

Glasgow Colleges' Regional Board: fully operational fundable body status

- This paper sets out the Council executive's assessment of regional governance arrangements in Glasgow Region, with particular reference to the establishment of requisite procedures and processes for GCRB to assume the full funding, monitoring and financial responsibilities required by a fundable body.

Recommendations

The Council Board is invited to:

- Note the executive's assessment of the progress made by GCRB since December 2016, in particular, the development of GCRB's banking arrangements and associated financial procedures to ensure appropriate transfer of Glasgow Region funding from SFC to GCRB and the assigned colleges.
- Note the view of the Chairs of SFC's Finance Committee and Audit & Compliance Committee who were consulted during the final stages of SFC's assessment of the proposed financial processes and procedures to ensure that the proposed arrangements in place are sufficiently robust.
- Agree to grant GCRB fully-operational fundable body status.

Financial implications

- A decision to award fully operational fundable body status to GCRB would allow it to assume all of the responsibilities associated with a Regional Strategic Body, including the funding for college provision in Glasgow Region and appropriate monitoring processes, including monitoring the performance of the assigned colleges.

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Purpose

1. This paper sets out the Council executive's assessment of regional governance arrangements in Glasgow Region, with particular reference to the establishment of appropriate procedures and processes required for GCRB to assume the full funding, monitoring and financial responsibilities required by a fundable body, and seeks Council's approval to grant the Glasgow Colleges' Regional Board (GCRB) fully operational fundable body status.

Strategic Plan implications

2. The Post-16 Education (Scotland) Act 2013 sets out in legislation the governance frameworks in the multi-college regions. SFC requires full assurance that robust processes and procedures are in place prior to confirmation of fully operational fundable body status for Regional Strategic Bodies (RSBs).
3. SFC has a continuing interest in all FE colleges arising from its statutory responsibilities.

Background

4. The Glasgow Colleges' Regional Board is the regional strategic body established by the Post 16 Education (Scotland) Act 2013 and created on 1 May 2014. On 1 August 2014 the three Glasgow Colleges, City of Glasgow College, Glasgow Clyde College and Glasgow Kelvin College, were assigned to GCRB. The Board is responsible for securing the coherent provision of high quality fundable higher and further education in the Glasgow region.
5. At its December 2016 meeting the Council Board considered a paper **SFC/16/106** that set out the Council executive's assessment of the regional governance arrangements in Glasgow. Using the good governance checklist developed specifically for the multi-college regions, that assessment focused on the practical aspects of the governance structures and the key supporting functions including planning, financial control, and risk management. In addition the paper outlined GCRB's transition plan in place to ensure it developed and implemented the appropriate funding allocation and financial monitoring arrangements prior to 1 April 2017.
6. The Council Board noted the significant and effective progress made by GCRB in operating effectively as a Regional Strategic Body and were reassured by the robust operational and management arrangements that have had time to settle in over the last year. At the same time the Council Board expressed some continuing concerns in relation to the establishment of appropriate procedures and processes required for GCRB to assume the full funding, monitoring and

financial responsibilities required by a fundable body.

7. Those concerns arose, in particular, in relation to segregation of duties, with a small workforce at GCRB in control of a large amount of public funding. The Council Board asked that GCRB take appropriate steps to mitigate these risks and consider all options available to it in the next phase of development.
8. It was therefore agreed that the Chairs of SFC's Finance Committee and Audit & Compliance Committee be consulted during finalisation of assessment of GCRB's fully operational fundable body status, to ensure that all arrangements in place were sufficiently robust and met the governance requirements specified by SFC.
9. The two main areas on which this paper reports are:
 - A final review of the good governance checklist and any outstanding issues following the previous update provided in paper **SFC/16/106**, December 2016
 - Progress on the transition underway for GCRB to develop and implement appropriate funding allocation and financial monitoring arrangements by April 2017 - as outlined in the recently completed and agreed GCRB Financial Procedures Manual and the arrangements for the appointment of a Finance Director for GCRB.

Final review of the good governance checklist

10. GCRB has engaged with its three assigned colleges in developing its FM with the colleges. Following consultation, a final version of the FM was agreed by the GCRB Board at its meeting on 12 December 2016.
11. The SFC executive has reviewed the FM, which is consistent with the template provided by SFC. In due course, it will require some amendment, in line with those arising from the current review of SFC's FM with colleges.
12. We are satisfied that in all other respects, GCRB governance systems and processes are robust.

Transition towards fully fundable body status

13. GCRB's internal auditor, Henderson Loggie, has led the work, on a consultancy basis, to support the transition to fully operational fundable body status, and the production of the Financial Procedures Manual. More recently this work has focused on implementing banking arrangements and associated financial procedures to ensure the appropriate transfer of Glasgow Region funding from SFC to GCRB and the assigned colleges. This work has been undertaken in liaison with the GCRB Executive Director, the City of Glasgow College Head of Finance and SFC's Institutional Governance and Finance Team.

14. When GCRB is granted fully operational status it will be responsible for the administration of some £80m per annum. The development of, and compliance with, the GCRB Financial Procedures Manual will enable GCRB to achieve sound financial management and exercise effective control over funding received from SFC and other sources.
15. A full draft of GCRB Financial Procedures Manual for fully-operational fundable body status was considered by the GCRB Performance and Resources Committee and the GCRB Audit Committee. It was then agreed for approval by the GCRB at its meeting on 27 February 2016, subject to clarification with SFC on lines of accountability referred to in paragraph 19 below and a future commitment to joint review of the arrangements.

Banking arrangements

16. The Financial Memorandum between SFC and fundable bodies in the college sector requires compliance with the Scottish Public Finance Manual (SPFM) which, in turn, specifies that all bodies are required to have their core bank accounts with the Government Banking Service framework. The SPFM requires that bodies should ensure a suitable framework of controls exists to enable funds to be properly managed, safeguarded, accounted for, and protected against the risk of fraud and misappropriation. Segregation of duties is an essential element in achieving this control.
17. GCRB will operate one bank account. GCRB passed a resolution at its Board meeting on 27 February that a banking relationship will be maintained with RBS in accordance with the SPFM stipulations. The GCRB executive is currently working with Scottish Government and RBS representatives to set up this account before 31 March 2017.

Arrangements for the flow of funds to the assigned colleges

18. GCRB will be handling large amounts of cash if it is to receive the full monthly transfers and then transmit them to the three assigned colleges. In addition, the GCRB staffing complement is very small comprising the Executive Director, Finance and Resources Director, and an Administrator. The operation of a bank account holding such large amounts of money will therefore need strict controls.
19. Following discussions between SFC and GCRB it was proposed that the most efficient solution in establishing appropriate controls, addressing concerns about the segregation of duties in relation to the small number of GCRB staff, and safeguarding of funds is that SFC undertakes the payment transfers from the GCRB bank account to the assigned colleges on the **instruction** of GCRB which retains responsibility for managing the bank account and would have view only access to the bank account. In effect, all payments to assigned colleges from the GCRB account will require both GCRB and SFC sign-off. GCRB will retain all of its

duties and responsibilities as the RSB with clear lines of accountability.

20. It should be noted that separate arrangements will be in place for student support payments as the law requires SFC directly to make these directly to colleges.
21. The GCRB Board agreed the arrangements outlined above at its meeting on 27 February 2017. The Board expressed concerns over lines of accountability and requested confirmation that GCRB instructions cannot be over-ruled by SFC. Both SFC and GCRB have agreed that a service level agreement (SLA) will be put in place to address and formalise this concern; we would ensure the SLA such was subject to ongoing joint review, with a first review point by 2019.
22. City of Glasgow College finance section will continue to provide services to GCRB and process purchasing payments, with GCRB reimbursing City of Glasgow College for net expenditure incurred on its behalf. A Service Level Agreement will also be developed formally to confirm this relationship.
23. GCRB has confirmed that an audit review of its financial procedures and monitoring arrangements will be undertaken before the end of the current Academic Year.

Staffing

24. A modified staffing proposal, previously considered and recommended by the GCRB Nominations and Remuneration Committee, was agreed by the GCRB at its 27 February 2017 meeting. The proposal provided a rationale for the recruitment of a full-time Finance and Resources Director with a specific remit to lead the regional financial strategy, support the long-term financial sustainability of the Region's colleges, and ensure that funds are disbursed appropriately and in a timely and effective way. As noted earlier, it is proposed that GCRB engage an Interim Finance and Resources Director on a short-term contract as soon as possible while a recruitment process is underway. These proposals are intended to develop GCRB capacity to enable it to take full responsibility for its statutory obligations. Appropriate steps are being taken urgently by GCRB to seek to have the Interim Finance and Resources Director in place by 1 April 2017.
25. SFC has agreed Strategic Funding up to £95,000 in FY2017-18 to provide transitional funding for the GCRB to support the establishment of the Finance and Resources Director role, including the cost of the interim arrangements in place between this April and July 2017; it will also cover part of the cost of the new Director post in AY2017-18. Operating costs for GCRB have been maintained at a reduced level in AY2016-17 and the additional cost of establishing this post could not be met from existing resources. This support from SFC will provide an opportunity for the Director of Finance and Resources role to be established and begin work to impact on regional efficiency levels, whilst not leading to

significant additional costs for the Glasgow College Region in the short term.

26. An earlier proposal had suggested that GCRB should also recruit a Curriculum and Quality Director, but following full consideration by GCRB of these roles, this was modified to propose only the Finance and Resources Director post. The plan is now to enhance the capacity of GCRB in the Curriculum and Quality areas through further improving the effectiveness of regional working across GCRB and the assigned colleges. There will be a stronger focus on working together to achieve shared regional goals and, at the same time, clearly defining lines of accountability. The approach proposed will build on current arrangements to establish regional teams with designated regional leads drawn from the college executive.

Feedback from Chairs of SFC's Finance Committee and Audit & Compliance Committee

27. The Chairs of SFC's Finance and Audit & Compliance Committees considered a paper outlining the proposed arrangements to ensure the appropriate transfer of Glasgow Region funding from SFC to GCRB and the assigned colleges. Both Chairs considered the proposed arrangements will satisfy the requirements for segregation of duties.
28. All payments to assigned colleges from the GCRB bank account will require both GCRB and SFC sign-off. As RSB, GCRB will retain all of its duties and responsibilities. The SFC will have full access to the GCRB account, with groupings of staff able to undertake Bankline administrative tasks, raise payments and approve payments. A service level agreement between SFC and GCRB will formalise the arrangements.
29. At the same time the Chairs noted risks remain ; but these are low given the assessment of the governance arrangements in place. Even with the appointment of a Finance and Resources Director, the GCRB executive will remain a largely skeleton body with all the associated risks that of a small department. SFC has agreed to an ongoing joint review of the processes in place. The initial review would be within the first two years of operation.

Risk assessment

30. The Post-16 Education (Scotland) Act 2013 introduced a requirement for SFC to secure provision for assessing and enhancing the performance of regional strategic bodies. There is a risk that weak governance will lead to ineffective use of funds, poor performance and detrimental impact on students. We assess this risk as low in Glasgow Region.
31. This risk is mitigated by the assessment of governance that SFC has carried out. The executive is also developing a framework for monitoring and assessment of

the performance of all three regional strategic bodies.

Equality and diversity assessment

32. There are no equality and diversity issues associated with the proposals set out in this paper.

Recommendations

33. The Council Board is invited to:

- Note the executive's assessment of the progress made by GCRB since December 2016, including the development and implementation of appropriate funding allocation and financial monitoring arrangements as highlighted by the Council at its December meeting
- Note the view of the Chairs' of Finance Committee and Audit & Compliance Committee, consulted during the final stages of the executive's assessment of GCRB's arrangements to ensure that the proposed arrangements in place are sufficiently robust and the requirement for timely joint review
- Agree to grant GCRB fully-operational fundable body status

Financial implications

34. A decision to award fully operational fundable body status to GCRB would allow GCRB to assume all the responsibilities associated with a Regional Strategic Body which includes the funding for college provision in Glasgow with appropriate controls in place. The procedures are set out on the basis that GCRB will be accountable to SFC for the funds allocated and that in turn, the assigned colleges to GCRB. This means that funding and financial information flows are between the assigned colleges and GCRB, and between GCRB and SFC. The checks and balances in place are considered robust.

Publication

35. This paper will be published on the Council website.

Further information

36. Contact: Michael Cross, Interim Director, Access Skills and Outcome Agreements, tel: 0131 313 6670, email: mcross@sfc.ac.uk or Lorna McDonald, Director of Finance, tel: 0131 313 6690, email: LornaMacDonald@sfc.ac.uk