SFC Call for information

Financial forecast return (FFR) for further education institutions 2018-19 to 2023-24 and information on financial planning assumptions

Issue date: 21 June 2019

Reference: SFC/CI/04/2019

Summary: This Call for Information requests colleges / Regional Strategic Bodies to complete a medium-term financial forecast return for the period 2018-19 to 2023-24. The return should be sent to the Scottish Funding Council (SFC) by 27 September 2019.

FAO: Principals, Finance Directors and Board Secretaries of Scotland's Regional Colleges, non-assigned non-incorporated colleges, and Regional Strategic Bodies

Further information:
Contact: Wilma MacDonald / Ann Robertson
Job title: Senior Financial Analyst
Department: Finance
Tel: 0131 313 6565 / 6689
Email: wmacdonald@sfc.ac.uk / arobertson@sfc.ac.uk

Scottish Funding Council
Apex 2
97 Haymarket Terrace
Edinburgh
EH12 5HD
T 0131 313 6500
F 0131 313 6501
www.sfc.ac.uk

Scottish Funding Council
Promoting further and higher education

Financial forecast return (FFR) for further education colleges 2018-19 to 2023-24 and information on financial planning assumptions

Purpose

1. This Call for Information requests a medium-term financial forecast return for the period 2018-19 to 2023-24. It also includes indicative assumptions that will assist institutions in their financial planning.

2. Regional colleges, non-assigned non-incorporated colleges, and Regional Strategic Bodies (RSBs) should send their returns to the Scottish Funding Council (SFC) by 27 September 2019.

3. For RSBs that are producing consolidated accounts in 2018-19, a single spreadsheet return should be prepared and sent to SFC. If consolidated accounts are not being prepared, individual returns will be required from the RSB for each of the assigned colleges.

Audit Scotland – Scotland's Colleges Report 2019

4. Audit Scotland published its report 'Scotland's Colleges 2019' on 4 June 2019. Within the report there are recommendations relating to college financial plans for college boards and regional bodies, and SFC, as set out below:

   "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 agreed medium-term financial plans to SFC along with financial forecast returns.

   SFC should:

   - Require colleges to submit medium-term financial plans to support FFRs in assessing financial sustainability across the sector".

5. The financial information (including detailed commentary) requested in this Call for Information, when received by SFC, should ensure that the above recommendations can be considered actioned.

Financial forecast return

6. The financial forecast return (FFR) is an established part of SFC's financial health monitoring framework. The FFR, in providing financial projections over a six year period (the current academic year and the following five years), is a key

source of information in enabling SFC to monitor and assess the medium-term financial planning and health of institutions.

7. For incorporated colleges, the additional information provided through monthly cash flow returns also feeds into SFC's monitoring and assessment of financial health.

8. SFC's Financial Memorandum with colleges and RSBs requires institutions to plan and manage their activities to remain sustainable and financially viable. **It is therefore critical that institutions take the necessary actions to balance their operating position, reflect these actions in their FFRs, and provide a full description of their financial plans in the FFR commentary.**

9. The FRS 102 accounting standard has brought about significant changes to the way some income, expenditure, assets and liabilities are reported in institutions' financial statements and has resulted in increased complexity and volatility in financial results from one year to the next. In addition, it is expected that most incorporated colleges will report deficits in their published accounts as a result of spend of the cash budget for priorities (CBP). SFC will take into account the 'adjusted' operating position, including CBP spend, and the cash generative capacity of institutions when monitoring financial sustainability. There is no change to the guidance on how the 'adjusted' operating position is calculated as set out in the 2018-19 Accounts Direction.

10. We have provided income and expenditure assumptions that should be used in preparing the financial forecasts (see Annex B). It is important to note that we have no information on Scottish Government budgets beyond Financial Year 2019-20 so these assumptions are indicative.

11. We would encourage institutions to also develop their own additional forecasts based on alternative planning scenarios if they believe these scenarios are more appropriate for their operating environment / circumstances. Any such alternative scenarios / forecasts should be described in the supporting commentary.

12. In general terms, this year's return follows a similar format to last year's FFR and 2017-18 annual accounts return. However, please note the following changes:

- We have added a cash flow worksheet, which will give a more complete picture of institutions' financial performance.
- A pensions worksheet has been added to capture details of employer contributions to the Scottish Teachers Superannuation Scheme (STSS) and Local Government Pension Scheme (LGPS) over the planning period. This is to allow SFC to understand the cost pressures brought about by the recent changes in employers contributions.

- Where possible we have linked cells in the ‘adjusted operating result’ sheet to other parts of the return.

Commercial Income

13. There are specific requirements to provide commentary on commercial income - see Annex A. SFC requires this information from each institution to assist in creating a picture of commercial income received across the sector (what it is, where it comes from, how it is funded and net contribution from such activity) and understand more about the barriers to generating commercial income for some institutions.

Arms-length foundations

14. Arms-length foundations (ALFs) were established to mitigate the impact of incorporated colleges’ reclassification as arms-length central government bodies. Surpluses generated from commercial activities can be donated to an ALF, and colleges are encouraged to maximise opportunities for commercial income generation. Further guidance on ALFs is provided at Annex C.

Return of the FFR

15. Guidance for completion of the return can be found in Annex A below. A blank copy of the spreadsheet is published along with this Call for Information on our website.

16. Institutions are required to complete both the 2017-18 actual figures and the forecast figures for the six following years. Please note that the guidance in Annex A requests a commentary on the financial forecasts which should cover the context in which the forecasts have been prepared.

17. Please enter explanations for significant variances on the spreadsheet. As with previous forecast exercises, we may come back to institutions with queries and requests for further details following our analysis of the forecast information.

Information requested

18. Please email both a signed copy in PDF format and an electronic copy of the return in Excel format, and the financial commentary, along with a copy of the Committee or Board paper accompanying the FFR, which should include details of any additional planning scenarios that have been considered and approved by the institution’s governing body, to SFC by 27 September 2019. If the schedule of governing body meetings makes it difficult to achieve this deadline, please contact us as soon as possible. In that instance, please provide a draft return by that date with the final approved version to be provided as soon as possible thereafter.

19. Electronic copies of the return and supporting documents should be sent to isg-returns@sfc.ac.uk.

Further information

20. Please contact Wilma MacDonald, Senior Financial Analyst, Finance (Tel: 0131 313 6565; email: wmacdonald@sfc.ac.uk) or Ann Robertson, Senior Financial Analyst, Finance (Tel: 0131 313 6689; email: arobertson@sfc.ac.uk) to discuss any aspect of this letter.

Lorna MacDonald
Director of Finance

Annex A

Guidance for completion

Structure of the FFR

1. The FFR takes the form of an excel spreadsheet which has eleven sheets. A copy of the spreadsheet is published along with this Call for Information at Annex B.

2. Ten of the sheets require input by the institution. We suggest the order of completion is:

   (i) 'Staff costs and pension adjustments'.

   (ii) 'Pension assumptions'

   (iii) 'Arms-Length Foundation (ALF) funding'.

   (iv) 'SoCIE'.

   (v) 'Adjusted operating result' (all institutions) & 'Cash budget for priorities' (incorporated colleges only)

   (vi) 'Balance Sheet'.

   (vii) 'Cashflow'

   (viii) 'Capital expenditure'.

   (ix) 'Key risks'.

   (x) 'Declaration'.

Completion of the FFR

Input of financial forecast figures and comparatives

3. The sheets in the spreadsheet contain blue highlighted boxes for the input of the actual and forecast figures.

4. Please note that only whole numbers can be input into the return. Please do not link the spreadsheet to another document or change the formatting in the spreadsheet.

5. Please enter explanations for any significant variances where appropriate.

Sheets not requiring completion

6. The Summary sheet does not require to be completed. This summarises various key figures from the spreadsheet and is calculated automatically.

Commentary

7. Institutions should also provide a commentary on the financial forecasts. This serves three purposes:

   - To explain how the financial forecasts represent the institution's strategic plan.
   - To enable a proper understanding of key aspects of the financial forecast.
   - To explain the actions taken by the institution to remain sustainable and financially viable.

8. The following areas should be covered by the commentary:

   Introduction

   This should cover the context in which the forecasts have been prepared. It should include an explanation of how the elements of the institution's strategic plan, human resource management strategy and estates strategy are reflected in the forecasts, and how these developments are to be financed.

   Review of financial performance 2018-19

   Discuss the key features of the latest forecast financial performance in 2018-19 and highlight positive and negative variances from previous forecasts (e.g. 2018 financial forecast return / 2019 mid-year return).

   SFC recurrent grant

   You should confirm your assumptions regarding SFC grant income which should be in accordance with the 2019-20 final funding allocations issued on 17 May 2019 (SFC/AN/10/2019), and supporting tables setting out assumed forecast funding for the period to 2023-24, attached to this communication.

   Please also confirm your assumptions on SFC grant funding relating to increased STSS contributions, including amounts.

   Changes in tuition fee income and other income

   This should include details of the assumptions made regarding student numbers and the reasons for year-on-year movements in other sources of income.

   Commercial income

   You should document plans for commercial income generation and any barriers. Please also confirm what this activity is, how it will be funded and confirm the expected net contribution from such activity. Arms-length foundations provide incorporated colleges with a continuing incentive to generate surpluses from commercial activities. Further detail is provided in Annex C.

Changes in staff and non-staff costs

Discuss the reasons for year-on-year movements in pay and non-pay expenditure and the impact on non-pay expenditure of price changes and changes in the level of activity.

In particular the following areas should be addressed:

- Assumptions regarding pay awards and their impact on pay expenditure.
- Assumptions regarding utilisation of National Bargaining harmonisation / job evaluation funding.
- Assumptions regarding staff numbers, providing an explanation where staff numbers have increased by more than 2% on the previous year.
- Assumptions regarding future pension contribution costs.

Cash budget for priorities (Incorporated colleges only)

In providing details of proposed spend, you should refer to SFC's communication of 21 December 2017 which set out the framework for spend of the fixed cash budget for priorities (CBP). Colleges have a fixed annual CBP budget which is set out in the table below.

College	**CBP £000**
Ayrshire College	1,324
Borders College	252
City of Glasgow College	1,156
Dumfries & Galloway College	390
Dundee & Angus College	1,055
Edinburgh College	2,547
Fife College	2,152
Forth Valley College	613
Glasgow Clyde College	612
Glasgow Kelvin College	442
Inverness College	496
Lews Castle College	143
Moray College	424

New College Lanarkshire	863
North East Scotland College	1,161
North Highland College	97
Perth College	529
South Lanarkshire College	197
West College Scotland	1,639
West Lothian College	190

Balance sheet – cash position

Due to the volatility of the operating position brought about by the introduction of the FRS 102 accounting standard, there has been an increased focus on the cash position of each institution in our analysis. Please provide detailed commentary about the institution’s operating cash position, especially if this position is deteriorating over the forecast or in any one year. The commentary should also highlight any expected breach of loan covenants.

Risk management

This should provide details of the key risks identified when preparing the forecast and details of the risk management strategies devised to deal with them.

Institutions should describe the corrective actions that would be taken to address identified risks. In addition, please provide details of the additional financial scenarios considered by the Board.

Any other information

This should provide any other information which you feel should be brought to our attention.

Declaration

9. The ‘Declaration’ sheet should be signed and dated by the Principal / Chief Executive Officer.

Annex B

Key FFR planning assumptions

1. 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.

2. Key assumptions:

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 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 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.

Annex B

Table 1: Funding allocations for 2019-20 to 2023-24 for planning purposes

	2019-20 final funding allocations including ESF	2020-21	2021-22	2022-23 funding after ESF ends including mitigation and redistribution	2023-24	change in activity targets from 2019-20	change in funding from 2019-20
Ayrshire College	£35,690,150	£35,690,150	£35,690,150	£34,673,871	£34,673,871	-3.1%	-2.8%
Borders College	£8,890,605	£8,890,605	£8,890,605	£8,534,981	£8,534,981	-3.1%	-4.0%
Dumfries and Galloway College	£10,029,686	£10,029,686	£10,029,686	£9,628,498	£9,628,498	-3.1%	-4.0%
Dundee and Angus College	£28,947,218	£28,947,218	£28,947,218	£28,296,485	£28,296,485	-3.1%	-2.2%
Edinburgh College	£46,017,584	£46,017,584	£46,017,584	£45,867,512	£45,867,512	-3.1%	-0.3%
Fife College	£35,928,442	£35,928,442	£35,928,442	£34,491,304	£34,491,304	-3.1%	-4.0%
Forth Valley College	£22,924,102	£22,924,102	£22,924,102	£22,935,791	£22,935,791	-3.1%	0.1%
Glasgow region	£95,254,397	£95,254,397	£95,254,397	£94,574,403	£94,574,403	-3.1%	-0.7%
Highlands and Islands region	£46,852,301	£46,252,301	£45,652,301	£44,978,209	£44,978,209	0.0%	-4.0%
Lanarkshire region	£48,782,106	£48,782,106	£48,782,106	£47,851,848	£47,851,848	-3.1%	-1.9%
Newbattle Abbey College	£878,754	£878,754	£878,754	£878,754	£878,754	0.0%	0.0%
North East Scotland College	£32,884,955	£33,184,955	£33,484,955	£34,052,204	£34,052,204	-3.1%	3.5%
Sabhal Mor Ostaig	£1,685,901	£1,685,901	£1,685,901	£1,685,901	£1,685,901	0.0%	0.0%
SRUC	£9,041,679	£9,341,679	£9,641,679	£9,925,128	£9,925,128	0.0%	9.8%
West College Scotland	£41,940,804	£41,940,804	£41,940,804	£42,082,379	£42,082,379	-3.1%	0.3%
West Lothian College	£11,546,918	£11,546,918	£11,546,918	£11,085,041	£11,085,041	-3.1%	-4.0%
All colleges/regions	£477,295,599	£477,295,599	£477,295,599	£471,542,309	£471,542,309	-2.9%	-1.2%

Table 2: Credit targets for planning purposes 2019-20 to 2023-24

	2019-20	2020-21	2021-22	2022-23	2023-24
Ayrshire College	124,943	124,943	124,943	121,059	121,059
Borders College	25,646	25,646	25,646	24,848	24,848
Dumfries and Galloway College	30,176	30,176	30,176	29,238	29,238
Dundee and Angus College	107,735	107,735	107,735	104,385	104,385
Edinburgh College	187,947	187,947	187,947	182,103	182,103
Fife College	132,645	132,645	132,645	128,521	128,521
Forth Valley College	85,987	85,987	85,987	83,314	83,314
Glasgow region	385,860	385,860	385,860	373,863	373,863
Highlands and Islands region	110,382	110,382	110,382	110,382	110,382
Lanarkshire region	182,516	182,516	182,516	176,842	176,842
Newbattle Abbey College	921	921	921	921	921
North East Scotland College	135,490	135,490	135,490	131,277	131,277
Sabhal Mor Ostaig	799	799	799	799	799
SRUC	22,747	22,747	22,747	22,747	22,747
West College Scotland	164,119	164,119	164,119	159,016	159,016
West Lothian College	44,419	44,419	44,419	43,038	43,038
	1,742,330	1,742,330	1,742,330	1,692,353	1,692,353

Arms-length foundations

Arms-length foundations (ALFs) were established to mitigate the impact of incorporated colleges' reclassification (as arms-length central government bodies) in relation to cash reserves and future surpluses, and therefore provide colleges with a continuing incentive to generate income from commercial activities. ALFs are independent charitable organisations and are only accountable to the Office of the Scottish Charity Regulator and Companies House where the legal form of the ALF is a company limited by guarantee. Given their independent status, neither the Scottish Government nor SFC can set priorities for how funding from ALFs is utilised.

Colleges can donate a commercial surplus to an ALF prior to the March year-end subject to having both the cash and resource budget cover to make the donation. Donations can be accrued subject to the College having a board minute approving the amount that will be donated by 31 March. Any plans to donate commercial surpluses to ALFs should be clearly set out in colleges' cash flow returns.

In some circumstances, as an alternative to donating a commercial surplus to an ALF, colleges can consider re-profiling funds through SFC over the financial year-end. This may be appropriate where the timing of expenditure spans the March financial year end. Advance notice and agreement with SFC is required. This option presents less risk given that there is no guarantee that colleges' funding applications to ALFs will be successful.

For the avoidance of doubt, ring-fenced funds such as SFC capital grant and student support funds cannot be donated to an ALF. Any underspend on ring-fenced budgets will revert to SFC.

ALF donations and utilisation of grants from ALFs are, and will continue to be, subject to a great deal of scrutiny therefore it is important that colleges maintain robust records and back-up documentation that justify payments, in particular evidencing that there is sufficient resource cover to make the donation. While colleges are no longer required to submit resource returns, they should continue to maintain records to demonstrate evidence of resource cover where a donation to an ALF has been made. SFC reserves the right to request further information from colleges in relation to ALF donations.