Glasgow Kelvin College

Business Development

Internal Audit Report No: 2020/07

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LEVEL OF ASSURANCE	Satisfactory

Now, for tomorrow

mha HENDERSON LOGGIE

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Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Issue subjecting the organisation to material risk and which requires to be brought to the attention of management and the Audit and Risk Committee.
Priority 2	Issue subjecting the organisation to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.

Management Summary

Overall Level of Assurance

Satisfactory	System meets control objectives with some weaknesses present.

Risk Assessment

This review focused on the controls in place to mitigate the following risks on the Glasgow Kelvin College ('the College') Strategic Risk Register:

- EPC5 – Unfavourable change in the overall quantum of sector funding in real terms resulting in the College having to reduce costs and operate with lower levels of income and being unable to maintain its estate and the quality of its facilities (risk rating Critical);
- FMA3 – Failure to maintain Financial Sustainability resulting in the College having to progress into a recovery plan resulting in reputational damage and increased monitoring by GCRB and the SFC. It is also likely to result in severe reductions in spend and loss of other income sources; also reputation decline (risk rating Critical);
- FMA5 – College fails to secure budgeted income resulting in deficits and associated cash-flow and financial sustainability issues (risk rating Critical); and
- GCM3 – The College faces liabilities as a consequence of an indemnity, contract or claim it, or one of the legacy colleges, has granted resulting in reputational risk or financial loss (risk rating Acceptable).

Background

As part of the Internal Audit programme at the College for 2019/20, we reviewed the adequacy of aspects of the Business Development activities within the College. This review assessed the effectiveness of the College's commercial activities to provide additional income to support delivery of its academic offering. The College's Financial Strategy for 2016-17 to 2021-22 identified the development of commercial activity as a key priority to support the College in raising 20% of its annual income from non-Scottish Funding Council (SFC) sources.

Background (continued)

The College's Business Development Team identify and deliver additional learning programmes that generate both cash and credit income and are predominantly based around learning and teaching. These activities are based around the following areas:

- **Commercial Team –** The role of the Commercial Team is to market, generate and manage commercial business for the College. For session 2019/20, the team forecasted a total income generation of £590,000;

- **Funding Team –** This team administers and manages a number of projects. In 2019/20, the total value of projects being managed was £1.35 million; and

- **Foundation Apprenticeships (FAs) –** This team manages the delivery of all FA frameworks across the Glasgow region in partnership with Glasgow, East Renfrewshire and East Dunbartonshire councils as well as engaging with local authorities beyond the Glasgow region. The total value of the FA contracts as at March 2020 was £3.5 million with the 2020/22 contract valued at £3.4 million.

Scope, Objectives and Overall Findings

The scope of this audit was to consider the key risks in relation to the College's commercial and external funding activities, with a specific focus around European projects and the regional apprenticeship contracts.

The primary objective of this audit was to establish whether procedures in place within the College are sufficient to maximise income generation and margin from commercial (non-SFC) activities.

The table below notes the secondary objectives for this review and records the results:

Objective	Findings				Actions already underway
The objectives of this audit were to obtain reasonable assurance that:		1	2	3	
1. Key risks and opportunities around European projects and regional apprenticeship contracts are identified and mitigated / exploited.	**Satisfactory**	0	0	0	✓
2. There is effective pricing for European projects and regional apprenticeship activity, with full cost recovery as the target and careful consideration being given to activity which does not meet this target.	**Satisfactory**	0	1	0	
3. Management information, including financial information on each specific activity, is adequate and easily accessible to all relevant staff.	**Good**	0	0	0	
4. There is regular review of these activities by the Board of Management and its committees.	**Satisfactory**	0	0	2	
5. Adequate arrangements have been put in place to prevent and respond to external claims against the College for breach of contract and robust agreements are signed with partners.	**Good**	0	0	0	
Overall Level of Assurance	**Satisfactory**	0	1	2	
		System meets control objectives with some weaknesses present.			

Audit Approach

From discussion with the relevant senior managers and staff, and review of relevant documents, we established the key controls in place within the above areas and considered their adequacy.

Where relevant, testing was carried out to establish whether key controls in place within the above areas were operating effectively in practice.

Summary of Main Findings

Strengths

- Plans are in place to deliver the identified non-SFC income generating initiatives, which currently contribute income streams toward the 20% non-SFC income target set within the College's Financial Strategy.
- Risks to the current income levels, including European Social Fund (ESF) and Erasmus have been identified, and plans are being developed to mitigate these risks.
- Costs to the College are identified and recovered within the grant funded income received, while training and other activities undertaken by the Commercial Team deliver a contribution (profit) to the College.

Weaknesses

- There is no single consistent course cost calculation process in place in the College, outwith the Business Development Team, to ensure that no financial loss is incurred by the College when delivering non-SFC funded teaching or training.
- While the College Financial Strategy acknowledges the importance of the non-SFC income sources for ongoing financial viability of the College, it does not provide a specific and measurable objective or target for the generation of non-SFC income. There is a Strategic Objective to 'Maximise non-Glasgow Colleges Regional Board income' which sets out an aspiration but the scale of this aspiration is not currently quantified.
- There is currently a lack of transparency around the monitoring of delivery of non-SFC income achieved by the Business Development Team within the College's current reporting arrangements with the income generated subsumed within the wider commercial income figures reported.

Acknowledgements

We would like to take this opportunity to thank the staff at the College who helped us during our audit.

Main Findings and Action Plan

Objective 1: Key risks and opportunities around European projects and regional apprenticeship contracts are identified and mitigated / exploited.

The Business Development Team has a role for identifying and delivering additional learning programmes that generate both cash and Credits income and is predominantly based around learning and teaching. These activities are based around the following areas:

Commercial Team – The role of the Commercial Team is to market, generate and manage commercial business for the College. For session 2019/20, the team forecasted a total income generation of £590,000. This was an increase of £90,000 over the income target for 2018/19. This consisted of £390,000 from the Flexible Workforce Development Programme (FWDP), £100,000 from MADE (Barbering Academy) and £100,000 from other commercial activities. With the recent announcement by Scottish Government regarding the increased budget (£7 million) for the FWDP, the team is confident it can raise more income for the College from this additional available funding.

Funding Team – This team administers and manages applications, monitoring and completion of a number of projects. In 2019/20, the total value of projects managed was £1.35 million and included projects such as:

- Integrated Grant Fund Projects which fund Youthwork, the Learning Network, Adult Literacy and Numeracy programmes and work with Care Leavers;
- The Construction Industry Training Board (CITB) contract for construction apprentices;
- The Modern Apprenticeship programmes;
- European Social Fund (ESF);
- Erasmus staff and student mobility projects; and
- Grants for the Cycle Hub project.

Foundation Apprenticeships (FAs) – This team manages the delivery of all FA frameworks across the Glasgow region college network in partnership with Glasgow, East Renfrewshire and East Dunbartonshire Councils as well as engaging with local authorities beyond the Glasgow region. The team is about to conclude the delivery of the 2018/20 contract, is midway through the 2019/21 contract and is currently recruiting new starts for the 2020/22 contract. The total value of the FA contracts being managed as at March 2020 was £3.5 million, with the 2020/22 contract valued at £3.4 million for the Glasgow region college network. The COVID-19 pandemic may adversely impact on the achievement of the full contracted amount, with lockdown, remote learning and the current economic environment potentially reducing availability of employers being able to offer the relevant work place experience and training. This risk has been identified and is being monitored within the College's risk management process.

Objective 1: Key risks and opportunities around European projects and regional apprenticeship contracts are identified and mitigated / exploited (continued).

As already highlighted above, the teams involved actively seek opportunities within these areas, with sufficient processes in place to assess the financial viability of undertaking the projects, ensuring they align with the College aims and objectives. With the exception of the Commercial Team, these projects are only undertaken on a cost recovery basis. The costs of training delivery are calculated and included within the project bid; this approach mitigates the risk of financial loss to the College in undertaking these projects. Approval of these contracts, projects and grant awards is in line with the College's scheme of financial delegation.

At present over 50% of the income for the Funding Team comes from the following sources:

- ESF funding of £548,452; and
- Erasmus funding of £145,668.

Now that the UK has left the EU, following the end of the Brexit transition period on 31 December 2020, the UK will lose future access to these funding streams. At present the assumption is that current funding levels will remain until 2023. The UK Government has pledged to set up a new UK Shared Prosperity Fund as a replacement for ESF however the makeup and availability of funding from this new scheme is not yet known. Therefore, at present, the level and availability of funding at current ESF levels after 2023 is not known.

Erasmus funding is at a lower level and will stay at agreed project levels until their completion date in 2022. The UK Government has introduced the new Turing scheme, starting September 2021, as a replacement for Erasmus although the Scottish Government has indicated its desire to remain within the Erasmus scheme and is exploring what is possible.

These risks have been identified and captured within the College's strategic risk register and, while they will not impact immediately, they are being monitored in line with the College's risks management approach with alternative funding sources being investigated to mitigate the financial risk of any future financial loss.

Business Development

Objective 2: There is effective pricing for European projects and regional apprenticeship activity, with full cost recovery as the target and careful consideration being given to activity which does not meet this target.

The current requirements for the apprenticeship schemes, and the projects engaged by the Funding Team, require costs to be identified to ensure the College can recover these when delivering the programmes. The costs for the teaching element are calculated on a basis of the hourly rate for lecturers multiplied by the teaching hours required. Additional elements such as required equipment and materials are also factored into these costs. This enables the College to bid for the project work at a rate that will cover its costs.

Income received for the apprenticeship schemes is paid on a set fee per scheme, plus traveling costs and the Hub (Admin) costs. However, the College's financial strategy requires that its costs are covered when participating within these schemes. Therefore, before any Skills Development Scotland (SDS) contract bid is undertaken the delivery costs are identified and evaluated to ensure that it is financially viable for the College. As previously noted, the Commercial Team manages training services as part of the FWDP and MADE, along with the provision of City and Guilds and Health and Safety training. As these training courses are supplied on a commercial basis, and are not covered by SFC Credits, they are able to charge a contribution on these courses to make a profit. At present the expected contribution is around 30% per course offered and run.

To ensure this is complied with the Business Development Team has a costing model in place which ensures all commercial activity covers all costs and generates the required contribution. As the team operates in a commercial market place all contract bids are required to be made on a competitive basis. To achieve this the team will often use a bank of external contractors to ensure the costs, and the subsequent contract bids, are competitive. Using the College lecturers on a full-time basis (due to their high costs) for all training would increase the delivery cost to an uncompetitive level. A review of a sample of the contracts in place did confirm that the College costs had been identified and included within the bid process, with the project award and contracts approved in line with the scheme of financial delegation.

Observation	Risks	Recommendation	Management Response	
The Business Development Team is not the only area that bids for additional training income and provision of non-SFC funded learning within the College. The requirement to cover all College costs is a mandated element for all of these bids for additional income. However, there is no College wide standard cost calculation method for identifying and assessing these costs when bidding for external and non-SFC funded training.	The costs to the College in delivering commercial activities and training are not recovered and are run at a financial loss.	**R1** A standard methodology or ready reckoner should be developed and implemented across the College to ensure that all additional training delivered by the College, including non-SFC training or learning, is accurately costed and all relevant financial implications are accurately identified, factored into decision making and recovered.	Work has already commenced to address this recommendation and this will be further developed over the next few months. **To be actioned by:** Director of Business Development / Head of Finance **No later than:** 31 July 2021	
			Grade	**2**

Business Development

Objective 3: Management information, including financial information on each specific activity, is adequate and easily accessible to all relevant staff.

The Business Development Team has in place an annual plan where progress is reported on a regular basis to the Vice Principal, Curriculum and Quality Enhancement, this provides ongoing progress against each of the activities undertaken by the team. Each team within Business Development develops its own plan of activities to be undertaken, detailing what will be delivered and when. This also includes detailing the expected financial income that will be generated by the team and performance against these expected income targets are monitored by Finance and included within its financial reporting of the College's cashflow position to the Finance & Resources Committee and Board of Management.

These planned deliverables are also discussed and agreed with the relevant faculties to ensure they are effectively timetabled to ensure delivery of agreed courses to meet the funding or contracted requirements. For the FAs, as Glasgow Kelvin College provides the administration for this scheme for all the colleges within the Glasgow region, they also ensure effective timetabling is in place within the other colleges to deliver this scheme successfully. In addition, for all SDS apprenticeship schemes, progress for all candidates is required to be logged and monitored on the SDS Funding and Information Payment System (FIPs). This system logs progress for all candidates and triggers payments when milestones have been reached.

As well as generating payments FIPs enables effective ongoing monitoring towards the delivery of the agreed apprenticeship contracted places.

Objective 4: There is regular review of these activities by the Board of Management and its committees.

The commercial activities undertaken by the Business Development Team fit in with strategic objectives for the College within its:

- Strategic Plan 2020-23;
- Higher Education Strategy 2020-2023;
- Access and Inclusion Strategy 2020-2023;
- Financial Strategy 2016/17 to 2021/22; and
- Glasgow Region Outcome Agreement 2020-21.

Specifically, these activities carried out by the Business Development Team broadly fit with the following College priorities:

Strategic Plan 2019-22

- Priority 1 – Working to develop our students, communities and curriculum;
- Priority 3 – Working in partnership; and
- Priority 4 – Working sustainably and collaboratively.

Financial Strategy 2016/17 to 2021/22

A key priority is to: develop commercial, apprenticeship and international contract work.

Objective 4: There is regular review of these activities by the Board of Management and its committees (continued).

Observation	Risks	Recommendation	Management Response	
The current College Financial Strategy 2016/17 to 2021/22, para 2.6 states, '*At the time of writing around 20% of College income is deriving from non-SFC sources, it is intended that this increases, however, additional commercial income results in additional costs and only helps the funding situation if it is profitable and can be managed within the existing estates constraints.'* While the Financial Strategy acknowledges the importance of the non-SFC income sources for ongoing financial viability of the College, it does not provide a specific and measurable objective for the generation of non-SFC income. Under Strategic Plan 2020-23 priority 4 'Working sustainably and collaboratively', there is a Strategic Objective to 'Maximise non-Glasgow Colleges Regional Board (GCRB) income' although, again, there is no specific and measurable target defined.	Reduction in SFC funding is not offset by increases in non-SFC funding levels, resulting in a reduction in the financial viability of the College.	**R2** The College should define a strategic target for a percentage increase or a defined level of non-SFC income to be achieved to quantify the 2020-23 Strategic Plan objective to raise non-SFC income.	This will be considered as part of the Budget setting process. **To be actioned by: :** Director of Business Development **/** Vice Principal Operations **No later than:** 31 July 2021	
			Grade	**3**

Objective 4: There is regular review of these activities by the Board of Management and its committees (continued).

Observation	Risks	Recommendation	Management Response	
On an annual basis the Business Development Team produces a report detailing its activities and details on the income raised for the College and this is presented to the Learning and Teaching Committee a sub-committee of the College's Board of Management. We have been advised that this reported income is derived from review of invoices generated because the annual income generated by the Business Development Team cannot be readily isolated from other income generated under the current financial coding structure. As highlighted under Objective 3 above, the current format of financial reporting to the Finance and Resources Committee and the Board includes details of income generated against budget. However, the current level of detail provided does not allow the performance of the Business Development Team to be isolated. As the Business Development Team is a significant contributor to the College's non-SFC funding income, it is our view that its performance and achievements should be subject to regular review and reporting by senior management and by the Finance and Resources Committee throughout the financial year.	Financial risks are not effectively identified and reported and there is a reduction in the financial viability of the College.	**R3** The current format of the financial reporting of Non-SFC income should be revisited to allow the progress of the Business Development Team against financial income targets to be monitored more effectively throughout the financial year.	Work has already commenced to address this recommendation and will be further progressed over the next few months to provide enhanced reporting in this area. **To be actioned by:** Director of Business Development / Head of Finance **No later than:** 31 July 2021	
			Grade	**3**

Business Development

Objective 5: Adequate arrangements have been put in place to prevent and respond to external claims against the College for breach of contract and robust agreements are signed with partners.

As the majority of funding obtained by the Business Development Team is from awarded grants and contracts, these come with conditions which are non-negotiable and are subject to audit and validation to confirm their completeness as part of the claims processes. The College accepts these conditions prior to the courses commencing and the College is paid only for the services it provides.

As the Commercial Team manages training services with a view to providing a contribution for the College, there are specific terms and conditions in place for the provision of these training courses to customers that protect the College. Specifically, if any arranged training is cancelled within 14 days of the agreed delivery date, the College can claim the full costs of the agreed training.

This measure protects the College from potential financial loss resulting from late cancellation of agreed training.

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