

The 2016/17 audit of Edinburgh College



AUDITOR GENERAL 

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Introduction

1. I have received the audited accounts and the independent auditor's report for Edinburgh College for 2016/17. I am submitting these financial statements and the independent auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.
2. I have prepared two previous reports on Edinburgh College under section 22(3), for [2014/15](#) and [2015/16](#), to draw Parliament's attention to concerns about the financial sustainability of the college.
3. In my 2015/16 report (March 2017) I concluded that the college had put in place more robust governance arrangements and while there was an overall picture of progress and improvement, the college's financial position remained challenging.
4. The purpose of this report is to draw Parliament's attention to the progress Edinburgh College has made towards financial sustainability. My report is based on information provided through the 2016/17 audit of Edinburgh College and additional work undertaken by the auditor.

2016/17 audit opinion

5. The auditor issued an unqualified opinion on Edinburgh College's financial statements for 2016/17. The college reported an operating deficit of £2.479 million for 2016/17 (2015/16 £7.035 million deficit) which compared well with the business transformation plan (BTP)¹ forecast deficit of £3.814 million.
6. Colleges' accounts include an analysis of the underlying financial position which removes items such as pension and depreciation adjustments and other exceptional items. Excluding these items and the £2.9 million additional financial support provided by the Scottish Funding Council (SFC), the underlying position for Edinburgh College for 2016/17 was a £2.544 million deficit (2015/16 £3.862 million deficit). The £2.9 million additional financial support provided by the SFC will be repayable through adjustments to future grant funding.
7. The auditor highlighted that the college exceeded the target agreed with the SFC for learning activity in 2016/17 and that the college met its financial targets for 2016/17. The auditor also noted that the college will need to ensure that the savings achieved to date are sustained in future years.

Current financial position and future sustainability

Financial position

8. The auditor confirmed that the college has established good monitoring processes for the BTP which involves regular monitoring group meetings involving the college's Executive Team and the SFC.

¹ The college developed its business transformation plan to help it move to a sustainable financial position by improving operations and the delivery of core activity.

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9. As noted, the college's financial position had improved by the end of 2016/17. For 2017/18, the BTP forecast a deficit of £0.546 million, followed by a surplus of £0.584 million in 2018/19. In the college's management accounts for the six months to January 2018, the projected deficit for the year had increased to £0.56 million, slightly above the BTP forecast.
 10. In November 2016, the SFC provided written assurances to the college that it will continue to support the college through to 2018/19, when the transformation plan is due to be fully implemented. The £2.9 million additional financial support provided by the SFC will be repayable through adjustments to future grant funding.

Activity targets

11. The financial sustainability of Edinburgh College is dependent on its ability to deliver its annual activity target. The college's activity target for 2016/17 was 186,028 credits. It delivered a total of 186,978 credits. This is the first time since the college merger in 2012 that the college has achieved its activity target.
12. The SFC and the college agreed an increased total activity target of 187,742 credits for 2017/18. The college reports that it had delivered 188,476 credits by mid-February 2018. This means that the college has met its activity targets for 2017/18 and is now in discussion with the SFC to secure additional funding. The college plans to continue to seek modest increases to its activity target. Growth will depend on the availability of SFC funding and on successful delivery of the college's new curriculum.

Planned savings

13. The BTP is now in its third and final year. At the February 2018 meeting of the college's Policy and Resources Committee, management advised members that the majority of projects were either closed or in their final stages, and that the college was preparing formal project closure reports and lessons learned reviews. Formal closure of the BTP has still to take place; this is likely to be later in 2018 and will require SFC approval.
14. The college planned for four voluntary severance schemes from 2015/16 to 2017/18, with a target reduction of around 134 FTE staff. The college anticipates that, in total, these schemes will deliver recurring savings of £4.6 million by the end of 2018/19. The SFC is providing £3.3 million of support for these schemes. The three schemes implemented to date have resulted in 112 FTE staff leaving which delivered savings of £3.55 million.
15. The fourth scheme was launched in March 2018 with a target saving of £0.35 million. Achieving this saving will be challenging. Total savings from the voluntary severance schemes will not achieve the original anticipated target. The college is considering alternative options to achieve the necessary savings.
16. In addition to savings generated from the three voluntary severance schemes to date, the college has achieved savings from other sources. These other savings include deleting posts from the establishment and operational savings such as property and IT costs. These other

savings exceeded the target for 2016/17, generating £1.34 million against a target of £0.38 million.

17. The BTP sets out total forecast savings (including voluntary severance savings) of £5.43 million over the three years to the end of 2017/18. At the end of 2016/17, savings had exceeded the target of £4.63 million by £0.26 million. The college is looking to achieve further savings of £0.54 million in 2017/18.
18. By the end of January 2018, the college reported savings of £0.15 million. This leaves a gap of £0.39 million to be achieved in the second half of the financial year. The college is confident that the savings will be achieved.
19. In September 2017, the college's Board of Management approved the new Strategic Plan for 2017-22 and associated 'Blueprint'. The Blueprint describes how the college will deliver the vision, mission and strategic aims of the Strategic Plan, and will be managed by a portfolio board made up of Executive Team members and the college Programme Management Office.

Conclusion

20. The college has made good progress in its BTP with the majority of projects closed or in the final stages of completion. Learning activity targets for 2017/18 have been met. Management are confident that the planned financial position will be achieved. They acknowledge that while further action is required and that risks remain, the college is on track to return to a sustainable financial position.
21. The College Principal has announced that she intends to retire from September 2018. The principal has led the college through its transformation. A new Chair of the Board was appointed in March 2018, replacing the current chair who had held the position since incorporation in 2012. The new chair has been the Principal and Vice Chancellor of Aberdeen University for eight years. The challenge for the new leadership team is to continue the process of transformation to secure the college's future financial sustainability.
22. As with other colleges, Edinburgh continues to face financial pressures. For example, it will need to meet the costs arising from the national pay awards and increased employer pension contributions.
23. It is imperative that the college continues to closely monitor its financial performance to ensure that targets are met and that financial sustainability is achieved. Leadership capacity and the momentum for transformation need to be continued and maintained over this period of change.

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

T: 0131 625 1500 E: info@audit-scotland.gov.uk 

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