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## Performance and Resources Committee

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Date of Meeting	Wednesday, 8 December 2021
Paper Title	Long-term Financial Planning/FFRs
Agenda Item	16
Paper Number	PRC2-I
Responsible Officer	Jim Godfrey, Finance & Resources Director
Status	Disclosable
Action	For Noting

### 1. Executive Summary

- 1.1. The attached report provides a summary of the key information within the Glasgow region Financial Forecast Return (submitted in October 2022).

### 2. Recommendations

- 2.1. The Committee is asked to comment on, and note, the latest financial forecast.

### 3. Financial Forecast Return 2021-22

- 3.1. The Scottish Funding Council (SFC) issued a circular on 25 August 2021 requesting that colleges/college regions submit a medium-term financial forecast for the period 2020-21 to 2023-24. A link to the circular is provided below:

<https://www.sfc.ac.uk/publications-statistics/calls-information/2021/SFCCI122021.aspx>

- 3.2. The deadline for submission was 25 October 2021 and the Glasgow colleges, and regional returns, were provided to SFC at this time. The returns have been analysed and some queries addressed.

- 3.3. The following paragraphs highlight a number of key points for consideration.

### 4. FFR Planning Assumptions

- 4.1. SFC has provided income and expenditure assumptions that should be used in preparing the financial forecasts. These assumptions are set out in Annex A of the call for information. As highlighted by SFC, the assumptions beyond 2021-22 are indicative as the Scottish Government does not provide a medium-term funding guarantee. The return also requires that colleges/regions consider a scenario based upon the assumption that there will be no cost of living increase provided by the Scottish Government.

- 4.2. The assumptions provide planning guidance, particularly in relation to income from the Scottish Government/Scottish Funding Council. It is important to note that some assumptions could have significant implications. For example, the circular states that: "Colleges should assume that funding for Foundation Apprenticeships, digital learning and mental health support will not continue beyond 2021-22". For the Glasgow region, the funding received for these three income streams was nearly £3.5m.

- 4.3. The provision of these assumptions is intended to ensure that there is consistency across the sector. At the same time, it is important to recognise that there will still be some differences between each college, for example colleges may make different assumptions with regard to income from commercial activities.

### 5. Commentary

- 5.1. The following observations are made in respect of the forecast position:

- **Income Ratios** – shows a small annual increase over the planning period (slightly less than 2% per annum). The pattern varies between colleges with Glasgow Clyde College forecasting the largest increase in income and Glasgow Kelvin College forecasting a reduction. One factor which will affect each college differently is the timing of the grant receipts from Arms' Length Foundations.
- **Arms' Length Foundations** – the level of balances held by Arms' Length Foundations is forecast to be £3.3m at 31 July 2024. This compares to £27.0m at 31 March 2016. The funding has supported colleges over recent years but is finite and will be fully utilised in the near future.<sup>1</sup>

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<sup>1</sup> This matter was considered by the Audit and Assurance Committee at its meeting on 5 October 2021

- **Expenditure Ratios** – is forecast to be similar (in cash terms) in 2022-23 compared to 2019-20. Expenditure then increases by 1.4% in 2023-24 compared to 2022-23. The pattern of expenditure, in each college, follows a similar pattern to income i.e. the largest increase is in Glasgow Clyde College with a reduction in expenditure in Glasgow Kelvin College.
- **Staff Costs** – equate to 65% of all expenditure. However, it is important to note that the total expenditure includes the NPD costs for City of Glasgow College. If this cost is removed then staff costs, as a percentage of all expenditure, would be closer to 70%. Staff costs are expected to increase by a small amount over the forecast period (around 0.5% per annum). However, we know that annual salary settlements and other costs (such as National Insurance contributions) are rising over this period. The only way in which staff costs can be maintained, within this forecast period, are for planned reductions in staff numbers. There will be further pressure on future staff costs if higher levels of inflation lead to higher pay increases.
- **Operating Position** – losses have been incurred during the pandemic but are expected to return to a tiny profit at the end of the period. In reality, the colleges/college region will try to achieve a balanced budget and any surplus or deficit is minimal (as a percentage of total income).<sup>2</sup>
- **Cash Position** – the cash position is forecast to reduce significantly over the period (from £27.5m at 31 July 2021 to £10.7m at 31 July 2024). The position is fairly consistent across all three colleges.
- **Balance Sheet Strength** – the indicators of balance sheet strength show a weakening position. The current ratio (current assets to current liabilities) reduces from 0.86 in 2020-21 to 0.69 in 2023-24. This is due to the reduction in the cash position as highlighted above.

## 6. Summary

- 6.1. The financial summary (extracted from the Glasgow region forecast return) is attached as an Annex to this report. This provides the consolidated information for the three colleges and GCRB. Behind this summary, there are individual college returns and a significant volume of supporting information.
- 6.2. The position reported in October 2021 provides the forecast financial position at this point in time. However, the college forecasts will be revised on a continual basis as underlying assumptions continue to change. Achieving a sustainable financial position will continue to be a significant challenge. The sector depends upon the Scottish Government/Scottish Funding Council for the majority of its income. Therefore, changes to this source of income have implications.

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<sup>2</sup> The information in respect of the Adjusted Operating Position is incomplete due to one college not supplying all of the information.

**6.3.** Staff costs account for the majority of college expenditure. Salary levels, and annual increases, are negotiated nationally. Therefore, the only element within the control of individual colleges is the number of people employed and at what level in the structure.

**7. Risk and Compliance Analysis**

**7.1.** The purpose of this report is to provide information to the board of GCRB and the forecast financial position. The information helps to manage risk 008, that “Financial sustainability is jeopardised by a reduction in income and/or an increase in costs.”

**8. Financial and Resource Analysis**

**8.1.** The financial implications for the Glasgow college region are set out in the report.

**9. Equalities Implications**

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

**10. Learner Implications**

**10.1.** The resources utilised by the Glasgow college region enable the achievement of learner outcomes.

Glasgow Region  
FINANCIAL SUMMARY

Actual 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23	Forecast 2023-24
£000	£000	£000	£000	£000

Income ratios					
Total Income	174,373	175,500	180,101	184,543	187,954
Total Funding Council Grant (excluding release of deferred capital grant) as % of Total Income	76%	77%	78%	77%	77%
Total non-Funding Council Grant (including release of SFC DCG) as % of Total Income	24%	23%	22%	23%	23%
Total Education Contracts and Tuition Fees as % of Total Income	17%	16%	15%	16%	16%
Total Research Grants and Contracts as % of Total Income	0%	0%	0%	0%	0%
Total Other Income as % of Total Income	8%	7%	6%	7%	7%

Expenditure ratios					
Total Expenditure	183,991	180,176	181,828	183,939	186,550
Salaries as % of Total Expenditure	65%	66%	65%	65%	65%
Other operating costs as % of Total Expenditure	18%	18%	21%	21%	21%
Depreciation/amortisation as % of Total Expenditure	9%	7%	7%	7%	7%

Operating position					
Operating Surplus/(deficit)	(9,618)	(4,676)	(1,727)	604	1,404
Operating Surplus/(deficit) as % of Total Income	-6%	-3%	-1%	0%	1%
Adjusted operating surplus/(deficit)	418	1,648	(1,638)	(556)	149
Adjusted operating surplus/(deficit) as % of Total Income	0.2%	0.9%	-0.9%	-0.3%	0.1%

Cash Position					
Cash and Current Asset Investments	16,601	27,552	12,022	10,629	10,713
Overdrafts	0	0	0	0	0
Days Ratio of Cash to Total Expenditure	36	60	26	23	23
Net cash inflow/(outflow) from operating activities	20,213	30,972	4,605	17,721	18,861
Net cash inflow/(outflow) from operating activities as % of Total Income	11.6%	17.6%	2.6%	9.6%	10.0%

Balance Sheet strength					
Unrestricted reserves	(43,243)	(26,854)	(26,025)	(22,866)	(18,904)
Current Ratio	0.79	0.87	0.74	0.67	0.67
Unrestricted reserves as % of Total Income	-25%	-15%	-14%	-12%	-10%
Total borrowing (Overdrafts, Loans, Finance Leases, PFI/NPD)	139,838	134,827	129,579	124,109	118,320
Interest cover	0.33	0.66	0.87	1.05	1.12