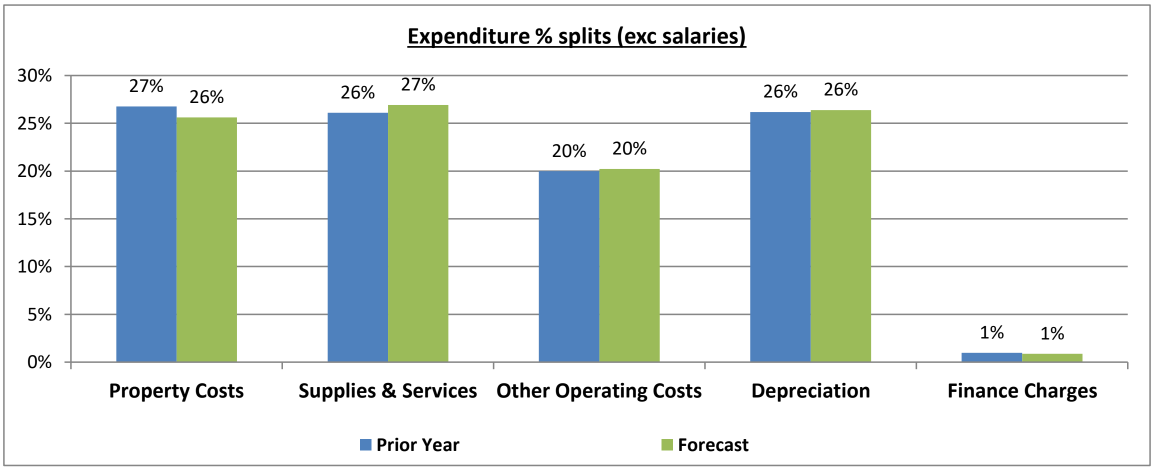
| | Bursary | | FEDF | | Childcare | | Total | | HE Funds | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Budget £'000 | F'Cast £'000 | Budget £'000 | F'Cast £'000 | Budget £'000 | F'Cast £'000 | Budget £'000 | F'Cast £'000 | Budget £'000 | F'Cast £'000 |
| **Income Analysis** | | | | | | | | | | |
| Allocation | 9,311 | 9,532 | 611 | 658 | 1,984 | 1,716 | 11,906 | 11,906 | 276 | 276 |
| In-Year Redistribution | - | 1,409 | | | | | - | 1,409 | | 10 |
| College Contribution | 200 | - | - | - | - | - | 200 | - | - | 100 |
| **Total Income** | **9,511** | **10,941** | **611** | **658** | **1,984** | **1,716** | **12,106** | **13,315** | **276** | **386** |
| **Expenditure Analysis** | | | | | | | | | | |
| Taxis | 50 | 50 | - | - | - | - | 50 | 50 | - | - |
| Disability Needs | - | - | 6 | 6 | - | - | 6 | 6 | 15 | 10 |
| SEN | 250 | 250 | - | - | - | - | 250 | 250 | - | - |
| Disclosure | - | - | 65 | 40 | - | - | 65 | 40 | 5 | - |
| Childcare Nurseries - Internal | - | - | - | - | 388 | 300 | 388 | 300 | - | - |
| HE Childcare - External | - | - | - | - | 391 | 395 | 391 | 395 | - | - |
| FE Childcare - External | - | - | - | - | 1,205 | 1,021 | 1,205 | 1,021 | - | - |
| Student Maintenance & Travel | 8,750 | 9,361 | 540 | 612 | - | - | 9,290 | 9,973 | 256 | 376 |
| Cost of Course | 461 | 830 | - | - | - | - | 461 | 830 | - | - |
| Underspend | - | 450 | - | - | - | - | - | 450 | - | - |
| **Total Expenditure** | **9,511** | **10,941** | **611** | **658** | **1,984** | **1,716** | **12,106** | **13,315** | **276** | **386** |

**Financial Graphs and Performance Indicators**



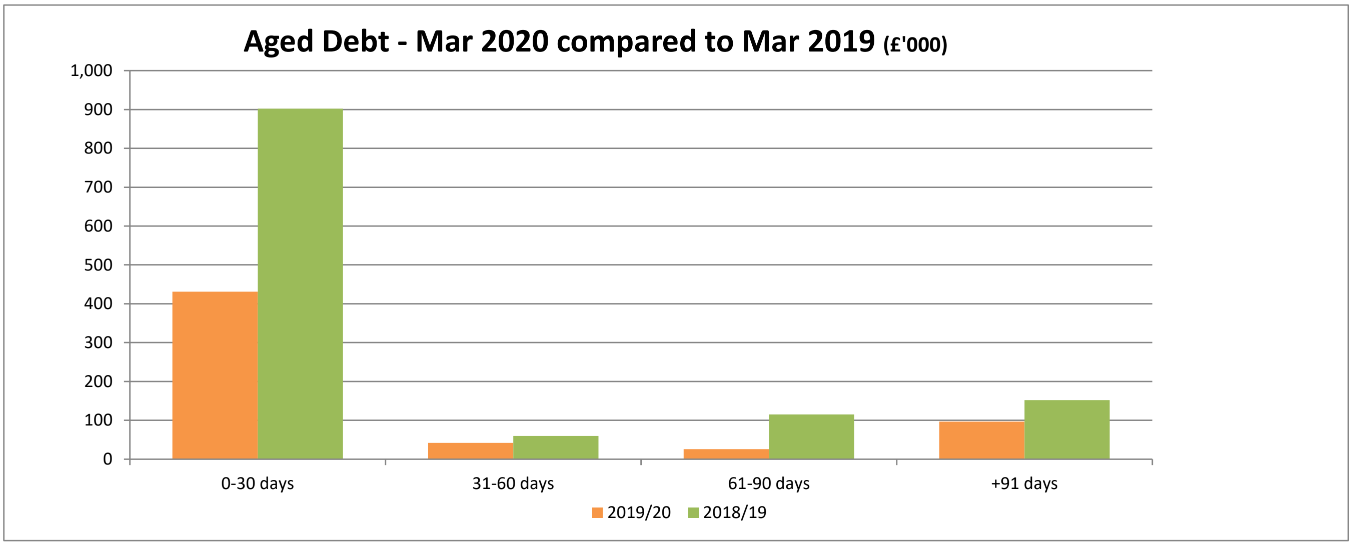




| | As at 31 July 2019 | Forecast 31 July 2020 |
|---|---|---|
| Debtor Days | 37 | 32 |
| Creditor Days | 19 | 20 |
| Staffing costs as % of income | 73% | 79% |

**AGED DEBT ANALYSIS £'000**
**As at 31 March 2020**




The College continues to seek the recovery of the outstanding fee debt in line with the Fees Policy. Of the total debt of £591k, £128k relates to student debt of which £45k is subject to a payment plan.

| Period | 2019/20 | 2018/19 | Movement | 2019/20 | Comments |
|---|---|---|---|---|---|
| 0-30 days | 431 | 902 | (471) | 74% | 2019-20 includes £156k intercompany debt owed by Student Funding and £80k of SAAS debt to be recevied in April |
| 31-60 days | 42 | 60 | (18) | 3% | |
| 61-90 days | 26 | 115 | (89) | 14% | |
| +91 days | 97 | 152 | (55) | 9% | |
| **Total** | **596** | **1,229** | **(633)** | | |
| Bad Debt Provision | 51 | 58 | | | |
| **Net Trade Debtor Balance** | **545** | **1,171** | | | |

**TITLE:** **2020-21 BUDGET AND FINANCIAL PLAN**

**Background:** The Covid-19 pandemic has had a material impact on the operations of West College Scotland and the institutional financial position for 2019-20 and beyond. These impacts mean the College is currently awaiting guidance and direction from the SFC in relation to several financial and governance matters for the 2020-21 budget process and five-year financial plan to be presented to the Finance and General Purposes Committee and Board of Management for approval.

This paper provides an update on the 2020-21 College budget process and five-year financial plan and the next steps associated with this.

**Action:** The Finance and General Purposes Committee are requested to:

- note the outcome of the SFC 2020-21 funding announcement;
- consider the status of the 2020-21 budget and five-year financial planning process;
- consider the essential information which requires to be provided by the SFC to enable the College to conclude and approve a 2020-21 budget and five-year financial plan; and
- approve the College proposed next steps.

**Lead:** David Alexander, Vice Principal Operations

**Status:** Open

## 1.0 Introduction

1.1 The Covid-19 pandemic has had a material impact on the operations of West College Scotland and the institutional financial position for 2019-20 and beyond. These impacts mean the College is currently awaiting guidance and direction from the SFC in relation to several financial and governance matters for the 2020-21 budget process and five-year financial plan to be presented to the Finance and General Purposes Committee and Board of Management for approval.

This paper provides an update on the 2020-21 College budget process and five-year financial plan and encompasses:

- a summary of the 2020-21 SFC funding announcement made on 7 April 2020 SFC, Circular SFC/AN/06/2020 – *'College outcome agreement funding allocations for Academic Year 2020-21'*;
- an outline of the governance matters that the Finance and General Purposes Committee and Board of Management require to consider in approving a 2020-21 budget and financial forecast;
- the current position in relation to the 2020-21 College budget process and five-year financial plan;
- an outline of those essential areas where the College requires clarification and direction from the SFC to enable the 2020-21 budget and financial forecast to be concluded for presentation to the Finance and General Purposes Committee and Board of Management; and
- the next steps that the College is proposing to take in order to progress the 2020-21 budget and five-year financial plan for presentation to the Board of Management.

## 2. SFC Funding Announcement 2020-21

### *2.1 2020-21 SFC Funding Allocation – Overall College Sector Allocation*

2.1.1 The SFC issued Circular SFC/AN/06/2020 - *College outcome agreement funding allocations for Academic Year 2020-21* - on 7 April 2020. The funding decisions set out in this announcement are based on the Scottish Government's Scottish Budget 2020-21, approved by the Scottish Parliament on 5 March 2020. In providing this Circular SFC also advised that there would be no updated Ministerial guidance issued at this point – and that any such guidance would be issued to the sector when received. To date this Ministerial guidance has not been issued to the sector.

2.1.2 It should be noted that the Circular issued on 7 April 2020 did not confirm all elements of 2020-21 SFC funding. These require to be advised over the coming period to enable the College to approve a budget and financial strategy prior to August 2020.

2.1.3 The 7 April 2020 Circular confirmed that SFC's revenue budget for 2020-21 has increased by 6.9% (£42 million) from 2019-20. The key points for the college sector within this 2020-21 academic year funding announcement are summarised within the sections which follow below.

2.1.4 Student activity (credit) volume for the sector is broadly unchanged at 1.7m credits - however there are some changes to individual college/regional targets – with West College Scotland being one of these (*see section 2.2.2, below*)

2.1.5 Core teaching funding has been increased by 5% (£23 million) when compared to 2019-20 - this includes an inflationary uplift of £9.7 million and funding for additional employer's pension costs amounting to £12.9 million. This funding also incorporates an element of funding which has been set aside for the costs associated with support staff and middle management job evaluation. This remains an estimated cost (£12.3 million) as the process of job evaluation for support staff is not yet complete. This funding will continue to be held back until the job evaluation process is complete.

2.1.6 The capital funding budget to support estates maintenance and development has decreased by £11.9 million, however due to the recent completion of Forth Valley College's new Falkirk campus funds have been freed-up to allow an increase of £10.2 million to support sector-wide capital maintenance. £31.2m will therefore be made available for backlog and lifecycle maintenance across the college sector.

2.1.7 £1.5m has also been allocated to provide support for estates business cases for the highest priority campuses. The funding announcement does not specify which colleges this funding will be provided to.

2.1.8 In making the 2020-21 estates maintenance funding allocation SFC have recognised that the sector's backlog and lifecycle maintenance needs continue to far exceed the level of funding available. SFC's allocation methodology remains similar to last year, and is based on a 58/42% split of high priority backlog/lifecycle maintenance costs for the £31m - resulting in a total of £18.2 million for high priority backlog maintenance and £13.0 million for lifecycle maintenance based on share of the sector's volume of activity (credit) target.

2.1.9 Student Support funding for 2020-21 has been set at £138 million, an increase of £15.2 million (12.4%) on what was announced last year – however an additional £10m was also distributed to the sector during 2019-20, so the increase is around £5 million. This budget has been increased to enable colleges to continue to meet Ministerial commitments arising from the implementation of the Independent Review of Student Support recommendations. The main change for 2020-21 is the removal of the age cap for the Care-Experienced bursary, previously only available to 16-25 year olds. In addition, an inflationary increase has been provided to the maintenance bursary.

2.1.10 It should however also be noted that the 7 April 2020 Circular did not confirm the SFC funding allocation for 2020-21 in relation to several areas, including:

- Levels of European Social Fund (ESF) credit activity and associated funding;
- The provision of free sanitary products in colleges; and
- Funding for counsellors to support to mental health and well-being. Counsellor funding for 2020-21 for both colleges and universities will total £3.65 million, however individual institutional allocations remain to be confirmed.

2.1.11 During 2019-20 funding for these areas totalled £1.847m for West College Scotland, a significant amount. These funding allocations will therefore require to be advised over the coming period by the SFC to enable the College to approve a 2020-21 budget and five-year financial strategy prior to August 2020.

2.1.12 The analysis of the SFC 2020-21 funding announcement for West College Scotland as provided at Appendix 1 shows what the final funding position would be should these amounts be confirmed as in line with 2019-20 allocations.

***2.2 2020-21 SFC Funding Allocation – West College Scotland***

2.2.1 An analysis of the SFC 2020-21 funding for West College Scotland as advised by the 7 April 2020 Circular is provided at Appendix 1. It should be noted that the SFC has previously required colleges to submit a Financial Forecast Return (FFR) covering projections over the next 5 years, and it is anticipated that the this will remain the case following final confirmation of 2020-21 funding levels. However, at this time the College has not received any assumptions from the SFC to be applied in preparing a 2020-21 budget or in undertaking five-year financial modelling - further detail on this is provided below within *Section 3 (Financial Forecast Return – Current Position)* of this paper. The key considerations arising for West College Scotland at this time from the 2020-21 SFC funding allocation outlined on 7 April 2020 are outlined in the paragraphs below.

2.2.2 There is to be a reduction in credit activity of 5,000 for West College Scotland in 2020-21 – from 157,855 to 152,855 - when compared with 2019-20. This is in line with the expectations of the Business Transformation Plan that West College Scotland has previously agreed with the SFC. However, the SFC has not consequently reduced associated teaching funding, with this movement meaning an increase in gross £ per credit for West College Scotland which equates to 8.6%, from £255 in 2019-20 to £277 in 20220-21. This reflects discussions SFC has had with the College to recognise our movement towards higher cost activity over the course of previous years. As a condition of this change, the College must reduce its third-party distance learning activity.

2.2.3 During 2019-20 the College also required to deliver 6,264 credits in addition to the core activity target, with this being funded by ESF. The level of credit activity and associated funding for 2020-21 was not confirmed by the 7 April 2020 Circular, and this information is awaited in the coming weeks.

2.2.4 Core teaching funding for West College Scotland has increased by £1.993m – an increase of 4.9%. However, it should be noted that £1.133m of this allocation has been provided in order to meet the cost of a required increase in employer contributions to the teaching superannuation fund – thus there is an underlying increase of £0.86m (2.1%) when compared to 2019-20.

2.2.5 The core teaching allocation also incorporates an element of funding which has been set aside for the costs associated with support staff and middle management job evaluation. This remains an estimated as the process of job evaluation is not yet complete. This funding will continue to be held back until the job evaluation process is complete.

2.2.6 As outlined above, an allocation has been made by the SFC towards two elements of estates need – and for 2020-21 West College Scotland has received a total estates allocation of £3.767m (2019: £2.531m), an increase of £1.236m (48.4%) when compared to 2019-20. This comprises of:

- £2.574m (2019: £1.710m) to meet high priority backlog maintenance needs – an allocation based on the condition of the College estate - with this being an increase of £0.864m (50.5%) when compared to 2019-20; and
- £1.193m (2019: £0.821m) to meet lifecycle maintenance requirements – an allocation based on the volume of credits delivered by the College – with this being an increase of £0.372m (45.3%) when compared to 2019-20.

2.2.7 Although West College Scotland received the highest SFC 2020-21 funding of any individual institution in the sector for high priority backlog maintenance at £2.574m, this remains significantly lower than the average annual investment of £8.5m that condition surveys advise is required. This means that West College Scotland will continue to face ongoing challenges and choices in managing the estate.

2.2.8 The level of student support funding allocation to WCS for 2020-21 is £13.822m (2019: £13.315m) an increase of £0.507m (3.8%) when compared to 2019-20. This uplift is to meet costs associated with the removal of the age cap for the Care-Experienced bursary, previously only available to 16-25 year olds. In addition, an inflationary increase has been provided to the maintenance bursary.

2.2.9 Funding from net depreciation which can be applied to meet key College priorities continues to be set at £1,639,000 – the same as in 2019-20. This will continue to be applied in order to meet core operational costs including bank loans, ICT and annual pay uplifts.

2.2.10 As noted above several areas of SFC funding remain to be confirmed for 2020-21 – with these having totalled £1.847m for West College Scotland in 2019-20. The analysis of this SFC 2020-21 funding announcement for West College Scotland as provided at Appendix 1 shows what the final funding position would be should these amounts be confirmed as in line with 2019-20 allocations. The full and final SFC decisions on these elements of 2020-21 funding for colleges is awaited and this further information from SFC will be essential in the coming weeks to enable the College to approve a 2020-21 budget prior to August 2020.

2.2.11 It should also be recognised that in addition to the remaining SFC funding to be confirmed for 2020-21, there are a range of wider financial, governance and operational matters that require to be clarified and confirmed by the SFC following on from the impacts of COVID19 in order for the College to progress and conclude the College Financial Forecast Return to the SFC – which incorporates the 2020-21 budget and five year financial plan - prior to August 2020. Clarification and guidance have been sought by the college sector from the SFC in relation to these financial, governance and operational matters - and this information will be essential in the coming weeks in order to inform current and future College plans.

## 3.0 Financial Forecast Return – Current Position

3.1 The College is required to use the assumptions provided by the SFC as the basis for the annual budget and subsequent 5-year financial plan which is considered by the Board of Management – this is in line with an Audit Scotland recommendation for the college sector. Following Board of Management approval prior to August each year, the College then submitts the budget and five-year financial plan to the SFC.

3.2 The Covid-19 pandemic has impacted the operations of the College with the closure of on-site operations as from 20 March 2020. Since that time the College Finance Director network has been engaging with the SFC to assess the financial and governance impacts arising from this and to seek clarity and confirmation in relation to the FFR process and the financial assumptions to be used in undertaking the 2020-21 budget process and five-year financial plan. However, to date the SFC has not issued any FFR guidance to be used by colleges in order to conclude the 2020-21 budget and five year financial plan – this means that assumptions in relation to key areas including - future sector funding methodology; conditions on clawback of 2020-21 SFC grant-in-aid; staff pay awards; future employer pension contributions; ESF funding and activity; Flexible Workforce Development funding; SDS income and cashflow support – are still to be confirmed.

3.3 It is also the case that the SFC has advised the college sector to consider making an application to the UK Government's Job Retention Scheme for some staff in order to assist with cashflow - and this approach is therefore currently being assessed by West College Scotland. In addition, the college sector is also awaiting guidance in relation to how curriculum course provision may be structured for 2020-21 in order to satisfy SFC funding conditions.

3.4 There is also a need to consider the governance aspects of the current College financial position. It is likely the College will generate an underlying deficit for the 2020-21 financial year given the impact of COVID19 on operations – and until such times as clarification is provided by the SFC in relation to budget assumptions, it is not known if West College Scotland may be in the position of having to consider an underlying budget deficit for 2020-21 – which would still require sufficient levels of cash to be in place in order to sustain College operations throughout the year. Any deficit budget position for 2020-21 – allied with an underlying deficit position for 2019-20 – would require the SFC to provide guidance in relation matters of governance given that the Financial Memorandum with the SFC states that:

'*Colleges must manage their activities to remain sustainable and financially viable taking one year with the next.*'

3.5 The College does not therefore have the information required at this time from the SFC to present the 2020-21 budget and five year financial plan for consideration by the Finance and General Purposes Committee and Board of Management – and will therefore continue to engage with the SFC in order progress matters in a timely and effective manner prior to August 2020.

**4.0 Next Steps**

4.1 As outlined above, the College requires to present a 2020-21 budget and five-year financial forecast based on a range of competent assumptions. However, as outlined above, currently no guidance or information has been provided by the SFC to the college sector to enable this process to be concluded to date. The College will therefore:

- continue to engage with the Scottish Funding Council, through the SFC Outcome Agreement Manager and through the college sector Finance Director's network, in seeking to secure the required clarifications and guidance;
- seek to present a draft budget and 5-year financial forecast to the Finance and General Purposes Committee at a meeting to be convened in July 2020 for consideration; and
- seek to present a budget and 5-year financial forecast to the Board of Management at a meeting to be convened in July 2020 for approval.

**5.0 Conclusion**

5.1 There are several significant impacts on the College operating environment as arising from COVID19 – and these have resulted in the College forecasting an underlying operating deficit for 2019-20. It is expected the College financial environment will continue to be challenging going forward, however in order to assess the continuing impacts on College finances for 2020-21 and beyond essential clarification and guidance is required from SFC.

5.2 The Finance and General Purposes Committee are requested to:

- note the outcome of the SFC 2020-21 funding announcement
- note the status of the 2020-21 budget and five-year financial planning process;
- consider the essential information which requires to be provided by the SFC to enable the College to conclude and approve a 2020-21 budget and five-year financial plan; and
- approve the College proposed next steps.

## 2020/21 SFC Funding Update

| SFC FUNDING FOR CORE OPERATIONS | 2019/20 Final Allocation £ | 2020/21 Final Allocation £ | Final Movement 2019/20 V 2020/21 £ | % Final Movement £ |
|---|---|---|---|---|
| **SFC Core Grant-in-Aid Allocation:** | | | | |
| Core including national bargaining | £39,451,453 | £39,373,554 | -£77,899 | -0.2% |
| Job Evaluation Funding | £856,890 | £934,789 | £77,899 | 9.1% |
| Cost of Living Increase | £0 | £859,643 | £859,643 | 100.0% |
| Teachers pension cost increase | £0 | £1,133,143 | £1,133,143 | 100.0% |
| ***Total Core SFC Grant-In-Aid*** | **£40,308,343** | **£42,301,129** | **£1,992,786** | **4.9%** |
| ***ESF Funding - Additional Activity*** | **£1,632,461** | **£1,632,461** | **£0** | **0.0%** |
| ***Total Funding to Support Core Operations*** | ***£41,940,804*** | ***£43,933,590*** | ***£1,992,786*** | ***4.8%*** |
| ***Total Funds Arising from Net Depreciation*** | ***£1,639,000*** | ***£1,639,000*** | ***£0*** | ***0.0%*** |
| | ***£43,579,804*** | ***£45,572,590*** | ***£1,992,786*** | ***4.6%*** |
| ***Estates Lifecycle Maintenance*** | ***£821,000*** | ***£1,193,000*** | ***£372,000*** | ***45.3%*** |
| ***Total SFC Funding to Support Operations*** | ***£44,400,804*** | ***£46,765,590*** | ***£2,364,786*** | ***5.3%*** |
| **Funding for Specific Purposes:** | | | | |
| High priority maintenance | £1,710,000 | £2,574,000 | £864,000 | 50.5% |
| Period poverty | £92,119 | £92,119 | £0 | 0.0% |
| Counselling support | £122,000 | £122,000 | £0 | 0.0% |
| ***Total Funding for Specific Purposes*** | ***£1,924,119*** | ***£2,788,119*** | ***£864,000*** | ***44.9%*** |
| ***Overall Total SFC Income (Including Funding for Specific Purposes)*** | ***£46,324,923*** | ***£49,553,709*** | ***£3,228,786*** | ***7.0%*** |

| SFC STUDENT SUPPORT FUNDING | 2019/20 Final Allocation £ | 2020/21 Final Allocation £ | Final Movement 2019/20 V 2020/21 £ | % Final Movement £ |
|---|---|---|---|---|
| SFC Core Student Support Funding | £11,905,637 | £13,822,121 | **£1,916,484** | **16.1%** |
| ***SFC Core Student Support Funding*** | ***£11,905,637*** | ***£13,822,121*** | ***£1,916,484*** | ***16.1%*** |
| SFC In-Year Redistribution | £1,409,000 | £0 | -£1,409,000 | -100.0% |
| ***Total Student Support Funding*** | ***£13,314,637*** | ***£13,822,121*** | ***£507,484*** | ***3.8%*** |

| SFC Activity Target | 2019/20 Final Credits | 2020/21 Final Credits | % Final Movement |
|---|---|---|---|
| Core Activity Target | 157,855 | 152,855 | -3.2% |
| ESF Funded Activity | 6,264 | 6,264 | 0.0% |
| ***Total Credit Target*** | ***164,119*** | ***159,119*** | ***-3.0%*** |

**TITLE:** **GOVERNANCE COMPLIANCE AND ROA OUTCOMES**

**Background:** The Finance and General Purposes Committee remit includes the requirement:

*'To ensure adherence to statutory requirements related to the College's financial affairs and compliance with the Financial Memorandum, the Scottish Public Finance Manual (SPFM) and related guidance'*

The objective of this report is to provide assurance to the Finance and General Purposes Committee that in fulfilment of this remit the College is operating in compliance with:

- The Financial Memorandum with SFC;
- The Scottish Public Finance Manual; and
- The Code of Good Governance.

There is also a need for the Committee to demonstrate that it has met its requirements in relation to the relevant areas of the 2019-20 Regional Outcome Agreement and confirm this to the Board of Management.

**Action:** The Finance and General Purposes Committee is requested to consider:

- the assurance provided in relation to governance compliance; and
- the progress that has been made in relation to those Regional Outcome Agreement areas for which the Finance and General Purposes Committee has responsibility to provide an update to the Board of Management.

**Lead:** David Alexander, Vice Principal Operations

**Status:** Open

## 1. Financial Memorandum with the SFC

1.1 Under the terms of the Further and Higher Education (Scotland) Act 2005 the Scottish Funding Council (SFC) may attach terms and conditions to the payment of grant made to institutions. It is a term and condition of grant payments from the SFC that the institution's governing body and its designated officers comply with the requirements set out in the Financial Memorandum (FM).

1.2 The current FM with the SFC was revised and issued in December 2014 and has not been subject to any further change since that time (Appendix A). This review has therefore been carried out against the conditions set by the December 2014 version. Noted below are the key areas of the FM and how the College is complying.

| Condition | College Response |
|---|---|
| **SFC's governance requirements of the institution - SFC requires the governing body to comply with the principles of good governance set out in the Code of Good Governance for Scotland's Colleges. The SFC also require the governing body to ensure that:** | |
| Public funds are used in accordance with relevant legislation, the requirements of the FM and only for the purpose(s) for which they were given. Strategic, capital or other grant funding must only be used for the purpose for which it is provided by the SFC. | SFC funding and College compliance with the terms and conditions of this are reviewed by external audit and internal auditors. SFC also requires information to be submitted periodically during the year to demonstrate the College is complying with terms and conditions of grant funding e.g. monthly cash flow, financial forecast returns and high priority maintenance funding. Any funding not used in accordance with grant conditions would be reported to the College Board of Management.<br><br>Subject to review by the external auditors as part of their year end work there are no reported occurrences of non-compliance during the 2019-20 year. |
| Subject to any legal requirement to observe confidentiality, the institution will be open and transparent with the SFC and other stakeholders, and will give, or be prepared to give, a public justification of its decisions in relation to the use of public funds. | The College and its Board of Management ensure that decisions in relation to public funds are documented in a transparent manner with meeting agendas, minutes and papers available through the College website. |

| Condition | College Response |
| --- | --- |
| The institution strives to achieve value-for-money and is economical, efficient and effective in its use of public funding. | The College has Financial and Procurement Strategies in place to support the required value for money condition. The College Value for Money Policy was approved by the Audit Committee in September 2017. A report on Value for Money report was presented to the Audit Committee in September 2019 and an updated report will be presented to the September 2020 Audit Committee for consideration. |
| There is effective planning and delivery of the institution's activities in accordance with its mission and its Regional Outcome Agreement as agreed with SFC. | The College Regional Outcome Agreement is approved and monitored at Committee and at Board level. The March 2020 Board of Management meeting reviewed and provided feedback on the 2020-21 to 2022-23 ROA document and approved it to be submitted to the SFC by the April 2020 deadline.<br><br>The College ROA compilation process was the subject of an internal audit review during 2019-20 which concluded that *'West College Scotland's processes for developing its Regional Outcome Agreement (ROA) are robust and compliant with SFC guidelines. We confirmed the College's ROA process was fully complied with during development of the ROA, ensuing a quality ROA was drafted and submitted to SFC on a timely basis. The Board of Management was able to review and approve the ROA during the midst of COVID-19, ensuring the College continued to meet SFC submission deadlines.'* |
| The institution plans and manages its activities to remain sustainable and financially viable. An institution is being managed on a sustainable basis if, year on year, it generates sufficient income to cover its costs and allow for maintenance of and investment in its infrastructure (physical, human and intellectual) at a level which enables it to maintain adaptive capacity necessary to meet future demands. | The College has a five-year Financial Plan to 2023-24 in place as approved by the Board of Management.<br><br>The potential impact of Covid-19 on the financial position of the College has been reported to the SFC through the submission of an updated Mid Year Return in April 2020; and will be presented to the Finance and General Purposes Committee at its meeting scheduled for 2 June 2020. |

| **Condition** | **College Response** |
|---|---|
| | Subsequent to that meeting the matter will be discussed at the Board of Management meeting scheduled for 15 June 2020. The impact of Covid-19 has resulted in a material reduction in the level of income generated by the College in the last quarter of 2019-20 and this is likely to have a continuing effect into 2020-21. The full impact of Covid-19 is yet unknown for 2020-21 and beyond and the College is currently modelling several financial scenarios.<br><br>As previously reported the College was already faced with a challenging financial environment before Covid-19 and this situation has therefore only heightened these challenges. The ability for the College to '… *year on year generate sufficient income to cover its costs and allow for maintenance of and investment in its infrastructure…*' will not be possible without support from the SFC. |
| The institution has a sound system of internal management and control, including an Audit Committee, an effective internal audit service, and adequate procedures to prevent fraud or bribery. | Assurance in this area is provided by:<br><br>• Annual report of internal and external auditors - these have indicated no concerns in any of the stated internal management and control areas.<br><br>• Audit Committee annual review of the internal auditors, which has assessed the 2018-19 service provided as being effective. The next review is due to be undertaken as part of the May 2020 Audit Committee meeting.<br><br>• One instance of fraud has been reported during 2019-20. The fraud has been reported to the SFC, internal and external auditors and to Police as required. This matter is the subject of ongoing internal investigation and external police enquiry. |

| Condition | College Response |
| --- | --- |
| | • Specific procedures approved by the Audit Committee are in place to assist in preventing fraud and bribery including training for staff in high risk areas such as finance. These will be reviewed again if/as required following conclusion of the current internal fraud investigation. |
| The institution has an effective policy of risk management and risk management arrangements | The College has an approved Risk Management Strategy and risk management is a standing item at Senior Management Team, Board of Management and Board of Management Committee meetings. Risk management is integral element of the College governance framework.<br><br>The Board has during 2019-20 undertaken a review of the risk management process and risk appetite of the College. This review has resulted in the agreement of risk categories and associated risk appetites for these areas. The updated Risk Management Strategy will be presented to the September 2020 Audit Committee for agreement and recommendation that the Board of Management subsequently approve this. The Committee has also agreed to revise the format of the College Strategic Risk Register to allow for improved presentation of the content. This will be progressed at the September 2020 Committee meeting.<br><br>During 2019-20 the College invested in an electronic system (Pentana Risk) which over the next two years will allow the Strategic Risk Register to be incorporated at a more detailed level with the annual operational planning process. Ultimately this will allow the College to monitor and update both operational and strategic risks on a real time basis. |

| Condition | College Response |
|---|---|
| The institution has regular, timely, accurate and adequate information to monitor performance and account for the use of public funds. Such information will be made available to the SFC on request, as necessary, for the exercise of its functions and to gain assurance | Regular reports are provided to Board Committees and to the Board of Management in a timely manner in relation to performance and use of public funds. Information is also made available to SFC on an on-going basis and as required. |
| The institution is engaged actively in continuously enhancing the quality of its activities and involves students and other stakeholders in these processes | Education Scotland has endorsed the College's published Evaluation and Enhancement Report during 2019-20, verifying that it provides an accurate and appropriate account of the quality of provision and services being delivered by the College; takes appropriate account of the views of stakeholders, and is supported by appropriately robust sources of evidence.<br><br>Education Scotland and SFC have endorsed the grade of 'Very Good' for the College Delivery of Learning and Services that Support Learning and for Leadership and approach to improvements.<br><br>For ensuring the best possible outcomes for our students - the grade was "Good".<br><br>The College's evaluation processes are considered by Education Scotland as being robust. Positive engagement with the Students Association and regular complaint reporting to Education Scotland, the SFC and more widely ensures quality issues are addressed. |
| **Public sector pay policy** | |
| The institution must have regard to public sector pay policy set by the Scottish Ministers. | The College has regard to Public Sector Pay Policy through representation on the College's Scotland Employers' Association and associated National Pay Bargaining mechanism. The College Board of Management Remuneration Committee also takes this into account in considering levels of pay for those members of staff who are out with the scope of national bargaining. Public sector pay policy is built into any financial modelling undertaken by the College. |

| Condition | College Response |
|---|---|
| **Tuition fees** | |
| Where applicable, the institution must charge student tuition fees at the levels set by the Scottish Ministers under either the Student Fees (Specification) (Scotland) Order 2006 or the Student Fees (Specification) (Scotland) Order 2011, whichever is applicable. | The College follows this guidance. |
| **Student activity** | |
| Where appropriate, the institution must provide data returns requested by the SFC by the deadlines and to the standards specified. | The College continues to comply with requests for data from the SFC within the deadlines required. The College met the required Further Education Statistics return deadlines for 2018-19 and continues to meet the return dates for 2019-20.<br><br>Unqualified audit opinions were received regarding the College 2018-19 SFC student activity audit and the 2018-19 financial statements an these provided to the SFC in accordance with required deadlines. |
| **Student support guidance** | |
| Where appropriate, the institution must follow SFC's Student Support Guidance. | The College complies with all SFC and Student Award Agency for Scotland (SAAS) student support guidance.<br><br>Unqualified audit opinions received in 2018-19 regarding all student support funds with no audit recommendations arising. |
| **European Social Funds** | |
| Where the institution is in receipt of European Social Fund funding, it must follow SFC ESF guidance. | The College seeks to follow SFC ESF guidance as required. During 2019-20 the College was advised by the SFC of a possible clawback of 2015-16 ESF funding, and this has been reported to the College Finance and General Purposes Committee. The College has responded to the SFC seeking further clarification as to the basis and timing of the clawback. |

<table>
<tr><th>Condition</th><th>College Response</th></tr>
<tr><td colspan="2">Audit and accounting</td></tr>
<tr><td>The governing body must appoint an Audit Committee and ensure the establishment and maintenance of effective arrangements for the provision of internal and external audit. For incorporated colleges and Regional Boards, Audit Scotland will appoint external auditors.</td><td><ul><li>The College has an Audit Committee in place. The Audit Committee remit was reviewed in September 2019 and the effectiveness of the Committee is reviewed annually. The next review of Committee effectiveness will take place at the May 2020 meeting.</li><li>The effectiveness of the internal audit function was reviewed at the May 2020 Committee meeting, and external auditor effectiveness was reviewed during the December 2019 Audit Committee meeting.</li><li>The College's current external auditors, Mazars, were appointed by Audit Scotland for 5 years commencing with the 2016-17 audit and this tenure is due to conclude with completion of the 2020-21 audit.</li><li>The College internal auditors, Scott Moncrieff, will come to the end of their 5-year contract in July 2020. Following conclusion of a tender exercise in March 2020, the Audit Committee and Board of Management agreed to appoint Wylie & Bisset as internal auditors for an initial three-year period to 31 July 2023, with the option to extend this for a further two years to 31 July 2025</li></ul></td></tr>
<tr><td>The Audit Committee must produce an annual report to the governing body of the institution.</td><td>An annual report is produced by the Audit Committee and presented to the Board of Management each year. The Committee presented its last Annual Report to the December 2019 Board of Management.</td></tr>
<tr><td colspan="2">Accounts direction</td></tr>
<tr><td>The institution must follow the SFC's current Accounts Direction in the preparation of its annual financial statements.</td><td>The College follows the annual SFC Accounts Direction and this compliance is subject to review by the external auditors.<br><br>The annual SFC accounts direction is also provided to the College Finance and General Purposes and Audit Committees for review on an annual basis.</td></tr>
</table>

| Condition | College Response |
|---|---|
| **Internal audit** | |
| The institution must have in place an effective internal audit service. The operation and conduct of the internal audit service must conform to the professional standards of the Chartered Institute of Internal Auditors. For incorporated colleges and Regional Boards, the operation and conduct of internal audit must comply with Public Sector Internal Audit Standards and, where relevant, the Scottish Public Finance Manual. | The College has in place a system which enables the Audit Committee to annually review the effectiveness of the internal audit service. The 2019 review by the Audit Committee confirmed that the internal auditors were operating effectively. The next review of internal audit effectiveness is due to be undertaken as part of the May 2020 Audit Committee meeting. |
| The institution must inform SFC when an internal auditor is appointed and must inform SFC immediately if the internal auditor is removed or departs before the end of their term of office. | The SFC was informed in April 2020 of appointment of Wylie & Bisset as the College internal auditors from 1 August 2020. The SFC were informed that this change in auditors was as a result of the current auditors coming to the end of their contract. |
| The internal audit service must provide the governing body and senior management of the institution with an objective assessment of adequacy and effectiveness of risk management, internal control, governance, and value-for-money. | The internal audit plan is designed to provide the coverage required in order that the auditors can comment upon the adequacy and effectiveness of risk management, internal control, governance, and value-for- money. An Annual Internal Audit Report is received by the Audit Committee each year. |
| The internal audit service must extend its' review over all the financial and other management control systems, identified by the audit needs assessment process. It must cover all activities in which the institution has a financial interest, including those not funded by SFC. | The College internal audit plan is reviewed annually, considering any movements in the audit needs assessment, based on reports received during the year and the College Strategic Risk Register.<br><br>An annual internal plan is presented to the Audit Committee for review and approval. The internal audit plan provides coverage of all financial control systems and activities in which the College has a financial interest, including those not funded by the SFC. |

| Condition | College Response |
|---|---|
| The head of internal audit must produce an annual report for the governing body on its activities during the year. The report must include an opinion on the adequacy and effectiveness of the institution's risk management, internal control, and governance.<br><br>The report must be presented to the institution's Audit Committee and a copy sent to SFC. | The Annual Internal Audit Report is produced each year with the next one due to be received by the May 2020 Audit Committee meeting as part of the scheduled Committee business. The Committee receives an update report at each meeting as to the status of the internal audit work.<br><br>A copy of the Annual Internal Audit Report is provided to College Audit Committee and to the SFC as part of the financial year end reporting process. |
| **Value for money** | |
| The institution must have a strategy for reviewing systematically management's arrangements for securing value for money. | In 2017-18 the Audit Committee approved a College Value for Money Policy and receive an annual update on the implementation of this Policy.<br><br>The College Procurement Strategy also covers value for money and best practice regarding purchasing of goods and services and an annual report on outcomes is presented to the Finance and General Purposes Committee. |
| As part of its internal audit arrangements, the institution must obtain a comprehensive appraisal of management's arrangements for achieving value for money. | Internal audit reviews that are undertaken assess arrangements in place for achieving value for money. The College also has in place a Value for Money Policy which was approved by the Audit Committee. |
| **External Audit** | |
| The external auditor must be entitled to receive all notices of and other communications relating to any meeting of the governing body which any member of the governing body is entitled to receive. They must also be entitled to attend any such meeting and to be heard at any meeting which they attend, on any part of the business which concerns them as auditors. | Arrangements are in place to ensure that external auditors receive such forms of communication and can attend any meetings as required. |

| Condition | College Response |
|---|---|
| The external auditor must also be entitled to attend the meeting of the governing body or other appropriate committee at which the institution's annual report and financial statements are presented. | The external auditors attend and present their Audit Report on the Financial Statement to the joint Audit / Finance and General Purposes Committee meeting at which the annual financial statements are approved. |
| The external auditor is expected to attend, as a minimum, any meetings of the Audit Committee where relevant matters are being considered, such as planned audit coverage, the audit report on the financial statements and the audit management letter. It is the responsibility of the secretary to the audit committee to notify the external auditor of such meetings. | The external auditors receive all agendas and minutes of Audit / Finance and General Purposes Committees and attend the Audit Committee as required. The external auditors attend the annual joint Audit / Finance and General Purposes Committee meeting which approves the financial statements. |

## 2 Scottish Public Finance Manual (SPFM)

2.1 A major element to ensure compliance with the Scottish Public Finance Manual (SPFM) is that the College maintains an up to date set of Financial Regulations.

2.2 The College Financial Regulations are reviewed annually to ensure they remain updated to in relation to legislation and any other changes in best practice. The 19 November 2019 Finance and General Purposes Committee meeting reviewed the most recent changes proposed to the Financial Regulations. The 9 December 2019 Board of Management meeting approved the revised College Financial Regulations and the updated Financial Regulations were uploaded to the College intranet.

2.3 The internal auditors last reviewed the Financial Regulations as part of the 2016-17 internal audit plan. The internal audit plan is based on a five-year cycle of reviews so the next review of Financial Regulations should be undertaken from 2020-21.

2.4 There has been a limited number of revisions to the Scottish Public Finance Manual during the past year - with the changes since August 2019 - along with the impact upon the College Financial Regulations - summarised below:

**August 2019:**

- Borrowing, lending and investment chapter - Other than where they are have been given a specific remit, constituent parts of the Scottish Administration must not deliberately invest resources outside the public sector and SG sponsored bodies should not make any investments of a speculative nature. Where Scottish Ministers decide to make investments directly through the core Scottish Government or associated bodies, Accountable Officers must ensure that appropriate diligence and consideration is carried out before any commitment is made to invest, detailed guidance on this has been added at Annex A: Investment in businesses by Scottish Ministers to the Borrowing, lending and investment chapter.
- *Impact: None as the current College Financial Regulations do not allow speculative investments.*

**September 2019:**

- Settlement agreements, severance, early retirement and redundancy terms - These chapters have been updated to reflect changes to the severance policy which applies to all devolved public bodies to which the Scottish Public Finance Manual (SPFM) is directly applicable. The chapter has been rearranged to present the information in a more user-friendly way. The policy measures will reduce the risk of excessive or inappropriate exit payments. The key policy features are to:
    - introduce a £95,000 administrative severance payment cap and recovery arrangements to voluntary early severance, voluntary early retirement, voluntary redundancy and settlement agreements;

- ensure that individual leaving on a voluntary resignation basis is precluded from returning to the same employer for a period of 12 months, including as a temporary agency worker or via a procurement route;
- set a consistent maximum pay-back period of two years to voluntary early severance and retirement schemes (however, where organisations' own compensation schemes have a payback period of less than 24 months, the shorter period will apply)
- set a maximum of six months' Pay in Lieu of Notice (PILON) Period for all new contracts (although it is recommended that a robust business case is made for any notice periods beyond statutory notice periods)
- reduce the use of discretionary payments; and
- introduce measures to improve governance, accountability and transparency of severance payments.

- *Impact: The College complies with all guidance issued by the Scottish Government or the Scottish Funding Council in relation to voluntary severance schemes. The College Financial Regulations make direct reference to SFC guidance which has been updated to reflect the above changes.*

**January 2020:**

- Certificates of assurance - The checklist still covers the same sections as previous versions, but some questions have been reviewed, amended and guidance notes have been further developed.
- *Impact: No impact as the College will be required to sign the updated certificate which will come from the SFC*

**February 2020:**

- Specific exceptions to the scope of the Property acquisition, disposal and management chapter. This section gives guidance on procedures for acquisition, disposal and management of assets (property, land and buildings).
- *Impact – No impact as property matters are the subject of SFC Capital Guidance.*

**March 2020:**

- Covid-19 Accountable Officer Guidance and Funding ask template: March 2020 - The purpose of this note is to announce recent additional guidance for Accountable Officers during the current Covid-19 situation.
- *Impact: No impact as the College is dealing with the impact of Covid-19 through guidance issued by the SFC.*

**April 2020:**

- COVID-19 - short-term changes to approval process for operational property transactions - The purpose of this note is to confirm temporary guidance in place during the current Covid-19 crisis. This guidance provides advice on a short-term Property Controls relaxation now in place to allow expiring leases to be extended for up to one year in lieu of submitting formal business cases.
- *Impact: Nom impact on College operations as all lease agreements are in place and do not require revision.*

2.5 Thus, the above changes which have been made to the SPFM during the year have been limited in nature, and the College is of the view that the recently updated Financial Regulations remain compliant with these. The College continues to monitor any revisions made to the SPFM and will annually update the Financial Regulations as required.

2.6 It is proposed within draft internal audit plan that the College Financial Regulations are reviewed during 2020-21.

2.7 The College is required to submit an assurance statement to the SFC annually in line with the requirements of the Scottish Public Finance Manual. This statement is received from all Colleges and allows the SFC Chief Executive to sign a similar assurance statement to the Scottish Government. The College is awaiting receipt of the April 2019 to March 2020 Assurance Statement for signature.

2.8 Noted below are the key areas of the SPFM as referenced in the Financial Memorandum between the College and the SFC and how the College is complying with these:

| ***Scottish Public Finance Manual*** **Condition** | **College Response** |
|---|---|
| 5. The institution must follow the requirements of the Scottish Public Finance Manual, except where any special actions or derogations have been agreed with the Scottish Ministers. | • In 2016-17 the internal auditors reviewed the College Financial Regulations and confirmed that they comply with the requirements of the SPFM.<br>• The College undertakes an annual review of the Financial Regulations and present these changes to the Board of Management for approval. The Board of Management approved the current Financial Regulations in December 2019.<br>• The internal auditors have also carried out reviews of College financial procedures which have confirmed compliance with the SPFM.<br>• No issues have been identified during 2019-20 which would indicate that that College is not complying with the requirements of the SPFM. |
| 7. In cases where the SPFM requires bodies to notify or request prior approval from the Scottish Government, the institution must, in the first instance, contact SFC. | Where prior approval is necessary the College will comply with this requirement. |
| ***Cash management and banking*** | |
| 12. The institution may extend existing banking arrangements provided they are not extended beyond Financial Year 2016-17. Any extension beyond Financial Year 2016-17 requires the agreement of the Scottish Ministers. | The College transferred as required to the Scottish Government banking contract from August 2017. |
| 13. The institution can operate bank overdraft facilities to assist it in managing the timing of income and expenditure through its bank account. Overdrafts should not be used as a means of increasing borrowing. | The College does not have in place an overdraft arrangement with its bank nor does it currently require such an arrangement. |

| ***Scottish Public Finance Manual*** **Condition** | **College Response** |
|---|---|
| ***Contingent commitments*** | |
| 14. The institution must seek SFC's prior written consent if it intends to lend or give a guarantee, indemnity or letter of comfort. The value of the guarantee should be equal to the total contingent liability over the term of the guarantee. In all cases, the institution must take steps to restrict the contingent liability to a minimum and should undertake a careful appraisal of the risks before accepting any contingent liability. | No such letters have been issued, however should this be required the College will seek the required written consent. College Financial Regulations include this requirement. |
| 15. The institution should also provide assurance that, in the event of the contingent liability arising, it can be met from within the institution's own resource, or that appropriate insurance cover has been arranged. | No such event has arisen to date however it should occur such assurance will be provided. |
| ***Delegated financial limits and annual reporting requirements*** | |
| 17. The institution's specific delegated financial limits are set out in the FM. The institution must obtain SFC's prior written approval before entering into any undertaking to incur any expenditure that falls out with these delegations. | The College Financial Regulations incorporate the delegated limits set out by the SFC FM. |
| 18. Prior SFC approval must always be obtained before incurring expenditure for any purpose that is, or might be considered, novel, contentious or repercussive or which has or could have significant future cost implications. | The College will ensure prior SFC approval is sought in the event any such expenditure is likely to arise. |
| 20. In addition, any frauds that are detected must be reported to SFC as and when they occur. | The College has had one instance of fraud during 2019-20 and this has been reported to the SFC as required. |
| 21. The institution must establish appropriate documented internal delegated authority arrangements consistent with the Delegated Authority section of the SPFM and the FM. | The Financial Regulations incorporate these delegated limits. |

| ***Scottish Public Finance Manual*** **Condition** | **College Response** |
|---|---|
| ***Donation of surplus funds to arms-length foundations*** | |
| 23. The institution may donate any surplus on its income and expenditure account as at 31 March each year to its arms-length foundation. The donation must take place in the financial year in which it arises and is subject to sufficient cash and resource cover being available. | The College made no donation made to an ALF as at 31 March 2020. Should any donation be considered going forward then there will be compliance with the appropriate governance processes. |

| Condition | Response |
|---|---|
| ***Duties to provide information on certain expenditure as required by The Public Services Reform (Scotland) Act 2010*** | |
| 24. As soon as is reasonably practicable after the end of each financial year, the institution must publish a statement of any expenditure that it has incurred during that financial year on or in connection with the matters described below.<br>• Public relations,<br>• Overseas travel,<br>• Hospitality and entertainment,<br>• External consultancy. | The College has been formally notified by the SFC that this is no longer a requirement after discussions with the Scottish Government. |
| 25. As soon as is reasonably practicable after the end of each financial year, the institution must publish a statement specifying the amount, date, payee and subject-matter of any payment, relating to any of the matters listed above, made during that financial year which has a value in excess of £25,000. | As above (24). |
| ***Early departures of staff*** | |
| *26.* The institution must follow the requirements of the SPFM in determining settlement agreements, severance, early retirement and redundancy arrangements and payments. In addition, the institution must have regard to the principles of good practice in managing early departures of staff contained in Audit Scotland's May 2013 report: *Managing early departures from the Scottish public sector.* | The College follows the requirements in relation to these areas and complied in seeking SFC approval for the current College Voluntary Severance scheme which was agreed by the College Board of Management and covers the period to 31 July 2021. Any matters arising in relation to such guidance are considered by the OD & Corporate Development Committee. |
| 27. In line with the requirements of the SPFM, the institution's severance scheme must be approved by SFC. Provided a severance payment is within the parameters of a scheme, which has been approved by the SFC, there will be no need for the institution to seek approval to the individual payment from SFC. | Please refer to note (26) above. |
| 28. However, special severance payments in excess of £1,000 must be approved by SFC, except where provision for such payments has been included in a severance scheme approved by SFC. | Where a special severance payment is more than £1,000 prior approval will be sought from the SFC. |

| Condition | Response |
|---|---|
| ***External business and management consultancy contracts*** | |
| 29. Any external consultancy contracts with a value of more than £100,000 must be approved in advance by the SFC. | The College does not have a consultancy contract in place at this level of value. Should there be an intention to award such a contract then the necessary SFC approval will be sought. |
| ***Impairments, provisions and write-offs*** | |
| 30. Assets must be recorded in the Balance Sheet at Depreciated Replacement Cost (DRC) for Land and Buildings and at Historic Cost less depreciation for Equipment in accordance with the Financial Reporting Manual (FReM). Where an asset, including investments, suffers impairment, it is important that the prospective impairment and background is communicated to the SFC at the earliest possible point in the financial year to determine the budget implications. Any significant movement in existing provisions or the creation of new provisions must be discussed with the SFC. | In line with the College Fixed Asset policy the fixed assets of the College were subject to a full valuation under the DRC methodology as at 31 July 2018. As part of year-end work all assets are reviewed for major impairments and SFC informed in timely manner as required. |
| ***Insurance*** | |
| 33. The Scottish Ministers have agreed a derogation whereby institutions can extend their current commercial insurance arrangements for three years to 31 July 2021. | The College currently holds a full insurance portfolio and has procured insurance services for the three-year period to 31 July 2021 under an APUC framework agreement. |
| ***Investments*** | |
| 34. The institution must not make any investments of a speculative nature without the prior written approval of SFC. | The College has not taken out any speculative investments. Prior SFC approval will be sought for any speculative investments if required. |
| ***Procurement and payment*** | |
| 35. The institution’s procurement processes must reflect the relevant guidance provided by the Advanced Procurement for Universities and Colleges (APUC), and relevant policy and advice issued by the Scottish Procurement Directorate. Procurement must be undertaken by appropriately trained and authorised staff and treated as a key component of achieving the institution’s objectives consistent with the principles of Best Value, the highest professional standards and any legal requirement. | College procurement processes follow the relevant guidance, policies and advice provided by APUC and an approved College Procurement Strategy is in place. The College employs appropriately trained and authorised Procurement staff. |

| Condition | Response |
|---|---|
| 36. Any proposal to award a contract without competition (non-competitive action) must be approved in advance by SFC. Specific delegated authority is given to award a contract without competition for £25,000 or less without advance approval. | Approval for any such proposal will be sought in advance from the SFC if/as required. |

**3 Code of Good Governance**

3.1 The College continues to follow the Code of Good Governance.

3.2 The internal annual effectiveness review of the Board of Management was undertaken in May 2019 following a strategic review session that was held in April 2019. A report summarising the responses received from members of the Board and highlighting areas of good practice, areas for further consideration and areas where improvement could be made was produced, with specific recommendations considered by the Board of Management meeting of 17 June 2019. This Board meeting approved the Annual Effectiveness Review Report 2019 for submission to the SFC and subsequently published the Report on the College website.

3.3 At the meeting on 7 October 2019, the Board of Management noted it had been three years since an externally facilitated effectiveness review had been undertaken. Under the terms of the current Code of Good Governance, Colleges should conduct an externally facilitated effectiveness review at least every 3 years. In order to meet this requirement, the Board appointed an independent external reviewer to conduct the External Effectiveness Review during the period October to December 2019 with a final report provided to the Board in February 2020.

3.4 The Board of Management considered the External Effectiveness Review at the February 2020 Board meeting. The report concluded that:

'*West College Scotland has an effective board which clearly puts the student experience and the provision of relevant and high-quality learning at the centre of their discussions.'*

3.5 A summary of the findings of the December 2019 externally facilitated Board of Management effectiveness review can be found at Appendix B.

## 4 Regional Outcome Agreement (ROA)

4.1 The Board of Management has agreed that each Board Committee should monitor progress on areas of the Regional Outcome Agreement it is responsible for and provide a final report to the Board in June 2020.

4.2 The Finance and General Purposes Committee meeting of 3 September 2019 considered those areas of the Regional Outcome Agreement which fell within its remit and agreed the monitoring processes in relation to these to provide an update report on progress to the Board of Management in June 2020.

4.3 ROA guidance discontinued the inclusion of financial measures from the review process, as these are now covered by the Financial Memorandum with the SFC and this remains the case for the current ROA. Under the outcomes associated with High Performing Institutions the ROA guidance does continue to require that institutions provide "*A coherent system of high-performing, sustainable institutions with modern, transparent and accountable governance arrangements*" leading to securing a *'…well-managed, financially and environmentally sustainable College*.'

4.4 The West College Scotland ROA recognises that this will specifically be achieved through:

- a Financial Strategy which encompasses a medium term 5 year outlook and analysis of key financial risks, and which assesses resource and cash levels required to fund College operations and strategies and deliver outcomes sustainably;
- a Procurement Strategy which seeks to simplify, standardise and streamline procedures, achieve efficiencies and generate College and community benefits; and
- an IT Strategy that ensures College operations and objectives are supported by appropriate technology and infrastructure.

4.5 During the year the Finance and General Purposes Committee has been provided with several reports which provide assurance regarding achievement of these ROA outcomes, including:

- An updated Schedule of Business which details the Committee remit and how this has been fulfilled;
- The approval of the 2019-20 budget and consideration of the 5-year financial forecast which highlighted the risks to the delivery of approved budgets;
- Management accounts which review the College financial position against that budget and update the risks associated with its delivery;
- Review of the College Strategic Risk Register, and key risks as identified within the management accounts;
- Annual review on compliance with the Code of Good Governance, SFC Financial Memorandum, Scottish Public Finance Manual and ROA outcomes.

- An update on the College Procurement Strategy and approval of the 2018-19 Procurement Annual Report – including the detailed procurement action plan for 2019-20;
- An IT Strategy progress update, of which a key achievement during 2019-20 was reaccreditation of the College's cyber essentials plus accreditation, with the College continuing to engage with further developments in relation to the Scottish Government cyber resilience framework; and
- Regular updates in relation to College engagement with the SFC to address the funding challenges faced by the College.

4.6 The Finance and General Purposes Committee is therefore asked to consider the progress that has been made in relation to the above areas of the ROA for which it has responsibility to provide an update report to the Board of Management June meeting.

**5 Conclusion**

5.1 This report seeks to provide assurance to the Finance and General Purposes Committee that in fulfilment of its' remit the College is operating in compliance with:

- The Financial Memorandum with SFC;
- The Scottish Public Finance Manual; and
- The Code of Good Governance

5.2 In addition, there is a need for the Committee to demonstrate that it has met its requirements in relation to the relevant areas of the Regional Outcome Agreement and confirm this to the Board in June 2020.

5.3 The Finance and General Purposes Committee is requested to consider:

- the assurance provided in relation to governance compliance; and
- the progress that has been made in relation to those ROA areas for which the Finance and General Purposes Committee has responsibility to provide an update to the Board of Management.

## Appendix A – Financial Memorandum between the SFC and the College

**Appendix B – Conclusions from December 2019 external Board of Management effectiveness review**

West College Scotland has an effective board which clearly puts the student experience and the provision of relevant and high-quality learning at the centre of their discussions.

Leadership of the Board is strong, and the chair has an inclusive approach which actively encourages effective contributions from all board members.

There is an appropriate balance of challenge and support from the board to the senior executive team.

The Board of Management makes good use of the Committees and places great trust in the Committee chairs. The Committees also make effective use of co-opted members who make a positive contribution.

However, the number of Committees does present a challenge in relation to the demands on both Board member and staff time. This must be balanced with the significant contribution the committees make to the effective working of the Board.

The Board demonstrates innovation and creativity and is ambitious for the student experience and the economic wellbeing of the region. This is supported by an informed approach to risk management.

The areas identified for further development fall under the following headings,

- Standing Orders
- Board agendas and papers
- KPIs
- Student engagement
- Relationships and collaboration

Scottish Funding Council

Promoting further and higher education

# Financial Memorandum with Fundable Bodies in the College Sector

## Contents

# FINANCIAL MEMORANDUM

## Introduction

### Purpose of this document

1. This Financial Memorandum (FM) sets out the formal relationship between the Scottish Further and Higher Education Funding Council (SFC) and fundable bodies[1] in the college sector, and the requirements with which fundable bodies must comply as a term and condition of grant from SFC.

2. The FM also makes it a term and condition of grant from SFC that Regional Colleges and Regional Boards comply with the requirements of the Scottish Public Finance Manual (SPFM) and sets out the special actions and derogations, which have been agreed with the Scottish Ministers.

### Scope of this document

3. This FM applies to Regional Colleges and other colleges[2], Regional Boards and other Regional Strategic Bodies which receive payment of grant from SFC.

### Definition

4. In this document the term 'institution' is used in place of 'fundable body in the college sector'. The term 'chief executive officer' refers to an institution's Principal or equivalent officer.

### Compliance with the Financial Memorandum

5. The responsibility for ensuring that the institution complies with this FM rests with the governing body of the institution. Questions about the interpretation of the FM may be raised with officers of SFC at any time.

6. Where the institution's interpretation of the FM differs from that of SFC, the SFC will seek, wherever possible, to reach agreement in a spirit of partnership with the institution. However, the SFC's interpretation of this FM shall be final.

### Effective date

7. This FM shall take effect from 1 December 2014.

### Structure of this document

8. The FM is in four parts:

[1] As defined by the Further and Higher Education Act (Scotland) 2005, as amended by the Post-16 Education Act (Scotland) 2013.
[2] In this context, a college is a fundable post-16 education body that is not a higher education institution.

| | |
|---|---|
| **Part 1**: defines the relationship between SFC and the institution and the responsibilities of each for the proper stewardship of public funds<br><br>**Part 2**: contains the general requirements that apply to all institutions | *Parts 1 and 2 apply to Ayrshire College, Borders College, Dumfries and Galloway College, Dundee and Angus College, Edinburgh College, Fife College, Forth Valley College of Further and Higher Education, Newbattle Abbey College, New College Lanarkshire, North East Scotland College, Sabhal Mòr Ostaig, West College Scotland, West Lothian College, Regional Board for Glasgow Colleges, and the University of the Highlands and Islands* |
| **Part 3 (A):** contains additional requirements for Regional Strategic Bodies | *Part 3 (A) applies to Regional Board for Glasgow Colleges, New College Lanarkshire, and the University of the Highlands and Islands.* |
| **Part 3 (B):** contains additional requirements for Regional Colleges and Regional Boards | *Part 3 (B) applies to Ayrshire College, Borders College, Dumfries and Galloway College, Dundee and Angus College, Edinburgh College, Fife College, Forth Valley College of Further and Higher Education, New College Lanarkshire, North East Scotland College, West College Scotland, West Lothian College, and Regional Board for Glasgow Colleges.* |
| **Part 4:** contains additional requirements non-assigned, non-incorporated colleges | *Part 4 applies to Newbattle Abbey College and Sabhal Mòr Ostaig.* |

## Part 1: The relationship between SFC and the institution

### Responsibilities of the Scottish Funding Council

1. SFC is the national, strategic body with responsibility for funding further and higher education, research and other activities in Scotland's colleges, universities and other higher education institutions. Its funding decisions support the Scottish Government's national priorities.

2. SFC is a Non-Departmental Public Body (NDPB) of the Scottish Government and undertakes its functions under the terms of the Further and Higher Education (Scotland) Act 2005 (the 2005 Act), as amended, including by the Post-16 Education (Scotland) Act 2013. In particular, SFC may make grants, loans or other payments to the governing bodies of colleges and Regional Strategic Bodies for the provision of further education, higher education, research and related activities.

3. The legislation also confers certain duties and responsibilities on SFC, including securing coherent, high quality further and higher learning provision, and the undertaking of research.

4. Under the terms of the 2005 Act, SFC may attach terms and conditions to the payment of grant made to institutions. It is a term and condition of grant payment from SFC that the institution's governing body and its designated officers comply with the requirements set out in this FM.

### Accountability

5. SFC is accountable to the Scottish Ministers for the use of public funds provided to it under the terms of the relevant legislation.

6. The Chief Executive of SFC has also been appointed Accountable Officer under the terms of the Public Finance and Accountability (Scotland) Act 2000 and is responsible and accountable to the Scottish Parliament for ensuring that funds provided to SFC are used for the purposes for which they have been given, and in ways that comply with the conditions attached to them. The Accountable Officer has a personal responsibility for the propriety and regularity of the public finances provided to SFC, and for ensuring that funding is used economically, efficiently and effectively.

### Assurance

7. In order to meet his or her responsibilities, the Chief Executive of SFC must be satisfied that the governing body of the institution meets the requirements of this FM as a condition of receiving grant funding from SFC. SFC will therefore

seek financial management and other information from the institution but, as far as possible, will rely on data and information that the institution has produced to meet its own needs. If further information is required, SFC will make a specific request in the context of its commitment to efficient regulation.

8. Where SFC 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 institution. Where this has not proved possible, or in the case of significant concerns, SFC's Accountable Officer will inform the chair of the governing body and the institution's chief executive officer in writing – and without delay – and will specify what action is required to address these concerns.

9. Where circumstances warrant it, SFC's Accountable Officer may suspend the payment of any or all grants to the institution. SFC may also use its powers to attend and address a meeting of the governing body.

**What the institution can expect of SFC**

10. SFC will conduct its affairs to high standards of corporate governance and public administration. It will maintain a complaints procedure and a separate appeals process for funding decisions.

11. SFC will act reasonably on the basis of the fullest available evidence and objective analysis. Subject to any legal requirement to observe confidentiality, it will be open and transparent with the institution, and with other stakeholders, and will give or be prepared to give a public justification of its decisions.

12. SFC recognises that the institution is an autonomous body. SFC will not substitute its judgements for those which are properly at the discretion of the institution. In particular, SFC will seek to maximise the discretion of the institution to use grants provided to it by SFC.

13. In discharging its responsibilities, SFC will seek to make regulation efficient and effective.

14. SFC will seek at all times to work in a spirit of partnership with the institution, including maintaining regular dialogue with the institution and, where appropriate, its representative bodies. The aim of that partnership will be to help the institution deliver its strategic priorities through the agreement of an Outcome Agreement with SFC, and ensure that SFC can deliver its priorities and undertake its statutory and other functions. SFC recognises that the institution may also undertake activities, and have to comply with legislation and regulation, which may fall outside the scope of this partnership.

15. SFC will allocate and pay grant to the institution in accordance with current published policies and procedures. The institution will be consulted in advance and given reasonable notice of any significant change to these policies and procedures and of significant changes in overall funding levels.

**SFC's governance requirements of the institution**

16. The SFC must be able to rely on the whole system of governance, management and conduct of the institution to safeguard all funds of the institution deriving from the Scottish Ministers and achieve the purposes for which those funds are provided.

17. SFC requires the governing body to comply with the principles of good governance set out in the Code of Good Governance for Scotland's Colleges. SFC also requires the governing body to ensure that:

    - Public funds are used in accordance with relevant legislation, the requirements of this FM and only for the purpose(s) for which they were given. Strategic, Capital or other grant funding must only be used for the purpose for which it is provided by SFC
    - Subject to any legal requirement to observe confidentiality, the institution will be open and transparent with the SFC and other stakeholders, and will give, or be prepared to give, a public justification of its decisions in relation to the use of public funds
    - The institution strives to achieve value-for-money and is economical, efficient and effective in its use of public funding
    - There is effective planning and delivery of the institution's activities in accordance with its mission and its Outcome Agreement agreed with SFC
    - The institution plans and manages its activities to remain sustainable and financially viable. An institution is being managed on a sustainable basis if, year on year, it generates sufficient income to cover its costs and allow for maintenance of and investment in its infrastructure (physical, human and intellectual) at a level which enables it to maintain adaptive capacity necessary to meet future demands
    - The institution has a sound system of internal management and control, including an audit committee, an effective internal audit service, and adequate procedures to prevent fraud or bribery
    - The institution has an effective policy of risk management and risk management arrangements
    - The institution has regular, timely, accurate and adequate information to monitor performance and account for the use of public funds. Such information will be made available to SFC on request, as necessary, for the exercise of its functions and to gain assurance

- The institution is engaged actively in continuously enhancing the quality of its activities and involves students and other stakeholders in these processes

18. As well as being accountable directly to the governing body for the proper conduct of the institution's affairs, the chief executive officer is also accountable directly to SFC's Accountable Officer for the institution's proper use of funds deriving from the Scottish Ministers and its compliance with the requirements of this Financial Memorandum.

19. The chief executive officer of the institution must inform SFC's Accountable Officer without delay of any circumstance that is having, or is likely to have, a significant adverse effect on the ability of the institution to deliver its education programmes, research and other related activity, including delivery of its Outcome Agreement with SFC. He or she must also notify SFC's Accountable Officer of any serious weakness, such as a significant and immediate threat to the institution's financial position, significant fraud or major accounting breakdown or any material non-compliance with any requirement of this FM.

**Revisions to the Financial Memorandum**

20. SFC will make changes to the requirements in this FM only after consulting institutions or their representative bodies.

## Part 2: General requirements

1. Unless otherwise stated, the following general requirements apply to the institution.

### Financial Memorandum

2. It is a term and condition of grant payment from SFC that the governing body of the institution and its designated officers comply with the requirements set out in this FM.

### Post-16 Education Body criteria

3. In undertaking its functions, the governing body of the institution must keep under review and have in place satisfactory provision in relation to the list of matters set out in section 7 (2) of the 2005 Act, as amended by the Post-16 Education (Scotland) Act 2013. This requirement does not apply to Regional Boards as these are not Post-16 Education Bodies.

### Outcome Agreement

4. The institution must deliver its Outcome Agreement with SFC.

### Payment of SFC Strategic, Capital or other Grants

5. Where the SFC makes a payment to the institution of a Strategic, Capital or other grant, the institution will be required to comply with any additional requirements attached to the grant, as well as with this FM.

### Changes to grant payments

6. If the Scottish Ministers revise their payment of grant to SFC, then SFC reserves the right to make in-year adjustments to its payment of grant to the institution. In this case, SFC and the institution may renegotiate the institution's Outcome Agreement.

### Repayment of grant

7. If the institution fails to comply with the requirements of this FM, and any other specific terms and conditions attached to the payment of grant from SFC, it may be required to repay SFC any sums received from it and may be required to pay interest in respect of any period during which a sum due to SFC in accordance with this or any other condition remains unpaid.

8. If, in the reasonable opinion of SFC, any provision set out in this FM is not observed by the institution, SFC will be entitled, in respect of the payment of grant from SFC:

- In the case of funding by way of grant: to require immediate repayment of any and all grants or any part or parts of any grants at any time after the SFC becomes aware of such failure to observe (without prejudice to further demands until the whole of all sums made available by way of grant shall have been paid in full)
- In the case of funding by way of loan (notwithstanding the terms of any agreement attached to the same): to require immediate repayment of the whole or part of each such loan at any time after SFC becomes aware of such failure to observe (without prejudice to further demands until the whole of all sums made available by way of loan shall have been repaid in full).

**Public sector pay policy**

9. The institution must have regard to public sector pay policy set by the Scottish Ministers.

**Tuition fees**

10. Where applicable, the institution must charge student tuition fees at the levels set by the Scottish Ministers under either the Student Fees (Specification) (Scotland) Order 2006 or the Student Fees (Specification) (Scotland) Order 2011, whichever is applicable.[3] However:

    - the tuition fee levels set by the Scottish Ministers under the Student Fees (Specification) (Scotland) Order 2006 do not apply to students who do not have a relevant connection with the United Kingdom and Islands or are not excepted students within the meaning of the Education (Fees and Awards) (Scotland) Regulations 2007; and
    - The tuition fee levels set by the Scottish Ministers under the Student Fees (Specification) (Scotland) Order 2011 do not apply to students who do not have a relevant connection with Scotland or are not excepted students within the meaning of the Education (Fees) (Scotland) Regulations 2011, but any tuition fees charged to students from the rest of the United Kingdom must not exceed £9,000 per year[4].

[3] The level of tuition fees in 2014-15 for full-time undergraduate first degree students is £1,820. The same fee applies for PGDE and PGDipCE courses. A higher medical fee £2,895 applies only to continuing students. For full-time higher education courses at sub-degree level, a fee of £1,285 should be charged.
[4] At the moment, this £9,000 limit is not set by legislation but will be once an order is made under section 9D of the Further and Higher Education (Scotland) Act 2005 (as inserted by the Post-16 Education (Scotland) Act 2013.).

**Disposal of exchequer funded assets**

11. In disposing of exchequer funded assets, the institution must follow the guidance in the relevant procedure notes on the SFC website as amended from time-to-time.

**Student activity**

12. Where appropriate, the institution must provide data returns requested by the SFC by the deadlines and to the standards specified. Our Student Activity Data Guidance for Colleges can be found on the SFC website.

**Student support guidance**

13. Where appropriate, the institution must follow SFC's Student Support Guidance.

**European Social Funds**

14. Where the institution is in receipt of European Social Fund funding, it must follow SFC's ESF guidance.

**Audit and accounting**

15. The governing body must appoint an audit committee and ensure the establishment and maintenance of effective arrangements for the provision of internal and external audit. For incorporated colleges and Regional Boards, Audit Scotland will appoint external auditors.

16. The Audit Committee must produce an annual report to the governing body of the institution.

**Accounts direction**

17. The institution must follow the SFC's current Accounts Direction in the preparation of its annual financial statements.

**Internal audit**

18. The institution must have in place an effective internal audit service. The operation and conduct of the internal audit service must conform to the professional standards of the Chartered Institute of Internal Auditors. For incorporated colleges and Regional Boards, the operation and conduct of internal audit must comply with Public Sector Internal Audit Standards and, where relevant, the Scottish Public Finance Manual.

19. The institution must inform SFC when an internal auditor is appointed and must inform SFC immediately if the internal auditor is removed or departs before the end of their term of office.

20. The internal audit service must provide the governing body and senior management of the institution with an objective assessment of adequacy and effectiveness of risk management, internal control, governance, and value-for-money.

21. The internal audit service must extend its review over all the financial and other management control systems, identified by the audit needs assessment process. It must cover all activities in which the institution has a financial interest, including those not funded by SFC. It must include review of controls – including investment procedures – that protect the institution in its dealings with organisations, such as subsidiaries or associated companies, Arms-Length Foundations, students' associations, and collaborative ventures or joint ventures with third parties.

22. The head of internal audit must produce an annual report for the governing body on its activities during the year. The report must include an opinion on the adequacy and effectiveness of the institution's risk management, internal control, and governance. The report must be presented to the institution's audit committee and a copy sent to SFC.

**Value for money**

23. The institution must have a strategy for reviewing systematically management's arrangements for securing value for money.

24. As part of its internal audit arrangements, the institution must obtain a comprehensive appraisal of management's arrangements for achieving value for money.

**External Audit**

25. The external auditor must be entitled to receive all notices of and other communications relating to any meeting of the governing body which any member of the governing body is entitled to receive. They must also be entitled to attend any such meeting and to be heard at any meeting which they attend, on any part of the business which concerns them as auditors.

26. The external auditor must also be entitled to attend the meeting of the governing body or other appropriate committee at which the institution's annual report and financial statements are presented.

27. The external auditor is expected to attend, as a minimum, any meetings of the audit committee where relevant matters are being considered, such as planned

audit coverage, the audit report on the financial statements and the audit management letter. It is the responsibility of the secretary to the audit committee to notify the external auditor of such meetings.

28. The external auditors, notwithstanding responsibilities to their clients, are expected to co-operate fully with any enquiries or routine monitoring that the SFC undertakes.

29. The institution must not in any way limit SFC's access to the institution's external auditors.

## Part 3: Additional Requirements for Regional Strategic Bodies, Regional Colleges, and Regional Boards

### Part 3 (A): Additional requirements for Regional Strategic Bodies

1. The following additional requirements apply to Regional Strategic Bodies only:

    - Regional Board for Glasgow Colleges (known as the Glasgow Colleges Regional Board)
    - New College Lanarkshire (known as the Lanarkshire Board)
    - University of the Highlands and Islands.

***Financial Memoranda***

2. The institution must put in place a financial memorandum with each of its assigned colleges, which sets out the formal relationship between the Regional Strategic Body and the assigned college, and which contains the terms and conditions for the use of grant to the assigned college. The financial memoranda should be agreed in advance with SFC's Accountable Officer.

***Scottish Public Finance Manual***

3. The institution must ensure that its assigned incorporated colleges follow the requirements of the SPFM except where any special actions or derogations have been agreed with the Scottish Ministers.

### Part 3 (B): Additional requirements for Regional Colleges and Regional Boards

4. The following additional requirements apply to Regional Colleges and Regional Boards:

    - Ayrshire College
    - Borders College
    - Dumfries and Galloway College
    - Dundee and Angus College
    - Edinburgh College
    - Fife College
    - Forth Valley College of Further and Higher Education
    - North East Scotland College
    - West College Scotland
    - West Lothian College
    - New College Lanarkshire.
    - Regional Board for Glasgow Colleges

### *Scottish Public Finance Manual*

5. The institution must follow the requirements of the Scottish Public Finance Manual, except where any special actions or derogations have been agreed with the Scottish Ministers.

6. The derogations and actions in the following paragraphs have been agreed with the Scottish Ministers and must be read in conjunction with the SPFM. Where reference is made to the SPFM, please refer to the relevant section for the detailed requirements.

7. In cases where the SPFM requires bodies to notify or request prior approval from the Scottish Government, the institution must, in the first instance, contact SFC.

### *Borrowing*

8. All borrowing by incorporated colleges will require the approval of the Scottish Ministers. Requests to borrow must be submitted to the SFC in the first instance.

9. Under the terms of Schedule 2B to the Further and Higher Education (Scotland) Act 2005, inserted by the Post-16 Education (Scotland) Act 2013, Regional Boards may not borrow money.

### *Cash management and banking*

10. Grant payment will not be made in advance of need, as determined by the level of unrestricted cash reserves and planned expenditure. Unrestricted cash reserves held during the course of the year should be kept to the minimum level consistent with the efficient operation of the institution and the level of funds required to meet any relevant liabilities at the year-end. Grant-in-aid not drawn down by the end of the financial year shall lapse. Grant-in-aid shall not be paid into any restricted reserve held by the institution. Transfers to arms-length-foundations are permitted.

11. Banking arrangements should ensure they offer best value and comply with the Banking section of the SPFM. The Scottish Ministers have approved a derogation which delays the move to the Government Banking Service (GBS) to 2016-17 at the earliest.

12. The institution may extend existing banking arrangements provided they are not extended beyond Financial Year 2016-17. Any extension beyond Financial Year 2016-17 requires the agreement of the Scottish Ministers.

13. The institution can operate bank overdraft facilities to assist it in managing the timing of income and expenditure through its bank account. Overdrafts should not be used as a means of increasing borrowing.

***Contingent commitments***

14. The institution must seek SFC's prior written consent if it intends to lend or give a guarantee, indemnity or letter of comfort. The value of the guarantee should be equal to the total contingent liability over the term of the guarantee. In all cases, the institution must take steps to restrict the contingent liability to a minimum and should undertake a careful appraisal of the risks before accepting any contingent liability.

15. The institution should also provide assurance that, in the event of the contingent liability arising, it can be met from within the institution's own resource, or that appropriate insurance cover has been arranged.

16. However, SFC's written consent is not required for such arrangements if the indemnity is of a standard type contained in contracts and agreements for 'day-to-day' procurement of goods and services in the normal course of business.

***Delegated financial limits and annual reporting requirements***

17. The institution's specific delegated financial limits are set out in **Appendix A**. The institution must obtain SFC's prior written approval before entering into any undertaking to incur any expenditure that falls outwith these delegations.

18. Prior SFC approval must always be obtained before incurring expenditure for any purpose that is, or might be considered, novel, contentious or repercussive or which has or could have significant future cost implications.

19. What might be regarded as novel or contentious inevitably involves a degree of judgement. Novel would include proposed expenditure or financial arrangements of a sort not undertaken previously or which is not standard practice. Contentious would include proposed expenditure or financial arrangements where there was any doubt as to its regularity – for example, its compliance with relevant legislation or guidance – or its propriety – for example, compliance with the standards expected of publicly funded bodies or their officials. Proposed expenditure or financial arrangements that might be considered to be sensitive politically would also be regarded as contentious.

20. In addition, any frauds that are detected must be reported to SFC as and when they occur.

21. The institution must establish appropriate documented internal delegated authority arrangements consistent with the Delegated Authority section of the SPFM and this FM.

22. **Appendix A** also sets out the levels for certain categories of expenditure above which the institution should report annually to SFC. The report should describe the number of instances and total cost, by category of expenditure.

***Donation of surplus funds to arms-length foundations***

23. The institution may donate any surplus on its income and expenditure account as at 31 March each year to its arms-length foundation. The donation must take place in the financial year in which it arises, and is subject to sufficient cash and resource cover being available.

***Duties to provide information on certain expenditure as required by The Public Services Reform (Scotland) Act 2010***

24. As soon as is reasonably practicable after the end of each financial year, the institution must publish a statement of any expenditure that it has incurred during that financial year on or in connection with the matters described below.

    - Public relations,
    - Overseas travel,
    - Hospitality and entertainment,
    - External consultancy.

25. As soon as is reasonably practicable after the end of each financial year, the institution must publish a statement specifying the amount, date, payee and subject-matter of any payment, relating to any of the matters listed above, made during that financial year which has a value in excess of £25,000.

***Early departures of staff***

*26.* The institution must follow the requirements of the SPFM in determining settlement agreements, severance, early retirement and redundancy arrangements and payments. In addition, the institution must have regard to the principles of good practice in managing early departures of staff contained in Audit Scotland's May 2013 report: *Managing early departures from the Scottish public sector.*

27. In line with the requirements of the SPFM, the institution's severance scheme must be approved by SFC. Provided a severance payment is within the parameters of a scheme, which has been approved by the SFC, there will be no need for the institution to seek approval to the individual payment from SFC.

28. However, special severance payments in excess of £1,000 must be approved by SFC, except where provision for such payments has been included in a severance scheme approved by SFC. (See Appendix A)

*External business and management consultancy contracts*

29. Any external consultancy contracts with a value of more than £100,000 must be approved in advance by the SFC.

*Impairments, provisions and write-offs*

30. Assets must be recorded in the Balance Sheet at Depreciated Replacement Cost for Land and Buildings and at Historic Cost less depreciation for Equipment in accordance with the Financial Reporting Manual (FReM). Where an asset, including investments, suffers impairment, it is important that the prospective impairment and background is communicated to the SFC at the earliest possible point in the financial year to determine the budget implications. Any significant movement in existing provisions or the creation of new provisions must be discussed with the SFC.

31. Write-off of bad debt and/or losses score against resource Departmental Expenditure Limits (DEL).

*Income generation*

32. The institution will be able to retain all commercial income, gifts, bequests or donations received. These funds will be in addition to any grant or funding the institution receives from the SFC.

*Insurance*

33. The Scottish Ministers have agreed a derogation whereby institutions can extend their current commercial insurance arrangements for three years to 31 July 2018.

*Investments*

34. The institution must not make any investments of a speculative nature without the prior written approval of SFC.

*Procurement and payment*

35. The institution's procurement processes must reflect the relevant guidance contained in the Advanced Procurement for Universities and Colleges, and relevant policy and advice issued by the Scottish Procurement Directorate. Procurement must be undertaken by appropriately trained and authorised staff and treated as a key component of achieving the institution's objectives consistent with the principles of Best Value, the highest professional standards and any legal requirement.

36. Any proposal to award a contract without competition (non-competitive action) must be approved in advance by SFC. Specific delegated authority is given to award a contract without competition for £25,000 or less without advance approval. (See Appendix A)

**Appendix A**

## Delegated financial limits and annual reporting requirements for Regional Colleges and Regional Boards

### Delegated financial limits

| | |
|---|---|
| External Business and management consultancies | £100,000 |
| Special severance payments | £1,000 |
| Operating leases-non property | £250,000 |
| Procurement non-competitive action | £25,000 |

### Annual reporting requirements

| | |
|---|---|
| Extra contractual payments | £5,000 |
| Compensation payments | £5,000 |
| Ex-gratia payments | £1,000 |
| Claims waived or abandoned | £3,000 |
| Write-off of bad debt | £3,000 |
| Losses | £3,000 |
| Overseas student irrecoverable loss | £6,000 |
| Fraud loss | £5,000 |

## Part 4: Additional requirements for non-assigned, non-incorporated colleges

1. The following additional requirements apply to non-assigned, non-incorporated colleges:

   - Newbattle Abbey College
   - Sabhal Mòr Ostaig.

### Insurance

2. The institution is responsible for taking out and paying for adequate insurance in respect of its assets and activities.

### Granting of security

3. As a result of a condition in SFC's Framework Document with the Scottish Government, the institution must seek SFC's prior written consent if it intends to offer as security for a loan any land or property which has been provided, improved, or maintained with the aid of grant.

### Capital finance

4. As a condition of SFC's Framework Document with the Scottish Government, SFC is required to "make provision for the monitoring and control of borrowing by institutions to protect the public investment in institutions and to maintain accountability for the use of exchequer funds". In order that SFC can discharge this requirement, it has in place a threshold for capital finance above which the institution requires SFC's consent to undertake any new borrowing.

5. The governing body of the institution, in line with the Code of Good Governance for Scotland's Colleges, must, as a matter of course, satisfy itself that all of the following requirements on capital finance are met:

   - The institution can demonstrate its ability to repay the finance, and to pay interest thereon, without recourse to requesting additional grant from SFC
   - The institution can demonstrate that its ability to maintain financial and academic viability will not be impaired as a result
   - The institution can demonstrate the value to be generated by the transaction, whether it involves refinancing, or purchase of any new investment or assets, the acquisition of which is to be financed by the borrowing
   - The institution can demonstrate that any such new investment or asset acquisition is in accordance with the institution's strategic plan and, where appropriate, its estate strategy

6. For the purposes of this document, ‘capital finance’ includes borrowing, finance and operating leases, and other schemes, such as private finance initiative projects, non-profit distribution projects, loan support projects and revolving credit facilities where borrowing is the substance of the transaction, in line with relevant accounting standards.

**When the Council’s formal consent is required in respect of capital finance arrangements**

7. The institution must obtain prior written consent from SFC before it undertakes a level of capital finance where the annualised costs of all capital finance (being the sum of the servicing and capital repayment costs of each loan or other arrangements spread evenly over the period of the relevant loan or arrangement) would exceed 4% of

   - Total income as reported in the latest audited financial statements; or
   - The estimated amount of total income for the current year, if that is lower.

8. In assessing total capital finance commitments, the institution must ignore low-value financial commitments, provided that the combined annualised servicing costs of such financial commitments do not exceed 0.5% of total income.

9. A revolving credit facility should be considered in the same way as an overdraft facility; for example, in terms of the institution’s maximum exposure over the term of the facility. An even annual cost of capital finance is assumed, unless the institution can demonstrate otherwise. The institution is required to provide the annualised cost of the capital finance calculation with any request to SFC for borrowing consent.

10. The institution must also seek consent from SFC before raising capital finance on the security of assets in which the Scottish Ministers have an interest. For the purposes of this document, such an interest exists where the institution has used funds provided by the Scottish Ministers to acquire an interest in or to develop any land, building or other asset, and where those funds were provided subject to a condition which has the effect of requiring the institution to obtain Scottish Ministers’ consent before raising capital finance on the security of those assets.

11. The Scottish Ministers have directed that SFC will exercise their functions in relation to any such interests.

12. In seeking SFC’s approval, the institution must demonstrate to SFC, in writing, its compliance with the requirements set out above.

**Contingent commitments**

13. The institution must seek SFC's prior written consent if it intends to lend or give a guarantee, indemnity or letter of comfort. The value of the guarantee should be equal to the total contingent liability over the term of the guarantee. In all cases, the institution must take steps to restrict the contingent liability to a minimum and should undertake a careful appraisal of the risks before accepting any contingent liability.

14. The institution should also provide assurance that, in the event of the contingent liability arising, it can be met from within the institution's own resource, or that appropriate insurance cover has been arranged.

15. However, SFC's written consent is not required for such arrangements if:

    - An actual or effective value is less than 4% of total income as reported in the latest audited financial statements or of the estimated amount of total income for the current year if that is lower; or
    - the indemnity is of a standard type contained in contracts and agreements for 'day-to-day' procurement of goods and services in the normal course of business.

**Severance payments**

16. The institution must adhere to the following principles when taking decisions about severance payments, including settlement agreements:

    - The actions of those taking decisions about severance payments, and those potentially in receipt of such payments, must be governed by the standards of personal conduct set out by the Committee on Standards in Public Life (the Nolan Principles)
    - The governing body must take account of SFC's expectation of the institution in this FM regarding the use of public funds.

17. Based on the principles above, the following requirements must be met:

    - Institutions must have in place a clear policy on severance payments
    - Severance packages must be consistent with the institution's policy and take into account contractual entitlements, for example, salary and period of notice, and any applicable statutory employment entitlements. This means that, when entering into employment contracts, care must be taken not to expose the institution to excessive potential liabilities
    - The institution's policy must include a formal statement of the types of severance arrangements that should be approved by the Remuneration Committee or equivalent and approved formally by the governing body. These must include any severance package that is proposed for a member

of the senior management team, in recognition of the particular level of accountability that is attached to senior management positions, and also any severance package that would exceed a maximum threshold agreed by the governing body

- Where a severance package exceeds the maximum threshold agreed by the governing body, the institution must consult with SFC's Accountable Officer prior to approving the proposed severance package
- The remuneration committee or equivalent, when overseeing and approving severance arrangements for staff, must ensure that all decisions are recorded
- Negotiations about severance packages and payments must be informed, on both sides, by legal advice where appropriate
- When a severance arises following poor performance on the part of an individual, any payment must be proportionate and there should be no perception that poor performance is being rewarded
- Final year salaries must not be inflated simply to boost pension benefits
- Notice of termination of appointments must not be delayed in order to generate entitlement to payments in lieu of notice

18. The institution must ensure its internal auditor includes a regular review of systems for the determination and payment of severance settlements in their strategic audit plan.

19. The institution must seek the view of its external auditor if it plans to make what it considers to be any novel or potentially contentious severance payments, including those that exceed the maximum threshold agreed by the governing body.

20. The institution's external auditor must review severance settlements. Such a review will normally take place after settlements have been agreed (normally as part of their financial statements audit) and should be carried out by senior audit staff because of the complexity and sensitivity of the issues. If final settlements do not materially conform to the terms of this FM, auditors must report the facts to the institution in their management letter, and inform members of the governing body. The auditors must also recommend that the institution informs the SFC immediately.

21. Where there are settlement agreements, and it is felt that a confidentiality clause is necessary, this must not prevent the public interest being served and must be consistent with the institution's whistleblowing policy.

**TITLE:** **RISK MANAGEMENT STRATEGY AND STRATEGIC RISK REGISTER**

**Background:** Under the Corporate Governance Code the College Board of Management is tasked with ensuring a framework of risk management and control is in place. This paper provides:

- an update on the actions taken by the College to develop the College Risk Management Strategy;

- the next steps in the development of the College Risk Management Strategy; and

- presents the current College Strategic Risk Register for the consideration of the Audit Committee.

**Action:** The Finance and General Purposes Committee is requested to:

- note the update on the actions taken to embed risk across the College;

- note the next steps in the development of the College Risk Management Strategy; and

- review and approve the College Strategic Risk Register and in doing so consider:
  - The risks included in the register;
  - The revised risk rating both pre and post mitigation;
  - Whether any other risks should be considered for removal; and
  - Whether any new risks should be considered for inclusion.

**Lead:** Alan Ritchie, Director of Finance and Estates

**Status:** Open

## 1. Risk Management Strategy

1.1 The West College Scotland Risk Management Strategy is approved by the Board of Management. The College Strategic Risk Register is subject to ongoing review by the Board of Management and all Board of Management Committees, with oversight being provided by the Audit Committee.

1.2 The current College Risk Management Strategy is provided along with this report. The Strategy contains tracked changes recently approved by the Audit Committee in order to reflect the recent work undertaken by the Board of Management in developing the risk management framework.

## 2. Development of the College Risk Management Strategy

2.1 The March 2020 Audit Committee received an update report on the progress the College had made in developing the College Risk Management Strategy. These developments were the result of a significant piece of work with the Board of Management to review the overall risk categories and the risk appetite that the College was willing to tolerate.

2.2 Following the March 2020 Audit Committee meeting the following action have been undertaken:

- The Risk Management Strategy has been updated to:
    - reflect the revisions made to the ten risk categories; and
    - incorporate the approved risk appetite categories and risk appetite statement.

- Due to the requirement to focus resource on the challenges arising from the Covid-19 pandemic over the recent period - it has not been possible to progress the development of a revised format for the Strategic Risk Register as had been agreed with the Audit Committee – it is therefore intended to present this to the September 2020 Audit Committee meeting for consideration.

2.3 A tracked change version of the College Risk Management Strategy is included within the meeting agenda (Appendix A) for Committee consideration – the proposed changes are intended to reflect the recent work undertaken with the Board of Management in developing the College's risk management framework. The intention would now be to share a revised format for the Risk Register report with Audit Committee in September 2020, in order that this may be considered and any further necessary changes to the Risk Management Strategy agreed at that time and then presented to the Board of Management for consideration.

2.4 Once the revised Risk Strategy and Risk Register reporting documents have been approved, they will be disseminated to the wider College.

## 3. College Strategic Risk Register Update

3.1 The Board of Management approved the current version the risk register at its meeting in March 2020.

3.2 Since that meeting the Senior Management Team (SMT) has continued to carry out a review of the College Strategic Risk Register. The mitigating controls have been updated to take account of items such as the ongoing interactions with the SFC, the outcomes of internal/external audit reports and any Scottish Government/Scottish Funding Council (SFC) announcements – however it is the impacts arising from the Covid-19 pandemic that have had the most significant impact over the recent period.

**Covid-19 Risk Management**

3.3 The Covid-19 outbreak is the most significant challenge the College has faced to date, and this has resulted in a level of uncertainty the organisation has not experienced before. In addressing the challenges, the College implemented its Business Continuity Planning arrangements and has formed a Covid-19 Response Team comprising of members of the Executive, SMT and other operational staff as required. The work of the Response Team has been wide ranging and has included the following:

**Reviewing areas of potential exposure:**
Initially the College undertook an overall assessment which considered potential sources of exposure as a result of the coronavirus including:

- employee health and well being
- health and safety
- business impacts and interruption to the provision of learning and teaching
- supply chain disruption
- rapidly changing government advice or regulation
- financial and cashflow impacts
- impacts and demands on IT and estate infrastructure

This allowed the College to understand the main scenarios that could most impact operations and to put in place appropriate control and response measures that reflect the exposure.

**Reviewing Insurance Policy Cover**

- The College insurers, Zurich Municipal, joining most insurers in declaring that the matter of Covid-19 was not a business interruption insurable loss.

**Activating the College Business Continuity Management Plans**

- The College has made a significant investment in its business continuity plans and this led to the managed closure of all College campuses by 23 March 2020.

- Covid-19 presents a potentially different threat event impacting the College in numerous concurrent ways and potentially limiting options around recovery if other businesses are also affected, or there are logistical limitations.
- The College continues to review and update business continuity plans as a phased response and consider:
  - what is required to limit the impact on the health and wellbeing of employees, students and the public;
  - how best to work with a range of key stakeholders in supporting them and all local communities, and ensuring the College retains a visibility to provide support where possible; and
  - business recovery and mobilisation, to enable the College to recover as quickly as possible based on appropriate Government, SFC and health and safety guidance

**Considering Supply Chain Implications**

- The College continues to gain an understanding of the potential impact on its supply chain from the coronavirus threat.
- Consideration has been given to not just in the availability of materials but in sourcing and logistics of supplies.
- The College continues to work with the sector procurement centre of excellence (APUC) in order to address these challenges.

**Keeping Staff and Students Informed and Updated**

- A critical part of any response plan is to keep all stakeholders informed of developments, especially during the extend period of home working.
- The use of the College website and social media has been key to ensuring that contact is maintained with staff and students. The College has created a staff newsletter "*Homeworking Times*" which has enabled staff participation and engagement, with a wide range of social media and the College intranet also used extensively. The College has continued to meet with the Students Association throughout the recent period in order to ensure contact on key issues – such as student funding – is maintained with students.

**Creation of a Mobilisation Plan**

- The next significant part of the College Business Continuity planning arrangements will be the return to work phase. At this time what that return to work will look like is largely unknown, as is the timing of the return.
- The College has established a Mobilisation Group which will look to advise the Executive of the steps which require to be taken in order to ensure a safe and orderly return to 'the new normal' way of working. This is likely to include:
  - Estate adaptations to buildings to accommodate social distancing;
  - Increased cleaning regimes;
  - Consideration of what learning and teaching will look like with the increased use of technology and distance learning to deliver course;

- Potential for increased hours of operation, including weekends, to accommodate lower class sizes spread out over longer periods of time.
- A review of social spaces and areas of congregation, such as canteen and refectory facilities.

3.3 The College Senior Management Team considers that the impacts of Covid-19 outbreak be recorded within the Strategic Risk Register as a significant part of the Business Continuity Risk which was already represented within the register. The primary risk has remained the same with an increased emphasis on the likely impacts of the Covid-19 outbreak:

Previous risk - *Inadequate business continuity / cyber resilience planning leading to material interruptions to service delivery*

Revised risk - *Inadequate business continuity / cyber resilience planning leading to material interruptions to service delivery primarily resulting from Coronavirus epidemic.*

The risk probability and impact has been scored at the highest level of 6 and 4 resulting in a pre and post mitigation score of 24.

3.4 Despite there being several mitigating controls in place the Senior Management Team believes that the level of uncertainty remains high around the actions that the College can take to influence the impact of the risk.

3.5 The Board of Management will be kept update by the Principal as to the continued actions that the College intends taking over the course of the coming months as it looks to mobilise the College operations. The risk will continue to be reviewed as further information and clarity of direction become available.

3.6 It should also be noted that the financial and cashflow implications arising from Covid-19 are expected to be significant for both 2019-20 and 2020-21, and these matters will require to be considered by the Finance and General Purposes Committee and Board of Management. The College is currently awaiting clarification and guidance from the SFC in relation to several significant financial, cashflow and governance matters in order to enable an informed financial strategy to be developed and implemented.

3.7 The risk register has been aligned to the new Corporate Strategy and this alignment continues to be refined over the course of 2019-20. A copy of the current College Strategic Risk Register is enclosed with this report (Appendix B).

## 4. Conclusion

4.1 The Finance and General Purposes Committee is requested to:

- note the update on the actions taken to embed risk across the College;
- note the next steps in the development of the College Risk Management Strategy; and
- review and approve the College Strategic Risk Register and in doing so consider:
  - The risks included in the register;
  - The revised risk rating both pre and post mitigation;
  - Whether any other risks should be considered for removal; and
  - Whether any new risks should be considered for inclusion.

# Risk Management Strategy

# Contents

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# Document control

| Version | Date | Review | Summary of changes made |
|---|---|---|---|
| V1.0 Draft | 01.09.15 | A Ritchie | Initial strategy document for review |
| V1.2 | 12.09.15 | A Ritchie | Final 2014-17 Strategy for approval |
| V2.0 | 04-12-17 | A Ritchie | Strategy document review |
| V2.1 | 08-05-20 | A Ritchie | Inclusion of risk appetite update |

# 1 Introduction from Chair of Board of Management and the Principal

The Financial Memorandum with the Scottish Funding Council (SFC) requires that the governing body complies with the principles of good governance set out in the Code of Good Governance for Scotland's Colleges. The SFC also requires the governing body to ensure that:

- The College has an effective policy of risk management and risk management arrangements;
- Internal audit must provide the governing body and senior management of the College with an objective assessment of adequacy and effectiveness of risk management, internal control, governance and value-for- money; and
- The College undertakes careful appraisal of the risks before accepting any contingent liability.

The College must recognise the environment within which it operates as a non-departmental public body (NDPB). This environment includes compliance with the Scottish Public Finance Manual (SPFM) which requires that it is "…*necessary to develop a framework for assessing risks that evaluates both the likelihood of the risk being realised, and of the impact if the risk is realised. Risk assessment should be recorded in a way that demonstrates clearly the key stages of the process*." This Strategy therefore takes account of the requirements of the SFC Financial Memorandum and SPFM as required.

In addition to the above requirements the internal auditor must produce an annual report for the governing body on their activities during the year. The report must include an opinion on the adequacy and effectiveness of the College's risk management, internal control and governance. The report must be presented to the College's Audit Committee and a copy provided to the SFC.
The College Strategy 2019-2025 ~~Vision~~ states that we will be '*Inspirational and Innovative'* ~~seek '*To make a difference', 'To be bold*' and '*To be forward thinking*'~~ and achieve the Strategic Priority of being '*Agile and Adaptive' by improving our efficiency and ensuring the best use of all resources*.' ~~delivering '*...a sustainable, effective and efficient service*'.~~ The Risk Management Strategy is a key link between the Vision and Strategic Priorities, ensuring the College is aware that some risks will always exist and will never be eliminated, however mitigation can be put in place to minimise the impacts and deliver the Vision.

The College recognises that it has a responsibility to manage risks and supports a structured and focused approach to managing them through application of the Risk Management Strategy. In this way the College will better achieve strategic priorities and enhance the value of services it provides to the community.

The approach of the Strategy is that it is owned and led by the Board of Management and it is intended to deliver a more dynamic and inclusive approach to risk management. The Strategy aims to ensure that the Strategic Risk Register is~~will be~~ informed by the College ~~Operational~~ Planning processes and ~~from~~ all Board of Management Committees, with a strategic focus which recognises the impact of the wider operating environment on College operations. ~~the objective of being outward facing and strategically focused.~~

The College's Risk Management Strategy objectives are to:

1) Integrate risk management into the culture of the College;
2) Manage risk in accordance with best practice;
3) Anticipate and respond to changing requirements;
4) Prevent injury, damage, losses and reduce the cost and negative impacts of risk; and
5) Raise awareness of the need for risk management by all those connected with delivering the College's Strategic Priorities.

These objectives will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within the College for risk management;
- Providing opportunities for shared learning on risk management across the College;
- Reinforcing the importance of effective risk management as part of everyday work by offering training;
- Incorporating risk management considerations into the annual internal audit plan and any internal / external audit work carried out; and
- Monitoring arrangements on an on-going basis.

The Risk Management Strategy aligns with the Regional Outcome Agreement (ROA) and will be reviewed annually. In the event material amendments to the Strategy are required it will be presented to the Board of Management for approval.

The Board of Management and Senior Management Team are fully committed to the principles of Risk Management and the approach outline within this Strategy.

Approved by:

| | |
|---|---|
| **Dr Waiyin Hatton**<br>**Chair of the Board of Management** | **Liz Connelly**<br>**Principal** |

WEST COLLEGE SCOTLAND

# 2 Risk Management Overview

## 2.1 Purpose

The purpose of the Risk Management Strategy is to:

- outline West College Scotland's approach to risk management; and
- describe the procedures for the management of risk within the College while detailing the roles and responsibilities of the key business areas.

## 2.2 Objectives

To ensure the effective delivery of the College Risk Management Strategy, the following objectives require to be progressed by the College Senior Management Team:

1. Undertaking an annual review of the College Risk Management Strategy. The review will ensure clear roles, responsibilities and a reporting framework for the managing of risk across the College is maintained and developed;
2. Development of operational planning guidance on risk identification and translation into strategic risk where appropriate;
3. Monitoring and reporting on risk management arrangements to the Board of Management Audit Committee;
4. Integrating risk management into the culture of the College on an ongoing basis, and raising awareness of the need to manage risk effectively throughout the College;
5. Complying with Corporate Governance and ensuring effective processes are in place to allow the Board to approve the annual Accountability Report, including the section on Risk Management and Internal Controls.

## 2.3 Definitions

The following represents the meaning of terminology that is used throughout this Strategy document.

- Risk: An uncertain event, which, should it occur, will have an effect on the achievement of objectives. Risks may have a negative effect, in which case they are recorded as threats, or a positive effect, denoted as opportunities.
- Issue: A certain event which is known and will impact upon the achievement of the College's objectives.
- Risk Appetite: ~~The level of risk which is deemed acceptable to the organisation in the pursuit of its objectives.~~ This refers to the level of risk the College is willing to tolerate or accept in the pursuit of its objectives. When considering threats, risk appetite defines the acceptable level of exposure deemed tolerable or justifiable by the College; when considering opportunities, risk appetite defines how much the College is prepared to actively put at risk in order to realise potential or expected benefits.

- Risk Exposure: The calculated level of risk which the organisation is exposed to in pursuit of its objectives.

### 2.4 Roles and Responsibilities

To be effective, the risk process is recognised as the responsibility of all WCS employees and will integrate with the College operating requirements.

| Owner | Role |
|---|---|
| **Board of Management**<br>- *Has a fundamental role to play in the management of risk.* | - Provide authority and responsibility for the establishment, maintenance, support and evaluation of the Risk Management Strategy<br>- Set the tone and promote a positive risk culture within the College<br>- Delegate the overall implementation of risk management to the SMT<br>- Have knowledge of the significant risks facing the College |
| **Audit Committee**<br>- *Has a fundamental role to play in the review and management of risk.* | - To ensure compliance with corporate governance requirements<br>- To review the Strategic Risk Register and approve for presentation to the Board<br>- To review internal processes and systems and work closely with internal and external auditors to obtain reports on these |
| **Senior Management Team (SMT)**<br>- *Support and implement policies approved by the Board of Management.*<br>- *The Senior Management Team consists of the Principal, Vice Principals, Assistant Principals and Directors.* | - Implementation of Risk Management Strategy<br>- Overall co-ordination of risk management<br>- Promotion of a holistic approach to risk management<br>- To review the probability and impact assessments of risks on a regular basis<br>- Ensure appropriate levels of awareness throughout the College |
| **College Management Teams**<br>- *Encouraging and embedding good risk management practice within their area of activity.*<br>- *The College Management Team consists of all those managers who are directly line managed by SMT.* | - Co-ordinating and ensuring that the operational objectives are implemented in line with the Risk Management Strategy<br>- Have an awareness and understanding of risks which fall into their area of responsibility, the impacts these may have, and monitor outcomes against the risks identified ensuring that response plans detail corrective action to minimise risk |

| Owner | Role |
| --- | --- |
| | - Report any new risks identified or failures of existing control measures to SMT<br>- Report on current 'active' risks highlighting mitigating actions and effect towards risk reduction<br>- |
| **College Staff**<br>- *Encouraging and embedding good risk management practice within their area of activity* | - Understand their accountability for individual risks<br>- Understand how they can enable continuous improvement of risk management and risk awareness<br>- Report systematically and promptly to a member of the College Management Team or Senior Management Team any perceived new risks or failures of existing control measures |
| **Internal/External Audit**<br>- *Ensuring the effectiveness of organisational and financial control systems, including monitoring performance against quality assurance standards.* | - To review risks and limitations of existing control measures<br>- To review the adequacy of internal control systems designed to minimise risk<br>- To make appropriate recommendations following on from any internal / external audit reports to the SMT, which will effectively improve systems of control |

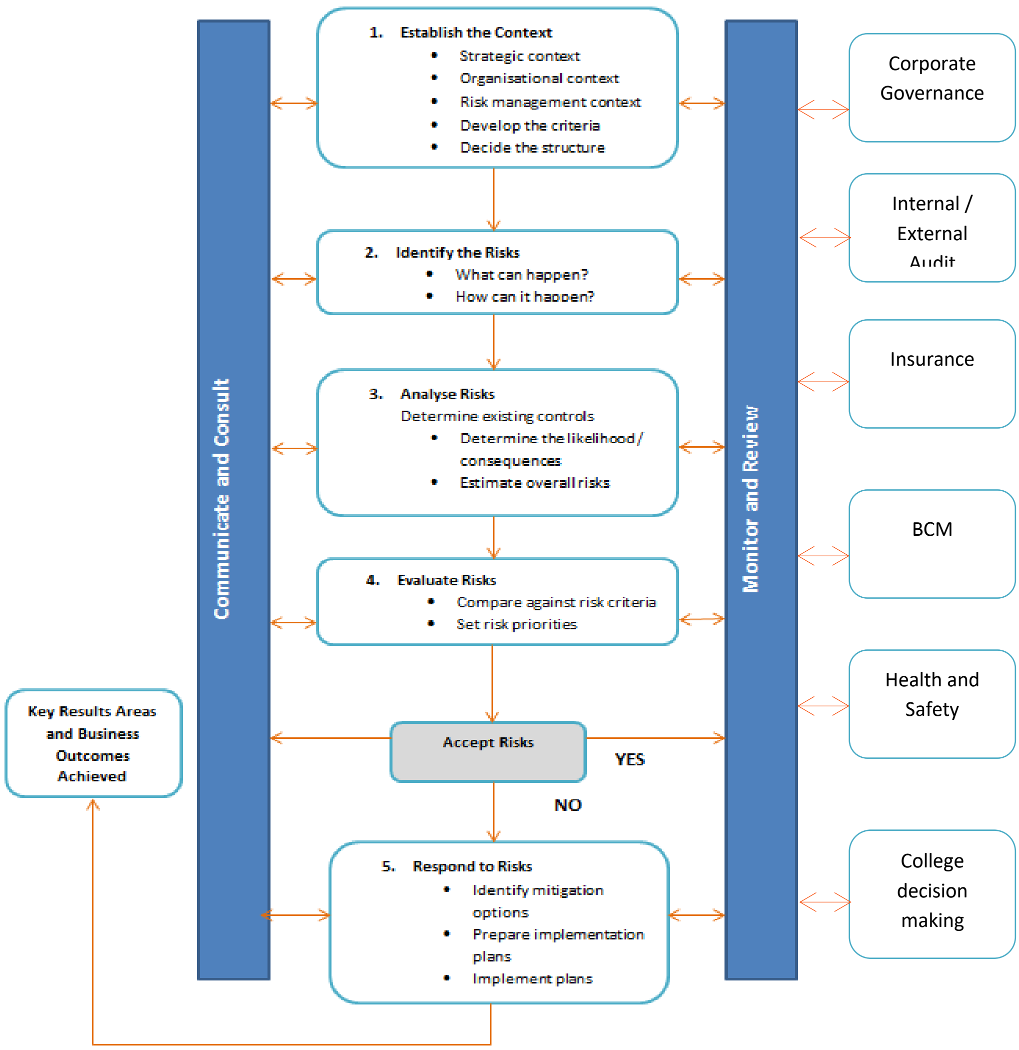
### 2.5 Partnership and Projects

For the College, it is important to ensure partnerships and projects are considered in a Risk Management context, as well as core services. Where the College is involved in strategic projects and partnerships, it will look to develop joint risk management practices with relevant partners as required.

# 3 Risk Management Framework

The overall responsibility for ensuring the College has effective Risk Management arrangements in place is with the Board of Management – however ~~but this is implement~~implementation ~~ed~~ and co-ordination of the risk management approach is led ~~ed~~ by the College SMT. Risk Management at the College is closely aligned to corporate governance, internal/external audit, business continuity management (BCM), insurance, health and safety and occupational health and safety arrangements. These different elements act as support mechanisms for the delivery of the Risk Management Strategy at the College. Internal and external audit also play a key role in scrutinising the mitigations and controls implemented by the College.

**Figure 1 - WCS Risk Management Framework**



### 3.1 Code of Corporate Governance

The Board of Management is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board of Management has delegated the day-to-day responsibility to the Principal, as Chief Executive, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and asset.

### 3.2 Internal / External Audit

Internal Audit will assess the effectiveness of the College's internal controls and review risk management as part of the corporate governance arrangements. Internal audit will use the information contained within the Strategic Risk Register to inform their annual audit plan.

External audit will annually undertake an overall review of the corporate governance arrangements and processes of internal control in place at the College. Based on their audit work and the findings made by the internal auditors they will form an opinion on adequacy of the systems in place to comply with corporate governance requirements.

### 3.3 Insurance

Insurance is one method the College uses to transfer risk. The implementation of an effective Risk Management Strategy will have an impact upon the premiums paid by the College. The prevalence of insurance claims will need to be monitored as these will have a bearing on the Strategic Risk Register.

### 3.4 Business Continuity Management (BCM)

Business Continuity underpins Risk Management and is concerned with how the College can overcome disruption in the event of an adverse incident or situation and continue to deliver key services at an agreed, pre-determined level. It is the low probability/high impact risks that if they occurred could result in the failure of key services or systems.

### 3.5 Health and Safety

There are clear and well-established links between College approach to Health and Safety and Risk Management. The College is committed to achieving best practice in health and safety management and is fully committed to controlling risk and preventing harm to people.

The College will use the guidance in Managing for Health and Safety (MFHS), which supports the model of managing health and safety with a 'Plan, Do, Check and Act' approach. This model helps to achieve a balance between the systems and behavioural aspects of management.

The Board of Management has a primary objective to ensure health and safety is integrated into the College's core business management activities and that suitably resourced health and safety management systems are implemented which are also influenced by risk management.

### 3.6 Risk Implications – Decision Making Process

Effective Risk Management is crucial to the achievement of the College's Vision and the success of the strategic operation and provision of services. It is important to recognise that there are risks associated with decisions taken in respect of the delivery of College business.

The nature, severity and likelihood of these risks will vary depending on a wide range of circumstances or potential outcomes.

# 4 Risk Management Process and Approach

Risk Management is a cyclical process – new risks emerging while old risks become obsolete. Below are listed the steps in the Risk Management process.

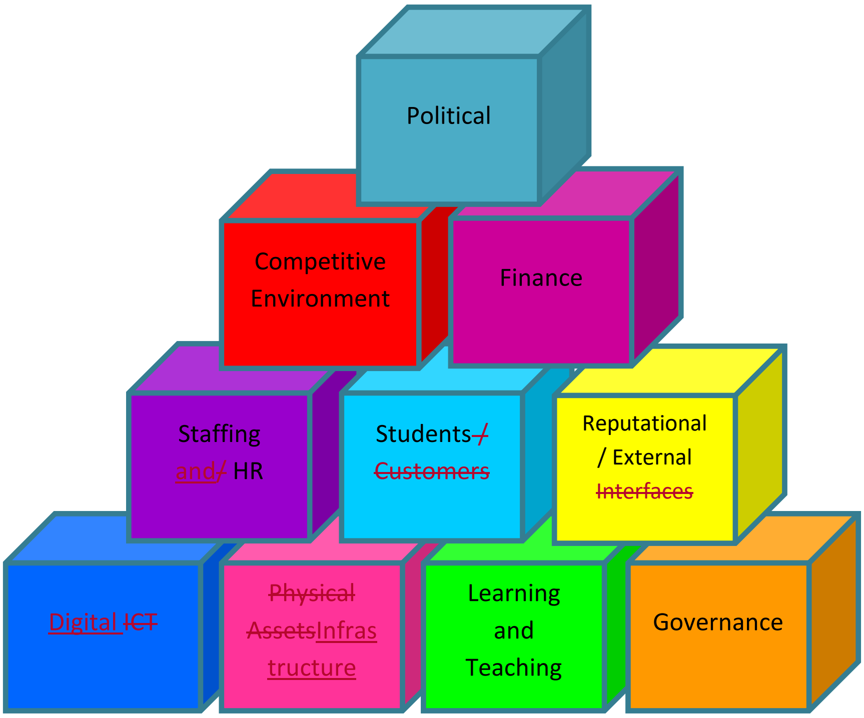
## ~~4.1 Risk Tolerance~~

~~The Risk Management Strategy is objective driven. The College's Strategic Priorities within the Corporate Plan are used as the basis for developing the Strategic Risk Register. The first step in the risk management cycle is to establish the tolerance level that the Board of Management is willing to accept. It may require to be expressed as more than one threshold depending on strategic priorities and objectives e.g. separately in respect of financial or reputational outcomes as well as for both the delivery of projects and "business as usual" activities.~~

## ~~4.2~~4.1 Risk Categorisation

Risks shall be categorised to enable identification of risk trends and gap analysis. A fuller definition of the risk categories can be found at Appendix 1. Risk will be categorised according to:

**Figure 2 –Risk Categories**



## ~~4.3~~4.2 Risk Identification

Risk identification is focussed on the key risks against the achievement of College Strategic Priorities. The risk categories, as per figure 2, above, ensure a holistic approach to risk identification is taken. However, this list is not exhaustive and acts as a prompt only. Not all risks will apply to each category and some may apply to more than one.

During risk identification, it is helpful to consider the drivers for each risk, causes of the risk, and potential negative (or positive if an opportunity) outcome should the risk arise.

Risks identified within Board Committee and other meetings; the operational planning cycle; dedicated risk workshops and other reviews will be recorded in such a manner as to allow easy identification and understanding of the risk. Each Risk Description will contain information on the three composite parts of a risk; the cause, the risk event and the impact on the College Strategic Priorities:

*'As a result of <cause/statement of fact>, there is a risk that <uncertain event> may occur, which would result in <an effect on Strategic Priorities>.'*

## 4.3 Risk Appetite

The next step in the risk management cycle is to establish the risk appetite level that the Board of Management is willing to accept in pursuit of its Strategic Priorities.

The College accepts that it must take risks, to some extent, in order to achieve its p~~P~~riorities and to realise expected benefits. The College is committed to ensuring that all risks taken will be proactively controlled and any exposure will be kept to an acceptable level where possible. The College acknowledges that the level of risk exposure carried by different activities will vary and the~~its~~ threshold for accepting varying levels of risk will change depending on the risk area under consideration, the specific objectives involved, the subsequent activities undertaken and the projected benefits.

However, the College is clear that it will reject or closely manage any activity that has the potential to cause significant financial or reputation harm to the institution, most notably where this~~ese~~ might endanger the College's ongoing viability, its ability to achieve its key strategic priorities and/or its ability to meet its regulatory and/or legal obligations.

The College defines Risk Appetite based on the following categories:

| Classification | Description |
|---|---|
| **AVERSE** | Avoidance of risk and uncertainty is a key organisational objective. |

| Classification | Description |
|---|---|
| **MINIMALIST** | Preference for ultra-safe business delivery options that have a low degree of inherent risk and only have a potential for limited reward. |
| **CAUTIOUS** | Preference for safe delivery options that have a low degree of residual risk and may only have limited potential for reward. |
| **OPEN** | Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (and value for money etc.) |
| **HUNGRY** | Eager to be innovative and to choose options offering potentially higher business rewards, despite greater inherent risk. |

Based on these categories, the College's institutional baseline Risk Appetite is defined as '*cautious to open*'. This means that, while maintaining a level of prudence, the College is generally willing to consider all options and will accept moderate levels of risk in the pursuit of its p~~P~~riorities, albeit with a preference for options or activities that limit exposure, even if the rewards are likely to be similarly limited.

A full definition of the College risk appetite for each category of risk can be found at Appendix 2.

While a general appetite of cautious to open is in place, it is recognised that risk appetite will vary according to the p~~P~~riorities pursued and the linked activities undertaken. For example, the College would give consideration to options or activities which carry elevated levels of risk~~,~~ where it can be shown that the anticipated outcomes are realistically achievable, and likely to deliver enhanced benefits. ~~;~~ A~~a~~cceptance of risk, irrespective of risk appetite, should always take account of the likely benefits an activity will deliver.

At strategic level, risk appetite is applied to the College's identified risk areas as follows:

| | Averse | Minimalist | Cautious | Open | Hungry |
|---|---|---|---|---|---|
| | | | | | |
| Finance | | | | | |
| Political | | | | | |
| Governance | | | | | |
| Competitive Environment | | | | | |
| Staffing and HR | | | | | |
| Student | | | | | |
| Reputational / External | | | | | |
| Infrastructure | | | | | |
| Learning and Teaching | | | | | |
| Digital | | | | | |

It should also be noted that risk appetite will likely vary according to context; for example, capital projects provide a different context and should be considered on individual merit, as projects are usually stand-alone, and fall out with the 'business as usual' activities of the College. Consequently, the College may be prepared to accept higher levels of risk for a project that will feasibly deliver transformative change or bring significant rewards.

## 4.4 Risk Assessment

Risk Assessment will be undertaken in the first instance to prioritise risks (risk evaluation) using a standard 6 by 4 semi-quantitative scale (shown in Figure 3) for risk probability and impact.

This use of a standard scoring threshold promotes consistency in risk assessment.

**Figure 3 - Risk Scoring Thresholds**

| Probability | Score | Impact | Score |
|---|---|---|---|
| Almost Certain | 6 | Catastrophic | 4 |
| Very Likely | 5 | Critical | 3 |
| Likely | 4 | Marginal | 2 |
| Possible | 3 | Negligible | 1 |
| Very Unlikely | 2 | | |
| Remote Chance | 1 | | |

When assessing impact, it is important that a holistic analysis of the categories of risk be considered, in terms of how the issue would impact on the College (a partnership, a service or a specific project). The agreed approach to the assessment of risk at the College is undertaken based on existing control measures.

When assessing probability, a consideration of historical information, external drivers, trends and statistics can be useful in determining an appropriate level.

Risks identified within the Strategic and Operational Risk Register will be plotted on a probability impact grid, as shown in figure 4 below, to provide a pictorial representation of risk exposure. Risks which fall into the upper boundary (Red RAG status) will be considered as critical for management attention and as greater than the acceptable risk appetite. Efforts will be made to reduce risk

**Probability Impact Score Grid**

| | | | | | |
|---|---|---|---|---|---|
| Almost Certain | 6 | 6 | 12 | 18 | 24 |
| Very Likely | 5 | 5 | 10 | 15 | 20 |
| Likely | 4 | 4 | 8 | 12 | 16 |
| Possible | 3 | 3 | 6 | 9 | 12 |
| Very Unlikely | 2 | 2 | 4 | 6 | 8 |
| Remote Chance | 1 | 1 | 2 | 3 | 4 |
| | | 1 | 2 | 3 | 4 |
| | | Negligible | Marginal | Critical | Catasrophic |

exposure below the upper boundary.

**Figure 4 - Risk Probability Impact Grid**

Risks with low probability but high impact scores will be elevated for attention of the Board. Risk response plans will be developed which seek to reduce the potential impact of the risk.

### 4.5 Risk Owner

A risk owner is a member of the Senior Management Team that has been given the responsibility and authority to manage a risk/set of risks and is accountable for doing so.

### 4.6 Risk Mitigation

Risk mitigation is concerned with taking action to reduce the likelihood and / or severity of the risk.

Each risk shall have several mitigations which where appropriate will be backed up by control plan. Control strategies / plans may align with the categories below:

**Figure 5 – Risk Mitigation Measures**

| Risk Response | Commentary |
|---|---|
| **Tolerate** | The exposure may be tolerable without any further action being taken. It may be supplemented by contingency planning for handling the impacts that will arise if the risk is realised |
| **Transfer** | Transfers the risk to a third party. Be aware that the entirety of a risk is practically impossible to transfer |
| **Terminate** | Some risks are only treatable by terminating an activity. Alternative plans and/or processes will require developing |
| **Treat** | Action is taken to constrain the risk to an acceptable level. This includes reducing the probability of occurrence and/or the impact of the risk |
| **Take** | Implement actions to exploit the identified opportunity |

Each action will have recorded against it a named owner for delivery of the risk response / mitigating action. Those with responsibility for the Risk Management Strategy, whether at partnership, strategic, directorate or project level must be satisfied that all controls are working effectively and can be evidenced for audit or scrutiny purposes.

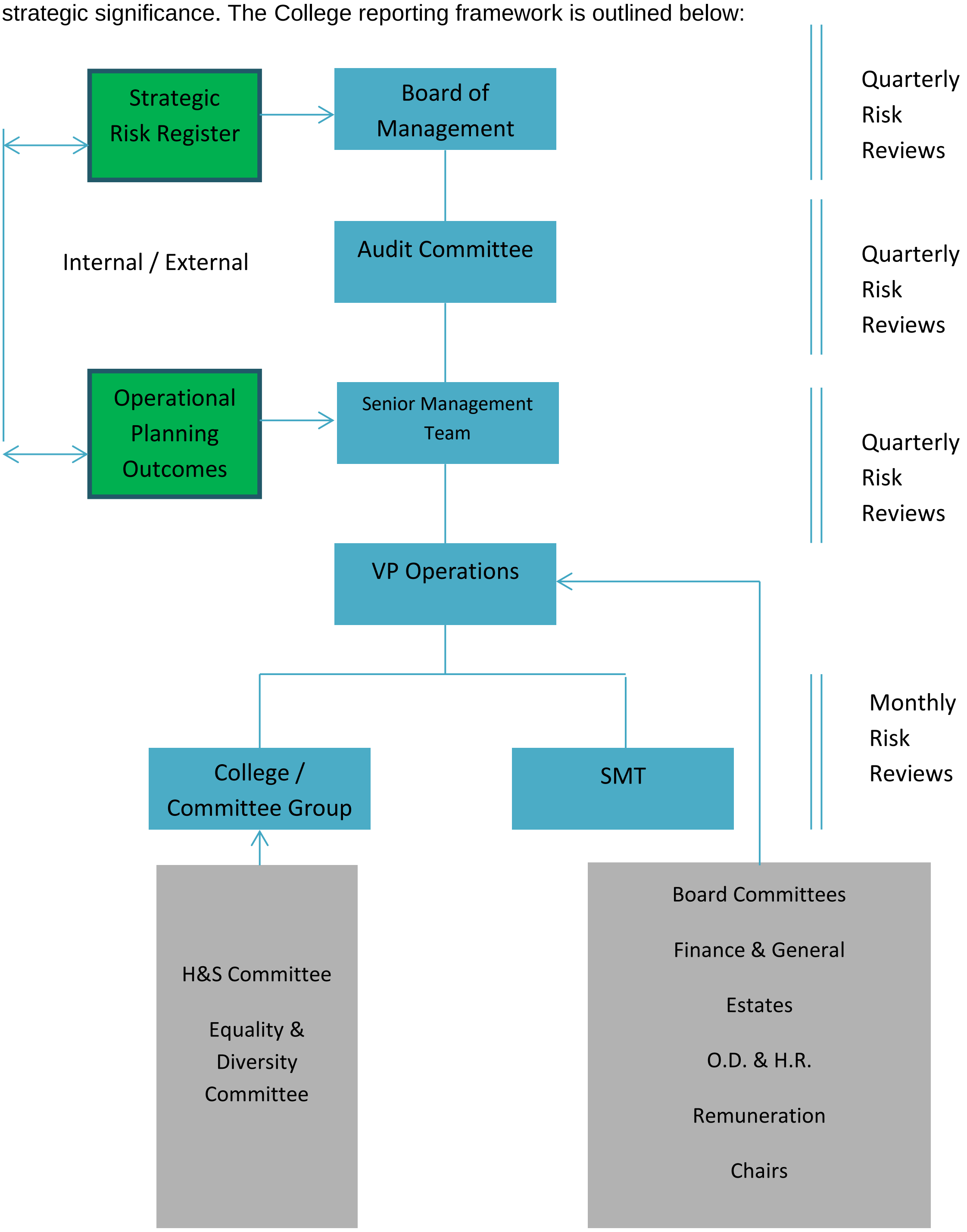
## 4.7 Risk Monitoring and Reporting

Successful implementation of the Risk Management Strategy rests upon the creation and development of an adequate monitoring framework and reporting structure.

It is important to assess the effectiveness of any control measures which have been implemented and these must be monitored and reviewed on a regular basis. It is also necessary to assess whether the nature of risk has changed over time.

At strategic and operational levels, the College approach is focussed on embedding a formal reporting structure for Risk Management which is outlined below.

It is the responsibility of the SMT to highlight risks within their Directorates that are considered to have strategic significance. The College reporting framework is outlined below:



Risk reporting is used to communicate risk across the College. Through Strategic Risk reviews, SMT members are likely to be requested to 'manage' those risks at Directorate or operational level that are not considered to be strategic in nature. This will ensure a steady flow of information and the management of risk at the correct level.

This approach will also ensure that Board members and appropriate levels of staff are made aware of the risks incurred through service provision and the achievement of objectives. Through this framework, ownership of risk will be retained at the appropriate level to best manage the risk successfully.

### 4.8 Risk Management Strategy Review

The effectiveness of the Risk Management Strategy and information within the College Strategic and Operational Risk Registers will be monitored and reported as outlined above.

# 5 Appendix

**Appendix 1~~:~~- Categories of Risk**

| ~~Category~~ | ~~Description of Risk~~ |
|---|---|
| ~~**Political**~~ | ~~Those affecting the College Strategic Priorities normally at a national political level.~~ |
| ~~**Competitive Environment**~~ | ~~Those affecting the competitiveness of the service (in terms of cost of quality) and / or its ability to deliver Best Value.~~ |
| ~~**Finance**~~ | ~~Those related to financial planning and control and the adequacy of insurance cover.~~ |
| ~~**Staffing / HR**~~ | ~~Those affecting the recruitment, retention and morale of staff.~~ |
| ~~**Students / Customers**~~ | ~~Those affecting the recruitment, retention and morale of students and attracting customers / partners to the College.~~ |
| ~~**Reputational / External**~~ | ~~Those affecting the reputation of the College and/or external partnerships / projects / community in which the College is involved.~~ |
| ~~**ICT**~~ | ~~Those affecting the College's ICT / communication systems which could have a negative effect on reputation / priorities.~~ |
| ~~**Physical Assets**~~ | ~~Those negatively affecting the assets of the College causing loss / damage.~~ |
| ~~**Learning and Teaching**~~ | ~~Those affecting the successful delivery of the College's curriculum.~~ |
| ~~**Governance**~~ | ~~Those that impose requirements on the College which could affect priorities / funding / reputation.~~ |

| Category | Description of Risk |
|---|---|
| **1) Political** | Those affecting the College Strategic Priorities normally at a national political level. |
| **2) Competitive Environment** | Those affecting the competitiveness of the College to deliver its services in terms of cost, quality, ability to deliver best value and to attract customers / partners to the College. |
| **3) Finance** | Those related to financial planning and control and the adequacy of insurance cover. |
| **4) Staffing and HR** | Those affecting the recruitment, retention and morale of staff. |

| | |
|---|---|
| **5) Students** | Those affecting the recruitment, retention, attainment and morale of students. |
| **6) Reputational / External** | Those affecting the reputation of the College and/or external partnerships / projects / community in which the College is involved. |
| **7) Digital** | Those affecting the ability of the College to deliver the objectives set out in its Digital Strategy. |
| **8) Infrastructure** | Those affecting the College's physical assets including buildings and IT systems. |
| **9) Learning and Teaching** | Those affecting the successful delivery of the College's curriculum including student experience, performance and associated ROA targets. |
| **10) Governance** | Those that impose requirements on the College which could affect priorities / funding / reputation. |

## Appendix 2 – College Risk Appetite Statement

The College's approach is to minimise its exposure to Finance, Political and Governance risks, whilst accepting and encouraging an increased degree of risk in pursuit of its mission and objectives. It recognises that its appetite for risk varies according to the activity undertaken, and that its acceptance of risk is subject always to ensuring that potential benefits and risks are fully understood before developments are authorised, and that sensible measures to mitigate risk are established.

The College's appetite for risk across its activities is provided in the following statements:

**(3) Finance**

The College aims to maintain its long-term financial viability and its overall financial strength. Whilst targets for financial achievement will be challenging the College has a minimalist appetite for risk that puts in peril the long-term sustainability of the College.

**(1) Political**

The College aims to make a significant, sustainable, and socially responsible contribution to the West of Scotland and to Scotland through education, knowledge exchange and operational activities. It recognises that this should involve a cautious approach to political risk and is comfortable in accepting this risk subject always to ensuring that potential benefits and risks are fully understood before developments are authorised and that sensible measures to mitigate risk are established.

**(10) Governance**

The College places great importance on governance, and has no appetite for any breaches in statute, regulation, professional standards, bribery or fraud. It wishes to maintain accreditations related to courses or standards of operation and has cautious appetite for risk relating to actions that may put accreditations in jeopardy.

The above statements take priority over the statements of areas of risk appetite below.

**(2) Competitive Environment**

The College wishes to be amongst the leaders in transforming knowledge, ideas, skills and expertise into teaching, innovation and enterprise, thereby enriching our stakeholders and wider society. It recognises that developing this may involve an increased degree of risk and is comfortable in accepting this risk subject always to ensuring that potential benefits and risks are fully understood before developments are authorised and that sensible measures to mitigate risk are established.

**(4) Staffing and HR**

The College aims to value, support, develop and utilise the full potential of our staff to make the College a stimulating and safe place to work. It places importance on a culture of equality and diversity, dignity and respect, collegiality, annual reviews, the development of staff, and the health and safety of staff, students and visitors. It recognises that in fulfilling the potential of the College staff, this may involve an increased degree of risk and is comfortable in accepting this risk subject always to ensuring that potential benefits and risks are fully understood before any deviation from its standards in these areas are authorised and that sensible measures to mitigate risk are established.

**(5) Student**

The College aims to ensure that we recruit the correct student onto the correct course, retain those students and ensure that they have a productive time at College. It recognises that in order to compete with other institutions that it must accept an increased degree of risk in order to attract and retain those students. It is comfortable in accepting this risk subject to a) limitations imposed by ethical considerations, and b) ensuring that potential benefits and risks are fully understood before developments are authorised and that sensible measures to mitigate risk are established.

**(6) Reputational / External**

It is regarded as critical that the College preserves its high reputation whilst at the same time it is open to exploring new / innovative external partnerships. The College has an open appetite for risk in the conduct of any of its activities which ~~that puts its reputation in jeopardy,~~ could lead to undue adverse publicity, or could lead to loss of confidence by the political establishment and funders of its activities.

**(8) Infrastructure (including estate projects, IT and equipment)**

Major change activities are required periodically to develop the College, and to adapt to changes in the regulatory and technological environment and in the nature and conduct of the College's activities. The College expects such changes to be managed according to best practice in project and change management but given the operating environment in which it operates has open appetite for investment in this area where the benefits can be shown to outweigh the costs.

**(9) Learning and Teaching**

The College wishes to stimulate students to develop a wish to engage in lifelong learning, encourage an independent attitude and an aspiration to achieve success. It recognises that this should involve an increased degree of risk in developing education and the student experience and is comfortable in accepting this risk subject always to ensuring that potential benefits and risks are fully understood before developments are authorised and that sensible measures to mitigate risk are established.

## (7) Digital

The College wishes to be at the leading edge in the digital arena and wishes to grow its digital ambitions. It recognises that that this will involve an increased degree of risk in developing digital solutions and is comfortable in accepting this risk subject to a) limitations imposed by financial considerations, and b) ensuring that potential benefits and risks are fully understood before developments are authorised and that sensible measures to mitigate risk are established.

WEST COLLEGE SCOTLAND

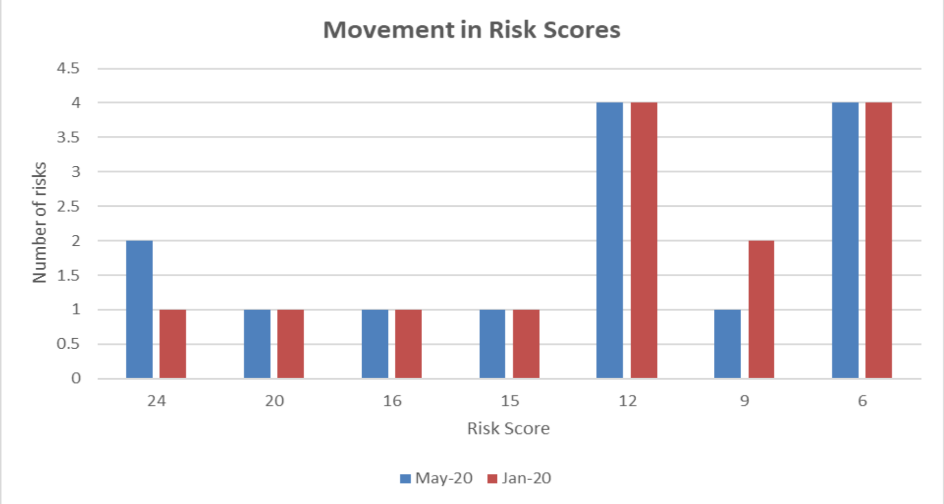
# Strategic Risk Register

**Strategic Risk Register Dashboard Report**

Risk register review period: May-20
Board / Committee review period: May-20

**Top 5 Risks Post Mitigation**

| Ref | Risk | Movement since previous register | Probability | Impact | Score May 20 | Score May 19 |
|---|---|---|---|---|---|---|
| WCS 7<br><br>Reputational / External | Inadequate business continuity / cyber resilience planning leading to material interruptions to service delivery primarily resulting from Coronavirus epidemic. | ↑ | 6 | 4 | **24** | **9** |
| WCS 1<br><br>Finance | Inability to clearly forecast the volatility and impact of SFC funding and funding methodology changes in relation to core-grant-in-aid, credit activity model; reduction in European funding; student support funding and estates maintenance. | ↔ | 6 | 4 | **24** | **24** |
| WCS 3<br><br>Infrastructure | Failure to deliver Estate Strategy objectives due to business cases for development of estate being delayed, with this having a resultant negative impact on the ability of the College to recruit students, retain staff and address legislative requirements | ↔ | 5 | 4 | **20** | **20** |
| WCS 2<br><br>Infrastructure | Failure to secure adequate estates maintenance / capital funding for future investment or refurbishment of IT and physical infrastructure. | ↔ | 4 | 4 | **16** | **16** |
| WCS 16<br><br>Governance | Failure to prepare for the anticipated impact upon the College of Brexit including loss of European funding, loss of students / staff and access to exchange programme funding. | ↔ | 5 | 3 | **15** | **15** |




The most significant risk faced by the College is now the business continuity challenges caused by the corona virus outbreak. The College has successfully closed down the physical campuses and transferred some activity to online learning. Guidance on ensuring the College students are correctly recognised for the work they have undertaken during the year is now in progress.

The next most significant risk is the financial volatility faced by the College. This was previously the most significant risk faced by the College and continues to have the same post mitigation score as Business Continuity Planning. The impact of Corona virus only heightens this risk as the conditions of funding and amount of SFC / SDS funding for 2020-21 remain unclear. The future College financial position is further challenged due to the potential loss of commercial income as the economy recovers from the impact of the outbreak.

# WEST COLLEGE SCOTLAND STRATEGIC RISK REGISTER

| | | | | Assessment pre mitigation | | | | Assessment post mitigation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk No. | Risk Reference / Category | Strategic Objective | Risk | Risk Probability | Risk Impact | Risk Score | Mitigating Controls and Actions | Risk Probability | Risk Impact | Risk Score | Previous Score | Movement since last review | Executive Responsible |
| 1 | WCS 7<br><br>Reputational / External | 1.2<br>3.4 | **Inadequate business continuity / cyber resilience planning leading to material interruptions to service delivery primarily resulting from Coronavirus epidemic.** | 6 | 4 | 24 | 1) Business Continuity Plans available to relevant staff along with associated documents to assist during any incident.<br>2) Training and scenario planning sessions undertaken on a quarterly basis with involvement from both teaching and support staff. Externally facilitates and lessons learned shared with staff.<br>3) Closure of College campus undertaken successfully in March and planning has commenced to enable remobilisation.<br>4) Good interaction with staff, unions and Student Associations with information being supplied to all parties on a timely basis.<br>5) Continued engagement with Scottish Funding Council, Skills Development Scotland and other funding bodies to gain clarity on future funding which is resulting in an inability to take effective decisions.<br>6) Staff planning for return to the 'new normal' way of working include:<br>- the development of online materials;<br>- estate adaptations including mobilisation for home working;<br>- increased reliance on technology which will require funding;<br>- monitoring of supply chains;<br>- governance updates regarding implications of deficit budgets; and<br>- consideration given to starting the 2020-21 academic year later to assist with the planning process. Students for 2019-20 will continue to receive teaching through us of on-line delivery methods<br>7) Financial and staffing implications not fully understood at the moment due to lack of clarity of information from central government and in a number of cases receipt of conflicting information. | 6 | 4 | 24 | 9 | ↑ | Principal |
| 2 | WCS 1<br><br>Finance | 1.1<br>1.3<br>3.1<br>3.4 | **Inability to clearly forecast the volatility and impact of SFC funding and funding methodology changes in relation to core-grant-in-aid, credit activity model; reduction in European funding; student support funding and estates maintenance.** | 6 | 4 | 24 | 1) Detail of 2020-21 indicative SFC funding confirmed and shows a level of core funding which is not greater than in 2019-20; additional funding will be received for inflationary pressures, pension costs and estate maintenance. The College will continue to face a number of financial challenges arising from this settlement during 2020-21 and beyond.<br>2) 2020-21 budget currently being compiled for approval by College Board in conjunction with 5 year future financial scenario planning and detailed<br>3) Transformation Plan submitted to SFC in order to address future financial challenges. The College continues to engage with the SFC on the final agreement and implementation of the plan including review of curriculum delivery in Renfrewshire.<br>4) Robust financial forecasting including production and review of monthly management accounts.<br>5) Estates Strategy including objective to improve / rationalise the College estate utilising estate maintenance funding.<br>6) Financial modelling of next 5 years undertaken based upon SFC FFR assumptions. Allows the College to identify funding gap and to continue to take necessary steps to address the gap.<br>7) Commercial Development and Credits Group reporting to Corporate Development Committee with focus on maintaining and growing income including ESF activity.<br>8) Robust monitoring of current and future curriculum delivery plans (CMAP) including staffing requirements.<br>9) Active College representation and involvement in external SFC review groups - funding methodology, CDN Finance network; credit review; access and inclusion; rural and remoteness premium and student funding. | 6 | 4 | 24 | 24 | ↔ | VP Operations / VP Educational Leadership |

| | | | | Assessment pre mitigation | | | | Assessment post mitigation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk No. | Risk Reference / Category | Strategic Objective | Risk | Risk Probability | Risk Impact | Risk Score | Mitigating Controls and Actions | Risk Probability | Risk Impact | Risk Score | Previous Score | Movement since last review | Executive Responsible |
| 3 | WCS 3<br>Infrastructure | 1.2<br>3.1<br>3.3<br>3.4 | Failure to deliver Estate Strategy objectives due to business cases for development of estate being delayed, with this having a resultant negative impact on the ability of the College to recruit students, retain staff and address legislative requirements | 6 | 4 | 24 | 1) The College continues to engage with SFC, SFT, local councils and other key stakeholders re investment and in relation to implementation of national estate condition survey review and future direction of travel.<br>2) Approved Estate Strategy and annual implementation updates highlight required estate investment for consideration by SFC and Scottish Government.<br>3) Draft Outline Business Case for Paisley estate submitted to the SFC. Response received from SFC in regard to Paisley OBC and the College is currently engaging with partners in relation to the collaborative aspects of any proposals.<br>4) Outline Business Case for Greenock updated and submitted to the SFC in December 2018 following Board of Management approval. SFC have confirmed receipt and willingness to work with College to take forward OBC.<br>5) Inverclyde local development plan now finalised leading to potential restrictions on future College developments on preferred site. College continues to engage with partners to find suitable way forward.<br>6) Ongoing prioritisation of College estates funding in a way which links to priority projects, with update reports being provided to each meeting of the Board of Management Estates Committee.<br>7) Ongoing involvement in sector/SFC capital working group enables WCS input to ongoing discussions in relation to SFC estates maintenance allocation methodology and capital allocations.<br>8) Ongoing engagement with SFC | 5 | 4 | 20 | 20 | ↔ | VP Operations |
| 4 | WCS 2<br>Infrastructure | 1.1<br>1.2<br>2.3<br>4.1 | Failure to secure adequate estates maintenance / capital funding for future investment or refurbishment of IT and physical infrastructure. | 5 | 4 | 20 | 1) College Estate Strategy submitted to SFC, reviewed by internal audit and subject to annual review on implementation and progress by Board of Management Estates Committee.<br>2) 2019-20 SFC funding for estates has seen a reduction in lifecycle maintenance and priority maintenance funding. The continued reduction in lifecycle maintenance does present an operational challenge. There is also a need to understand the basis of estates maintenance funding allocation beyond 2019-20.<br>3) WCS participation in SFC/sector Capital Working Group and wider consultation exercises where possible.<br>4) Outline Business Case for Greenock updated and submitted to the SFC in December 2018 following Board of Management approval. SFC have confirmed receipt and willingness to work with College to take forward OBC. College currently undertaking curriculum horizon scanning exercise in responding to SFC information request in relation to Greenock OBC. Implications of published Inverclyde local development plan being actioned and College is engaging with partners in relation to this.<br>5) Outline Business Case for Paisley submitted to the SFC in October 2017 and feedback received from the SFC. Discussion with partner organisations remains ongoing in relation to the collaborative aspects of the proposals, and an updated OBC for Paisley will require to be submitted to SFC once these have been concluded.<br>6) The College has updated the estate condition work undertaken in 2015. This provides robust data showing the level of investment required as at 2019 in order to get the College estate up to Condition B and maintain this.. | 4 | 4 | 16 | 16 | ↔ | VP Operations |
| 5 | WCS 16<br>Governance | 1.3<br>2.2<br>3.1<br>3.4 | Failure to prepare for the anticipated impact upon the College of Brexit including loss of European funding, loss of students / staff and access to exchange programme funding. | 5 | 3 | 15 | 1) College has considered possible impacts of Brexit on operations and continues to keep this under review. Output has been discussed at senior management level and with relevant Board Committees. It is anticipated there may be an impact on EU funded programmes (such as Modern and Foundation Apprentices).<br>2) The College is a member of a sector working group on Brexit allowing access to latest intelligence specific to the College sector.<br>3) Close liaison with SFC on future funding arrangements post 2021 when current ESF funding is due to end. | 5 | 3 | 15 | 15 | ↔ | Principal |

| | | | | Assessment pre mitigation | | | | Assessment post mitigation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk No. | Risk Reference / Category | Strategic Objective | Risk | Risk Probability | Risk Impact | Risk Score | Mitigating Controls and Actions | Risk Probability | Risk Impact | Risk Score | Previous Score | Movement since last review | Executive Responsible |
| 6 | WCS 4<br>Learning and Teaching | 1.2<br>2.1<br>3.2<br>3.4 | **Failure to deliver SFC Regional Outcome Agreement targets at a time of limited resource results in future credit and/or funding adjustments.** | 5 | 4 | 20 | 1) Positive engagement with SFC in relation to ROA development and monitoring for current and future years. Internal audit of ROA process indicated robust planning arrangements in place regarding development of ROA.<br>2) Effective internal monitoring and reporting procedures in place, including operational planning process, and monitoring through the Board of Management and all Committees.<br>3) Good working relationships with local authorities and schools in order to access attainment funding in support of College activities in this area.<br>4) Detailed curriculum development planning and review process which has been subject to positive review by internal audit.<br>5) Blended approach to delivery of teaching and learning including online learning allowing College to address changes in recruitment and delivery.<br>6) Curriculum offering is reviewed to ensure employer and student needs are met and appropriate courses delivered.<br>7) The Board of Management to consider the College ROA during February 2020 meeting. The draft ROA will then be submitted to the SFC for initial consideration. | 4 | 3 | 12 | 12 | ↔ | Principal |
| 7 | WCS 5<br>Staffing and HR | 1.1<br>1.2<br>1.3<br>3.4 | **Impact and outcome of National Pay Bargaining for both teaching and support staff.** | 6 | 3 | 18 | 1) WCS representation and involvement in national college Employers Association and national joint negotiating committee (NJNC).<br>2) Financial impact assessment / planning scenarios on the impacts of National Bargaining ongoing. National Bargaining funding distribution for 2019-20 agreed with Colleges Scotland and the Scottish Funding Council.<br>3) Business Continuity Planning considers impact of industrial action, with specific plans in place.<br>4) Local trade union consultation and negotiating committees for support and teaching staff continuing to meet on an ongoing basis in order to maintain positive College industrial relations.<br>5) Robust college sector and WCS communications plan including liaison with Student Association on impact on students.<br>6) Local workforce planning arrangements subject to positive internal audit review (June 2018). Workforce planning being carried out at departmental level based on agreed template<br>7) Support and teaching staff pay award until September 2020 in place. | 6 | 2 | 12 | 12 | ↔ | Principal |
| 8 | WCS 6<br>Digital | 1.1<br>2.1<br>3.3<br>4.2 | **Failure to maintain or acquire and use IT systems and infrastructure to support the digital ambitions of the College.** | 4 | 4 | 16 | 1) IT Strategy, Policies / Procedures and system access processes in place. The Finance and General Purposes Committee review progress achieved in delivering the IT Strategy on an annual basis and are satisfied with progress given the level of resource available to the College - although recognise that the College digital ambitions are being constrained by the level of SFC funding. Strategic dialogue with Colleges Scotland and the SFC is ongoing in an effort to secure the required level of funding in order to deliver College digital ambitions.<br>2) Staff and student feedback and evaluation procedures in place.<br>3) IT Contingency Plan in place with regular review.<br>4) College has renewed its Cyber Essentials Plus accreditation as required. Work commencing on updating the Scottish Government Cyber Resilience Framework.<br>5) College Digital Strategy which sets out digital ambitions for the College, presented and approved by the Board of Management.<br>6) Discussions remain ongoing with the SFC on IT condition survey and College offered to be model for future sector wide survey.<br>7) College HR department providing support to staff undertaking national support staff job evaluation. | 4 | 3 | 12 | 12 | ↔ | VP Operations |

| | | | | Assessment pre mitigation | | | | Assessment post mitigation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk No. | Risk Reference / Category | Strategic Objective | Risk | Risk Probability | Risk Impact | Risk Score | Mitigating Controls and Actions | Risk Probability | Risk Impact | Risk Score | Previous Score | Movement since last review | Executive Responsible |
| 9 | WCS 15<br>Governance | 1.1<br>2.1<br>3.4<br>4.3 | **Failure to deliver the financial and/or non-financial objectives outlined in the College Transformation Plan "Future Proofing Our College".** | 4 | 4 | 16 | 1) Transformation Plan has been developed by the College and discussed in detail with the SFC.<br>2) Board of Management have approved the Plan and financial objectives are monitored through the F&GP Committee. Board of Management monitor overall plan achievement.<br>3) Projects have been initiated in line with the plan and are directed by a specific member of SMT.<br>4) Detailed delivery plan has been created to allow milestones to be set and monitoring to take place.<br>5) College has a plan in place to meet financial objectives during 2019-20. However future years remain challenging and the plan will require to be further reviewed/updated. SFC indicative funding figures have been published and have crystallised the financial challenges faced by the College. No guidance on future years. | 3 | 4 | 12 | 12 | ↔ | Principal |
| 10 | WCS 9<br>Staffing and HR | 1.2<br>1.3<br>3.4 | **Inability to maintain positive staff relations** | 4 | 3 | 12 | 1) Approved Workforce Plan in place to address Audit Scotland recommendations and implementation reviewed by the Board CDC and HR Committee.<br>2) Internal audit on internal communications reported that that the College had effective internal communication channels to staff and students<br>3) Clear procedures for communication and engagement with Trade Unions and College staff.<br>4) Staff engagement sessions and staff surveys undertaken on regular basis allowing matters to be raised and issues to be addressed early.<br>5) Local trade union consultation and negotiation committees in place for teaching and support staff.<br>6) College is supportive of staff involvement in national job evaluation scheme and has open dialogue with Unions as to how staff can be supported. | 3 | 3 | 9 | 9 | ↔ | Principal |
| 11 | WCS 11<br>Competitive Environment | 1.1<br>2.3<br>3.1<br>3.2 | **Ability to generate consistent levels of alternative income or to grow alternative income streams.** | 4 | 3 | 12 | 1) Alternative Income Strategy currently under development in response to requirements of College Transformation Plan objectives. Strategy will be subject to review by Corporate Development Committee.<br>2) Annual financial budget agreed and monitored by the Corporate Development Committee.<br>3) Strong partnerships with local employers and stakeholders.<br>4) Operation planning process used to identify potential opportunities for income growth.<br>5) Adaption of course portfolio to meet student / employer needs.<br>6) Financial strategy and planning in place to address resource needs and redirect as required.<br>6) Review of resources required within Curriculum Development Planning procedure.<br>7) Commercial Development Group meets bi-monthly to review and address challenges of delivering alternative income. | 3 | 3 | 9 | 9 | ↔ | VP Educational Leadership |
| 12 | WCS 10<br>Staffing and HR | 1.3<br>2.3 | **Failure to embed Workforce Plan resulting in lack of appropriate resources and skills being developed to achieve College strategic objectives and outcomes** | 4 | 3 | 12 | 1) College Workforce Plan and associated reporting requirements approved by the Board of Management.<br>2) Detailed teaching resource planning through use of curriculum mapping tool (CMAP).<br>3) Resourcing of support staff structures reviewed on an ongoing basis by Executive Management Team to ensure alignment with operational and strategic priorities.<br>4) Itrent HR and payroll software developed to provide staff data and reports including an establishment report.<br>5) Professional Development Policies are aligned to strategic priorities.<br>6) Roll out of College CPD review process is ongoing and supports succession planning, leadership development and assists in mitigating the impact of the loss of key staff.<br>7) Internal audit reviewed workforce planning as part of 2018-19 audit plan. All recommendations made by internal auditors fulfilled and OD&HR Committee updated on progress.<br>8) Initial results from staff skills survey being used to allow the College to identify and address future skills gaps. | 3 | 2 | 6 | 6 | ↔ | Principal |

| | | | | Assessment pre mitigation | | | | Assessment post mitigation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk No. | Risk Reference / Category | Strategic Objective | Risk | Risk Probability | Risk Impact | Risk Score | Mitigating Controls and Actions | Risk Probability | Risk Impact | Risk Score | Previous Score | Movement since last review | Executive Responsible |
| 13 | WCS 13<br><br>Governance | 3.4<br>4.1 | **Inability to ensure a holistic response to data and information governance, including compliance with the General Data Protection Regulations (GDPR).** | 3 | 3 | 9 | 1) Data Protection Officer (DPO) appointed in compliance with legislative requirement. DPO is part of shared services agreement allowing the College to work collaboratively with other institutions.<br>2) DPO is undertaking review of departmental compliance with data legislation and addressing issues as required. Reports provided to working group on progress and issues identified / rectified.<br>3) College has a working group covering GDPR and data management issues with involvement from senior staff. The Group has oversight of the information risk assessment process.<br>4) Data Protection concepts and principles embedded within the operations of the College. | 3 | 2 | 6 | 6 | ↔ | Principal |
| 14 | WCS 14<br><br>Learning and Teaching | 1.2<br>3.4 | **Normal business activities are unduly affected due to the complexity of sequencing estates investment works** | 4 | 2 | 8 | 1) Detailed resource planning involving all relevant parties at stage to address any issues in advance of project start date.<br>2) Staff resource increased during 2018-19 to address the significant increase in level of expenditure and complexity of projects being undertaken.<br>3) Well embedded project / estate team with knowledge base that allows issues to be identified and addressed.<br>4) use of external professional advisors to provide oversight and critical review of proposed activities / plans. | 3 | 2 | 6 | 6 | ↔ | VP Operations |
| | | | | | | | | | | | | | |

## Corporate Strategy 2019-2025

| Priorities | | Objectives | |
|---|---|---|---|
| (1) Personalisation | We will deliver the skills solutions that employers are looking for and the learning outcomes that students want, | 1.1 | Developing Bespoke solutions, Fast |
| | | 1.2 | Raising Aspirations and Enabling Students to achieve outcomes |
| | | 1.3 | Recruiting and Retaining Talented People |
| (2) Collaboration | We will build the immersive relationships and make the connections that enhance value for | 2.1 | Creating Learning Pathways |
| | | 2.2 | Immersive Partnerships |
| | | 2.3 | Delivering Inclusive Growth |
| (3) Agile and Adaptive | We will develop the capability to respond to shifts in demand and seize new opportunities quickly' putting in place specialist delivery capabilities. | 3.1 | Developing new income opportunities |
| | | 3.2 | Developing the Market |
| | | 3.3 | Utilising Specialist Capabilities |
| | | 3.4 | Managing for Resilience |
| (4) Digital | We will ensure that the College has the digital capacity and capabilities to deliver in a modern economy. | 4.1 | Using Data |
| | | 4.2 | Inspirational Learning |
| | | 4.3 | Developing the skills base |

## Tolerance Matrix and Scoring Grid

| Probability | Score | Impact | Score |
|---|---|---|---|
| Almost Certain | 6 | Catastrophic | 4 |
| Very Likely | 5 | Critical | 3 |
| Likely | 4 | Marginal | 2 |
| Possible | 3 | Negligible | 1 |
| Very Unlikely | 2 | | |
| Remote Chance | 1 | | |

### Risks - Probability x Impact Score Grid

| | | | | |
|---|---|---|---|---|
| Almost Certain 6 | 6 | 12 | 18 | 24 |
| Very Likely 5 | 5 | 10 | 15 | 20 |
| Likely 4 | 4 | 8 | 12 | 16 |
| Possible 3 | 3 | 6 | 9 | 12 |
| Very Unlikely 2 | 2 | 4 | 6 | 8 |
| Remote Chance 1 | 1 | 2 | 3 | 4 |
| | Negligible 1 | Marginal 2 | Critical 3 | Catastrophic 4 |

## Risk Score - Direction of Travel

↔ Post mitigation risk score after review has remained static compared to the last time the register was reviewed.

↑ Post mitigation risk score after review has increased compared to the last time the register was reviewed.

↓ Post mitigation risk score after review has reduced compared to the last time the register was reviewed.

**TITLE:** **WCS FRAUD UPDATE**

[redacted] [redacted]

[redacted] [redacted]

[redacted] [redacted]

**Status:** **RESTRICTED**

**TITLE:** **2019-20 AUDIT STRATEGY MEMORANDUM AND FEE PROPOSAL**

**Background:** The purpose of this report is to present the Mazar LLP (external auditor) Audit Strategy Memorandum and fee proposal for the review of the 2019-20 financial statements. This Audit Strategy Memorandum and fee proposal were approved by the Audit Committee on 21 May 2020.

The Audit Strategy Memorandum document provides the Finance and General Purposes Committee with an overview of the external auditor's preliminary audit planning procedures and approach in relation to the financial statements of the College for the year ended 31 July 2020. The memorandum also provides an overview of significant risks and key judgement areas in section 4.

In section 5 the memorandum notes the four wider scope areas upon which the auditors require to make a judgement:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

Mazars have set their fee for the audit at £31,000 (2018-19: £31,000). This fee is within the fee range set by Audit Scotland.

**Action:** The Finance and General Purposes Committee is requested to note the content of the 2019-20 Audit Strategy Memorandum and the audit proposed fee.

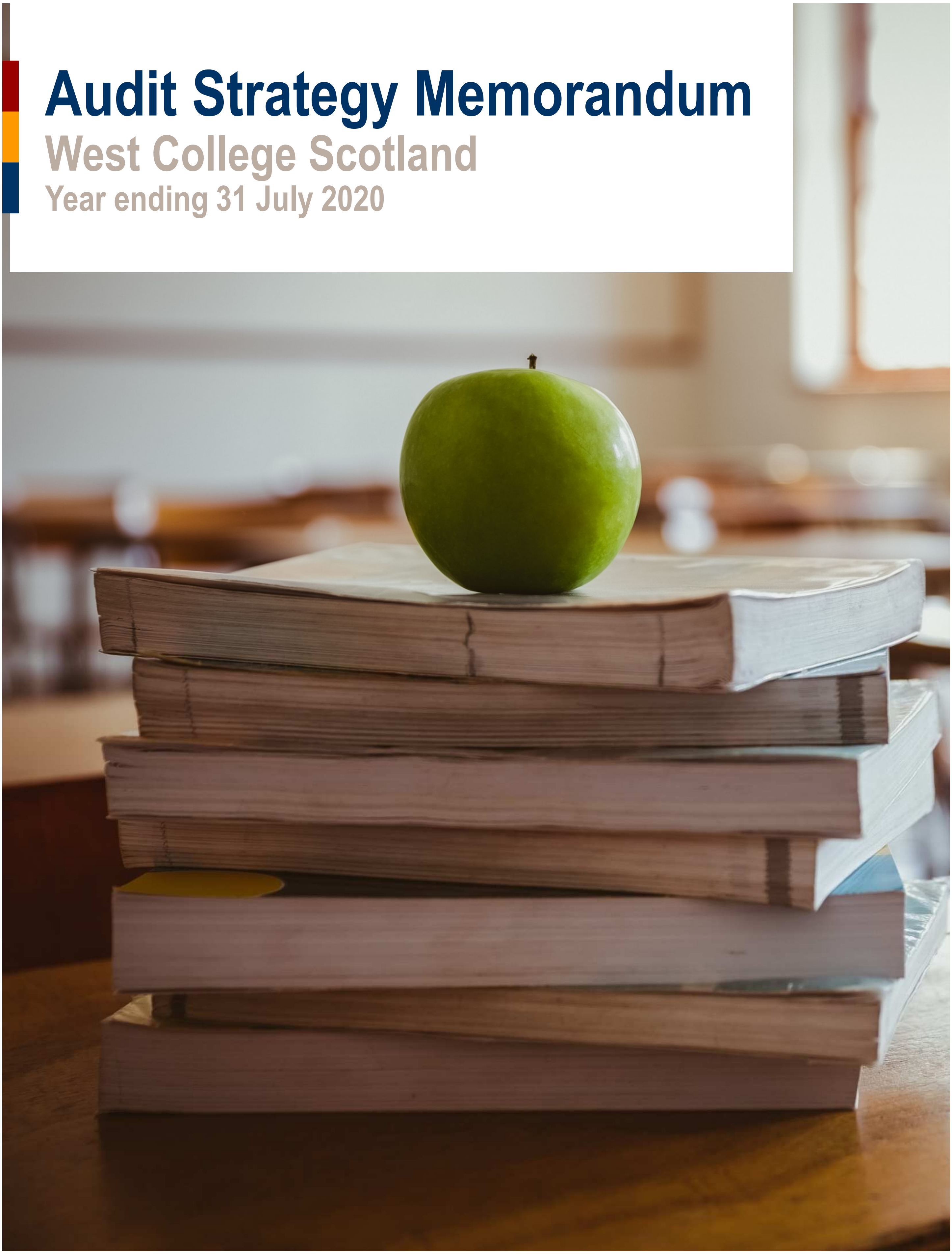
**Lead:** Alan Ritchie, Director of Finance and Estates

**Status:** Open

# Audit Strategy Memorandum

## West College Scotland

### Year ending 31 July 2020



MAZARS

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Mazars LLP
100 Queen Street
Glasgow
G1 3DN

The Board of Management
West College Scotland
Paisley Campus
Renfrew Road
Paisley
PA3 4DR

21 May 2020

Dear Members,

**Audit Strategy Memorandum – Year ending 31 July 2020**

We are pleased to present our Audit Strategy Memorandum for West College Scotland for the year ending 31 July 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing West College Scotland which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor. We recognise that West College Scotland, in common with other public bodies, is under exceptional pressure whilst managing the impact of the COVID-19 pandemic. At the point of writing, much is unknown about future financing across the further education sector and how Colleges will operate going forward. As the impact of the pandemic on College finances and operations become more fully understood, we will review and assess our planned audit strategy and report to you where we recognise changes are required.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0738 724 2052.

Yours faithfully

Lucy Nutley

Mazars LLP

# 1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

**Overview of engagement**

We are appointed by the Auditor General for Scotland to perform the external audit of West College Scotland for the year to 31 July 2020. This is our fourth year of appointment.

**Responsibilities**

Our responsibilities, principally derived from the Code of Audit Practice ('the Code') issued by Audit Scotland, are outlined below.

**Audit opinion**

We are responsible for forming and expressing an opinion on the financial statements.

The Audit Committee is responsible for the assessment of the College's ability to continue as a going concern. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of the disclosures made.

**Regularity opinion**

We are required to form and express an opinion on whether the College has, in all material respects, incurred expenditure and income in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

**Opinion on other matters**

We are required to express an opinion on whether the audited part of the Remuneration and Staff Report, and the Governance Report have been properly prepared in line with relevant legislation and directions. We also express an opinion on whether the Performance Report is consistent with the audited financial statements.

**Wider scope work**

The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. The four dimensions are Financial Sustainability, Financial Management, Governance and Transparency, and Value for Money.

Our audit does not relieve the Board of Management, as those charged with governance, or management of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

# 2. YOUR AUDIT ENGAGEMENT TEAM

- **Lucy Nutley** – Director
- Lucy is the Engagement Lead for the audit and will be the key point of contact for the Audit Committee. She will have overall responsibility for delivering a high quality audit to the College. Lucy will be responsible for the opinions given on the financial statements and will liaise with the Director of Finance and Estates and the Head of Finance & Student Funding. She will attend Audit Committee meetings, and where appropriate, Board meetings.
- lucy.nutley@mazars.co.uk
- 0738 724 2052

- **Joanne Buchanan** – Senior Manager
- Joanne will manage and coordinate the audit and be the key point of contact for the Head of Finance & Student Funding and the Principal Accountant, as well as liaising with Internal Audit. Joanne will oversee completion of audit work to a high standard and attend Audit Committees as appropriate.
- joanne.buchanan@mazars.co.uk
- 0779 403 1384

- **Suzie Graham** – Audit Assistant Manager
- Suzie will be responsible for leading the onsite work, reviewing the work of more junior members of the team and performing the audit work in more specialised areas.
- suzie.graham@mazars.co.uk
- 0781 046 8166

# 3. AUDIT SCOPE, APPROACH AND TIMELINE

**Audit scope**

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

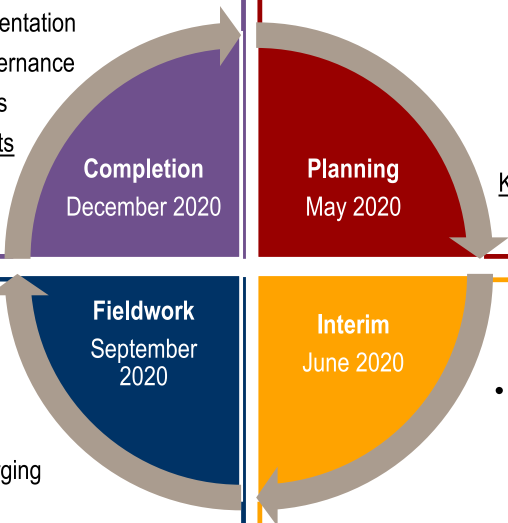
**Audit approach**

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.




- Final review and disclosure checklist of financial statements
- Final audit file review
- Agreeing content of Letter of Representation
- Reporting to those charged with governance
- Reviewing post balance sheet events

Key reporting and communication outputs

- Annual Audit Report
- Independent Auditor's Report

- Updating our understanding of the College
- Initial opinion and wider scope risk assessments
- Development of our audit strategy
- Lessons learned from 2018/19 audit
- Agreement of timetables
- Preliminary analytical procedures

Key reporting and communication outputs

- Audit Strategy Memorandum

- Review of draft annual report and accounts
- Reassessment of audit strategy
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

Key reporting and communication outputs

- Regular update meetings with the finance team

- Documenting systems and controls
- Walkthrough procedures
- Controls review, including general and application IT controls

Key reporting and communication outputs

- Audit progress report to Audit Committee

# 3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

The timescales overleaf are proposed on the basis of a return to 'business as usual' in the coming months. We understand there may be uncertainty in the College's capacity for reporting and engaging with audit while the pandemic continues. We will be as flexible as possible with timelines as the audit progresses.

**Reliance on internal audit**

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

**Management's and our experts**

Management makes use of experts in specific areas when preparing the College's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

| Items of account | Management's expert | Planned audit approach |
|---|---|---|
| Defined benefit pension liability and associated accounting entries and disclosures required by FRS 102. | Actuary – Hymans Robertson | We will consider the reasonableness of the actuarial assumptions made, referring to our in-house pension scheme experts. |

**Reporting to Audit Scotland**

During the year we will continue to make returns to Audit Scotland as they collect data to establish the impact on the further education sector and feed into any national reporting as required.

Final returns for the National Fraud Initiative were made to Audit Scotland in February 2020. West College Scotland took part in the NFI exercise for the second time in 2019/20. No issues were noted from the exercise.

**Adding value**

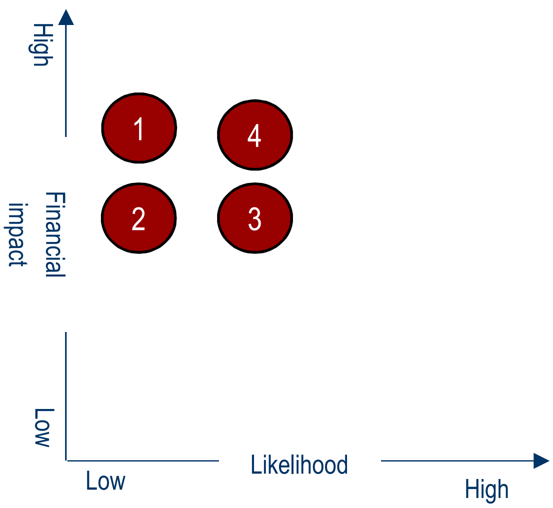
We aim to add value to West College Scotland through our external audit work by being constructive and forward looking, by identifying areas for improvement and be recommending and encouraging good practice. In doing so, we intend to help the College promote improved standards of governance, more effective use of resources and better management and decision making.

# 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

| | |
|---|---|
| Significant risk | A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk. |
| Enhanced risk | An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:<br>• key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and<br>• other audit assertion risks arising from significant events or transactions that occurred during the period. |
| Standard risk | This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring. |

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant and other enhanced risks. We have summarised our audit response to these risks on the next page.




| | Risk |
|---|---|
| 1 | Management override of control |
| 2 | Revenue recognition |
| 3 | Expenditure recognition |
| 4 | Going concern – COVID-19 |

# 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

**Significant risks**

| | Description of risk | Planned response |
|---|---|---|
| 1 | **Management override of controls**<br><br>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. | We will address this risk through performing audit work over:<br>• Accounting estimates impacting amounts included in the financial statements;<br>• Consideration of identified significant transactions outside the normal course of business; and<br>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements |
| 2 | **Revenue recognition**<br><br>There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when grant income should be recognised and if clawback conditions apply to the funding.<br><br>The risk above applies only to the non-grant income generated by the College. The risk has been rebutted in relation to the grant income received by the College, given the highly regulated nature of this income, and therefore the low inherent risk associated with it.<br><br>We consider that there is also a higher risk of non-recoverability of debts arising from the impact of COVID-19 on the economy and therefore expected credit loss provisions should be carefully considered, using forward looking data where appropriate. | We will address this risk through performing audit work over:<br>• The design and implementation of controls management has in place to ensure income is recognised in the correct period;<br>• Cash receipts around the year end to ensure they have been recognised in the right year;<br>• The judgements made by management in determining when non-grant income is recognised;<br>• For major grant income, obtaining counterparty confirmation; and<br>• Expected credit loss provisions applied to receivables at the year end, considering the appropriateness of judgements made by management. |

# 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

| | Description of risk | Planned response |
|---|---|---|
| 3 | **Expenditure recognition**<br><br>For public sector organisations, the same risk in relation to fraud and error in respect of the timing of recording of transactions can apply to the recognition of non-payroll related expenditure and contractual obligations. The pressure to manage expenditure to ensure that budgeted outcomes are achieved increases the risk surrounding fraudulent reporting of expenditure. | We will address the risk through performing audit work over:<br>• The design and implementation of controls management has in place;<br>• Testing of non-payroll expenditure around the year end to ensure transactions are recognised in the correct year;<br>• Testing material year end payables, accruals and provisions; and<br>• Reviewing judgements about whether the criteria for recognising provisions are satisfied |
| 4 | **Going concern – COVID-19**<br><br>The COVID-19 (Coronavirus) pandemic has resulted in the temporary cessation of college operations, albeit some courses are now being delivered remotely. The pandemic has led to increased uncertainty around current and future revenue for colleges due to loss or partial loss of funding as a result of credit targets not being met and from a reduction in commercial activities. The College is unlikely to meet it's original credit target for 2019/20 and looses commercial income each day the College buildings are closed. The College is only partially able to mitigate this risk through cost saving measures and it is likely that a significant deficit will be generated this year.<br><br>Whilst the College has sufficient cash reserves to continue normal operations until the end of 2020, it is unknown at this time whether these reserves will be sufficient for the College to continue in operations for a period of 12 months from the date of signing the financial statements without further funding or a significant change in expenditure. | We will address the risk through performing audit work over:<br>• The design and implementation of controls management has in place;<br>• Management's assessment of going concern;<br>• The Board's assessment of the impact COVID-19 on going concern; and<br>• Budgets and forecasts looking forward 12 months from date of signing the audit report.<br><br>We may also seek assurance from the Scottish Funding Council on the continuance of funding for the College. |

# 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

**Key areas of management judgement**

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

| | Area of management judgement | Planned response |
|---|---|---|
| 1 | **Valuation of pension liabilities**<br>The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS scheme and it is therefore accounted for as a defined contribution scheme.<br><br>The College's share of the SPF's underlying assets and liabilities is identifiable and a net liability is recognised in the accounts.<br><br>Given the scale of the liability recognised in the accounts, a misstatement in the reported position could be material to the financial statements. The movement in the valuation of the liability could be made more volatile by the impact of COVID-19. | We will consider the College's arrangements, including the existence of any relevant controls, for making estimates in relation to pension entries within the financial statements. We will also consider the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts. |
| 2 | **Valuation of land and buildings**<br>The College holds land and buildings with a net book value of £102m as at 31 July 2019.<br><br>In line with the requirements of the Government Financial Reporting Manual, the College has adopted a formal revaluation policy of an external valuation every five years, with a desktop, interim valuation performed during the five year period.<br><br>As the full valuation was performed as at 31 July 2018, no revaluation is planned in the current year, however the College is required to assess on an annual basis the value of the Land and Buildings for comfort that this is not materially different from fair value and assess for indicators of impairment to assets at the reporting date.<br><br>The Royal Institute of Chartered Surveyors (RICS) issued guidance to valuers in March 2020, recognising that valuers are likely to disclose a material calculation uncertainty arising from the COVID-19 pandemic, due to the lack of reliable and contemporary market and cost data available to valuers. There is potential that this situation may still exist at the point the College requires to assess the valuation which could result in a greater degree of estimation uncertainty.<br><br>Given the significance of the value of fixed assets held, a misstatement in the valuation could be material to the financial statements. | We will undertake a range of substantive procedures including:<br>• review of management's assessment as to whether the value still reflects the prior year valuation;<br>• review of the reconciliation between the College's asset register and general ledger; and<br>• consider the College's impairment review process for land and buildings. |

# 5. WIDER SCOPE WORK

**Our approach to wider scope work**

The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. These are:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

We set out below the work that we intend to perform to reach these judgements:

| Dimension | Description | Our planned approach |
|---|---|---|
| Financial sustainability | Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing and assessing the College's arrangements for financial planning and affordable and sustainable service delivery. | We intend to consider:<br>• the financial planning system in place for short, medium and long term periods<br>• the adequacy and accuracy of financial reporting arrangements<br>• the reasonableness of affordability assumptions made in financial planning<br>• the extent to which the financial planning assumptions have been updated and affected by the COVID-19 pandemic |
| Governance and transparency | The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review. | We intend to consider:<br>• the effectiveness of internal control arrangements<br>• the appropriateness of disclosures made in the Governance Statement<br>• whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met |
| Financial management | Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. | We intend to consider:<br>• the monitoring of the effectiveness of internal control arrangements<br>• the response to the COVID-19 pandemic and whether this has involved changes to the governance of the College<br>• whether the College's budgetary control system is timely and accurate<br>• whether and how the College has assessed their financial capacity and skills |
| Value for money | Value for money concerns using resources effectively and continually improving services. | We intend to consider:<br>• the College's evidence of providing value for money<br>• the focus on improving value for money and the pace of change at the College. |

# 5. WIDER SCOPE WORK (CONTINUED)

**Identified significant risks to our wider scope work**

We have also considered, as part of our planning, whether there are significant risks that would impact on any of the four areas of our wider scope work that require special audit consideration. At the planning stage we have identified one significant risks, as detailed below. Should our assessment of risk, or our planned approach to address the risk change during the course of the audit, we will report this to the Audit Committee.

| Description of significant risk | Planned response |
|---|---|
| Our 2018/19 Annual Audit Report noted that West College Scotland had implemented their Business Transformation Plan with £1m funding provided by SFC to enact a voluntary severance scheme. The College has identified that in order to deliver a balanced budget for 2019/20 and beyond, it will require to make further efficiencies of £1.3m annually.<br><br>The College has to manage the ongoing maintenance of its ageing Estate. Outline business cases for the replacement of the Greenock and Paisley campuses have been submitted to the SFC but, to date, have not been progressed further. The College continues to manage its portfolio and exit properties where possible which will result in costs savings going forward. There is a risk that without further revenue funding to support estates maintenance or capital funding to support replacement, the financial position of the College may deteriorate.<br><br>The COVID-19 (Coronavirus) pandemic has resulted in the temporary cessation of operations of public sector organisations, including colleges, albeit some courses are now being taught remotely. As a result there is significant increased uncertainty around current and future revenue for colleges due to loss or partial loss of funding as a result of credit targets not being met and from a reduction in commercial activities. The College is only partially able to mitigate this risk through cost saving measures and it is likely that a significant deficit will be generated this year.<br><br>The financial plans set by the College in prior years will require to be re-set with new funding assumptions as and when they become clearer.<br><br>The estates program and outline business cases may require to be reviewed by the College as a response to potential impacts from the Covid-19 (Coronavirus) pandemic, for example changes in the student numbers accessing estates facilities and a reduction in credits may affect the College's ability to secure the capital funding previously sought. | We intend to consider:<br><br>• the forecast financial position in the five year financial plans submitted to the SFC;<br>• the financial and resource implications of any voluntary severance scheme run by the College;<br>• alternative plans being considered by the College to ensure a balanced budget is achieved;<br>• the financial reporting arrangements in place at the College; and<br>• progress made with plans to replace the Greenock and Paisley campuses, alongside the impact on finance and performance.<br>• how management have considered the longer term implications of the COVID-19 outbreak and if this has been factored into the Business Plan. |

# 6. FEES FOR AUDIT AND OTHER SERVICES

**Fees for audit and other services**

Our fees for the audit of the financial statements and for any other services are outlined in the tables below.

| Service | 2019/20 proposed fee £ | 2018/19 final fee £ |
|---|---|---|
| Auditor remuneration | 27,940 | 27,840 |
| Pooled costs | 1,570 | 1,540 |
| Contribution to Audit Scotland costs | 1,490 | 1,620 |
| **Total Fee** | **31,000** | **31,000** |

The fees outlined above are provided on the basis that we will receive a high-quality set of draft financial statements, supported by good working papers. Should we be required to perform significant levels of additional audit work, or face significant delay in our audit, we will discuss the impact of this on our proposed fee with management.

# 7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services, Lucy Nutley will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Annual Audit Report.

# 8. MATERIALITY AND MISSTATEMENTS

**Definitions**

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

**Summary of initial materiality thresholds**

| Threshold | Initial threshold £ |
|---|---|
| Overall materiality | 1,238,000 |
| Performance materiality | 990,000 |
| Trivial threshold for errors to be reported to the Audit Committee | 37,000 |

**Overall Materiality**

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We consider that gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We expect to set a materiality threshold at 2% of gross expenditure (£1,238,000).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

# 8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

**Performance Materiality**
Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is the level we use to calculate our sample sizes, and is our acceptable difference in any substantive analytical procedures. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the risk level. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

**Specific Materiality**
We assess specific materiality if there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the users of the financial statements. Specific materiality focuses on the qualitative nature, as well as the size, of an item. It recognises that, in some circumstances, it may take a much smaller misstatement to influence the user of the financial statements.

We are required to provide an opinion as to whether the audited part of the Remuneration and Staff Report has been properly prepared. Given the sensitivity of the disclosures made in the Remuneration and Staff Report, we have assessed a specific materiality for this work at £500, being the level that would impact rounding for figures shown to the nearest £'000.

**Misstatements**
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £37,000 based on 3% of overall materiality.

# APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

| Required communication | Audit Strategy Memorandum | Audit Completion Report |
|---|---|---|
| Our responsibilities in relation to the audit of the financial statements and our wider responsibilities | ✓ | |
| Planned scope and timing of the audit | ✓ | |
| Significant audit risks and areas of management judgement | ✓ | |
| Our commitment to independence | ✓ | ✓ |
| Responsibilities for preventing and detecting errors | ✓ | |
| Materiality and misstatements | ✓ | ✓ |
| Fees for audit and other services | ✓ | |
| Significant deficiencies in internal control | | ✓ |
| Significant findings from the audit | | ✓ |
| Significant matters discussed with management | | ✓ |
| Our conclusions on the significant audit risks and areas of management judgement | | ✓ |
| Summary of misstatements | | ✓ |
| Management representation letter | | ✓ |
| Our proposed draft audit report | | ✓ |

**TITLE:** **SCHEDULE OF BUSINESS 2019-20**

**Background:** This paper outlines how the Schedule of Business for 2019-20 enables the Finance and General Purposes Committee to fulfil its' remit.

The schedule has been expended to include an indication of the potential business to be undertaken in 2020-21 for consideration by the Committee. Where the deliverable has been annotated with a 'Y' it is intended that the Committee will receive a report at each meeting. If a report is to be brought to a specific meeting an indicative date has been included.

Note that the IT elements of the Committee remit will in 2020-21 be reported through the Asset and Infrastructure Committee (formerly the Estates Committee) and hence no dates have been included within the 2020-21 column.

**Action:** The Finance and General Purposes Committee is requested to note the content of the report.

**Lead:** Alan Ritchie, Director of Finance and Estates

**Status:** Open

| REMIT | DELIVERABLES 3-9-2019 | 19-11-2019 Joint with Audit | 19-11-2019 | 10-03-2020 | 2-6-2020 | 2020-21 |
|---|---|---|---|---|---|---|
| a) ***To advise the Board of Management on key issues of the College's financial and resource management including:*** | | | | | | |
| • ***solvency of the College***<br>• ***cashflow***<br>○ Annual review of banking arrangements<br>○ Cash flow report (Management accounts) | **Y** | | **Y** | **Y** | **Y** | **Sept 20**<br>**Y** |
| • ***the effectiveness and appropriateness of the utilisation of College resources***<br>○ Vice Principal Update Report<br>○ College Business Transformation Plan<br>○ Update on year-end financial position<br>○ Management Accounts<br>○ Internal Audit reports<br>○ Financial Systems Health Check | **Y**<br>**Y** | | **Y**<br>**Y**<br>**Y (October)** | **Y**<br>**Y**<br>**Y (January)**<br>**Y** | **Y**<br>**Y**<br>**Y(April)** | **Y**<br>**Y**<br>**Sept 20**<br>**Y** |
| • ***Financial Strategy***<br>• Management Accounts<br>• Update of 5-year Financial Forecast<br>• SFC Funding Update<br>• Annual budget and 5-year financial forecast | **Y**<br>**Y** | | **Y (October)**<br>**Y**<br>**Y** | **Y (January)**<br>**Y**<br>**Y** | **Y (April)**<br>**Y**<br>**Y**<br>**Y** | **Y**<br>**Y**<br>**May 21**<br>**May 21** |

| REMIT | DELIVERABLES 3-9-2019 | 19-11-2019 Joint with Audit | 19-11-2019 | 10-03-2020 | 2-6-2020 | 2020-21 |
|---|---|---|---|---|---|---|
| b) ***To review and approve the Financial Regulations on an annual basis, or more frequently if required.*** | | | | | | |
| • Annual review of Financial Regulations<br>• Corporate Governance Statement - Financial Statements | | <br>**Y** | **Y**<br>**Y** | | | **Sept 20**<br>**Nov 20** |
| c) *To consider and advise the Board on:* | | | | | | |
| ***Financial forecasts and budgets in relation to the West Region Outcome Agreement.***<br>• Management Accounts including forecast for year<br>• Annual Budget<br>• Update of 5-year Financial Forecast<br>• Monitoring report on Regional Outcome Objectives | <br><br>**Y**<br><br>**Y** | | **Y (October)**<br>**Y** | **Y (January)**<br>**Y** | **Y (April)**<br>**Y**<br>**Y**<br>**Y** | **Y**<br>**Y**<br>**May 21**<br>**Sept / May 21** |
| ***Any relevant taxation issues.***<br>• Annual update report on taxation matters<br>• Update report if any material changes – as required | **Y** | | | | | **Sept 20** |
| d) ***To consider the College's annual financial statements (at a joint meeting of the Audit and Finance and General Purposes committees).***<br>• External Audit Management Letter<br>• Corporate Governance Statement | | **Y**<br>**Y** | | | | **Nov 20**<br>**Nov 20** |

| REMIT | DELIVERABLES 3-9-2019 | 19-11-2019 Joint with Audit | 19-11-2019 | 10-03-2020 | 2-6-2020 | 2020-21 |
|---|---|---|---|---|---|---|
| • Financial Statements<br>• Annual Internal Audit Report<br>• Internal Audit Annual Plan 2019-20<br>• External Audit Planning Memorandum | **Y** | **Y**<br>**Y** | | | **Y** | **Nov 20**<br>**Nov 20**<br>**Sept 20**<br>**May 21** |
| *e) To monitor:* | | | | | | |
| *The College's financial performance against agreed budgets and make recommendations on major variations.*<br>• Management Accounts<br>• Update on 31 July Year End Position<br>• Annual Financial Statements | **Y** | **Y**<br>**Y**<br>**Y** | **Y (October)**<br>**Y** | **Y (January)** | **Y (April)** | **Y**<br>**Sept 20**<br>**Nov 20** |
| *All income*<br>• Reported through Management Accounts | | | **Y (October)** | **Y (January)** | **Y (April)** | **Y** |
| *All material financial issues.*<br>• Vice Principal Update Report<br>• Finance System Report | **Y** | | **Y**<br>**Y** | **Y** | **Y** | **Y** |
| *Monthly management accounts.*<br>• Management Accounts | | | **Y (October)** | **Y (January)** | **Y (April)** | **Y** |
| *f) To advise the Board on investments and borrowing and to seek appropriate external advice.*<br>• Annual review of banking arrangements | **Y** | | | | | **Sept 20** |

| REMIT | DELIVERABLES 3-9-2019 | 19-11-2019 Joint with Audit | 19-11-2019 | 10-03-2020 | 2-6-2020 | 2020-21 |
|---|---|---|---|---|---|---|
| g) *To ensure adherence to statutory requirements related to the College's financial affairs and compliance with the Financial Memorandum, Scottish Public Finance Manual (SPFM), and related guidance.* <br>• Internal Audit Annual Report <br>• External Audit Management Letter <br>• Annual report on Governance Compliance | | Y <br> Y | | | Y | **Nov 20** <br> **Nov 20** <br> **May 21** |
| h) To receive a regular report on bad debt write offs <br>• Annual report on bad debt write off <br>• Further reports if/as required | **Y** | | | | | **Sept 20** |
| i) To consider, review and recommend to the Board, pension arrangements for College staff, in consultation with the Organisational Development and HR Committee. <br>• Overview of College pension schemes | | | | | **Y** | **May 21** |
| *j) To receive an annual update on banking arrangements, including Scottish Government banking arrangements and to annually approve the bank signatories.* <br>• Annual review of banking arrangements | **Y** | | | | | **Sept 20** |

| REMIT | DELIVERABLES | | | | | |
|---|---|---|---|---|---|---|
| | 3-9-2019 | 19-11-2019 Joint with Audit | 19-11-2019 | 10-03-2020 | 2-6-2020 | 2020-21 |
| **Information Technology** | | | | | | |
| k) To agree and approve IT strategy and policies, ensuring these support the priorities and outcomes of the College<br>• IT Strategy Update<br>• Scottish Government/ College Cyber resilience framework update | | | Y | Y<br>Y | Y | N/a<br>N/a |
| l) *To advise the Board of Management on key issues relating to the College's information technology*.<br>• IT Strategy Update | | | | Y | | N/a |
| *m) To consider and promote the effective and efficient use of IT services.*<br>• IT Strategy Update | | | | Y | | N/a |
| *n) To consider information technology initiatives and innovations for use within the College, the resources required to implement these and to identify risks and opportunities associated with proposals.*<br>• IT Strategy Update | | | | Y | | N/a |

| REMIT | DELIVERABLES 3-9-2019 | 19-11-2019 Joint with Audit | 19-11-2019 | 10-03-2020 | 2-6-2020 | 2020-21 |
|---|---|---|---|---|---|---|
| **Procurement** | | | | | | |
| o) *To agree and approve financial regulations which ensure compliance with legal obligations in respect of tendering and contract procedures*<br>• Review of Financial Regulations | | | **Y** | | | **Sept 20** |
| p) *To agree and approve procurement strategy and policies that reflect best practice, ensuring they support the priorities and outcomes of the College and the achievement of efficiencies.*<br>• Procurement Strategy Update<br>• Procurement Annual Report including future year plan<br>• PCIP Update Report | | | **Y**<br>**Y**<br>**Y** | **Y** | | **Nov 20**<br>**Nov 20** |
| q) *Approve the awarding of contracts above £250,000*<br>• Authorisation sought as required | **Y** | | **Y** | | | **As required** |
| r) *To support development of:*<br>○ *supplier management and contract monitoring*<br>○ *electronic procurement systems*<br>○ *procurement performance management systems*<br>○ *collaborative opportunities*<br>• Reports on update of implementation of Procurement Strategy | | | **Y** | | | **Nov 20** |

| REMIT | DELIVERABLES 3-9-2019 | 19-11-2019 Joint with Audit | 19-11-2019 | 10-03-2020 | 2-6-2020 | 2020-21 |
|---|---|---|---|---|---|---|
| s) *To consider risk relating to the matters that fall within the Committee's remit and to agree what mitigating factors/actions are in place and what further action, if any, needs to be taken to address such matters of risk.*<br>• Review of strategic risk register | | | **Y** | **Y** | **Y** | **Y** |
| t) *Any other factors as required by the Board of Management*<br>• As required | | | | | | |