Dear Caroline

Thank you for your submissions to the Education and Skills Committee’s pre-budget scrutiny. The Committee took evidence from the Scottish Funding Council last week and the Official Report of the meeting has been published and can be found here: http://www.parliament.scot/parliamentarybusiness/report.aspx?r=10635

During the meeting, one topic that was raised was how colleges account for depreciation resulting technical deficits. The Committee agreed to write to you to highlight the exchange and an extract of the Official Report is included in an Annexe to this paper.

The SFC has agreed to provide additional information to the Committee on how depreciation is treated in the college sector compared to other parts of the public sector. We would anticipate a response from the SFC in the next two weeks and we would be happy to share the SFC’s response with you.

The Committee would also appreciate your comments on issues raised about colleges’ treatment of depreciation, the specific accounting requirements of colleges as distinct from the majority of the public sector and the ability to easily scrutinise deficits. I would be grateful for your views by Wednesday 14 December 2016.

Yours sincerely

JAMES DORNAN MSP
CONVENER
11:00

Colin Beattie:
I thank the funding council for accommodating Liz Smith and me on our visit to Queen Margaret University last week, and for providing the helpful written submission on depreciation, which I am sure we have all been studying. [*Laughter.*] It is actually quite interesting.

I realise that professional accounting practice dictates the process, but I have a couple of concerns and I need a bit of information. Obviously, the approach means that most colleges will end up with a technical deficit, no matter what they do. Is that deficit annual or cumulative? In other words, will the impact on the apparent bottom line get worse?

Dr Kemp:
That is one point on which I will bring in my director of finance.

Lorna MacDonald:
It is not cumulative, but you are absolutely right that we should expect technical deficits. You will see from the Audit Scotland college overview report that, in 2014-15, the overall deficit was £28.3 million but, with the adjustments for non-cash aspects and one-offs, the overall underlying deficit was £3 million. About 15 colleges showed a technical deficit as well as other potential deficits.

That is the norm; it is not something that is going to get worse and worse. The priorities for the use of depreciation have been set. In many cases, with any revenue spend in that depreciation category—that non-cash budget—the priorities of student support and pay pressures will continue. However, it is not possible to keep allocating additional priorities to that amount of money.

Colin Beattie:
From a budgetary point of view, the committee is interested in being able to see readily whether a college is in deficit. Members tend not to look at whether a deficit is technical or real. How will the information be presented in a way that allows committee members to see readily the real financial position of a college without having to go into the accounts and interpret them?

Lorna MacDonald:
You are absolutely right. You will see from the written submission that we have added requirements in the accounts direction to make that communication much clearer. It is important for everyone to understand where a deficit is technical and where it is an underlying deficit.
Colin Beattie:
On a small point of clarification, the submission talks about “Professional accounting practice”, but is it the same professional accounting practice across the whole public sector?

Lorna MacDonald:
It is the recommended practice for further education and higher education institutions.

Colin Beattie:
Is that different from the practice in other sectors?

Lorna MacDonald:
Yes. For instance, other charities would have to apply the charities statement of recommended practice, but colleges and universities have to apply the further and higher education SORP.

Colin Beattie:
How does that differ from the way in which other public sector budgets are handled?

Lorna MacDonald:
It is considerably different from the normal Government accounting and accounts. Indeed, there is to be a further change in the SORP, which, I am sad to say, will make the interpretation of accounts more confusing. However, going forward, we collectively have to improve the communication of the underlying message.

Colin Beattie:
Obviously, it is a concern if we cannot compare one area of the public sector with another. Would it be possible for you to encapsulate on one page what the significant differences are and how the education budget would differ if it was in another area of the public sector?

Lorna MacDonald:
Yes. I am happy to provide that in writing following the meeting.

Colin Beattie:
That is actually quite important.

In the submission, under the heading “Priorities for spend of depreciation funds”, you set out the three areas that have been prioritised: student support funds, loan repayments and the costs of the 2015-16 pay award. They are not necessarily one-off payments, are they? They are continuing obligations.

Lorna MacDonald:
Absolutely, and, because the commitment goes forward, the flexibility within the net depreciation is reduced. It is an annual commitment that has to be met from that allocation.

Colin Beattie:
Are those guidelines laid down by the Scottish Government or by the SFC?
Lorna MacDonald:
There is ministerial approval of the priorities, and there is a legal commitment for repayment of any loans that existed prior to April 2014.

Colin Beattie:
So, in effect, are we relying on the continuation of current accounting practices in order to fund those commitments?

Lorna MacDonald:
Yes.