

Tuesday 16 September 2014

2.00pm

Room 2089

AGENDA

- 1 Apologies for Absence
- 2 Declaration of Interest
- 3 **Presentation and Discussion on ONS by John Ford, SFC**
- 4 Chair's Update
- 5 Principal's Update (attached)
- 6 Governance Issues
 - 6.1 Board Recruitment
 - 6.2 Changes to Standing Orders and Constitution (attached)
 - 6.3 Committee Membership (attached)
 - 6.4 Board Link with Curriculum/Support Areas (attached)
- 7 Audit Committee Annual Report (attached)
- 8 Finance and General Purposes Committee Annual Report (attached)
- 9 Financial Statements for the period ended 31 March 2014 (attached)
- 10 Minute of Meeting of 16 June 2014 (attached)
- 11 Matters Arising
 - 11.1 Retention Monies (verbal update)
 - 11.2 Dumfries Learning Town (verbal update)
- 12 Strategic Risk Register (attached)
- 13 Key Performance Indicators (attached)
- 14 Hospitality Development (verbal update)
- 15 Any Other Business
- 16 Date and Time of Next Meeting

Board of Management

Minute of Meeting of the Board of Management of Dumfries and Galloway College held on Tuesday 16 September 2014 from 2.00 pm in Room 2089 of the Dumfries campus

Present:	J Brennan	S Burgess	S Glendinning
	J Goldie	K Henry	B Johnstone (Chair)
	P Kirby	K McGahan	S Martin
	A Nyondo	C Turnbull	

In Attendance: J Brown, Vice Principal, Corporate Services and Governance, and Secretary to Board
H Pedley, Director of Organisational Development and Facilities
A Wright, Vice Principal, Learning and Skills
S Sutherland, Executive Team Assistant

1 Apologies for Absence

Apologies for absence were intimated on behalf of H Carr, C Grant, J Henderson and D Holland.

2 Declaration of Interest

Members agreed to indicate declarations of interest as appropriate throughout the meeting.

3 Presentation and Discussion on ONS – John Ford, SFC

John Ford presented to the Board on the latest information on reclassification and the implications for Scottish colleges.

4 Chair's Update

The Chair gave a verbal report on activity since the last meeting of the Board:

- Developing Scotland's Young Workforce Government Advisory Group has been formed chaired by the Cabinet Secretary for Training, Youth and Women's Employment (Angela Constance). The Chair had been invited to sit on this.
- National pay bargaining – gathering data and information around colleges
- Finance and ONS

He had attended:

- National Economic Conference in Edinburgh
- Crichton Institute Partnership Board
- Community Planning Partnership; preparatory meetings to represent FE and HE sectors
- D&G Strategic Partnership meeting
- Economic Leadership Group to be formed – College involved in early discussions
- Met with Acting Chief Executive of SRUC who visit the College
- Strategic Form for FE (topic: Students Associations and representation)
- Various Colleges Scotland and Regional Chairs meetings

5 Principal's Update

The Principal spoke to the report which had been circulated, updating Members on key College activities since the last meeting.

In terms of Graduate Apprenticeships, meetings were taking place with Skills Development Scotland who are keen to develop a pilot Graduate Apprenticeship in Engineering programme with the College and the University of Glasgow Engineering department.

The Principal advised that an invitation would be issued to employers in the next two weeks to invite interest in the Employer Advisory Boards, as agreed at the previous meeting. The event would take place on 4 November at 5.00 pm in the College and Board Members were encouraged to attend.

In response to a question from S Burgess, the Vice Principal, Learning and Skills advised that he was meeting with Laing O'Rourke, the main contractors for the new Hospital build to discuss skills profiles and training required. The Principal added that the new Hospital development had informed part of the reintroduction of Hospitality into the curriculum when NHS had advised on a lack of skilled staff to prepare fresh food.

Members noted the adjusted Executive Team structure following the departure of Ian Beach. The Principal advised that the strategic capacity of the Team would be monitored and reviewed throughout the year.

6 Governance Issues

6.1 Board Recruitment

The Secretary to the Board reported that the Cabinet Secretary had approved the appointment of four members from the first round of recruitment. They are: Hugh Carr, Janet Brennan, Pat Kirby, and Karen McGahan.

She reminded board members who have not already been recruited through the new process would need to apply in the next round planned for November 2014. All board members must have been appointed through the new process by 2nd March 2015. The Secretary would contact members individually regarding the second stage of recruitment.

6.2 Amendment to Standing Orders and Constitution

The Secretary to the Board referred the Board to the report and updated document which had been circulated.

She advised that the Board of Management was required to amend its Constitution to reflect recent legislative changes. At its meeting in April the Board approved changes to its Scheme of Delegation and to Terms of Reference of the Board and its sub-committees. In June of this year the Board adopted a new Code of Conduct and from August the Board is required to adhere to the College Sector Board Appointments: 2014 Ministerial Guidance when appointing Board members.

As a result all of the Governance related documents had been brought together into a single manual. Further changes may be required once the outcome of the consultation into the new Financial Memorandum is known.

Members welcomed the single manual and approved it with effect from the date of the meeting.

6.3 Committee Membership Proposal

The Secretary to the Board referred the Board to the report which had been circulated, proposing changes to the membership of Board Committees. She asked anyone with queries or concerns to contact herself or the Chair.

The Chair also reminded Members that each Member could attend any Committee meeting to observe.

Members approved the Committee Membership proposal.

6.4 Board Link with Curriculum/Support Areas

The Secretary to the Board spoke to the report which had been circulated, proposing Board Member links with specific curriculum/support areas to give Members a better understanding of the day to day business of the College. Guidelines for the conduct of such links would be issued. She asked anyone with queries or concerns to contact herself or the Chair.

7 Audit Committee Annual Report

In the absence of the Chair of Audit Committee, the VP CSG referred Members to the report which had been circulated, advising the Board of the activities and decisions of the Audit Committee during Financial period 2013-14 and to provide opinions on matters specified by the Code of Audit Practice.

Members noted the report and the key opinions of the Audit Committee that the financial statements for the period ended 31 March 2014 presented a true and fair view of the state of affairs of the College and of the deficit of income over expenditure, and that the Audit Committee recommended that the Board approve the Financial Statements and Internal Control Statement.

8 Finance and General Purposes Committee Annual Report

In the absence of the Chair of F&GP Committee, the VP CSG referred Members to the report which had been circulated, advising the Board of the activities and decisions of the Finance and General Purposes Committee during Financial period 2013/14.

Members noted the report and the key opinions that:

8.1.1 The Finance and General Purposes Committee's view on the Board of Management's responsibilities, as described in the Financial Regulations, is that they have been satisfactorily discharged.

8.1.2 The Finance and General Purposes Committee's view is that the College's financial affairs are planned, conducted and controlled so that its total income is sufficient to meet its total expenditure, and its financial viability is maintained.

8.1.3 The Finance and General Purposes Committee's opinion is that the financial statements for the period ended 31 March 2014 present a true and fair view of the state of affairs of the College and of the deficit of income over expenditure.

8.1.4 Accordingly, the Finance and General Purposes Committee recommends that the Board approve the Financial Statements and Internal Control Statement.

9 Financial Statements for the period ended 31 March 2014

The VP CSG referred Members to the financial statements which had been circulated. It was noted that these were for an eight month period, following the change to the financial year end, and that it seemed likely that the next statements would be for a 16 month period as it had just been announced that the financial year end had been changed back to 31 July.

Members discussed the deficit position, and noted that every college in Scotland was in a similar position following the ONS reclassification and change to year end. Colleges Scotland was preparing a media statement on behalf of the sector to answer the inevitable questions once the statements were published.

Following discussion, and taking into account the recommendations of the Audit and Finance and General Committees, the Board approved the financial statements for signature by the Chair and Principal.

10 Minute of Meeting held on 16 June 2014

The minute of previous meeting of the Board held on 16 June 2014 was approved.

11 Matters Arising

11.1 Retention Monies

The Principal reported that following the meeting on 27 May, no letter from Millers had been forthcoming. In the interim further defects had been uncovered. Finally a letter had arrived but this had not been clear on whether Millers accepted the College position. The College's legal team had composed a form of words for a letter in response, clearly stating the College's position, but nothing further had been received. The College was continuing to advise Millers of any latent defects and could continue to pursue the situation. The Board noted the position.

11.2 Dumfries Learning Town

The Principal advised that the Director for Education had advised that there had been little activity over the Summer recess. The College had issued a position statement in favour of the situation of a Learning Hub on the Crichton Campus which was still the case, but in the meantime was continuing to work closely with schools.

12 Strategic Risk Register

The VP CSG referred Members to the Register which had been issued which highlighted no change since the previous meeting. She advised that the Executive Team felt that in respect of Risk 12 regarding the ONS reclassification, it would be prudent to leave the risk as high until one year of operation of the new arrangements. The Board approved the SRR as at September 2014.

13 Key Performance Indicators

The VP CSG spoke to the report which had been issued highlighting in particular the 25% increase in HE enrolments, the recently audited WSUMs figure which was just above target and that three HNC courses had commenced at Stranraer for the first time in several years which was excellent news, although these may only be sustainable if offered every second or third year. She also brought to the attention of members that retention and outcome targets as laid down in the College's Outcome agreement had been achieved. This session the Principal has issued a challenge to the management team to improve these targets by 3% not the 1% as laid down in the Outcome Agreement.

The Principal advised on a small but steady decrease in overall numbers at Stranraer and alerted members to possible future difficult decisions in terms of the costs of maintaining two centres in these financially challenging times. The Board asked if they could get a breakdown of full-time enrolments by postcode. The VP CSG would prepare report for next meeting. S Burgess asked if the number of students from Stranraer who travelled to Ayr College is known. The VP CSG agreed find this out and report back at next meeting.

14 Hospitality Development

The Principal reported that the construction work was progressing and was on target and within budget, to date.

15 Any Other Business

None

16 Date and Time of Next Meeting

The next meeting of the Board of Management would take place on Tuesday 20 January 2015.

Members were reminded of the board development event facilitated by Jan Polley on 'leadership, corporate governance and strategy' planned for 11 November 2014.



ONS Reclassification

What Board members Need to Know

John Ford

Scottish Funding Council



Scottish Funding Council

Promoting further and higher education

ONS Reclassification

Purpose of Today

- What is ONS Reclassification and what does it mean for colleges - Key points
- Understand the regulatory framework as applied to Incorporated colleges
- Understanding the reporting requirements of the SFC and SG, Resource Budgets and Cash
- Whole of Government Accounts
- Impact on Governance and Control
- Arms-length Foundation

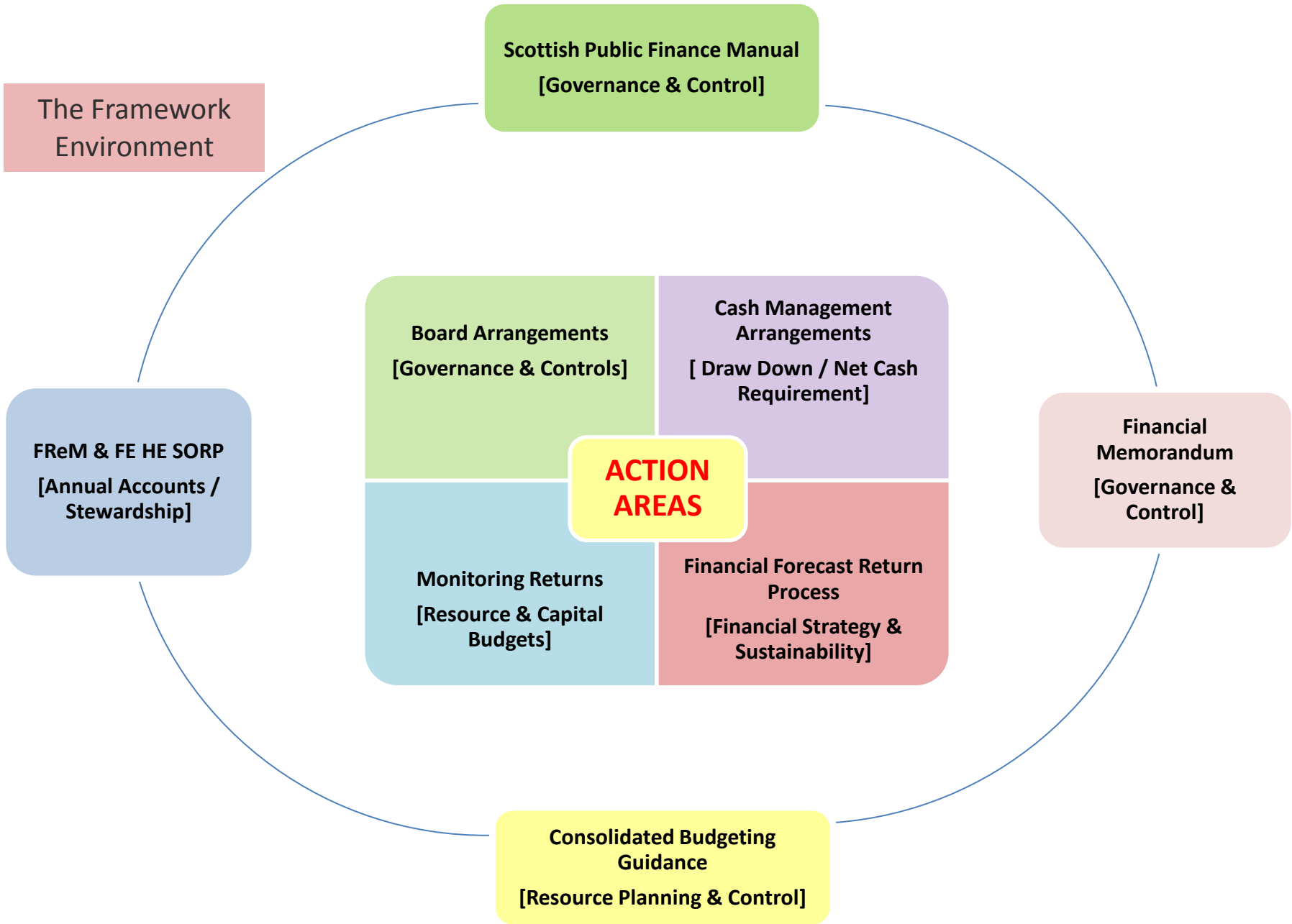
What is ONS Reclassification and What does it mean for colleges?

Key Points

- Incorporated Colleges designated as ALB's no change for Unincorporated Colleges
- Cannot use cash Reserves
- Arms Length Foundations to hold reserves and annual surplus
- Will be subject to Government Accounting Requirements - unless derogation given
- Will be subject to Government Reporting requirements – cash/resource reports
- All colleges have 31 July for accounting purposes.
- All colleges control Resource budgets and produce WGA to 31 March

Key Points

- Ministerial Expectation
 - continue to grow commercial activity
- Ministerial commitment to a cash floor for 2014/15 & 2015/16
- Deliver a balanced budget across the sector
- Requires greater monitoring of college income, expenditure and cash
- Will Impact on Board Governance, Monitoring and Control



Scottish Public Finance Manual

[Governance & Control]

Aquisition & disposal of property & equipment

Borrowing/
Lending/
Investment

Insurance

Procurement

Banking

Write off of Losses

Best Value

Income (incl
Credit control)

Delegated limits

Fees &
Charges

VAT

Fraud

Annual
Accounts

Budgeting

Risk
Management

Staff Severance
Schemes

Asset
Management
Strategy

Financial Memorandum

[Governance & Control]

- Cash Management and Banking
- Pay and Conditions of Service
- Severance Early Retirement & Redundancy
- Transfer of Surplus Funds to ALF
- Borrowing
- Insurance
- Best value
- Delegated limits
- Governance arrangements

Cash management and banking

- **Cash**

Grant will generally not be paid in advance of need – based on forecast net expenditure

- **Banking arrangements**

Unless colleges receive specific derogation from the SPFM (requires business case) they will be expected to join the Government Banking Service. SG agreement to delay this to 2016/17 at earliest.

Can extend existing banking arrangements provided not extended beyond 2016/17 without SG agreement.

Bank overdraft facilities can be used to assist in managing the timing of income and expenditure. It should not be used to generate additional borrowing

Pay and Conditions of Service

- Colleges can set their own pay and conditions of employment but should have regard to public sector pay policy and affordability

Severance, Early Retirement and Redundancy

- Scheme expected to be broadly compliant with the SPFM ie in line with recent SG schemes.
- Need SFC approval
- Approval lasts for duration of the scheme.

ALF/Borrowing/Insurance

- **Transfer of Surplus to ALF** - must take place in financial year it arises & cash & Resource cover available
- **Borrowing** – requires approval of Scottish Ministers
- **Insurance** - will be expected to self-insure unless there is a legal requirement to take out commercial insurance or there is a derogation from the Scottish Government that permits the use of commercial insurance . SG agreement allows extension of commercial insurance until July 2015 pending Business Case submission.

Financial Delegated Limits

Limits of Delegated Authority Funding Council to Colleges

External Business and management consultancies	£100,000
Extra contractual payments	Annual Report
Compensation payments	Annual Report
Special Severance payments	£1,000
Ex-gratia payments	Annual Report
Claims Waived or abandoned	Annual Report
Write off of bad debt	Annual Report
Losses	Annual Report
Overseas student irrecoverable loss	Annual Report
Fraud Loss	Report as when occur
Operating Leases -non property	£250,000
Procurement non-competitive action	£25,000

FReM & FE HE SORP

[Annual Accounts / Stewardship]

- Technical Accounting Guide to the preparation of financial statements
- Details accounting standards to be applied to public sector accounts and how they should be interpreted and adapted
- Sets out: Form and content of the Annual Report and Accounts disclosures required
- **Main changes compared to SORP:**
 - Provision of Remuneration Statement
 - Statement in Accounting Policies of FReM compliance
 - Requirement to separately disclose assets funded by government grant, donation or lottery as part of Property Plant & Equipment

Consolidated Budgeting Guidance

[Resource Planning & Control]

- Applies to all public Sector Bodies
- Sets out the Government budgeting framework.
- Control is by means of setting resource budgets which are Department Expenditure Limits (DEL) for Revenue and Capital and Annually Managed expenditure Limits (AME)
- Sets out how expenditure and income should be treated for resource budget purposes
- What counts against resource budget is net college spend not SFC grant to colleges

ACTION AREAS

Monitoring Arrangements

**[Resource & Capital
Budgets]**

**Cash Management
Arrangements**

**[Draw Down / Net Cash
Requirement]**

Board Arrangements

[Governance & Controls]

**Financial Forecast Return
Process**

**[Financial Strategy &
Sustainability]**

Monitoring Arrangements

[Resource & Capital Budgets]

RESOURCE

RDEL Non-Cash

E.g. depreciation & some impairment

RDEL Cash (& near cash)

Resource (revenue) operating costs and income

RAME

Volatile (e.g. some impairments) &/or some non-cash items.

CAPITAL

CDEL

Investment in and disposal of assets e.g. Capital expenditure & book value of asset sales.

CAME

Volatile &/or some non-cash transactions. Rare to have transactions in this category.

Resource DEL (Cash)

- Resource operational income £506.5m for sector
- Scottish Government sets the resource budgets
- Colleges are expected to at least breakeven on I&E
- Income from Alf's, commercial income deemed to have resource budget cover
- Resource DEL can be used for capital (transfer to capital)
Requires formal approval from SFC
- Includes some types of Impairment - loss/damage from normal business, abandoned projects, over specification of assets

Resource DEL Non-Cash

- Budget to cover depreciation charge
- £50m allocated recurrently to the sector
- If budget allocation exceeded either:

Additional budget cover required

Additional income generated or

Reduce operating expenditure and transfer

Resource DEL to cover shortfall

Resource AME

- No Budget issued - controlled by Scottish Government
- Volatile spending programmes – demand led
- Annual Exercise to capture AME expenditure
- Impairments due to:
 - Catastrophe
 - Unforeseen obsolescence
 - Use of asset lower than originally intended
 - Specialised asset write-downs prior to sale
 - Initial write down of specialised assets to Depreciated Replacement Costs after construction

Capital DEL

- Capital investment expenditure & capital income
£26.6m allocated to the sector
- Cannot transfer Capital DEL to Resource DEL
- Disposals; Income contributes to Capital DEL
(gain/loss is Resource DEL)
- Cannot be funded from reserves
- Capital Grants made by SFC: restricted to capital investment in fixed assets

Resource Budget (DEL) Returns to SFC

- Colleges to provide annual forecast and reforecasts on resource DEL at Q1, Q2, Q3 and monthly in Q4 for Income and Expenditure
- SFC monitors resource position
- Colleges must break even in resource terms after ALF transfer

Cash Management Arrangements

[Draw Down / Net Cash Requirement]

- No Cash in Advance of Need
- To enable SFC to pay colleges their cash requirement for the month
- To facilitate SFC's monitoring of college and sector cash position

Having cash \neq Authority to Spend

To make a 'within budget' payment:

Sufficient cash

+

'cash' budget (Resource Budget)

Financial Forecast Return Process

[Financial Strategy & Sustainability]

- Existing financial health monitoring framework: financial forecast return (FFR) and annual accounts returns
- FFR to be retained – need for overview, forward look

Whole of Government Accounts

- First return due for 2015/16 financial year
- Information for completion derived from audited annual accounts
- If prepare group accounts return should be on a group basis
- No requirement for separate audit unless >£300m
- Counter party transactions: Ignore unless >£1m per entity

Governance & Control

- College Responsibilities
- Accountability
- Governance
- Arms Length Foundations

College Responsibilities

- Monitor/Control in respect of:
 - Compliance with Government accounting, and budget requirements
 - College Resource, Capital and Cash budgets
 - Monitoring financial health
 - Resource budget transfers from Revenue to Capital
 - Approve transfers to and bids from ALF's

Returns to SFC

- Colleges to provide annual forecast and reforecasts on resource DEL at Q1, Q2, Q3 and monthly in Q4 for Income and Expenditure
- Colleges to provide annual forecast and reforecast on capital expenditure each quarter.
- SFC monitors resource position to ensure balance across sector
- An annual Cash Flow Return and monthly updates thereafter
- FFR - annual
- Annual Accounts
- WGA - annual

Accountability

- SFC CE is Accountable Officer for the sector
- College has more direct accountability and scrutiny for proper and appropriate use of public funds
 - Increased reporting to SFC and SFC Accountable Officer, SG and Parliament for use of funds and achievement of policy objectives
- More information in public domain - increased transparency
 - remuneration statement in accounts, expenditure analysis – Public Services Reform (Scotland) Act 2010.

Governance

- Compliance with the Regulatory Framework
- By Legislative Responsibilities such as the Post 16 Act, Bribery Act 2010, OSCAR, H&S, FOI
- Engagement of the public
- The heightened Media interest in public sector organisations and how they operate

Governance

- The Code of Good governance for Scottish Colleges
- 9 Principles of Public Life
- Ethical Standards in Public Life (Scotland) Act 1992
- On Board – guide for board members of public bodies
- The Good Governance Standard for Public Services
- Guide for College Board Members – Colleges Scotland 2012.

Arms length Foundations

- Charitable body
- Independent
- Enable colleges to have access to cash reserves which would otherwise be frozen
- Could transfer accumulated cash reserves built up at 31 March 2014
- Can transfer annual I&E surplus after March 2014
- Income from and donations to ALF's shown as separate items in college accounts

ONS Reclassification

Questions?