

## Annex B – Supplementary Information for the Glasgow Colleges

The following additional assumptions were provided to the three colleges by GCRB on 12 July 2019.

### GCG Sustainable Institutions Group

Date of Meeting	12 July 2019
Paper Title	Financial Forecast Return
Agenda Item	9
Paper Number	PRC1-I
Responsible Officer	Jim Godfrey, Finance and Resources Director
Status	Non-disclosable
Action	For Discussion

#### 1. Report Purpose

- 1.1. The purpose of this paper is to provide additional (regional) information in respect of the Financial Forecast Return assumptions.

#### 2. Recommendations

- 2.1. Finance colleagues of the GCG Sustainable Institutions Group are recommended to:

- **Note** the additional (regional) information to support the Financial Forecast Return assumptions.
- **Note** that the college Financial Forecast Returns should be provided to GCRB by Friday, 20 September 2019.

#### 3. Background

- 3.1. The Call for Information was issued by the Scottish Funding Council (SFC) on 21 June 2019. Full details are available via the following link: <http://www.sfc.ac.uk/publications-statistics/calls-information/2019/SFCCI042019.aspx> The Call for Information contains guidance, underlying assumptions and information in respect of future grant funding. The document has been analysed and some issues identified. In addition, further information has been provided to GCRB (by SFC) to enable the funding allocation provided to the region to be allocated to the assigned colleges in Glasgow.
- 3.2. In making this allocation to colleges, GCRB has followed the same approach adopted by SFC. However, some observations are made below in respect of the basis of this allocation. Such observations may lead to discussion that could inform a future funding model at a regional and national level.

**3.3.** The comments, and reflections, outlined in the following sections are based upon the commentary provided by SFC within the Call for Information. A draft version of this paper was provided to finance colleagues within the GCG Sustainable Institutions Group on 26 June 2019. No comments were received and the final set of assumptions circulated on 12 July 2019.

#### **4. A Balanced FFR (Para 8)**

**4.1.** The Call for Information contains an crucial statement i.e. “It is therefore critical the institutions take the necessary actions to balance their operating position, reflect these in their FFRs, and provide a full description of their financial plans...”. This appears to be a very important matter, not least because it implies that:

- Institutions (i.e. Colleges and Regional Strategic Bodies) should submit Financial Forecasts that do not show a deficit.
- A description of the proposed actions should be disclosed in the commentary.
- These actions would be approved by the Board prior to submission to GCRB (and subsequently to SFC at the end of September).

**4.2.** This presents a very challenging set of circumstances for institutions. The five-year forecast (based upon the current resource base) is likely to show expenditure increasing above income. Therefore, to achieve a balanced budget an institution would need to determine how it intends to reduce costs. This is likely to be a complex process that requires a careful consideration of risks.

**4.3.** Such cost saving measures could include significant organisational changes, perhaps closing courses, reducing campus locations or employing fewer people. Such wide-ranging, and difficult, issues would require extensive dialogue, and evaluation, prior to any decision being reached. It is difficult to see how such issues may be addressed over the summer holiday period when there will not be meetings of College Boards of Management.

#### **5. Timescales (Para 18)**

**5.1.** The Call for Information requests that returns are submitted to SFC by 27 September 2019.

**5.2.** To enable the completion of the consolidated regional return, the three colleges are asked to provide their individual returns to GCRB by Friday, 20 September 2019. If, due to the timing of Board/Committee meetings, the Forecast Returns have not been formally approved they should be provided to GCRB as a final draft.

#### **6. SFC Recurrent Grant (Para 8, Annex A)**

**6.1.** Included at Annex B of the SFC Call for Information are two tables outlining the regional funding and credit targets for 2019-2024. The assumptions used by SFC to calculate the regional allocations have been used as the basis to allocate the funding, and credit activity, to the three Glasgow colleges.

**6.2.** The attached spreadsheet contains the detailed calculations for Glasgow and the assumptions underlying each.

6.3. A summary of the assumed future allocations are provided in the tables below:

<b>Assumed Funding<sup>1</sup></b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>
City of Glasgow College	£40.53m	£40.53m	£40.53m	£39.94m	£39.94m
Glasgow Clyde College	£32.26m	£32.26m	£32.26m	£32.54m	£32.54m
Glasgow Kelvin College	£21.65m	£21.65m	£21.65m	£21.27m	£21.27m
Collaborative Priorities	£0.35m	£0.35m	£0.35m	£0.35m	£0.35m
GCRB	£0.46m	£0.46m	£0.46m	£0.48m	£0.48m
<b>Total</b>	<b>£95.25m</b>	<b>£95.25m</b>	<b>£95.25m</b>	<b>£94.58m</b>	<b>£94.58m</b>

<b>Credit Activity</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>
City of Glasgow College	179,900	179,900	179,900	173,550	173,550
Glasgow Clyde College	126,764	126,764	126,764	122,858	122,858
Glasgow Kelvin College	79,196	79,196	79,196	77,455	77,455
<b>Total</b>	<b>385,860</b>	<b>385,860</b>	<b>385,860</b>	<b>373,863</b>	<b>373,863</b>

6.4. As stated above, the allocations are based upon the financial assumptions of SFC. One consideration is whether these assumptions should be amended to achieve an alternative distribution of resource within the region. This is something that should be considered as part of the discussion of the future funding model. The following assumptions have a material impact on the overall funding allocation:

- The assumed fees (from other sources) calculated by SFC, which differ from the actual fees received by the colleges (as reported in the audited financial statements).
- The allocation of Access and Inclusion funding being based upon the relative share of the credit activity target.
- The allocation of SIMD 10 Premium based upon all students attending college i.e. not just those living in Glasgow.
- The allocation of Historic Efficiencies being based upon the Indicative Share of Credit Funding.
- The allocation of £345k per annum for collaborative priorities for the 5-year period.

<sup>1</sup> For ease of reference the amounts shown in the table have been rounded. The exact allocations are shown in the spreadsheet.

**6.5.** It is important to highlight that the SFC Call for Information assumes that the first revisions to funding occur in 2022-23. The consequence of this is that the current arrangements in respect of national bargaining are assumed to continue until 31 July 2022.

## **7. Changes in Staff Costs (Para 8 – Annex A)**

**7.1.** In respect of pay awards, the increases are known for the period to 31 August 2020. After this point, it is suggested that the (Glasgow) Colleges agree a standard basis. It is suggested that the Public Sector Pay Policy for 2019-20 (and annual pay increases therein) should be assumed to continue for the period of the Financial Forecast Return beyond 1 September 2020.

**7.2.** Pension costs in respect of the Scottish Teachers Superannuation Scheme are known to increase to 23% of pay (between 1 September 2019 and 31 March 2023). For the purpose of the period 1 April 2023 to 31 July 2024, it is suggested that the (Glasgow) Colleges agree a standard rate. In the absence of any information to the contrary, it is assumed that the rate will remain at 23% for the period beyond 1 April 2023.

**7.3.** The Scottish Funding Council announced (on 8 July 2019) that funding would be provided to offset the additional pension costs of the Scottish Teachers Superannuation Scheme. This funding covers the period from September 2019 to March 2020 and should be incorporated within the Financial Forecast Return.

**7.4.** The employer contribution rate for pension contributions to the Strathclyde Pension Fund is 19.3% for the period to 31 March 2021. The next valuation is due in 2020 and will apply for periods from 1 April 2021. Early indications are that the Local Government Pension Fund will face similar challenges to those recently experienced by other funds<sup>2</sup> (including the Scottish Teachers Superannuation Scheme). It is therefore quite possible that the employer contribution rate will increase. It is suggested that the (Glasgow) colleges agreed a standard rate. It is suggested that an increase of 3.7% (to 23%) should be applied from 1 April 2021.

**7.5.** The Scottish Funding Council, and Scottish Government, have previously indicated that additional funding equivalent to 50% of the increased pension contributions may be provided. It is suggested that colleges assume that 50% of the additional cost of the Scottish Teachers Superannuation Scheme is budgeted as additional income from 1 April 2020. It is suggested that 50% of the additional cost of the Strathclyde Pension Fund is budgeted as additional income from 1 April 2021.

## **8. Student Support (Para 2 – Annex B)**

**8.1.** In the absence of any other information, the baseline assumption is that the total funds allocated, and share of funds, to the Glasgow colleges in 2019-20 will continue for the following four years.

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<sup>2</sup> Advised by Hymans Robertson, actuary to the Strathclyde Pension Fund, at the AGM in June 2019.

## **9. Capital Maintenance (Para 2 – Annex B)**

**9.1.** In the absence of any other information, the baseline assumption is that the total funds allocated, and share of funds, to the Glasgow colleges in 2019-20 will continue for the following four years.

## **10. Other Assumptions**

**10.1.** Colleges will make a number of other assumptions, for example, anticipated changes to external/commercial income. These are rightly assumptions for the college and, as such, should be recorded in the commentary supplied by each institution.

**10.2.** It is anticipated that colleges will also evaluate alternative scenarios and sensitivity analysis of the assumptions within their individual plans. One idea to consider, is whether, all three colleges evaluate the same alternative scenarios i.e. what would be the impact of pay being 0.5% higher than the Public Sector Pay Policy or the Government funding 100% of the additional cost of employer pension contributions.

## **11. Risk Analysis**

**11.1.** Effective financial planning mitigates the risk that “Financial Sustainability is jeopardised by a reduction in funding and/or an increase in costs.” (GCRB Risk 008).

**11.2.** The development of financial plans is also intended to address the recommendation of Audit Scotland<sup>3</sup> that:

“College boards and regional bodies should:

- Agree medium-term financial plans that set out the mitigating actions to ensure their college’s financial sustainability.
- Submit agree medium-term financial plans to SFC along with financial forecast returns”

## **12. Equalities Implications**

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

## **13. Legal Implications**

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

## **14. Resource Implications**

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

## **15. Strategic Plan Implications**

**15.1.** The resources provided to the region are intended to support the ambitions within the Glasgow Colleges Regional Strategic Plan 2017-2022 and the Regional Outcome Agreement 2019-20.

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<sup>3</sup> Review of Scotland’s Colleges 2019