Northern Ireland Assembly

Research and Library Service
Briefing Note

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Eóin Murphy

Review of Regional Colleges' Annual Reports and Financial Statements – Year end 31 July 2010

1 Introduction

The following Briefing Note provides an overview of the current financial situation for the Northern Ireland Regional Colleges for the financial year ended 31 July 2010 and highlights any potential points of interest for the Committee. Please note, the Annual Report for Belfast Metropolitan College (BMC) for 2009-10 are not yet available – This paper therefore examines the most recently published Annual Report and Accounts for the year 2008-09 (laid before the Northern Ireland Assembly on 24 March 2011).

2 Key Data

The following tables were created using information from the Regional Colleges Annual Accounts and allows for quick comparison of data on the colleges.

Table 1: Regional Colleges Income 2008-2010

	Year ended July 2008 (£'000s)	Year ended July 2009 (£'000s)	Year ended July 2010 (£'000s)
Northern Regional College (NRC)	35,548	32,303	33,419
Belfast Metropolitan College (BMC)	58,803	53,624	-
South Eastern Regional College (SERC)	36,146	32,580	39,811
Southern Regional College (SRC)	39,854	38,288	39,482
North West Regional College (NWRC)	37,694	33,497	33,191
South West College (SWC)	34,978	32,526	34,405

Table 2: Regional Colleges Expenditure 2008-10

	Year ended July 2008 (£'000s)	Year ended July 2009 (£'000s)	Year ended July 2010 (£'000s)
NRC	35,810	34,790	33,420
BMC	60,090	56,220	-
SERC	39,241	39,244	40,357
SRC	-39,421	-40,686	-40,824
NWRC	35,622	33,396	34,501
SWC	31,640	32,517	37,023

Table 3: Regional Colleges Surplus/Deficit 2008 - 10

	Year ended July 2008 (£'000s)	Year ended July 2009 (£'000s)	Year ended July 2010 (£'000s)
NRC	-1,966	-2,617	-236
BMC	-6,316	-2,596	-
SERC	-7,634	-6,774	-591
SRC	-2,418	-2,644	-1,344
NWRC	346	101	-1,310
SWC	3,338	9	-2,618

Please note, the 2010 accounts for the BMC are not yet complete and as such no information is included for this year.

Table 4: Regional College Reserves for 2009-10

	Year ended 2009 (£000's)	Reserves percentage	Year ended 2010 (£000's)	Reserves percentage
NRC	2,935	*	3,066	*
BMC	8,300	^	-	-
SERC	4,180	11%	4,073	10%
SRC	13,541	^	11,652	^
NWRC	7,008	^	5,195	^
SWC	7,679	>	4,166	>

*within acceptable levels of Reserves as stated in Annual Report
> exceeds acceptable levels but not stated by how much in Annual Report
^Not stated within report

Table 5: Enrolled Students in Regional Colleges (includes full and part time students)

	2007/08	2008/09	2009/10
NRC	20,670	23,277	25,081
BMC	47,696	47,961	-
SERC	27,808	28,403	29,872
SRC	35,076	35,536	39,947
NWRC	-	21,151	24,796
SWC	tbc	tbc	tbc

Please note, student enrolment figures for the SWC have been requested from the College but at the time of writing have not yet been received.

Table 6: Staff in Regional Colleges Full Time Equivalent

	Year ended July 2009	Year ended July 2010
NRC	760	737
BMC	-	1,083
SERC	838	819
SRC	798.6	829.4
NWRC	612	616
SWC	503	533

3 Northern Regional College (NRC)

In 2009/10 the College had a total enrolment of 25,081 students, up 1,804 on the previous academic year. In the same year the College employed 737 people (full time equivalent, down 23 staff on the previous year), with 429 teaching staff[1]. Based on the difference between the 2009 and 2010 accounts the majority of the staff changes came from the teaching staff being reduced by 21 personnel.

Income for 2010 was £33,419k. Of the total income, 72.84% was sourced through DEL grants (£24,344k).

Total expenditure (before exceptional items) was £33,420k. Including exceptional items the College had a deficit of £236k in comparison to the previous year's deficit of £2,617k. The large drop in the Operating deficit is a result of the College disposing of fixed assets.

Review of the College's accounts for year end July 2009 finds that it has an accumulated income and expenditure reserve of £3,066k (excluding the pension reserve), an increase from the previous year's reserve of £2,935k and cash balances of £5,272k. As stated by the accounts, this is within the acceptable levels of Reserves[2].

There has been a significant reduction in the value of the College's land and property. The Antrim campus has seen the greatest fall in value with a net depreciation of £8,920,000 on the previous year. In total, property owned by the College lost £7,356,000 in value (with the Newtownabbey Campus adding £8,504,000 in value as a result of major refurbishment work).

It is unclear from the accounts as to why there was such a significant fall in valuation. However, based on similar valuations carried out by Land and Property Services on assets held by the other Colleges, it would appear this may be partially the result of the ongoing downturn in the property market.

In the 2009 reports, the NRC announced its intention to sell a number of its campuses in order to generate additional revenue and to develop new facilities to meet the future needs of students. In the 2010 report the College provides a proposed timeline:

- Felden campus closure – September 2010;
- Newtownabbey campus major extension and refurbishment opened September 2010;
- Portrush campus disposal – 2010/11;
- Antrim campus closure – June 2011;
- Larne campus – acquire suitable tenants for shared usage by June 2011;
- Ballymoney campus and Coleraine campus will be replaced by one building – 2014/15; and
- Ballymena's three sites will be replaced by 1 new build – 2014/15.

[1] Northern Regional College Annual Report and Financial Statements for the Year Ended 31st July 2010

[2] The NRC (and all other FE Colleges) Reserves are set at by its Financial Memorandum with DEL and require Departmental approval to hold uncommitted reserves greater than 10% of income.

4 Belfast Metropolitan College (BMC)

The information discussed below is from BMC's year end 31st July 2009 annual report and financial statements, the most recent available. BMC was created through the merging of the Belfast Institute of Further and Higher Education and Castlereagh College of Further and Higher Education[3].

Total income for the college was £53,624k, a fall of £5,179k on the previous year (£58,803k). Of the total income, 73.86% (£39,608k) was provided by DEL grants. Total expenditure before exceptional items amounted to £56,220k with a resulting deficit of £2,596k in comparison to 2008 of £6,316k.

With the inclusion of exceptional items and tax, the deficit remains at £2,596k.

The college has accumulated reserves of £8,300k.

The Accounting Officer for the BMC identified a number of significant internal control and related issues:

1. Efficiency Review and College Improvement Plan Process (CIP): the Efficiency Review made 72 recommendations in total, highlighting evidence of weakness in financial controls, poor management information and a host of other issues. The CIP is currently implementing the reviews recommendations, with monthly monitoring in order to assess progress;

2. Timeliness of Annual report and Accounts: as stated in the most recent report:

   Delays encountered with addressing areas of weakness in internal control and related issues have contributed to the delay in publication of the 2007/08 and 2008/09 annual report and financial statements.

   It should be noted that this is why the BMC accounts discussed in this paper are a year behind the other Regional Colleges.

3. Deficit – Continuing Forecast Deficits for 2009/10 and 2010/11: as seen in Table 3 and as discussed above, the College has run a deficit for a number of years and work on the CIP has identified concerns regarding future financial forecasts. A break even position for the College is expected by 2012/13. DEL are to be kept informed of the BMC's progress through the Governing Body and Audit Committee meetings.

4. Capital Project Management: an initial unacceptable assurance was given by internal auditors in May 2009 in relation to Capital Project Management Arrangements in key areas such as project governance, monitoring and financial forecasting. Remedial work was carried out with a follow up review revising the initial findings to limited and satisfactory assurances. Key issues remained unresolved regarding the resourcing within Estates for the Titanic Quarter Projects

[3] Belfast Metropolitan College Annual Report and Consolidated Financial Statements Year Ended 31st July 2009

and evidence to support financial viability and affordability from a whole college perspective of the Titanic Quarter project to support the decision to sign the contract.

5. IT infrastructure: a limited assurance was given by internal auditors in relation to IT infrastructure and computer related controls – the issues identified are being addressed;

6. Consultancy costs: there are a number of issues raised regarding consultancy costs within the report. In the 2007/08 accounts it was highlighted by the Auditor General that £668,988 of costs incurred in that year had not received appropriate approval from DFP. These costs related to a team of technical, legal and financial advisors assisting in the procurement process for premises. A retrospective request for approval was made to DFP by DEL but it was refused as a revised business case was not submitted. Additional unauthorised expenditure of £507,075 was then incurred in 2008-09, bringing the total costs of the work to £1,776,063 of which £1,176,063 was above the DFP authorised limit.

   In addition, Consultancy costs incurred on a rates appeal for the College did not receive the appropriate DFP approval. Gross costs to the college were £78,948.

7. The Auditor General (AG) also highlighted the value for money received by the BMC and Department following the appointment of an interim Director for the College between August 2008 and October 2009. The Director was initially employed as an employee but resigned on the 9th of January to avoid exceeding pension scheme earning limits. He was then reappointed on the 15 of January as Interim Director on a Consultancy basis. As a result, the Directors standard monthly gross pay as an employee was £9,233 and £12,533 when employed as a consultant for the same post. The AG highlights that whilst employed as a consultant, the Interim Director appeared to receive paid leave for 16 days including seven days in which the College was closed. The AG concludes that:

   In my opinion both the College and the Department should have given more consideration to whether this arrangement provided value for money. I also note that when the Interim Director was first appointed on a consultancy basis that was seen as a short term measure by the Department, however this arrangement was in place for some 15 months[4].

5 South Eastern Regional College (SERC)

SERC had 29,872 students (up 1,469 students from 2008-09), 24,184 of which are part time enrolments, an increase of 863 from 2008-09. It employs 819 people (FTE) with 491 of these teaching staff[5]. The number employed by SERC has fallen by 19 posts.

[4] Ibid

[5] South Eastern Regional College Annual Report and Financial Statements Year Ended 31st July 2010

SERC generated an operating deficit of £591k significantly lower than that of 2008/09 of £6,774k, with a total income of £39,811k. DEL grants made up 70.19% of this income (£27,944k). Expenditure in this period was £40,357k.

SERC has reserves of £4,073k (excluding the Pension Reserve) and cash balances of £3,949k. This equates to reserves of approximately 10%, which will be used to invest in quality in line with the College's strategic aims.

The College maintains a risk register, which as of August 2010 had 22 active risks. Some of the principal risk factors identified are:

- Failure to achieve financial viability: SERC has a programme of continual review of College processes in order to drive efficiencies, however, the report notes that it has a considerable reliance on government funding, with "*no assurance that government policy or practice will remain the same or that public funding will continue at the same level or on the same terms";*
- Failure to retender for the Training for Success contracts as a result of uncertainty regarding funding and procurement; and
- Failure to deliver the Performing Arts and Technology Centre (PACTIC) at the Bangor campus – The PACTIC project has been suspended due to a withdrawal of funding by DEL. As a result, accommodation at the Bangor Campus is reduced in the short term and a potential loss of access to state of the art facilities for students in the longer term. It should be noted however that DEL included a further bid for PACTIC resources in the Comprehensive Spending Review.

6 Southern Regional College (SRC) [6]

SRC has one of the highest student populations with 39,947 enrolments in 2009–10. Subsequently, it also has a relatively high level of staff with 829.44 FTE posts (798.64 in 2008/09) of which 476.83 (FTE) are teaching staff.

In 2010 SRC had a total income of £39,482k of which the annual accounts identify as 66.84% DEL grants (£26,391k) with a total expenditure (before exceptional items) of £40,824k. The College made a loss for the year with an operating deficit of £1,344k.

Reserves for the College stand at £11,652k (including pension reserve), with a cash balance of £7,300k.

The high levels of reserves are a legacy of the previous College entities. The College intends to use the reserve to invest in its campuses, with the intention of dealing with existing accommodation issues.

As with the NRC, the SRC has had a significant reduction in the value of its land and buildings. A valuation was conducted by Land and Property Services (LPS) in July 2010. As a result of this valuation there was a reduction in value of £10,917k in SRC

[6] Southern Regional College Annual Report and Consolidated Financial Statements Year Ended 31st July 2010

land and buildings. This valuation was reached as a result of the difficult market and limited evidence of sales.

7 North West Regional College (NWRC)

The NWRC employs 616 people (FTE) with 407 of these teaching staff (down 6 staff from 2008/09).

The College has a total income of £33,191k of which 78.05% was sourced from DEL grants (£25,908k) and total expenditure (before exceptional items) of £34,501k resulting in a deficit of £1,310k. After depreciation of assets at valuation and tax, the surplus remains at £1,310k.

The NWRC has accumulated reserves of £5,195k and a cash balance of £8,099k. As with the previous year, its reserves exceed the recommended 10% limit imposed by DEL[7].

A principal risk identified is in regards government funding with the report stating that the UK Spending Review is likely to have an adverse impact on the College's grant income. The report goes on to say that the potential problems raised as a result of the CSR will be mitigated through further efficiencies and a review of curriculum delivery.

In 2009 an internal audit was conducted to identify any internal control problems. The only area of concern raised was in regards data protection and freedom of information. The 2010 report states that all matters in this area have been addressed.

An item of note mentioned in the College report states that:

> *The growth of enrolments at the Strabane campus has led to an accommodation shortfall which cannot be met by a Department approved new build in the short-term.*

It is intended that this demand will be met by the installation of additional workshops and classrooms at the Strabane campus.

8 South West College (SWC)

The College employs 533 people (FTE – 30 more than in 2008/09), with 315 of these teaching staff[8]. The SWC has a student retention rate for 2009/10 of 93.48%, up from 89.97% the previous year.

The College's total income for 2009 was £34,405k with 67.04% sourced from DEL grants (£23,066k) with expenditure (before exceptional items) of £37,023k resulting in a deficit of £2,618k before tax and exceptional items.

[7] North West Regional College, Annual Report and Financial Statements Year Ended 31st July 2010

[8] South West Regional College, Annual Report and Financial Statements Year Ended 31st July 2010

After the inclusion of exceptional items and tax, the SWC had a deficit of £2,730k (this was £8,000 in 2008/09). The Report states that this is a result of a number of events including:

- Accounting for exceptional expenditure in the areas of IT and minor works in relation to an investment plan for the year;
- An impairment to buildings due to LPS interim valuations of the College's Land and Buildings;
- A net credit of £844k in respect of pension cost due to a change in assumptions used for calculating liabilities; and
- Rapid growth in training provision, notably through the Steps to Work programme and All Age Apprenticeship provision.

The SWC has accumulated reserves of £4,166 (£7,679k in 2008/09) and cash balances of £8,099k. The reserves held by the College exceed the 10% limit directed by DEL.

9 Issues of note for all Colleges

9.1 Pensions

The Colleges use two different pension schemes for their employees:

- The Northern Ireland Teachers' Pension Scheme (NITP); and
- The Local Government Pension Scheme for Northern Ireland.

Each April, in line with the Pensions Increase (Review) Order, the Northern Ireland Local Government Officers Superannuation Committee (NILGOSC) increases pensions in payment and deferred pensions to reflect rises in the cost of living.

The Pensions Increase applied in April is normally based on the increase in the Retail Prices Index (RPI) during the twelve months to the September of the previous year. The budget statement of 22 June 2010 announced that from April 2011, the Consumer Prices Index (CPI) will replace RPI as the measure of inflation used to apply cost of living increases. Future pension increases will be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI)[9].

[9] NILGOSC, Pension Increases, http://www.nilgosc.org.uk/CPI_RPI.html (first accessed 23 June 2011)

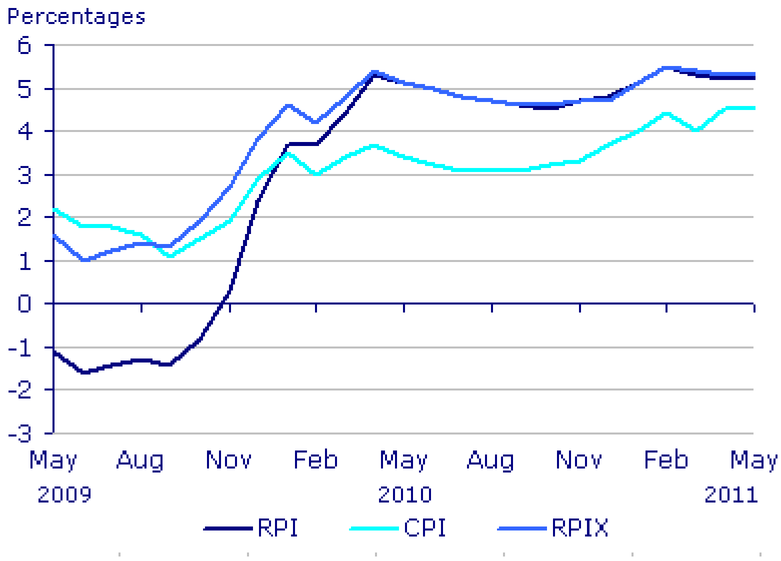

Figure 1: Current rates of CPI, RPI and RPIX[10]

As can be seen above, the CPI is historically lower than the RPI (CPI of 4.5% and RPI of 5.2% in May 2011).

This shift from CPI to RPI has resulted in credit being added to the Income and Expenditure Accounts of the Colleges.

If the trend of CPI being lower than RPI continues future statutory minimum pension increases and revaluation will be lower than previously projected. In that case, if the change applies to a pension scheme the benefits paid will be lower than originally anticipated. If this is taken into account in funding calculations its liabilities will decrease and its funding level improve[11].

It should be noted that both schemes are defined benefit schemes, which are externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPs).

As stated in the UK government Impact Assessment on the switch from RPI to CPI:

> *The main cost of this policy is to members of private sector defined benefit pension schemes who will see the anticipated value of their pensions rights reduced and the value of their total remuneration package reduced in the short term.*

Sponsors of these schemes however will see the value of their pension liabilities reduced and the cost of the total remuneration package for their employees reduced in the short term. The impact assessment goes on to say that although the effect on pension liabilities is in the short term, the change will affect cash flow in the long term. The overall cost of this change to scheme members will be £60.9 billion, with sponsors being better off by this amount.

[10] ONS http://www.statistics.gov.uk/cci/nugget.asp?id=19

[11] Barnett- Waddingham 2011 RPI to CPI – What does this mean for pension schemes? www.barnett-waddingham.co.uk/.../rpi-to-cpi-what-does-this-mean-for- pension-schemes.pdf

For the NIRC's this change has resulted in increases in credit to their income and expenditure accounts:

- SWC: Credit of £894,000;
- NWRC: Credit of £0.977m;
- SRC: Credit of £1.437m; and
- SERC: Credit of £1.498m.

Please note, figures were not provided in the NRC or BMC Annual Report.

9.2 Reclassification of FE Colleges by the ONS

On the 13 October 2010, the Office of National Statistics announced the reclassification of further education colleges to the central government sector. Prior to this announcement colleges had been classified within the private sector as non-profit institutions serving households.

All the Colleges commented on the Office of National Statistics reclassification of the FE Colleges from within the private sector (as non-profit institutions serving households) to the central government sector. This does not affect the legal status of the Colleges but focuses rather on how the National Accounts record the Colleges' activities[12]. It is not known at this time if there will be any future financial implications. It should be noted that as a result of this change in classification Labour Market statistical publications will also be affected. As stated by the ONS:

> *…the most obvious impact of the reclassification is in sectoral employment numbers, with the move of more than 300,000 FE workers from private sector to public sector employment. This increases both total and (broad) industry public sector employment numbers, with the former growing by around 4%[13].*

There will be additional impacts on fiscal indicators:

- Public Sector Current Budget (PSCB): expected to remain relatively unchanged as expenditure generated by the government is already gathered;
- Public Sector Net Debt (PSND): expected to rise marginally, as the FE sector has some debt, though the amounts are not significant in relation to public debt as a whole;
- Public Sector Net Investment: expected to rise as a result of the considerable expansion the FE sector has undergone in recent years, with capital formation by FE institutions would previously have been treated as capital formation by the

[12] Department for Education, ONS announcement on the reclassification of the FE sector http://www.education.gov.uk/childrenandyoungpeople/strategy/financeandfunding/a0065275/ons-announcement/ (first accessed 14 March 2011)

[13] Office for National Statistics, October 2010, Classification of Sixth Form and Further Education Colleges http://www.statistics.gov.uk/about/methodology_by_theme/downloads/classification-6thform-further-education-institutions-oct10.pdf (first accessed 16 March 2011)

private sector. However, the amounts again will not be significant in comparison to total public debt.

9.3 Reserves

A Financial Memorandum[14] written by DEL in 2008 and agreed to by the Colleges states that:

Colleges will agree their planned use of reserves through the CDP [College Development Plan] process and will require Departmental approval to hold uncommitted reserves greater than 10% of income.

The Public Accounts Committee (PAC) recently noted that the five further and higher education colleges in Northern Ireland have had issues with the level of reserves being held[15]:

The Committee noted that the Department had allowed the former further education colleges to accumulate between them bank balances that rose at one point to £54 million. This figure is much higher than the amount that the Department's own guidelines allowed colleges to accumulate.

The PAC went on to state:

The Committee considers that retaining significant cash balances surplus to current need is unacceptable. The Committee recommends that the Department should only release funding on the basis of need and it should immediately claw back cash balances from those colleges that exceed agreed levels so that the funds can be used where they are most needed.

Table 7 below provides details of the Regional College Income and Expenditure Reserves as provided in the Annual Reports.

[14] DEL, July 2008 Financial Memorandum between the Department of Employment and Learning and the Further Education Colleges http://www.delni.gov.uk/es/financial_memorandum_2007_08_-_reissued_3_july_2008.pdf

[15] Public Accounts Committee18th June 2009 Report on the Review of Financial Management in the Further Education Sector in Northern Ireland and Governance Examination of Fermanagh FE College http://www.niassembly.gov.uk/public/2007mandate/reports/2008/report_41-08-09R.htm

Table 7: Regional College Reserves for 2009-10

	Year ended 2009 (£000's)	Reserves percentage	Year ended 2010 (£000's)	Reserves percentage
NRC	2,935	*	3,066	*
BMC	8,300	^	-	-
SERC	4,180	11%	4,073	10%
SRC	13,541	^	11,652	^
NWRC	7,008	^	5,195	^
SWC	7,679	>	4,166	>

*within acceptable levels of Reserves as stated in Annual Report
> exceeds acceptable levels but not stated by how much in Annual Report
^Not stated within report

Please note, it has not been possible to calculate the reserve percentages where they have not been provided within the colleges Annual Reports. This is a result of the complicated method employed to determine its calculation as described in the colleges Financial Memorandum with DEL.