

## **Correspondence from Audit Scotland to the Public Audit Committee, dated 25 October 2013**

### **Differential college pension liabilities (Official Report Col 1607)**

Confirmation that colleges can sometimes be faced with paying different pension contribution rates reflecting their share of the assets and liabilities of the particular local government pension scheme to which they are members.

As the attached Excel file shows, this is indeed the case. Based on our analysis of three local government pension schemes:

- Individual colleges may be required to pay different contribution rates while being members of different pensions schemes
- Individual colleges may be required to pay different contribution rates within the same pension scheme
- In some cases, individual colleges may be required to pay different lump sums as well as different contribution rates

### **Perth College pension arrangements**

Perth College - along with Angus, and Dundee Colleges – is a member of the Tayside Pension Scheme (TPS). Perth and Dundee account for the TPS under FRS 17 as if it was a defined contribution scheme. This is because, in the words of Perth College's accounts, "scheme assets have not been tracked on a consistent and reasonable basis and that there is therefore scope within the administration of the scheme for a significant level of cross-subsidisation between participating employers" i.e. the college's share of the scheme's assets and liabilities can't be identified on a consistent and reasonable basis. Conversely, Angus College takes the view that, based on actuarial advice, its share of the TPS's assets and liabilities can be identified and it therefore accounts for the TPS as if it was a defined benefit scheme.

What this means in practice is that Perth and Dundee Colleges account for the pension contributions they make to the TPS as a charge to the Income and Expenditure Account only. Angus College shows its pension contributions as a charge to the Income and Expenditure Account but it also shows its share of the TPS's assets and liabilities in its Balance Sheet.

Just to add to the differences of opinion, Dundee College's external auditors take the view that the college's share of the TPS's assets and liabilities can be identified on a consistent and reasonable basis. The auditors therefore qualified the college's 2011/12 accounts.

This serves to demonstrate that technical accounting standards, especially as they relate to pensions, can be subject to different interpretation, and audited body and auditor may sometimes arrive at different judgements as to the correct accounting treatment.

All other colleges account for their non-teaching staff pensions as if they were members of defined benefit schemes except Aberdeen, Banff and Buchan and Moray (all members of the

North East Scotland Pension Fund). These three colleges account for their pensions as if they were members of defined contribution schemes.

Note that all colleges in the Tayside Pension Scheme pay the same contribution rate. Likewise with the North East Scotland Pension Fund.

#### **Further analysis of Exhibit 7 of the colleges report (Official Report Col 1608-1609)**

The accounts do not provide much more detail than contained in Exhibit 7. However, we've also provided in the attached Excel file an indication of the types of costs included in each category of expenditure shown in Exhibit 7, together with some explanation of the likely reasons for cost variations between 2010/11 and 2011/12.

## Local Government Pension Scheme

Local Governemnt Pension Fund	Member bodies	Contribution Rates			
		2011/12 (paid)	2012/13 (minimum)	2013/14 (minimum)	2014/15 (minimum)
Falkirk (notional average employer contribution rate 20.5%)	Clackmannanshire	19.0%	19.5%	20.0%	20.5%
	Falkirk Council	19.0%	19.5%	20.0%	20.5%
	Stirling Council	19.0%	19.5%	20.0%	20.5%
	Forth Valley College	18.4%	18.9%	19.4%	19.4%
Fife (notional average employer contribution rate 21.3%)	Fife Council	19.1%	20.0%	20.9%	21.8%
	Carnegie College	17.9%	17.9%	17.9%	17.9%
	Elmwood College	17.4%	17.4%	17.4%	17.4%
	Adam Smith College	19.2%	19.2%	19.2%	19.2%
Lothian (notional average employer contribution rate 18.0%)	City of Edinburgh Council	17.5% + £10.525m	17.2% + £10.113m	17.2% + £10.113m	17.2% + £10.113m
	Midlothian Council	17.5% + £1.723m	17.2% + £1.629m	17.2% + £1.629m	17.2% + £1.629m
	West Lothian Council	20.40%	16.9% + £3.271m	16.9% + £3.271m	16.9% + £3.271m
	East Lothian Council	17.5% + £2.254m	16.6% + £2.725m	16.6% + £2.725m	16.6% + £2.725m
	Edinburgh Telford College	18.3%	15.5% + £0.148m	15.5% + £0.148m	15.5% + £0.148m
	Jewel and Esk College	20.5%	15.9% + 0.142m	15.9% + 0.142m	15.9% + 0.142m
	Oatridge Agricultural College	19.4%	17.6% + £0.012m	17.6% + £0.012m	17.6% + £0.012m
	Stevenson College	19.0%	16.2% + £0.125m	16.2% + £0.125m	16.2% + £0.125m
	West Lothian College	18.5%	16.0% + £0.051m	16.0% + £0.051m	16.0% + £0.051m

Further breakdown of  
Exhibit 7

Expenditure category	2010-11 (£m)	2011-12 (£m)	Examples of constituent costs	Known and possible reasons for variance in spend between 2010/11 and 2011/12
<b>Recurring staff costs</b>	<b>473.5</b>	<b>417.3</b>	Salaries and other staff costs of teaching, management and administration staff. 2011/12 expenditure comprises: * salaries and wages £345.0 million * social security costs £26.3 million * pension costs £46.0 million.	Reduction in full time equivalent staff of 1,200. As Exhibit 8 of our report demonstrates, teaching staff numbers reduced the most.
<b>Teaching activities</b>	<b>50.9</b>	<b>47.4</b>	Accounts do not contain a more detailed breakdown but costs will include text books, classroom materials and other equipment directly related to education provision.	No obvious explanation but small reduction in FTE student numbers may have played a part.
<b>Administration</b>	<b>49.7</b>	<b>50.6</b>	Accounts do not contain a more detailed breakdown but costs will include office supplies and equipment, non-capitalised IT equipment, software licences, photocopying, payroll and personnel services etc.	No obvious explanation although rate of inflation of some cost categories may have been higher than GDP deflators used to calculate real term costs.
<b>Premises</b>	<b>53.0</b>	<b>49.8</b>	Accounts do not contain a more detailed breakdown but costs will include energy and heating costs, buildings maintenance, rent and rates etc.	Reduction in expenditure likely to have been influenced by rationalisation of college estate offset by cost increases higher than the GDP deflator, especially in relation to energy costs.
<b>Depreciation</b>	<b>92.0</b>	<b>48.6</b>	Depreciation and impairment charges associated with property, plant and equipment.	Reduction is largely due to exceptional depreciation charge of £44.8 million at the City of Glasgow College in 2010/11
<b>Other Costs (including exceptional costs)</b>	3.4	3.1	Interest payable on borrowings, overdrafts etc.	Reduction in expenditure likely to have been influenced by lower borrowing costs, less borrowing, fall in use of overdrafts etc.
	10.1	9.2	Other Residencies - operating expenditure, other than staff costs and premises costs, associated with catering and residential services.	No obvious explanation although variation in expenditure is not great.

	28.3	33.4	Other expenditure - costs not attributed to other headings (Accounts do not contain a more detailed breakdown but costs will include agency costs, expenses associated with other income generating activities, merger costs etc).	Most of the increase in expenditure can be attributed to the City of Glasgow (£1.0 million), Banff and Buchan (£1.2 million) and Barony Colleges (£0.7 million). Contributing cost increases include the provision of childcare facilities for students, spend on furnishings and fixtures and farming activities at Barony College.
	26.3	21.3	Exceptional costs - staff severance payments.	Reduction in expenditure likely to be associated with the number of severance packages in 2011/12 and the circumstances of the individual staff member leaving i.e. salary, number of years service etc.
	0.7	7.1	Exceptional costs - loss on asset revaluations, loss on asset sales etc.	Increase is largely due to Forth Valley College £3.4 million write down of non-capital costs (paragraph 13 of our report), Kilmarnock College £1.0 million new build campus and asset write down costs, and Telford College £1.7 million exceptional provision in relation to a student accommodation contract.
	<b>68.8</b>	<b>74.2</b>		
<b>Total costs</b>	<b>787.9</b>	<b>687.9</b>		

