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| Performance and Resources Committee Meeting | |
| Date of Meeting | Wednesday 18 December 2019 |
| Paper Title | Financial Forecast Return - Region |
| Agenda Item | 12 |
| Paper Number | PRC2-H |
| Responsible Officer | Jim Godfrey, Finance and Resources Director |
| Status | Disclosable |
| Action | For Decision |

1. Report Purpose
   1. To enable the Committee to consider the Financial Forecast Returns for the Region.
2. Recommendations
   1. The Committee is asked to **note** the consolidated Financial Forecast Return of the Glasgow region and the emerging issues identified in the report.
3. Background
   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.
   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.

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

* 1. 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 was 30 September.
  2. This Committee approved the return for GCRB at its last meeting and agreed it will consider the consolidated financial position at this meeting.

1. Challenges
   1. The College sector faces a number of challenges over the next few years. In particular, the increase in staff costs, due to increases in pensions and salaries, is a significant issue to address.
   2. Some of the key challenges facing the sector are as follows[[1]](#footnote-1):

* The Scottish Government Budget does not provide any certainty of funding beyond the 2019/20 financial year;
* National Bargaining has resulted in Teaching Staff being given a sector average of 9% pay award excluding cost of living awards over the three year period 2017-2020;
* The national support staff job-evaluation scheme is currently being progressed by the Colleges Scotland Employers Association. However the related costs of such a scheme have yet to be confirmed;
* The Colleges Scotland Employers Association does not have an agreement with Unions in respect of pay claims for Teaching Staff (from September 2020 onwards) and Support Staff (from April 2020 onwards);
* Without a significant turnover in staff, colleges will be unable to achieve significant efficiencies as a result of nationally agreed terms and conditions of employment;
* The Scottish Government has not provided confirmation that the costs of national bargaining will be funded in the medium to longer term;
* The Scottish Funding Council (SFC) have confirmed that they plan to return to formula funding by 2022/2023, however, the details of the future funding model are not available as yet;
* The Scottish Government has indicated that funding settlements for the public sector as a whole are likely to be challenging in future years however have committed to maintaining overall Further Education teaching activity at current levels;
* Employer pension contributions for the Scottish Teachers Superannuation Scheme (STSS) increased by 5.8% in September 2019. Colleges have been advised (by the Scottish Funding Council) to assume that this additional costs will be supported by additional grant. However SFC have not yet confirmed any funding beyond March 2020;
* In light of recent developments in respect of public sector pensions, there is the potential for increases in employer pension contributions for support staff in the Local Government Pension Schemes. At this stage, the potential cost, and the extent to which this might be funded, is unclear;
* Anticipated ongoing reductions in school leaver population entering College due to changes in demographics;
* The potential impact of Brexit remains unclear at a time when reductions in European Funding are already expected to have an adverse effect on College revenue streams in the medium term;
* The expectation that institutions will deliver efficiency savings of at least 3% per annum in order to offset staff costs and non-staff costs inflation.
* The expectation that performance levels will continue to improve despite the financial challenges faced by colleges.

1. What does Glasgow Region FFR data show?
   1. The **Adjusted Operating Position** is used to assess the underlying financial strength of a college and to provide comparable figures. The adjustments made are intended to exclude items that are exceptional and outside the control of the college.

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| --- | --- | --- | --- | --- | --- | --- |
| **Adjusted Operating Position** | Actual 2018-19 | FFR 2019-20 | FFR 2020-21 | FFR 2021-22 | FFR 2022-23 | FFR 2023-24 |
|  | £’000 | £’000 | £’000 | £’000 | £’000 | £’000 |
| City of Glasgow College | 1,088 | 13 | 10 | 18 | 48 | 82 |
| Glasgow Clyde College | 110 | (563) | (194) | (188) | 107 | 13 |
| Glasgow Kelvin College | (540) | 0 | 0 | 0 | 0 | 0 |
| **Glasgow Region** | **658** | **(550)** | **(184)** | **(170)** | **155** | **95** |

* The cumulative Adjusted Operating Position for the 6 years shown is a grand total of £4,000. This is a rather modest figure compared to income of £1,062,839,000 for the same period.
* This balanced position is only achieved after significant savings have been realised in the period to offset cost increases.
  1. Total **Income** is expected to remain constant over the forecast period as shown in the following table:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Total Income** | Actual 2018-19 | FFR 2019-20 | FFR 2020-21 | FFR 2021-22 | FFR 2022-23 | FFR 2023-24 |
|  | £’m | £’m | £’m | £’m | £’m | £’m |
| City of Glasgow College | 92.0 | 93.5 | 92.0 | 92.5 | 92.6 | 93.2 |
| Glasgow Clyde College | 49.0 | 51.3 | 53.0 | 54.2 | 52.6 | 52.6 |
| Glasgow Kelvin College | 30.7 | 32.4 | 32.3 | 32.4 | 31.9 | 31.8 |
| **Glasgow Region** | **171.7** | **177.2** | **177.3** | **179.1** | **177.1** | **177.6** |

* Although the overall position is fairly constant there are some increases within individual colleges between one year and the next. These changes are due to predicted growth in commercial income/education contracts or grants anticipated from Arms’ Length Foundations.
* Over the forecast period 2019-20 to 2023-24, the colleges have anticipated receiving £2.9m of revenue funding and £8.9m of capital funding from Arms’ Length Foundations. Without this level of investment the **Adjusted Operating Position** would be worse.
  1. Total **Expenditure** is expected to remain constant over the forecast period as shown in the following table:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Total Expenditure (exc Exceptional Items)** | Actual 2018-19 | FFR 2019-20 | FFR 2020-21 | FFR 2021-22 | FFR 2022-23 | FFR 2023-24 |
|  | £’m | £’m | £’m | £’m | £’m | £’m |
| City of Glasgow College | 92.0 | 93.7 | 90.4 | 90.5 | 90.4 | 90.7 |
| Glasgow Clyde College | 50.2 | 53.2 | 52.7 | 53.3 | 54.2 | 54.3 |
| Glasgow Kelvin College | 30.8 | 32.6 | 32.5 | 32.7 | 32.9 | 31.8 |
| **Glasgow Region** | **173.0** | **179.5** | **175.6** | **176.5** | **177.5** | **176.8** |

* Although the overall position is fairly constant there are some changes within individual colleges. For example, Glasgow Clyde College shows a larger increase in expenditure over the period whereas the other two colleges are anticipating greater cost savings. The growth in expenditure within Glasgow Clyde College is matched by the predicted growth in income.
* Over the forecast period 2019-20 to 2023-24, the colleges have anticipated receiving £2.9m of revenue funding and £8.9m of capital funding from Arms’ Length Foundations. Without this level of investment the **Adjusted Operating Position** would be worse.
  1. Total **Staff Costs** over the forecast period are shown in the following table:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Total Staff Costs (exc Exceptional Items)** | Actual 2018-19 | FFR 2019-20 | FFR 2020-21 | FFR 2021-22 | FFR 2022-23 | FFR 2023-24 |
|  | £’m | £’m | £’m | £’m | £’m | £’m |
| City of Glasgow College | 48.0 | 53.2 | 53.6 | 53.9 | 53.8 | 54.2 |
| Glasgow Clyde College | 34.2 | 36.1 | 36.6 | 37.4 | 37.8 | 38.5 |
| Glasgow Kelvin College | 22.3 | 23.9 | 23.8 | 23.9 | 23.6 | 23.4 |
| **Glasgow Region** | **104.5** | **113.2** | **114.0** | **115.2** | **115.2** | **116.1** |

* The increase in staff costs 2023-24 compared to the 2018-19 baseline is 11.1%. The percentage increase for each college is 12.9% (City of Glasgow College), 12.6% (Glasgow Clyde College) and 4.9% (Glasgow Kelvin College).
* Of the total increase of £11.6m, salaries account for £6.6, social security costs £0.9m and pension costs £4.1m.
* The baseline salary figure is £83.5m in 2018-19 and it is assumed that the annual salary increase will be at least 2% per annum over the forecast period. The baseline salary figure of £90.1m in 2023-24 could only be achieved by reducing the number of staff employed or a reduction in the median salary level.

1. Summary
   1. The following observations are offered by way of a summary:

* The financial forecast return is prepared on an institutional basis and then consolidated to form a regional total.
* The summary position reflects difficult decisions, and actions, that have been implemented to achieve this outcome. The initial impression of the regional position may be more positive than the underlying position because of this.
* The financial forecast return is a spreadsheet tool prepared at a point in time (i.e. summer 2019). It is not a dynamic planning tool but is subject to an update at the mid-year point (due February 2020).
* There is a degree of consistency in terms of planning assumptions but each organisation will also have a different attitude to risk. Within the individual college assumptions, one college may take a more optimistic view (say of income growth) than another.
* The financial forecast return is complemented, and supplemented, by a range of individual college policies, procedures and plans. The quality and extent of this work underpins the assumptions within the return.
* Financial sustainability tends to be considered at an institutional level with savings identified locally. Consideration of efficiency gains does not tend to emerge as a result of collaboration.
* The annual funding (and ROA) cycle tends to focus attention towards short to medium term planning horizons.
* There is very little funding available to facilitate a change process (i.e. to support a revised strategic direction). Making a step change is challenging without the availability of investment funding.
  1. The observations outlined above provide opportunities for further development but also give a context to the numbers presented in this report.

1. Risk Analysis
   1. This report helps to inform discussion regarding financial sustainability and address *Risk 008: Financial sustainability is jeopardised by a reduction in funding and/or an increase in costs.*
2. Equalities Implications
   1. There are no equalities implications as a direct result of this report.
3. Legal Implications
   1. There are no specific legal implications associated with this report.
4. Financial Implications
   1. The financial implications associated with the Financial Forecast Return are set out in the body of the report.
5. Strategic Plan Implications
   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.

1. This list is broadly based upon a list of challenges provided to the Board of Management of Glasgow Clyde College in September 2019. [↑](#footnote-ref-1)