Glasgow Colleges' Regional Board

# Performance and Resources Committee Meeting

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| Date of Meeting | Wednesday 2 October 2018 |
| Paper Title | Financial Forecast Return - GCRB |
| Agenda Item | 9 |
| Paper Number | PRC1-I |
| Responsible Officer | Jim Godfrey, Finance and Resources Director |
| Status | Disclosable |
| Action | For Decision |

## 1. Report Purpose

**1.1.** To enable the Committee to consider the Financial Forecast Returns for GCRB and the Region.

## 2. Recommendations

**2.1.** The Committee is asked to **approve** the Financial Forecast Return for GCRB and the commentary contained within Section 5 of this report.

**2.2.** The Committee is asked to **note** the consolidated Financial Forecast Return of the Glasgow region will be provided to the next meeting of this Committee.

## 3. Background

**3.1.** The Financial Forecast Return is an annual return that regions, and colleges, are required to submit to the Scottish Funding Council (SFC). The Financial Forecast Return is used by the Scottish Funding Council to "monitor and assess the financial health of colleges and better understand the resource pressures and challenges that are anticipating". GCRB is required to submit a return forecasting the future financial performance.

**3.2.** Long-term financial planning is wholeheartedly supported in the pursuit of effective financial management and good governance. Enhanced long-term financial planning was also something that was recommended by Audit Scotland in their review of Scotland's Colleges in 2016. This was re-iterated in the subsequent reviews in 2018 and 2019. The requirement to improve the underlying assumptions was identified as an area for improvement and this is something that has been addressed by SFC and the college Finance Directors.

**3.4.** The completion of the Financial Forecast Return contributes to long-term planning within the college, the region and the sector.

**3.5.** For 2019-20, there will be four separate returns i.e. one for each of the colleges and one for GCRB. The deadline for returns to be submitted to be submitted by the colleges is 30 September with SFC accepting that Committees/Boards may not meet to approve these returns until after this date.

**3.6.** This Committee is therefore asked to approve the return for GCRB. The consolidated return will be collated in October and submitted in draft to SFC. The next meeting of this Committee will consider the consolidated financial position.

**4. Assumptions**

**4.1.** The principal assumptions that underpin the financial forecast return were determined by SFC. These assumptions are shown in Appendix A.

**4.2.** These assumptions were issued by the SFC following consultation with representatives of the College sector, including GCRB.

**4.3.** Additional information was also provided by GCRB to the three colleges in respect of the breakdown of the core grant. This information is shown in Appendix B.

**5. Financial Forecast Return – GCRB**

The Financial Forecast Return is a spreadsheet that is made up of a series of worksheets but many of these are not relevant to GCRB. The Financial Forecast Return for GCRB is provided at Appendix C.

SFC request that the fundable body provides a commentary that accompanies this return. The commentary is required to address certain key topics and these are covered within the following:

**5.1.** <u>Introduction</u> – the organisational structure of GCRB is straightforward and consists of a small core team of staff. Staffing costs account for the majority of expenditure and the staffing structure is predicted to remain constant over the forecast period. The other costs incurred are non-staff costs that mainly relate to the cost of governance.

**5.2.** <u>Review of Financial Performance 2018-19</u> – income and expenditure are closely matched and consistent with the agreed budget.

**5.3.** <u>SFC Recurrent Grant</u> – GCRB receives the recurrent grant for the region and retains an amount to meet its costs. The amount required for 2018-19 was £445,000.

**5.4.** <u>Changes in tuition fee income and other income</u> – income from other sources would not normally be expected.

**5.5.** <u>Commercial income</u> – GCRB is not expected to generate commercial income.

**5.6.** Changes in staff and non-staff costs – GCRB has an agreed staffing structure in place and future costs are forecast on this basis.

**5.7.** Cash budget for priorities (incorporated colleges only) – GCRB is not expected to hold significant assets and therefore depreciation is not expected to be an issue.

**5.8.** Balance sheet – cash position – it is expected that the income and expenditure of GCRB will be matched for each year. As GCRB is unlikely to hold assets either (see comment above) then the amounts contained within the Balance Sheet will be minimal.

**5.9.** Risk Management – the risks associated with the Financial Forecast Return for GCRB are considered to be low. There is a high degree of confidence regarding the grant income and the cost structure is both straightforward and stable.

**6. Financial Forecast Return – Glasgow Region**

**6.1.** The deadline for the return of Financial Forecast Returns (to SFC) is Friday, 28 September 2019.

**6.2.** Following completion of the Financial Forecast Returns, by the 3 colleges and GCRB, the information will be collated into a single regional return. The consolidated regional position will be analysed and reported to the next meeting of this committee.

**7. Risk Analysis**

**7.1.** The risks associated with the Financial Forecast Return for GCRB are considered to be low.

**8. Equalities Implications**

**8.1.** There are no equalities implications as a direct result of this report.

**9. Legal Implications**

**9.1.** There are no specific legal implications associated with this report.

**10. Financial Implications**

**10.1.** The financial implications associated with the Financial Forecast Return are set out in the body of the report.

**11. Strategic Plan Implications**

**11.1.** The ability to deliver the Regional Outcome Agreement and Strategic Plan are directly affected by the future resources. The Financial Forecast Returns contribute to the long-term financial planning and therefore the ability to achieve the regional ambitions.

## Annex A - Underlying Assumptions – College Sector

The following assumptions were determined by the Scottish Funding Council and set out in SFC/CI/04/2019 (http://www.sfc.ac.uk/web/FILES/callsforinformation_sfcci042019/SFCCI042019_Call_for_information_2019_FFR.pdf)

In order to assist colleges with planning and to ensure consistency across the sector, SFC has provided guidance below on key assumptions that should be used in producing financial forecasts. It is important to note that we have no information on Scottish Government budgets beyond Financial Year 2019-20 so these assumptions are indicative. Institutions should therefore also develop additional planning scenarios if they believe they are more appropriate for their operating environment / circumstances.

**Credits and teaching income (Core and European Social Fund activity)**

Core funding and additional funding for ESF activity for 2019-20 should be based on the final funding allocations announced on 17 May 2019 (SFC/AN/10/2019). Table 1 *(within the SFC Circular)* provides details of indicative funding allocations for the period to 2023-24 for planning purposes. It should be noted that funding has not been assumed to cover inflationary pressures as we continue to expect institutions to deliver efficiency savings of at least 3% per annum.

Table 2 *(within the SFC Circular)* assumes that there are no plans to revise activity targets for any region prior to 2022-23 when there will be a 2.9% reduction at sector level in activity – this is based on the assumption that the Developing Scotland's Workforce (DSW) European Social Fund (ESF) programme will end in 2021-22. Due to demographic changes and other factors, it may be appropriate for institutions to consider an increase or reduction in the activity targets reflected in Table 2.

SFC plans to return to formula funding by 2022-23. SFC has taken the assumed activity levels (once the ESF project ends) and derived the funding levels for this activity based on the current credit funding model. In 2019-20, the National Bargaining harmonisation / job evaluation funding has been allocated in accordance with the Colleges Scotland costings. Under the formula model, the harmonisation / job evaluation costs will be spread across the sector by increasing the price per credit. Therefore, there will be a redistribution of harmonisation / job evaluation funding from some colleges to others. This is because funding is not shared equally in 2019-20 but will be used to increase the price per credit from 2020-21 which will spread the funding more equally across the sector.

SFC is aware that some colleges will find it challenging to transition to these funding levels by 2022-23 even though there will be a reduction in places to offset the reduction in funding. We therefore plan to use the £8 million SFC contribution to ESF funding to mitigate the larger losses for 2022-23. Funding reductions have been capped at 4% for 2022-23. This mitigation is reflected in Table 1.

Institutions should use the planning assumptions set out in Table 1 and Table 2 to prepare the FFR. In addition, we would encourage institutions to develop additional alternative scenarios and consider how these would impact on forecasts. For instance, due to demographic changes and other factors, it may be appropriate for institutions to consider an increase or reduction in the activity targets reflected in Table 2. SFC will continue to work with the college sector and other key stakeholders, through the College Funding Group, on the development of SFC's funding model.

Clearly, Regional Strategic Bodies will need to advise their assigned colleges of their funding assumptions over the forecast period to 2023-24.

**Student support funding**

Colleges should assume that all student support funding requirements will be fully met. Regional Strategic Bodies will need to advise their assigned colleges of their funding assumptions over the forecast period to 2023-24.

**Capital Maintenance**

SFC Capital Maintenance funding should be based on the final 2019-20 funding allocations announced on 17 May 2019. Regional Strategic Bodies will need to advise their assigned colleges of their funding assumptions over the forecast period to 2023-24.

**Non-SFC income**

Assumptions for non-SFC income projections should be prepared taking account of local circumstances. Institutions will need to take account of the latest available information from staff with responsibility for securing and delivering non-SFC funded activity while taking account of anticipated levels of demand.

**Staff costs**

The impact of National Bargaining harmonisation / job evaluation costs for all staff and any workforce planning requirements should be incorporated in the FFR. Detail on this (up to and including 2019-20) has been provided by Colleges Scotland though it should be noted that some of these costs are subject to change.

Institutions should also factor in cost of living pay award increases for lecturing staff and for support staff. For support staff, forecasts should reflect the agreed pay award up to August 2020, and provide for increases arising from the current job evaluation exercise. For lecturing staff, forecasts should be based on the recently ratified pay, and terms and conditions agreement. For all staff, institutions should apply the Public Sector Pay Policy for each of the remaining years in the forecast period. Scottish Government continues to expect institutions to deliver efficiency savings of at least 3% per annum which should be taken into consideration in meeting the cost of living pay awards.

Incremental increases should also be reflected throughout the period, where appropriate.

Institutions should not assume increases in social security costs. Pension cost forecasts should reflect any known or expected increases to employer contribution rates. Employer contribution rates for the Scottish Teachers Superannuation Scheme are due to increase from 17.2% to 23% on 1 September 2019 until 31 March 2023. The Scottish Government has recently agreed to fund the additional cost of the increase for the period 1 September 2019 to 31 March 2020. Institutions should therefore assume additional SFC grant (on top of SFC funding set out in Table 1) to cover this additional cost during the period 1 September 2019 to 31 March 2020.

For the purposes of this financial return, institutions should assume this additional funding (to cover the forecast increase in STSS employer contributions arising from the rate increase) will continue throughout the planning period to the end of AY 2023-24. However, you should note that this is a planning assumption and no decision has been made concerning funding beyond 31 March 2020 in line with the communication dated 14 June 2019.

The impact of voluntary severance costs should be consistent with the movement in staff FTE numbers. Institutions should not assume that funding will be provided for voluntary severance costs, unless already agreed with SFC.

FRS 102 pension adjustments should be excluded from the forecasts.

**Non-staff costs**

Assumptions for non-staff cost projections should be prepared taking account of local circumstances. Institutions should use their current non-staff costs as a baseline and will need to take account of movements in associated income streams. Institutions should demonstrate where they plan to generate efficiencies, where applicable.

**Estates**

Assumptions for estates-related costs should be prepared taking account of local circumstances.

**Disposals**

Forecasts should reflect any planned property disposals and include both expected proceeds and costs of disposal. Institutions should assume that proceeds will not be retained by the Institution, unless specifically agreed with Ministers / SFC.

**Key risks**

The ‘key risks’ page requests institutions to set out material risks to income and expenditure and, if possible, quantify these risks. These risks should correspond with institutions’ risk registers. It is expected that the results of this work will be reflected in the FFR financial commentary and associated papers that will be considered and approved by the institution’s Governing Body.

Institutions are requested to provide a copy of the Governing Body papers to SFC along with the FFR, and other scenarios presented to the Governing Body, in order to provide assurance that robust planning arrangements are in place.

**Cash forecasting**

Institutions are required to provide high-level cash balances as part of the balance sheet projections for all years in the planning horizon.