The 2014/15 audit of Edinburgh College

Prepared for the Public Audit Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
March 2016

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Introduction

1. I have received the audited accounts and the independent auditor's report for Edinburgh College for the 16-month period ended 31 July 2015.[1] I submit these accounts 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. The purpose of this report is to draw to the Scottish Parliament's attention to concerns relating to significant financial challenges facing Edinburgh College.

Auditor's opinion

3. The auditor gave an unqualified opinion on Edinburgh College's financial statements for 2014/15. However, the auditor's annual report highlights that the college had experienced financial difficulties at the end of 2014/15. He notes that an anticipated reduction in forecast cash resources of £3.3 million for 2015/16 would leave the college with severe financial challenges. The college approached the Scottish Funding Council (SFC) to secure additional financial support for 2015/16 in order to meet its operating expenses.

Findings

4. Edinburgh College was formed in October 2012 by the merger of Jewel and Esk, Telford and Stevenson colleges. The college has failed to meet its targets for learning activity in each year since its establishment, although the levels of under-delivery have been small - in the region of one to two per cent in each year. Missing this target can trigger a financial penalty as the SFC can seek to recover money for activity that was not delivered.

5. During autumn 2015, and following the period covered by the 2014/15 financial statements, the SFC notified the college that it was likely to recover funds (£0.8 million) as a result of the college failing to deliver agreed activity. The recovery was due to the college's use of 'additionality' to achieve its 2014/15 target. Additionality is the provision of additional learning to students who are already enrolled at the college, such as students completing extra units that better prepare them for the workplace. A change in SFC funding guidance in 2014/15 tightened the rules covering the volume of additionality for which a college could claim funding. The practice is now only permitted to specified levels and anything above these levels must be agreed in advance with the SFC. The SFC concluded that the college had not adhered to the new guidance in 2014/15.

[1] The decision by the Office for National Statistics to reclassify colleges as public bodies led to a change in some colleges' financial year-end. In 2013/14, Edinburgh College was required to prepare accounts covering only an eight-month period, from 1 August 2013 to 31 March 2014. In 2014/15, the year-end reverted to 31 July, resulting in a 16-month accounting period.

6. When the college became aware of the breach of rules and intended recovery of funds by the SFC, the recently appointed Principal (in post from May 2015) initiated a review of the college's activity targets from the point of merger. The review highlighted a number of underlying problems, including issues with the use of additionality, target setting and student recruitment and retention. The review led the Principal to conclude that the college's existing activity targets exceeded current demand. The college is undertaking further work to better understand the issues. Part of the review also led to the college agreeing with the SFC to reduce its activity target for the 2015/16 year by around six per cent. This reduction has placed the college under significant financial pressure and it sought additional funding from the SFC in order to meet its fixed costs in 2015/16.

7. For the 16 months to 31 July 2015 the college had an income of £91 million, of which £68.3 million comprised SFC grants. At the time of the annual audit, the college estimated a reduction in forecast cash resources of £3.3 million. In February 2016, the SFC notified the college that the Scottish Government had agreed that the college can retain, as part of a special support payment, the £0.8 million that was due to be recovered. This followed discussions between the college and the SFC about a recovery plan. The final version of that plan is due to be submitted to the SFC at the end of March 2016.

Conclusion

8. Edinburgh College will face extreme financial difficulties without further financial support. I have asked the auditor to keep the position under review. I have also asked Audit Scotland to undertake further work, to better understand the reasons for the difficulties and to examine the action being taken by the college to address these concerns. I will report back to Parliament in due course.