New College Lanarkshire

2022/23 Annual Audit Report

Prepared for New College Lanarkshire and the Auditor General for Scotland

December 2023

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Key messages

2022/23 annual report and financial statements

1 Our audit opinions on the Annual Report and Financial Statements are unmodified.

2 Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

3 The audited part of the Performance Report, Governance Statement and the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

Financial management

4 The college reported an operating deficit of £5.025 million and an underlying operating deficit of £3.573 million for the year to 31 July 2023.

5 The year-end financial deficit position was largely due to the College self-funding the voluntary severance scheme and an increased provision for the unsettled sector pay award. The pay award accruals included within the financial statements at the year-end were higher than projections included within the financial forecast to the Scottish Funding Council. The inclusion of a clawback provision for failure to achieve the college's credit targets and falling short of the SAAS targets, a sector trend, also contributed to the deficit.

6 The college has a well-established budget monitoring and reporting process in place.

7 There were no significant weaknesses identified from our review of the design and implementation of the key controls within the main financial systems.

Financial sustainability

8 Pressures arising from the wider economic environment together with proposed flat cash funding settlements will require colleges to make difficult decisions to achieve financial sustainability.

9 A balanced budget was set with planned salary savings through voluntary severance of £2.683 million. Due to a lower number of applicants than forecast and no compulsory redundancy, the salary savings have not been achieved and the college projected a £0.957 million deficit for 2023/24 although further staff savings have been achieved in-year. Discussions are underway with the Scottish Funding Council on a financial recovery plan.

10 As well as savings in non-staff costs, the board approved decisions during 2022/23 which will reduce costs in the future including the closure of the Coatbridge nursery, serving notice on the Hamilton lease and the sale of Donaldson Place in Kirkintilloch. Board approval was also given to proposals to re-purpose the student accommodation residences in Motherwell which will enhance the learning experiences of students across the campus.

11 The college's five-year Financial Forecast Return shows recurring deficits up to 2026/27, reflecting the financial pressures on the college and the sector.

Vision, leadership and governance

12 Appropriate governance arrangements are in place however, the college should continue to review information published on its website to promote openness and transparency.

13 A self-assessment was undertaken against the Code of Good Governance for Scotland's Colleges. A board development plan is in place to take forward actions identified from this.

Use of resources to improve outcomes

14 The college has proper arrangements in place to promote and secure value for money.

15 Whilst performance has improved against some key performance indicators in comparison to the prior year, overall performance has not returned to pre-pandemic levels. Withdrawal rates remain higher than the national average.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of New College Lanarkshire (the college). The scope of the audit was set out in an Annual Audit Plan presented to the 11 September 2023 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of the college's Annual Report and Financial Statements.
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
    - Financial Management
    - Financial Sustainability
    - Vision, Leadership, and Governance
    - Use of Resources to Improve Outcomes.

2. This report is addressed to the college Board of Management and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities and reporting

3. The college is responsible for preparing its Annual Report and Financial Statements in accordance with the accounts direction issued by the Scottish Funding Council (SFC) and for establishing effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

4. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2021 and supplementary guidance and International Standards on Auditing in the UK. We undertake our audit in accordance with International Standards on Auditing, and the auditing profession's ethical guidance.

5. At the conclusion of our audit, we provide an independent auditor's report for inclusion in the annual report and financial statements. We also review and provide conclusions on the effectiveness of the college's performance management arrangements, suitability and effectiveness of corporate governance arrangements, financial position, and arrangements for securing financial sustainability and value for money.

6. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

7. Our Annual Audit Report contains an agreed action plan at appendix 1 setting out specific recommendations, responsible officers, and dates for implementation. Members of the Audit and Risk Committee should ensure that they are satisfied with the proposed actions and have a mechanism in place to assess progress and monitor outcomes.

Communication of fraud or suspected fraud

8. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this report to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members have any such knowledge or concerns relating to the risk of fraud within the college, we invite them to communicate this to the appointed auditor for consideration prior to the Annual Report and Financial Statements being certified.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £71,190 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to the college by:

- identifying and providing insight on significant risks and making clear and relevant recommendations.
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2022/23 Annual Report and Financial Statements

The principal means of accounting for the stewardship of resources and performance.

Main judgements

Our audit opinions on the Annual Report and Financial Statements are unmodified.

Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

The audited part of the Performance Report, Governance Statement and the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

Our audit opinions on the Annual Report and Financial Statements are unmodified

11. The Annual Report and Financial Statements for the year ended 31 July 2023 are to be approved by the Board of Management on 11 December 2023. As reported in our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework,
- expenditure and income were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers, and
- the audited part of the Performance Report, Governance Statement and the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by the Scottish Funding Council.

12. We are satisfied that there are no matters upon which we are required by the Auditor General to report by exception.

The audited Annual Report and Financial Statements were signed off by the 31 December 2022 deadline

13. We received a working version of the single entity New College Lanarkshire financial statements and most of the financial notes to the accounts on 27 October 2023. The single entity version of the accounts submitted to audit was substantially complete in terms of financial figures, with some further analysis required within the underlying notes to the accounts. An updated draft of the New College Lanarkshire single entity accounts was received on 10 November 2023.

14. The consolidated accounts including the performance report, accountability report sections of the annual report and accounts were provided to audit on 14 November 2023. At this stage, information within the Annual Report and Financial Statements remained incomplete and on review the narrative sections were not compliant with the disclosure requirements of the FReM and accounts direction.

15. The working papers provided were of a reasonable standard. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly. This has allowed us to sign off the Annual Report and Financial Statements by the 31 December 2023 deadline.

16. From discussions with finance officers, we recognise that our approach and timetable for the financial statements audit is different to previous audit arrangements. As part of our 2023/24 audit planning, we will liaise with officers on the audit timetable. We are aware that there were delays in information being available to finance for inclusion within the Annual Report and Financial Statements including late guidance from the Scottish Funding Council on the clawback of unachieved savings. Information from group entities was later than the accounts timetable following post audit adjustments. The audit timetable was also impacted by a key member of the finance department being absent during the accounts preparation period. This placed additional pressure on those officers involved in the preparation of the annual report and financial statements and caused disruption and delays to the subsequent audit process.

Recommendation 1

Ensure adherence to the project plan for the co-ordination and delivery of the annual report and financial statements. All officers involved in the preparation of the annual report and financial statements should both agree to the plan and deliver it in line with the agreed timescale to ensure all information is available prior to the commencement of the external audit.

Our audit testing reflected the calculated materiality levels

17. Materiality can be defined as the maximum amount by which auditors believe the Annual Report and Financial Statements could be misstated and still not be expected to affect the perceptions and decisions of users of these. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).

18. Our initial assessment of materiality for the Annual Report and Financial Statements is undertaken during the planning phase of the audit. On receipt of the unaudited Annual Report and Financial Statements, and following completion of audit testing, we reviewed our original materiality levels and concluded that they remained appropriate. Our materiality levels are set out at exhibit 1.

Exhibit 1
Materiality values for the council and its group

Materiality	NCL	Group
Overall materiality: This is the figure we use in assessing the overall impact of potential adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 July 2023.	£1.231 million	£1.708 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the Financial Statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we calculated performance materiality at 70% of planning materiality.	£0.862 million	£1.200 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 5% of planning materiality.	£0.062 million	£0.085 million

Source: Audit Scotland

Our audit identified and addressed the significant risk of material misstatement together with the other areas of audit focus reported in our 2022/23 Annual Audit Plan

19. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit, we identified one significant risk of material misstatement which could impact on the Annual Report and Financial Statements. Exhibit 2 sets out the risk together with the work we undertook to address it and our conclusion from this work.

Exhibit 2
Significant risk of material misstatement reported in the 2022/23 Annual Audit Plan

Description of risk	Audit response to risk	Results and conclusion
1. Management override of controls As stated in ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), management is in a unique position to perpetrate fraud because of their ability to override controls that otherwise appear to be operating effectively.	Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive testing of income and expenditure transactions at the year-end to confirm they are accounted for in the correct financial year. Focussed testing of accounting accruals and prepayments.	**Results:** We assessed the design and implementation of controls over journal entry processing. No significant issues were noted. Management did not identify any inappropriate or unusual activity with journals or other adjustments. Journal adjustments were tested, and no indications of management override of controls were found. We reviewed transactions during the year - no issues were highlighted of transactions outside the normal course of business. Judgements and estimations applied were tested to confirm they were appropriate and reasonable. Testing of accruals and prepayments did not identify any issues. **Conclusion:** There was no evidence of management override of controls from the work performed.

Source: Audit Scotland

20. Our 2022/23 Annual Audit Plan also noted other risks of material misstatement to the Annual Report and Financial Statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider that these represented a significant risk. The other areas of audit focus were:

- **Pension balance:** We confirmed that valuation data in the actuarial report was correctly reflected within the Annual Report and Financial Statements, and reviewed the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used.

- **Valuation of land and buildings:** We reviewed management's assessment of the current value of these assets as at 31 July 2023 and compared this to their carrying value in the Annual report and Financial Statements.

21. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, we have commented within exhibit 3 on findings that we would like to bring to your attention regarding the pension balance and the non-current asset processes and procedures.

There were accounting adjustments identified from our audit of the Annual Report and Financial Statements

22. Adjustments with a gross total of £2.902 million were identified from the audit of the Annual Report and Financial Statements. The most significant proportion of this related to the recalculation of the clawback of funding in relation to the under achievement of the credit target following guidance from the Scottish Funding Council in November 2023. Some classifications issues were also noted as part of the audit, and these have been corrected within reserves, creditors and non-current assets. As total adjustments were above our performance materiality, we reviewed our audit approach.

23. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior management and materiality. Management have adjusted for the issues identified. The correction of these adjustments contributed to the deficit in the Statement of Comprehensive Income (SoCI) reducing by £1.881 million with a corresponding increase in the college's net assets.

We have significant findings to report on the Annual Report and Financial Statements

24. Under ISA (UK) 260 *(Communication with Those Charged with Governance)*, we communicate significant findings from the audit to members, including our view about the qualitative aspects of the college's accounting practices.

25. The Code of Audit Practice also requires all auditors to communicate key audit matters within the Annual Audit Report under ISA (UK) 701 *(Communicating key audit matters in the Independent Auditor's Report).* These are matters that we judged to be of most significance in our audit of the Financial Statements.

26. Our significant findings are detailed in exhibit 3.

27. Several presentational and disclosure amendments were discussed and agreed with management. As a result, the qualitative aspects of the college's accounting practices, accounting policies, accounting estimates and disclosures within the audited Annual Report and Financial Statements are satisfactory and appropriate.

Exhibit 3
Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
1. Disclosures in the Annual Report and Accounts Our review of the disclosures within the unaudited Annual Report and Financial Statements identified areas where improvements were required to ensure compliance with the applicable guidance. Officers prepared the narrative reports within the annual report and financial statements using the templates from the prior year. Updates were required to the Performance Report, Governance Statement and the Remuneration and Staff Report to ensure compliance.	We discussed with management where the changes had to be made. They accepted the recommendations and updated the disclosures to bring these in line with the minimum requirements of the guidance but there remains scope for further improvement. As part of the preparation for the 2023/24 Annual Report and Financial Statements management should consider the disclosures against the required guidance and Audit Scotland's good practice notes on these areas. **Recommendation 2**
2. Scottish Funding Council (SFC) guidance around credit clawback The SFC indicated within the 2023/24 funding announcement changes to the funding distribution system. One of these changes is around the approach to recovery for under-delivery in an academic year against the credit threshold. A letter received by the College Principal on 16 November 2023, outlined mitigations that will be applied. The college has undertaken further work to re-calculate the credit clawback for 2022/23 and this has reduced the regional liability within the financial statements, from £3.2 million to £1.012 million, to be met by NCL.	Officers have followed the guidance provided by the SFC and re-calculated the balance to be repaid in respect of under delivery against the credit threshold target for the year.
3. Pension Reserve The unaudited annual report and accounts included a pension reserve on the statement of changes in reserves. We reviewed technical guidance and noted that the Further Education Statement of Recommended Practice (SORP) does not provide for a separate pension reserve,	The pension reserve has been removed from the Statement of Changes in Reserves in line with required technical guidance. A disclosure note has been included in the annual report and accounts explaining the reason for the difference

Issue	Resolution
and there is no concept of a pension reserve under FRS 102. The technical guidance requires movements to be included as an element of the income and expenditure reserve. We recommended that an updated Statement of Changes in Reserves is prepared which removes the pension reserve and creates a combined single income and expenditure reserve.	in accounting treatment from the prior year.
4. Pension balance The pension balance represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this liability. The college is a member of Strathclyde Pension Fund. Valuation of pension fund assets and liabilities is assessed by an independent firm of actuaries (Hymans Robertson LLP). Pension assets and liabilities are calculated annually for each individual member body, by the actuary, for inclusion in the Annual Report and Financial Statements. Annual valuations are dependent on a number of external variables, including projected rates of return on assets, projected rates of price and pay inflation, interest rates and mortality estimates. The Strathclyde Pension Fund actuary provided an estimate of the college's asset as at 31 July 2023. The college's 2022/23 valuation showed an asset of £29.127 million (2021/22: asset of £14.666 million). The amount that can be recognised as an asset is limited to the estimated future service cost less the minimum contribution required, otherwise known as the asset ceiling. As required by accounting standards, the asset shown in the college's Balance Sheet has been limited to £0.	This is included for information due to the large year-on year movement in the pension balance. We are satisfied that the college's disclosure, and accounting treatment, of its pension balance complies with required accounting practices.

Issue	Resolution
5. Non-current asset disclosures **Fully depreciated assets** Our review of the asset register identified that there were 118 assets within plant, equipment and vehicles with an original cost and accumulated depreciation of £3.763 million, with a net book value of zero. Discussions with officers outlined that work is being undertaken across estates and ICT to verify assets. Further work is planned to update the fixed asset register to match these records and to remove assets no longer in use or existence.	Management should conduct a detailed review of all assets in the fixed asset register to ensure that only those assets still in existence remain on the register.
FRS 102 requires colleges to include a disclosure within their financial statements showing the carrying amounts of assets that would have been recognised had the assets not been carried under the cost model. We note that the college have included a disclosure within the accounts to outline that they are undertaking work to include the historic cost model information in the Annual Report and Financial Statements in 2023/24 accounts.	Collate the relevant information from the fixed asset register and underlying financial records to comply with the FRS 102 disclosure requirement for historic cost model information to be included within the financial statements. **Recommendation 3**
6. Untaken Holiday Liability The college is required to calculate the estimated cost of untaken annual leave at 31 July 2023 that can be carried forward and used during 2023/24. The untaken holiday liability included in the college's 2022/23 financial statements was £0.560 million. Our review of the college's approach to the calculation of the untaken liability identified that it was based on untaken leave estimates from 2018. We could not obtain information from the college to show this remained a reasonable estimate of untaken leave at 31 July 2023.	The untaken holiday liability has not been adjusted. While we are satisfied this has not resulted in a material misstatement, we recommend the college review their approach to the calculation of this liability. **Recommendation 4**
7. Accounting Entry for NDR Charges The college were charged for non-domestic rates (NDR) for the period 1 April 2023 to 31 March 2024. This is paid monthly over a period of 10 months.	The audited financial statements have been adjusted to correct this. Both short term creditors and trade and other receivables have both reduced by £0.170 million. This had no impact on the year-end deficit.

Issue	Resolution
While the NDR expenditure amount was correctly stated in the unaudited financial statements, due to a year-end accounting entry error, both creditors and trade and other receivables in the Balance Sheet were overstated.	

Source: Audit Scotland

The audited part of the Remuneration and Staff report is consistent with the Financial Statements and has been prepared in accordance with applicable guidance

28. The FReM requires the college to include a Remuneration and Staff Report within its Annual Report and Financial Statements that includes details of:

- the remuneration of senior officers, including pension entitlements for the financial year (and prior year comparator) and accrued pension benefits figures as at 31 July of that year,
- the number and cost of exit packages approved during the financial year, and
- a fair pay disclosure and a range of other information on staff costs, numbers and related activity.

29. During 2022/23, 60 individuals agreed to leave the college under voluntary severance agreements at a total cost of £1.286 million. These departures were disclosed in the remuneration and staff report. We confirmed that the college had followed the procedures outlined within SFC's guidance for seeking approval for voluntary severance schemes.

2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

The college reported an operating deficit of £5.025 million and an underlying operating deficit of £3.573 million for the year to 31 July 2023.

The year-end financial deficit position was largely due to the College self-funding the voluntary severance scheme and an increased provision for the unsettled sector pay award. The pay award accruals included within the financial statements at the year-end were higher than projections included within the financial forecast to the Scottish Funding Council. The inclusion of a clawback provision for failure to achieve the college's credit targets and falling short of the SAAS targets, a sector trend, also contributed to the deficit.

The college has a well-established budget monitoring and reporting process in place.

There were no significant weaknesses identified from our review of the design and implementation of the key controls within the main financial systems.

The college reported an operating deficit of £5.025 million (region: £5.645 million) and an underlying operating deficit of £3.573 million (region: £3.396 million)

30. The college reported an operating deficit for the year to 31 July 2023 of £5.025 million (£6.971 million in 2021/22) in its Statement of Comprehensive Income (SoCI).

31. The position reported in the SoCI includes the impact of non-cash charges such as depreciation and pension adjustments, and capital grants recognised as income. To enable an assessment of the underlying financial strength of an institution, and allow comparison across institutions, the Scottish Funding Council requires colleges to also report the underlying operating position for the year by adjusting for these items and any one-off exceptional items impacting on the annual position reported in the SoCI.

32. The adjusted operating position of the college, reported within the Performance Report, shows a deficit of £3.573 million for the year to 31 July 2023 (deficit of £1.788 million in 2021/22). The regional position, incorporating the results of South Lanarkshire College and the college's subsidiary Amcol, was a deficit of £3.396 million (deficit of £0.355 million in 2021/22). The position reported in 2022/23 is reflective of the challenging financial environment the college has been operating in. The significant financial challenges which impacted on the college's financial outturn included:

- A failure to meet the college's core credit target 131,305. This is a measure of the volume of learner activity provided and is directly linked to the college's core SFC funding. The college delivered credits of 117,560 requiring the college to return £1.012 million of funding to the Scottish Funding Council. The Scottish Funding Council has recognised the challenges with the credit target and has reduced this target moving forward to 117,289.

- Additional staff costs of £3.362 million compared to budget. This includes an accrual of 5% for the 2022/23 pay award which is still under negotiation. A pay increase of 2% was included in the budget as per Scottish Funding Council guidance.

- Funding the voluntary severance scheme to re-shape the workforce at a cost of £1.286 million.

- SAAS funding was £0.904 million less than budgeted due to student admission levels being lower than in previous years.

33. The underlying operating deficit is different from the operating deficit reported in the Statement of Comprehensive Income (SoCI). The college's operating deficit from the SoCI for the year to 31 July 2023 was £5.025 million (£6.971 million in 2021/22), and the regional deficit was £5.659 million (£7.844 million in 2021/22).

34. The position reported in the SoCI includes the impact of non-cash charges such as depreciation and pension adjustments. To enable an assessment of the underlying financial strength of an institution, and allow comparison across institutions, the SFC requires colleges to also report the underlying operating position for the year by adjusting for these items and any one-off exceptional items impacting on the annual position reported in the SoCI. The underlying operating deficit, rather than the position reported in the SoCI, is the core financial metric used across the sector.

The college, and the sector rely heavily on Scottish Government funding

35. The SFC, using Scottish Government funding, provides grants to colleges. SFC grant funding accounted for 82% of the college's income in 2022/23 (84% in 2021/22), exhibit 4. The national average, based on 2021/22 data, was 75%. New College Lanarkshire were one of only seven colleges which relied on the SFC for more than three quarters of their income in 2021/22.

36. Scottish Government funding is expected to reduce by 8.5 per cent in real terms from 2021/22 to 2023/24. This real terms reduction in funding, paired with the college's significant reliance on this income stream, therefore poses significant risks to the college's financial sustainability as further detailed in section 3 of this report.

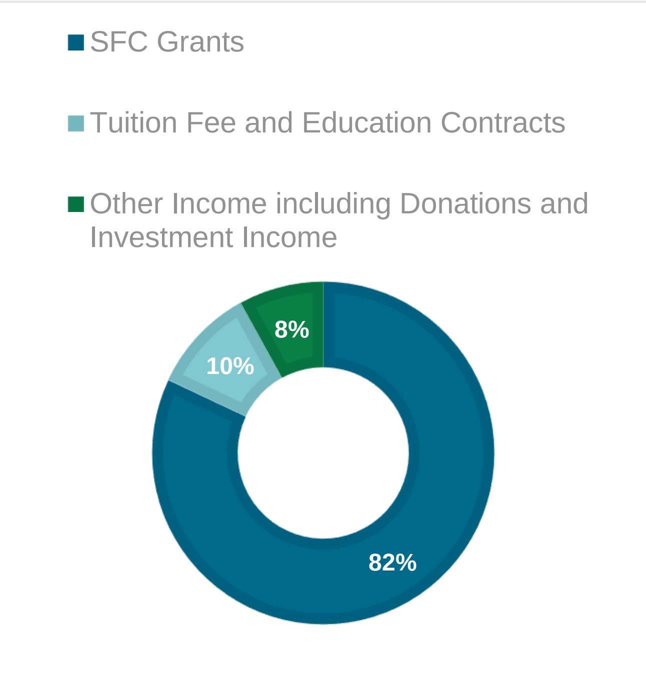
The college's voluntary severance scheme did not deliver the recurring savings budgeted

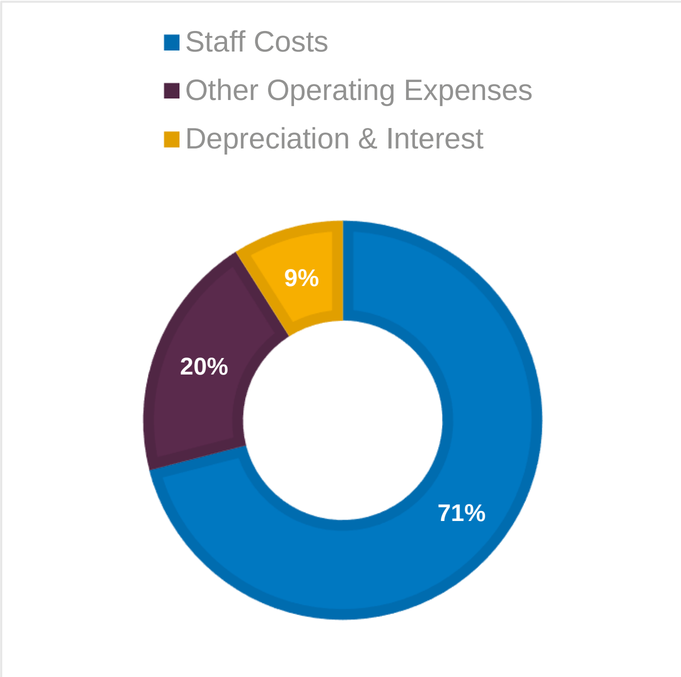
37. Staff costs, including costs related to the college's voluntary severance scheme, accounted for 71% of the college's total expenditure in 2022/23 (73% in 2021/22) as shown in exhibit 4. The national average, based on 2021/22 data, was 70%. 93% of the college's staffing costs are on permanent staff which represents a significant fixed cost. While changes to staffing are one of the main levers the college can use to manage costs, the high percentage of permanent staff employed makes this more challenging.

38. The college have taken action to try and reduce their staffing costs. Whilst the college board took the decision not to have any compulsory redundancies, voluntary severance schemes have taken place in each of the last three financial years. Over the course of the three voluntary severance schemes, 118 employees have left the college's employment. The college have funded the cost of these severance schemes from their existing budget and have not received any additional funding to operate the schemes.

39. With the aim of reducing permanent staff costs, the college extended the existing voluntary severance scheme to 2022/23. This resulted in 60 staff leaving at a cost of £1.286 million. Following the financial year end, a further 21 severance agreements were reached. Whilst, the college did not receive the volume of applications budgeted the impact of the voluntary severance scheme will deliver ongoing recurring savings.

Exhibit 4
Analysis of 2022/23 income and expenditure





Source: New College Lanarkshire 2022/23 Annual Report and Financial Statements

The college has a well-established budget monitoring and reporting processes in place

40. The college monitors its budget position through the preparation of monthly management accounts which are presented to each meeting of the Finance Committee. The management accounts provide detailed information on spend against budget, disclose the forecast outturn and cash position, and include a good level of detail in the narrative to explain the main budget variances.

41. The college do not produce regional financial information during the year. At each meeting, the Finance Committee receive summarised financial information for South Lanarkshire College (SLC) presented by the SLC Head of Finance. Management considers this to be sufficient for monitoring performance, and that detailed regional financial information is not required to inform decision making or risk assessment. Members and management should keep this under review to ensure they are meeting their responsibilities as the Regional Strategic Body.

42. From our review of the management accounts, and review of committee papers, we confirmed that members and senior management receive regular, timely and up-to-date information on the college's financial position. This allows both members and senior management to carry out effective scrutiny of the college's finances.

43. The college has a well-established budget monitoring and reporting process in place.

Financial systems of internal control were designed effectively

44. As part of our 2022/23 audit, we evaluated the design and implementation of the key controls operating over the main accounting systems. Our objective was to gain assurance that systems for processing and recording transactions provide a sound basis for the preparation of the financial statements.

45. We did not identify any significant control weaknesses from the finance controls reviewed.

IT strategies and arrangements were reviewed and areas for improvement were identified

46. As part of our 2022/23 audit, we reviewed IT strategies and arrangements for cyber security, network security, file back-up arrangements and IT service delivery and continuation. We reviewed the ICT 2023/24 business plan and noted that this articulates priorities for the coming year including a programme of computer and phone replacement and an upgrade of the wi-fi network infrastructure.

47. As part of our audit, we reviewed current arrangements in place for the back-up of data. Whilst arrangements could be outlined, there was a lack of evidence available for audit to review the effectiveness, reliability and adequacy of these arrangements. We noted that a review of the in-house server, storage & backup infrastructure is planned for 2023/24 and we recommend that processes and practices are documented to outline the arrangements.

48. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that appropriate cyber security arrangements are in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we considered the college's arrangements for managing and mitigating cyber security risks.

49. Cyber Essentials is a government-backed, industry-supported scheme that helps organisations protect themselves against common online threats. The base certification is a self-assessment that ensures protection against a variety of the most common cyber-attacks. During 2022/23, the college obtained Cyber Essentials and Cyber Essentials plus accreditation.

50. The ICT Disaster Response Plan was updated in 2019, with a planned review date in 2021. This review was delayed, and no evidence of a refreshed plan was available at the time of completing our audit work. The Cyber Incident Response Plan is under development. We have not been able to review details of when disaster response or recovery arrangements were last tested.

Recommendation 5

Establish a programme to regularly review, refresh and test disaster recovery and response plans to ensure these remain appropriate.

Internal audit reported that the college had adequate and effective risk management, control, and governance arrangements in place during 2022/23

51. The internal audit service, in any organisation, is an important element of internal control. It provides members and management with independent assurance on risk management, internal control and corporate governance processes as well as providing a deterrent effect to potential fraud. The college's internal audit function is carried out by Wylie & Bissett.

52. Internal audit reported their follow up review in August 2023 and presented this to the September 2023 Audit and Risk Committee. The purpose of the review was to assess whether the college has appropriately implemented the internal audit recommendations made in 2021/22 and earlier years and highlighted any issues outstanding beyond the agreed implementation deadline.

53. The report considered progress against a total of 31 recommendations. Internal audit concluded that eighteen of these have been fully implemented and a further three superseded. Of the remaining ten recommendations, nine are partially implemented and one has not been implemented.

54. While we note that internal audit concluded that the review had a substantial assurance rating and that the recommendation not implemented is low risk, we did note that of the two of the partially implemented recommendations are high risk and a further one is medium rated. High risk recommendations are made where internal audit view the identified issues as a major weakness to be brought to the attention of senior management and the Audit and Risk Committee urgently. It is good practice to implement recommendations promptly and we recommend that outstanding actions are addressed in line with the revised completion dates.

55. We considered internal audit's annual report as part of our review of the Governance Statement included in the 2022/23 Annual Report and Financial Statements. This provided internal audit's opinion that the college had adequate and effective arrangements for risk management, control, and governance in place during 2022/23. We did note that they were only able to provide a weak level of assurance for the reviews of College Catering and Staff/Room Utilisation.

There are adequate arrangements in place for the prevention and detection of fraud and other irregularities

56. The college has established procedures for preventing and detecting fraud and irregularity including a fraud and corruption policy which was recently reviewed in 2023, and a code of conduct for members of the Board of Management.

57. The college continues to participate in the National Fraud Initiative (NFI). This is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. For the 2022/23 exercise, the college submitted all required datasets by the December 2022 deadline.

58. In total the college received a total of 113 matches through the NFI exercise. Ten of these matches were identified as 'very high risk'. One of these related to payroll and the remaining nine were creditor matches. At the time of completing our audit, all very high-risk matches had been investigated.

59. Overall, we have concluded that adequate arrangements are in place for the prevention and detection of fraud and other irregularities. In addition, our review of expenditure and income during the audit did not highlight any issues with the regularity of the college's transactions. We would, however, recommend that all matches categorised as 'very high risk' within the national fraud initiative exercise are reviewed. We are not aware of any specific issues that we need to bring to your attention.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long-term to consider whether the college is planning effectively to continue to deliver its services.

Main judgements

Pressures arising from the wider economic environment together with proposed flat cash funding settlements will require colleges to make difficult decisions to achieve financial sustainability.

A balanced budget was set with planned salary savings through voluntary severance of £2.683 million. Due to a lower number of applicants than forecast and no compulsory redundancy, the salary savings have not been achieved and the college projected a £0.957 million deficit for 2023/24 although further staff savings have been achieved in-year. Discussions are underway with the Scottish Funding Council on a financial recovery plan.

The board approved decisions during 2022/23 which will reduce costs in the future including the closure of the Coatbridge nursery, serving notice on the Hamilton lease and the sale of Donaldson Place in Kirkintilloch. Board approval was also given to proposals to re-purpose the student accommodation residences in Motherwell which will enhance the learning experiences of students across the campus.

The college’s five-year Financial Forecast Return shows recurring deficits up to 2026/27, reflecting the financial pressures on the college and the sector.

Pressures arising from the wider economic environment together with flat cash funding settlements will require colleges to make difficult decisions to achieve financial sustainability

60. In its Scotland’s colleges 2023 report, Audit Scotland highlighted the significant challenges that colleges across Scotland face, both in the short and medium to longer-term. There is a need for colleges to balance the delivery of high-quality learning with the difficult financial decisions required to remain financially sustainable in the medium to longer-term.

61. These decisions need to be made against a backdrop of the current cost of living crisis, impact of inflationary increases and the competition from private training providers and universities which have the potential to impact on the retention of students and staff. Additionally, the flat-cash funding settlement from the Scottish Government to the sector in recent years represents a reduction in real terms of 8.5 per-cent from 2021/22 to 2023/24. Taken together, the college sector faces challenging years ahead.

62. The Audit Scotland report emphasised the need for the Scottish Government and the Scottish Funding Council (SFC) to clarify the expectations and priorities for the sector for the medium and long-term, but also support colleges in planning for change now and making best use of available funding.

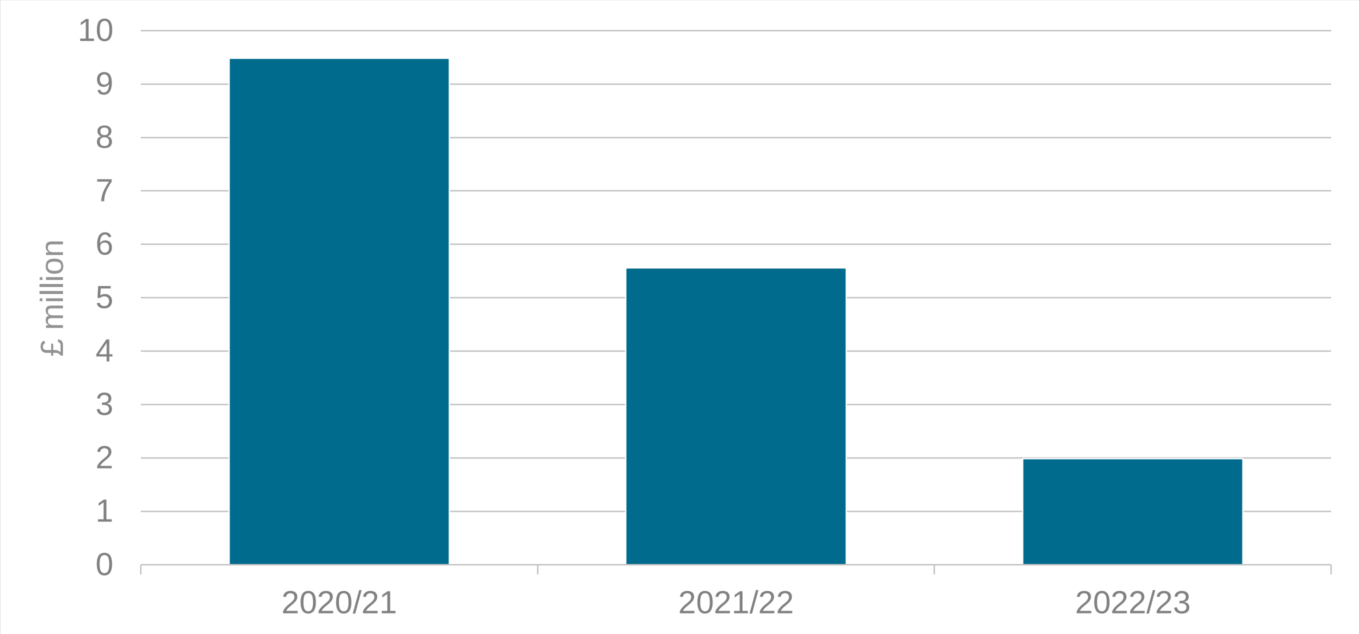
A balanced budget was set for 2023/24 with planned salary savings of £2.683 million

63. The impact of the financial environment in which the college is operating in presented significant challenges to its 2023/24 budget. To address initial estimates of a £2.7 million deficit after non-staff savings had been identified, a voluntary severance scheme was approved with planned salary savings of £2.683 million, with most of the planned savings within teaching staff. A balanced budget was approved based on the planned staffing savings being met.

64. The SFC provides funding on a regional basis. It rebased credit allocations for all colleges in 2023/24, lowering them by 10%, with a balancing price increase to ensure funding remains unchanged from 2022/23. The Lanarkshire region received a further 1% reduction on the credit allocation. The college has recently not achieved its credit target and the region received a funding reduction of 0.75%. While this reduction in the credit allocation increases the likelihood that the college will meet its credits target, this could have a direct impact on curriculum options available and ongoing staffing levels within the college as each credit is directly linked to student learning hours.

65. The 2023/24 budget paper contained cashflow projections and emphasised the college's precarious liquidity position. The college's cash balances have reduced significantly over the last three years, as shown in exhibit 5. At the time of setting the budget, the college projected that without intervention it would be in negative cash funds by February 2024.

Exhibit 5
Cash and Cash Equivalents Balance



Source: New College Lanarkshire Annual Reports and Financial Statements

66. A 2023/24 budget update paper presented to the Finance Committee in September 2023 reported that the planned staff savings from the voluntary severance scheme were not going to be achieved. This was due to a lower number of applicants than forecast. The college are now reporting a projected £0.957 million deficit. Discussions are underway with the SFC on a financial recovery plan to address the projected deficit.

67. The college's Financial Forecast Return (FFR) shows that reliance on SFC income is not expected to change over the medium term. Staff costs are expected to reduce but remain a significant proportion of the college's total expenditure, Exhibit 6. .

Exhibit 6

FFR projected SFC income and staff costs 2023/24 to 2025/26

Description	2023/24	2024/25	2025/26
SFC income as a percentage of overall college income	79%	79%	79%

Staff costs as a percentage of overall college expenditure	69%	69%	69%

Source: New Lanarkshire College 2022/23 Financial Forecast Return

The college's Financial Forecast Return shows recurring deficits up to 2025/26, reflecting the financial pressures on the college and the sector

68. The Financial Forecast Return (FFR) is an established part of the Scottish Funding Council's (SFC) financial health monitoring framework. The FFR allows the SFC to monitor and assess the medium-term financial planning and health of colleges.

69. In May 2023, the college were advised of the format and assumptions to be used for the 2022/23 FFR. The return covered the academic years 2022/23 to 2025/26. The FFR was considered by the college's board in October 2023. The board approved the 2023/24 budget only. The accompanying paper explained the format and content of the return, including the assumptions used and the proposed actions to further mitigate the impact of the financial challenges facing the college. The paper also provided additional context for board members on the current economic and financial pressures being experienced and how these affect the future financial projections.

70. The FFR submitted by the college indicated a challenging financial position over the medium-term. As outlined in exhibit 7, an underlying deficit is projected for all years covered by the FFR. Furthermore, the projected closing cash position shows a negative position in each of the next three financial years. Such were the deficits forecast, the board noted rather than approved the FFRs for 2024-25 and 2025-26 and advised the SFC of this approach.

Exhibit 7
FFR projected underlying operating and closing cash balance positions

Description	2023/24 £'million	2024/25 £'million	2025/26 £'million
Underlying operating surplus / (deficit)	0	(£1.379)	(£2.814)
Closing cash position	(£7.320)	(£8.699)	(£11.513)

Source: New College Lanarkshire 2022/23 Financial Forecast Return

71. The SFC's Financial Memorandum with colleges requires them to plan and manage their activities to remain sustainable and financially viable. The SFC expects colleges to aim to achieve a balanced budget each year. However, where a deficit is projected in any year, colleges should have plans in place to achieve a balanced position over the forecast period.

72. As outlined within the Revised FFR Position Statement for the Finance Committee and Lanarkshire Board, the college noted proposed actions which aim to support the aim of delivering a balanced budget and managed its cash resource and asset portfolio to arrive at medium-term financial sustainability. These included:

- Plans to achieve efficiencies through a focus on improvements in credits.
- Class sizes and early retention aligned with levels of highly developed and skilled/upskilled staff to deliver a modern, relevant and progress curriculum to meet service demands
- Review of income streams and reviewing cost control measures in non-staff expenditure.

73. As highlighted in exhibit 4, staff costs are the biggest expense to the college. The FFR indicates the substantial additional costs to the college should pay settlements be higher than the 5% assumption the SFC asked colleges to use. The college has estimated each 1% increase in the pay award equates to £0.4 million of additional expenditure.

74. Unless additional funding is made available, the college will need to continue to identify and implement cost efficiencies, ensure full utilisation of its staffing establishment, and develop additional income streams. An internal audit review of staff and room utilisation provided a 'weak' level of assurance with eight recommendations, including two high risk recommendations.

The board approved decisions which will reduce future costs but which did change service delivery

75. The board recognise that the scale of the financial challenge faced by the college means that voluntary severance alone will not deliver the recurring savings required. The board have considered and approved decisions during the year which impacted the existing model of service delivery.

76. During 2022/23 the board approved a number of decisions that changed the delivery of services and resulted in financial savings going forward. In April 2023 the board gave approval for a voluntary severance scheme, a review of residencies and decided that the recommendations from the nursery review be implemented. The sale of Donaldson Place was approved by the board and the building was marketed in 2022/23 with the sale concluding after the year-end. As outlined at paragraphs 37-39, a voluntary severance scheme was launched.

77. In March 2023, the Resources and General Purposes Committee were advised that the Hamilton Campus lease was due to expire in the summer. Hamilton Campus was used for Professional & Work based Learning. In March

2023, the board approved the decision to give notice and move out of the Hamilton Campus in July 2023. The appropriate period of notice was given to the landlord and required dilapidations work was undertaken in this period. Provision for this learning is now within the Motherwell campus.

78. The implementation of the recommendations from the nursery review were undertaken. Cumbernauld Nursery was originally planned for closure, however following further deliberations this will remain open and a Cumbernauld Nursey Development Group has been established to provide oversight. The board approved the decision to close Coatbridge Nursery. Initially this was due to close in the summer, but this was extended to the year-end and will close permanently in December 2023.

79. A review of residencies was undertaken. The student residency building at the Motherwell campus comprised of fifty bedrooms. As the number of students requiring to live on Campus has diminished, the board gave approval to end the residency use and to re-purpose the building. The re-purposing of this building has provided opportunities to enhance learning facilities and to utilise the space on the Motherwell campus more effectively.

80. The Estates and Health, Safety and Wellbeing teams have moved into the building. The top floor has been converted into the Advanced Manufacturing Hub. Extended Learning Support (ELS) staff have also been moved with the former bedrooms re-purposed as office space.

81. Space within the building has been earmarked for Sound Production students to use for practice. Further decisions will be made around the utilisation of the remaining space within the building.

Recommendation 6

Given the scale of the identified financial pressures, the college should continue discussions with the Scottish Funding Council around the financial recovery plans.

The college has in place a Carbon Management Plan 2023-2033 which commits the college to net zero by 2040, ahead of the Scottish Government's 2045 target

82. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

83. The college sector has a vital role to play in supporting both the development and delivery of low and zero-carbon infrastructure in Scotland. The sector published its commitment to tackling the climate emergency, including an ambition to achieve net zero by 2040, five years earlier than the national target of 2045.

84. We have considered how climate change and sustainability is factored into the college's strategic priorities, its action plan, and targets for reducing its emissions, and the monitoring and reporting arrangements of these.

85. The college declared a climate emergency in 2019 and has committed to the achievement of net zero for greenhouse gas emissions by 2040. To help it achieve this, the college has in place a new Carbon Management Plan 2023-2033. This commits the college to a number of interim targets ahead of its 2040 commitment, including removing petrol and diesel cars from its road-based fleet and sending no biodegradable waste to landfill by 2025.

86. Within its 2022/23 Annual Report and Financial Statements, the college discloses its work and progress in responding to the Climate Emergency. The report shows that since the baseline year of 2015/16, the college has been successful in reducing its carbon footprint measured using the tonnes of carbon dioxide equivalent (tCO2e) metric.

87. The college is required to submit an annual report to the Sustainable Scotland Network (SSN) detailing compliance with the climate change duties imposed on it by the Climate Change (Emissions Reductions Targets) (Scotland) Act 2019 and the Climate Change (Scotland) Amendment Order 2020. The information returned by it is compiled into a national analysis report, published annually on the Sustainable Scotland Network website. This includes data for all public sector organisations and supersedes the previous requirement for public bodies to publish individual sustainability reports.

88. In September 2023, the college's internal audit function reviewed the college's sustainability and carbon management arrangements. The purpose of the review was to consider the college's compliance with legislation in this area, the roles and responsibilities for sustainability and carbon management and how embedded this is within the college, and the recording and collection of carbon management data and performance indicators. Internal audit provided a 'strong' level of assurance over the sustainability and carbon management practices in place within the college. Several areas of good practice were identified.

4. Vision, leadership and governance

The college must have a clear vision and strategy and set priorities for improvement within this vision and strategy.

Main judgements

Appropriate governance arrangements are in place however, the college should continue to review information published on its website to promote openness and transparency.

A self-assessment was undertaken against the Code of Good Governance for Scotland's Colleges. A board development plan was developed to take forward actions identified from this.

The college has established governance arrangements in place

89. The Regional Strategic Body was established from the Lanarkshire Colleges Order 2014. New College Lanarkshire was designated the Regional Strategic Body for Lanarkshire and South Lanarkshire College was assigned to New College Lanarkshire.

90. The Board of New College Lanarkshire is supported by the following standing committees:

- Finance Committee
- Audit and Risk Committee
- Resources and General Purposes Committee
- Chairs Committee
- Remuneration Committee
- Curriculum, Student Affairs and Outcomes Committee

91. The South Lanarkshire Principal, Depute Principal and Head of Finance all attend the Lanarkshire Regional Board, Finance and Curriculum, Student Affairs and Outcome Committee. The Chair of the Lanarkshire Board Audit and Risk Committee attends the South Lanarkshire College Audit and Risk Committee.

This has been extended to the Chairs of the Finance Committee. From our attendance at the Audit and Risk Committee, we have noted positive outcomes from this arrangement with sharing of practice and approaches across the different committees.

92. The audit team have attended all meetings of the Audit and Risk Committee since May 2023. These are continuing through a mixture of hybrid and virtual meetings. We have observed the committees' discussions and note that members are aware of their role and participate in meeting discussions.

The college aims to conduct its business in an open and transparent manner

93. There is an increasing focus on how public money is used and what is achieved. Transparency means that the public have access to understandable, relevant, and timely information about how the college is taking decisions and how it is using resources such as money, people, and assets.

94. There is evidence from several sources which demonstrate the college's commitment to openness and transparency:

- The agendas, papers and minutes of the Board of Management and other committees are published on the college's website on a timely basis.
- The college website provides the public with access to a wide range of corporate information including details of its strategy, performance information, and equality and diversity reporting.

95. Whilst the college demonstrates a commitment to openness and transparency, there are opportunities to improve this through continuing to review the information available on the website and also optimising the functionality of the website to ensure information is easy to search and locate. From our review of the college website, we did identify scope to further enhance the availability of information including copies of prior year Annual Report and Financial Statements as well as reports or snapshots of annual performance.

Recommendation 7

Review the information available on the college website, and optimise its functionality, to enhance the availability of key information.

The college complies with the Code of Good Governance for Scotland's Colleges

96. The Board of Management is responsible for the overall governance of the college. It is responsible for ensuring the governance framework is operating as intended, together with the monitoring of the adequacy and effectiveness of these arrangements.

97. The Accounts Direction confirms that the 2016 version of the Code of Good Governance for Scotland's Colleges continues to apply for 2022/23. The revised version, issued in September 2022, will be adopted in 2023/24.

98. As part of internal audit's 2021/22 work plan, a Corporate Governance review was undertaken. The findings were reported to the audit and risk committee in May 2023 with a rating of strong. Two recommendations were made within the report to develop a register of interest and for the committee to develop and maintain a checklist highlighting its compliance with the Code of Good Governance. Internal audit followed up these recommendations during 2022/23 and concluded that the register of interest action has been fully implemented.

99. From March 2023 the Lanarkshire Board undertook a self-evaluation exercise on its effectiveness as the Regional Strategic Body for Lanarkshire as required by the Code of Good Governance for Scotland's Colleges. The evaluation was an iterative process and included:

- Each board member having a one-to-one session with the Chair
- Members of the Regional Strategic Body completing questionnaires to gather feedback and identify topics for members information events and improvement actions to take forward.
- a board operational effectiveness survey, was distributed to members requesting comments on specific aspects of board operation as well as offering the opportunity for board members to reflect on board activity over the previous 12 months and identify their ambition for the board in the coming 12 months.
- The comments and suggestions gathered from the 1:1 sessions, the committee survey and the board effectiveness questionnaire, together with feedback from college senior management, were collated into the board Development Plan

100. The Audit and Risk Committee reviewed the outcome of this review in October 2023 and a board development plan was developed to bring together actions and next steps.

101. Based on our review of the evidence in support of the college's self-evaluation against the Code of Good Governance for Scotland's Colleges, our knowledge and understanding of the college, together with our assessment of the recommendations in the board development plan compiled following the evaluation, we consider that the college was compliant with the Code of Good Governance for Scotland's Colleges throughout 2022/23.

The college is keen to re-start the process to dissolve the Lanarkshire Strategic Regional Body

102. As part of its October 2020 review into Scotland's three multi-college Regional Strategic Body's the SFC recommended that the Lanarkshire Regional Strategic Body be dissolved, with both colleges managing themselves as separate regional entities. Following this recommendation, a transition plan was set out. There have subsequently been delays in progressing this.

103. As detailed in Audit Scotland's September 2023 national report the Scottish Government has acknowledged several recent national reviews that have recommended major changes that would affect the college sector. They all bring both challenges and opportunities for the Scottish Government and colleges. The college is keen to re-start the process to dissolve the Lanarkshire Strategic Regional Body and initial discussions were held with the Scottish Funding Council in October 2023 to restart the conversation around the Lanarkshire Strategic Regional Body dissolution.

5. Use of resources to improve outcomes

The college needs to make best use of its resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and stakeholders.

Main judgements

The college has arrangements in place to promote and secure Best Value.

Whilst performance has improved against some key performance indicators in comparison to the prior year, overall performance has not returned to pre-pandemic levels. Withdrawal rates remain higher than the national average.

The college has arrangements in place to promote and secure Best Value

104. The Financial Memorandum between the Scottish Funding Council and fundable bodies in the college sector requires the college to:

- have a strategy for systematically reviewing management's arrangements for securing value for money, and
- as part of internal audit arrangements, to obtain a comprehensive appraisal of management's arrangements for achieving value for money.

105. Securing the economical and effective management of the college's resources and expenditure is the responsibility of the Board of Management.

106. Internal audit does not consider value for money as a standalone review; however, they do consider this within all their audits. Internal audit concluded that proper arrangements are in place to promote and secure Value for Money, although they only provided a weak level of assurance for the Review of College Catering and Staff/Room Utilisation review.

107. The college has a Value for Money policy which was last reviewed in January 2023. The policy sets out a commitment to the pursuit of economy, efficiency and effectiveness across all its activities. The objectives of the policy include internal audit undertaking value for money studies on specific activities; benchmarking activities against other colleges and promoting a culture of continuous improvement.

108. There is a recognition within the policy document that achieving value for money can take a several different formats. This could include benchmarking, competitive tendering, using performance indicators, conducting value for money studies and by reviewing the outcomes of an activity.

109. A procurement strategy is in place which outlines the procurement function role in enabling the College to develop objectives and policies relating to the management, efficiency and effectiveness of procurement to obtain best value for money across all purchases and to ensure that procurement activities are undertaken in the best interests of the College to support the College's Strategic Priorities and Objectives.

110. The strategy is reviewed annually and was most recently approved in May 2023 by the Finance Committee. The college also publish an annual procurement report. The latest published report is for 2021/22. This provides a summary of the procurement activity in the year, benefits to the local community and confirmation that this has taken place in line with procurement regulations.

111. We have not undertaken any specific Best Value work in 2022/23. However, based on our findings in this report, we consider that the college has arrangements in place to secure Best Value.

The college's Education Strategy 2023-25 was approved in July 2023 and provides a framework to transform the curriculum

112. The Regional Outcome Agreement is a formal signed document between the Lanarkshire Regional Strategic Board (which includes New College Lanarkshire and South Lanarkshire College) and the Scottish Funding Council (SFC) which commits the college to deliver several outcomes and outputs as a condition of the funding received.

113. The agreement also maps planned outcomes for the region and college to SFC strategic priorities. This is a set of measures for the college that are monitored and reported on by the SFC. The college's funding is closely linked to its performance against these and therefore these measures are a key area of focus for the Board of Management, with most of the SFC strategic priorities covered by the college's own key performance indicators (KPIs) that are linked to its strategy.

114. The college's 2025 Strategy sets out the college's vision to: "be Scotland's leading college; delivering excellence." This vision is underpinned by five strategic priorities:

- Strengthening the curriculum
- Expanding our educational outreach
- Partnering to grow
- Simplifying how we work
- Prioritising resource close to the student.

115. The college's Education Strategy 2023-25 was approved by the Executive Board in July 2023. The Strategy has been developed following consultation with students and academic and professional services staff across the college. It provides a framework for staff to refresh their focus on transforming the curriculum to address the educational and vocational skills gap which North Lanarkshire faces to fully support the economic development of local communities. We will monitor progress against the strategies aims as part of the 2023/24 annual audit.

The college reports progress against key performance indicators to the Curriculum and Student Affairs and Outcomes committee

116. The New College Lanarkshire performance dashboard is regularly reported to the Curriculum and Student Affairs committee. This monitors performance across four key areas:

- SQA National Results
- 5-year KPI trend for level and mode of attendance
- New College Lanarkshire credit summary
- Learner withdrawal comparison.

117. The college's Credit and Performance Monitoring Group meets fortnightly. The group monitor progress against achievement of credits and identifies actions to support students to successful outcomes and to reduce the level of withdrawals. Minutes are taken from the group's meetings and standing items of business discussed include credit updates; transfers, cancellations and withdrawals; enrolments; priority student status and funding applications.

118. From a review of the committee papers, performance data suggests that the college's performance has improved in 2022/23 with regard to successful outcomes, however, withdrawal rates remain above the national average and performance levels have not yet returned to pre-pandemic levels. Further commentary on some of these performance measures along with actions being taken to support improving performance are detailed in the sections below.

The college did not deliver on its core credits target in 2022/23

119. The SFC's recurring grant to the college is based on the amount of learning that it delivers. This is measured in units called 'credits' which equate to 40 hours of learning. The college's internal auditor carries out annual checks to confirm the accuracy of the reported credits.

120. During 2022/23 the college delivered 117,560 credits against its SFC core target of 131,305 credits in 2022/23. This has resulted in a creditor within the college's balance sheet to the SFC for the repayment of under achieved credits. The college's internal auditor carried out an annual check to confirm the accuracy of the reported credits.

Successful student outcomes are below the Scottish average

121. We recognise that the 2019/20, 2020/21 and 2021/22 academic years were impacted by the Covid-19 pandemic, with alterations to exam and assessment arrangements during this time making direct, year-on-year comparisons difficult. However, what can be compared is the college's position within the sector. Exhibit 8 shows that the college continues to perform below the Scottish average for successful student outcomes. At the time of writing, the latest available national performance data relates to 2021/22.

122. The college's 2022/23 Regional Outcome Agreement with the SFC set projected figures for the areas in exhibit 8. Except for full-time HE, the college was under the projected target percentage in the other areas. It is reasonable to assign these lower percentage thresholds to the impact of the pandemic. The college remained under considerable restrictions for most of 2021/22, up until mid-April 2022. This included a short period of enforced lockdown pre-Christmas 2021 because of the arrival of the Omicron variant.

123. The removal of Covid-19 restrictions in April 2022 has assisted the college in increasing the proportion of successful outcomes, however, with the exception of part-time FE, performance has not returned to the 2019/20 level of successful outcomes.

Exhibit 8
Successful outcomes - trend analysis 2019/20 to 2022/23

Mode	2019/20	2020/21	2021/22	Scottish average 2021/22	2022/23	2022/23 ROA projection
Full-time FE	60.18%	58.18%	52.15%	59.00%	57.18%	57.0%
Full-time HE	71.36%	64.53%	59.77%	62.50%	63.76%	64.0%
Part-time FE	70.43%	76.23%	74.01%	76.30%	76.05%	70.0%
Part-time HE	78.10%	76.80%	74.06%	78.8%	60.09%	76.0%

Source: Scottish Average SFC – CRN PI Tool 21-22; New College Lanarkshire Regional Outcome Agreement Dashboard.

The college has seen its withdrawal rates increase year-on-year

124. Nationally, before the pandemic, around one in four (24.7%) full-time further education (FE) students failed to complete their college course in 2018/19. The proportion of students withdrawing from courses fell in 2019/20, to around one in five (20.8%) full-time FE students. Withdrawal rates nationally subsequently increased noticeably in 2020/21 (to 27.3%), with fewer full-time

FE students successfully completing their course and achieving their intended qualification than before the pandemic.

Exhibit 9

Full-time early and further withdrawals - trend analysis 2019/20 to 2022/23

Mode	2019/20	2020/21	2021/22	2022/23
Early withdrawals	9.70%	7.91%	11.00%	11.25%
Further withdrawals	13.10%	17.61%	19.81%	17.06%
Total early and further withdrawals	**22.08%**	**25.52%**	**30.81%**	**28.31%**

Part-time early and further withdrawals - trend analysis 2019/20 to 2022/23

Mode	2019/20	2020/21	2021/22	2022/23
Early withdrawals	5.49%	3.01%	4.38%	5.28%
Further withdrawals	6.67%	5.63%	6.51%	6.77%
Total early and further withdrawals	**12.16%**	**8.64%**	**10.89%**	**12.05%**

Source: New College Lanarkshire Regional Outcome Agreement Dashboard.

Withdrawal rates reduced in 2022/23 compared to the prior year but still remain high

125. A Progress Visit by HM Inspectors from Education Scotland took place in December 2022. This highlighted that the college need to take steps to address the high rates of learner withdrawal and to improve rates of learner attainment across all modes of study.

126. Exhibit 9 shows that the withdrawal rate for New College Lanarkshire's full-time students increased during the three-year period from 2019/20 to 2021/22. During 2022/23 the level of withdrawals amongst full time students reduced from 30.81% to 28.31%. Whilst this is an improved position, withdrawal rates remain higher than the national average. The largest proportion of the increase related to further withdrawals. Part time early and further withdrawals have remained steady across the same period.

127. The Credit and Performance Monitoring Group meets fortnightly. The group monitor progress against achievement of credits and identifies actions to support students to successful outcomes and to reduce the level of withdrawals.

Minutes are taken from the group's meetings and standing items of business discussed include credit updates; transfers, cancellations and withdrawals; enrolments; priority student status and funding applications.

128. The Audit Scotland 2022 national report noted that the reasons behind students not completing college courses are wide and varied. National surveys suggest that student poverty, mental ill health, and financial difficulties could be contributing factors.

129. The college has put in place additional resources to better support students to complete their courses to help limit further withdrawals. This has included providing hot breakfast for students to ensure that no student would be hungry and to support mental health and wellbeing. Arrangements are in place for key support officers to contact students following non-attendance. This provides an opportunity for support to be offered, with link up to the Student Engagement Team. Further plans are in placed to introduce warm spaces at each campus to support students during the cost-of-living crisis. These warm spaces will include access to digital devices.

Appendix 1: Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Project management of the Annual Report and Financial Statements The accounts were not provided to audit in line with agreed timescales. **Risk: The accounts are not signed in line with statutory deadlines.**	Ensure adherence to the project plan for the co-ordination and delivery of the annual report and financial statements. All officers involved in the preparation of the annual report and financial statements should agree to the plan and deliver their part of the plan in line with the agreed timescale to ensure all information is available prior to the commencement of external audit. Paragraph 16	**Action Agreed** A Timetable is currently prepared and agreed at Executive Board. Information requests are also sent out with deadlines to those officers responsible for certain areas however internal deadlines are often not prioritised. Also, a piecemeal approach will also be adopted. **Responsible Officer** Financial Controller with escalation to CFO and Executive Board. **Agreed date** To be enforced for 2023/24 Financial Statements.
2.Disclosures in the Annual Report and Accounts Our review of the disclosures within the unaudited Annual Report and Financial Statements identified areas where improvements were required to ensure compliance with the applicable guidance. These areas included the Performance Report, Governance Statement and	As part of the preparation for the 2023/24 Annual Report and Financial Statements, management should consider the disclosures against the required guidance and Audit Scotland's good practice notes on these areas, instead of reliance on previous audited templates. Exhibit 3, Point 1	**Action Agreed** Previous templates were used as these disclosures were accepted by previous Auditors. **Responsible Officer** All College Officers responsible for those areas to align with guidance. **Agreed date**

the Remuneration and Staff Report. This was not new guidance. **Risk: Disclosures do not comply with the applicable guidance.**		To be enforced for 2023/24 Financial Statements.
3. **Review of Non-Current Asset information within the fixed asset register and the financial statements** Where assets are no longer in use they should be formally scrapped or sold. An exercise needs to take place to ensure that the fixed asset register agrees to the assets still physically held by the college. FRS 102 requires colleges to include a disclosure within their financial statements showing the carrying amounts of assets that would have been recognised had the assets not been carried under the cost model. **Risk**: There is a risk that the non-current asset disclosures include assets the college no longer has.	Management should conduct a detailed review of all assets with a nil book value to ensure any fully depreciated assets still in use are revalued and depreciated over their remaining useful economic life. Collate the relevant information from the fixed asset register and underlying financial records to comply with the FRS 102 disclosure requirement for historic cost model information to be included within the financial statements. Exhibit 3, Point 5	**Action Agreed** Agreed. Appropriate resource will have to be found to carry out this exercise. **Responsible Officer** Financial Controller **Agreed date** 31 July 2024
4. Untaken Holiday Liability The college is required to calculate the estimated cost of untaken annual leave at 31 July 2023 that can be carried forward and used during 2023/24. Our review of the college's approach to the calculation of the untaken liability identified that it was based on untaken leave estimates from 2018. Whilst we acknowledge that the methodology applied to the accrual was agreed with the college's previous	The college should collate accurate data on the value of untaken annual leave at the year-end to ensure the untaken holiday liability is accurately calculated. Exhibit 3, Point 6	**Action Agreed** Agreed, although balance was accepted as reasonable by previous auditors. Verbal discussion. **Responsible Officer** Financial Controller **Agreed date** 30 September 2024

auditors, we were unable to obtain information to demonstrate that this remained a reasonable estimate of untaken leave at 31 July 2023. **Risk:** The untaken holiday liability is inaccurately stated in the college's financial statements.		
5. ICT Disaster and Recovery Plans The ICT Disaster Response Plan was last updated in 2019. The Cyber Incident Response Plan is under development. We have not been able to review details of when disaster response or recovery arrangements were last tested.	Establish a programme to regularly review, refresh and test disaster recovery and response plans to ensure these remain appropriate. Paragraph 50	**Action Agreed** Agreed. **Responsible Officer** Chief Transformation Officer **Agreed date** 31st March 2024
6. Financial sustainability concerns The college's 2022/23 Financial Forecast Return highlights significant financial pressures with negative cash funds projected by February 2024. **Risk:** The college faces significant challenges to remain financially resilient and improve its cashflow position.	Given the scale of the identified financial pressures, the college should continue discussions with the Scottish Funding Council around the financial recovery plans. Paragraph 81	**Action Agreed** Agreed. **Responsible Officer** College Board/Executive Board & Deans **Agreed date** 31st July 2024
7. Availability of information There are opportunities to improve the availability of information through the college website. Key information is missing, and the functionality of the website could be enhanced. **Risk:** College stakeholders are not able to locate key	Review the information available on the college website, and optimise its functionality, to enhance the availability of key information. Paragraph 95	**Action Agreed** Agreed. **Responsible Officer** Clerk to the Board of Management **Agreed date** 31st March 2024.

information on the college
website.

New College Lanarkshire

2022/23 Annual Audit Report

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