Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

SFC CALL FOR INFORMATION

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Financial Forecast Return (FFR) for Colleges 2023-24 to 2026-27

Financial Forecast Return (FFR) for Colleges: 2023-24 to 2026-27

Issue Date:	31 May 2024
Reference:	SFC/CI/04/2024
Deadline	28 June 2024
Summary:	This Call for Information requests colleges to complete a medium-term financial forecast return for the period 2023-24 to 2026-27.
FAO:	Principals, Finance Directors and Board Secretaries of Scotland's Regional Colleges, non-assigned non-incorporated colleges, and Regional Strategic Bodies; and the general public.
Further Information:	**CONTACT:** Andrew Millar / Wilma MacDonald **JOB TITLE:** Assistant Director / Senior Financial Analyst **DIRECTORATE:** Finance **TEL:** 0131 313 6538 / 0131 313 6565 **EMAIL:** amillar@sfc.ac.uk / wmacdonald@sfc.ac.uk

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Financial Forecast Return (FFR) for Colleges: 2023-24 to 2026-27

Purpose

1. This Call for Information requests colleges / Regional Strategic Bodies to complete a medium-term financial forecast return for the Academic Years (AY) 2023-24 to 2026-27. It includes indicative funding 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 28 June 2024.

3. For all multi-college regions, individual returns will be required from the RSB for each of the assigned colleges by 28 June 2024.

Financial forecast return

4. The financial forecast return (FFR) is an established part of SFC's financial health monitoring framework. Financial projections are a key source of information in enabling SFC to monitor and assess the medium-term financial planning and health of institutions.

5. 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 adjusted operating position, reflect these actions in their FFRs, and provide a full description of their financial plans in the FFR commentary.

6. Institutions should aim to achieve a balanced budget each year. Where a deficit is forecast in any year, institutions must work towards bringing income and expenditure back into balance over the forecast period. Institutions should provide us with a narrative which clearly sets out the actions that will be required to address financial sustainability challenges, and any resulting adverse impact on staff and students. Please also provide copies of relevant Board or Finance Committee papers; if these papers include the narrative requested, a separate commentary is not required.

7. We expect institutions to review their business models/strategic plans in light of the tight financial environment. Please provide a summary of changes made and/or under consideration. If no review has taken place, please provide the reason for this.

8. SFC will consider the adjusted operating position and the cash generative capacity of institutions when monitoring financial health. There is no change to the guidance on

how the adjusted operating position is calculated.

9. We have consulted with college Finance Directors to develop income and expenditure assumptions that should be used in preparing the financial forecasts (see **Annex A**). **It is important to note that we have no information on Scottish Government funding beyond Financial Year 2024-25 so these assumptions are indicative.**

10. This year's return follows the same format as last year's FFR and 2022-23 annual accounts return.

Arms-length foundations

11. Arms-length foundations (ALFs) were established to mitigate the impact of incorporated colleges' reclassification as arms-length central government bodies. Colleges are encouraged to maximise ALF funding to support their financial position, where appropriate. Any donations to ALFs should only be made where budget cover is available from net surpluses arising from commercial activity during the Financial Year to 31 March. Government funds cannot be donated in this way. Please contact SFC if your college is considering an ALF donation.

Return of the FFR

12. Finance Directors will receive an individual spreadsheet which we have pre-populated with the 2022-23 annual accounts figures. For assigned colleges, we will send the pre-populated return to the RSB.

13. Guidance for completion of the return can be found in **Annex B** below. A blank copy of the spreadsheet return template is published on our website along with this Call for Information. The template is unlocked so that it can be used in preparing the figures for the return. We would request that institutions complete the pre-populated return provided for submission to SFC.

14. Institutions are required to complete the forecast figures for the period 2023-24 through to 2026-27. Please note that the guidance in **Annex B** requests a commentary on the financial forecasts which should cover the context in which the forecasts have been prepared. Your commentary will be as important as the figures you submit, as this will help us better understand the issues facing your institution and will support follow-up engagement. Scenario planning is a normal part of financial planning. Please include commentary on any additional scenario planning, working through a range of assumptions and options to show the trade-offs involved, and choices you could make to reach an optimal position for your institution.

15. Please enter explanations for significant variances (+/- 5% or over 2% of total expenditure) 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

16. Please email an electronic copy of the return in Excel format, and the financial commentary to SFC by 28 June 2024. Please also provide copies of the relevant Committee and/or Board papers. 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 including the full commentary by 28 June 2024 with the final approved version to be provided as soon as possible thereafter. As set out in Richard Maconachie's letter of 8 March 2024 to colleges, because financial returns are essential for SFC's institutional financial health monitoring and reporting, it is important that returns are submitted to SFC timeously.

17. Where staff restructuring costs are included in 2024-25, institutions should provide a copy of the related business case (where not already submitted to SFC). Institutions should also outline restructuring plans beyond 2024-25, where applicable, in the financial commentary.

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

Further information

19. Please contact Andrew Millar, Assistant Director, Finance (tel: 0131 313 6538; email: amillar@sfc.ac.uk) or Wilma MacDonald, Senior Financial Analyst, Finance (tel: 0131 313 6565; email: wmacdonald@sfc.ac.uk) to discuss any aspect of this communication.

Ursula Lodge CPFA

Deputy Director, Institutional Sustainability & Capital

Annex A

Key FFR planning assumptions

1. We have consulted with the college Finance Development Network Lead Group to develop income and expenditure assumptions that should be used in preparing the FFR. These assumptions are provided for the purposes of supporting planning consistency across the sector.

2. It is important to note that we have no information on Scottish Government funding beyond Financial Year 2024-25, so these assumptions are indicative. Scottish Government will continue to set budgets annually over the Spending Review period so assumptions beyond FY 2024-25 are indicative. **Institutions should therefore also develop any additional planning scenarios they consider appropriate for their operating environment/circumstances.**

SFC grant assumptions

Credits and teaching income

3. Core funding for 2024-25 should be based on the final college sector funding allocations for AY 2024-25 announced on 30 May 2024.

4. If it is anticipated that core credit thresholds will not be met in any year, funding should be reduced accordingly, after mitigations of 2% tolerance and decoupling of 20% of Teaching Funding credit value permitted to reduce planning volatility. All other SFC funds should also be considered as subject to recovery unless agreed directly with SFC.

5. As in previous years, we are providing institutions with guidance on assumptions in relation to SFC grant funding for 2025-26 and 2026-27 that should be used in preparing the FFR. To be clear, **this is not an indication of future funding allocations**. These assumptions are being provided to support sector-wide planning consistency. Institutions should assume that SFC core grant funding and related credit targets remain unchanged from those set out in the 2024-25 final funding announcement.

6. **Regional Strategic Bodies** will need to advise their assigned colleges of their funding assumptions over the forecast period to 2026-27.

Access to free period provision

7. Colleges should assume that this funding will continue at 2023-24 levels.

Flexible Workforce Development Fund

8. Colleges should assume that this funding will not continue beyond 2023-24.

Student mental health and wellbeing funding

9. Colleges should assume that this funding will not continue beyond 2023-24.

Student support funding

10. Colleges should assume that all student support funding requirements will be fully met.

Capital Maintenance

11. SFC Capital Maintenance funding should be based on the final 2024-25 funding allocations announced on 30 May 2024. Institutions should assume that this funding must be used for capital expenditure only. SFC continues to engage with the Scottish Government on this matter.

12. There is no separate funding for digital poverty beyond 2023-24.

Other assumptions

13. SFC has consulted with the Finance Development Network Lead Group to develop non-SFC grant related assumptions that should be used for preparing the FFR. These are set out below.

Non-SFC income

14. 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

15. Institutions should factor in cost of living pay award increases for all staff. For AY 2022-23, AY 2023-24, and AY 2024-25, if pay negotiations have not been settled, institutions should assume pay awards based on the latest pay offer: £2,000 per FTE in AY 2022-23 and £1,500 per FTE in AY 2023-24 and AY 2024-25.

16. For support staff, colleges should account for job evaluation costs (and associated grant) based on Colleges Scotland costings and SFC job evaluation funding set out in Table 6 of the AY 2023-24 final funding announcement.

17. Public sector pay guidance is not yet available beyond 2024-25. For 2025-26 onwards

Colleges should assume a pay award of 3%. Incremental pay increases should also be reflected throughout the period, where appropriate.

18. Institutions should demonstrate how they would plan to generate the savings required to implement the above pay guidance.

19. Pension cost forecasts should reflect any known or expected changes to employer contribution rates.

20. For the purposes of preparing the FFR, institutions should assume that additional funding will be provided to cover the cost of increased employer contributions to the Scottish Teachers Superannuation Scheme which have been implemented from April 2024. Institutions should note that funding is likely but the Scottish Government has yet to finalise the Barnett consequentials of the announced UK Government support for central government funded bodies.

21. Institutions should assume that funding will not be provided for severance costs.

22. FRS 102 pension adjustments should be excluded from the forecasts.

Non-staff costs

23. Non-staff cost projections should be prepared taking account of local circumstances. Forecast utility costs should be based upon local circumstances and latest APUC guidance.

24. Institutions should demonstrate where they plan to generate required savings, where applicable.

Estates

25. Estates-related costs projections should be prepared taking account of local circumstances. Forecast utility costs should be based upon local circumstances and latest APUC guidance.

26. For the purposes of planning, colleges should assume that no funding for RAAC remediation will be available.

Disposals

27. Forecasts should reflect any planned property disposals and include both expected proceeds and costs of disposal. Where gross proceeds exceed £500,000, institutions should assume that proceeds will not be retained, unless specifically agreed with Ministers/SFC. Where gross proceeds are less than £500,000, Ministerial approval is not required. SFC must be informed of all planned disposals and seek consent to retain and invest the proceeds in the college estate. SFC continues to engage with the Scottish

Government on disposals guidance.

Cost savings

28. Forecasts should reflect cost savings required to bring income and expenditure into balance. We appreciate that some of these savings will have already been identified, but there may be work ongoing to secure the remainder. We have included a text box in the ‘Efficiencies’ worksheet in the FFR template which should be used to add supporting narrative.

29. The baseline for measuring staff and non-staff cost savings should be the prior year (e.g. 2022-23 actuals for 2023-24, 2023-24 updated forecast for 2024-25).

Cash forecasting

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

Annex B

Guidance for completion

Structure of the FFR

1. The FFR takes the form of an Excel spreadsheet which has twelve worksheets. A copy of the spreadsheet is published along with this Call for Information.

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

   (i) 'Pension assumptions'.

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

   (iii) 'Income'.

   (iv) 'Expenditure'.

   (v) 'SoCIE'.

   (vi) 'Adjusted operating result'.

   (vii) 'Balance Sheet'.

   (viii) 'Cashflow'.

   (ix) 'Capital expenditure'.

   (x) 'Efficiencies'.

   (xi) 'Declaration'.

Completion of the FFR

Input of financial forecast figures

3. The worksheets 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 (+/- 5% or over 2% of total expenditure) 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 five 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, including financial and non-financial impact of cost saving measures.
    - To explain the impact of any other scenarios considered by the institution.
    - To explain any potential alternative options and trade-offs you could make, to reach a more optimal position for your institution.

8. It is important that detailed commentaries are provided to support the financial forecasts. This will enable us to prepare a meaningful analysis of the underlying operations of the sector.

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

Introduction

10. 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.

11. We expect institutions will be reviewing their business models/strategic plans in light of the continuing tight financial environment. Please provide a brief summary of changes made and/or under consideration. If no review has taken place, please provide the reason for this.

Review of financial performance 2023-24

12. Discuss the key features of the latest forecast financial performance in 2023-24, highlight positive and negative variances from the 2022-23 annual accounts and 2024 Mid-Year Return forecast and the main reasons for these variances.

SFC recurrent grant

13. You should confirm that SFC grant income for 2024-25 is in accordance with the AY 2024-25 final college sector funding allocations issued on 30 May 2024.

Changes in tuition fee income and other income

14. 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

15. 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.

Changes in staff and non-staff costs

16. 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.

17. In particular the following areas should be addressed:

- Assumptions regarding pay awards and their impact on pay expenditure.
- Assumptions regarding staff numbers.
- Assumptions regarding staff restructuring including voluntary severance or compulsory redundancies.
- Assumptions regarding future pension contribution costs.
- Assumptions regarding inflationary pressures.

Balance sheet – cash position

18. Please provide detailed commentary about the institution’s operating cash position, especially if this position is deteriorating over the forecast period or in any one year. The commentary should also highlight any expected breach of loan covenants as well as details of negotiated repayment holidays.

Contingency planning

19. Institutions will have prepared contingency plans and potential mitigating actions to respond to adverse movements on income and expenditure. Please supply a copy of your financial contingency plans.

Risk management

20. 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.

Alternative scenario planning

21. Institutions should provide details of any additional planning scenarios that have been considered by the institution’s governing body, and related financial/non-financial impacts.

Any other information

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