FINANCE AND RESOURCES COMMITTEE

The twenty-third meeting of the Finance and Resources Committee will be held on Wednesday 04 March 2020 at 4.30 pm in The Boardroom, Langside Campus.

A G E N D A

20.01	Welcome and Apologies			R Fraser
20.02	Declarations of Interest			R Fraser

Minutes of Previous Meeting

20.03	Minute of the Finance and Resources Committee of the 4th December 2019	P	D	R Fraser
20.04	Matters Arising Action Grid	P	D	R Fraser

Items for Discussion

20.05	Financial Report year to January 2020 and Forecast to July 2020	P	ND	T Elliott
20.06	Commercial & External Funding Update	P	ND	D MacDougall
20.07	Restructuring Update	P	ND	J Thomson
20.08	Capital Expenditure & Masterplan Update	P	D	J Thomson
20.09	Estates Update	P	ND	J Thomson
20.10	SFC Indicative Funding Allocation for 20-21	V		J Thomson
20.11	Draft Five Year Plan Update – Presentation	V	ND	T Elliott

Items for Noting

20.12	Procurement Update	P	ND	T Elliott
20.13	Glasgow Clyde Education Foundation update	P	D	J Thomson
20.14	College Strategic Risk Register – Financial Risks	P	D	J Thomson

Continual Improvement

20.15	Equalities Impact Assessment on Decisions Made			R Fraser
20.16	Review of Papers (including Disclosable Status)			All
20.17	Any Other Business			R Fraser

Date of next meeting Wednesday, 27th May 2020 at 4.30pm, the Boardroom, Langside Campus

FINANCE AND RESOURCES COMMITTEE MEETING

Date of Meeting	4 March 2020
Paper Title	Capital Expenditure and Masterplan Update
Agenda Item	20.08
Paper Number	20.08A
Responsible Officer	Janet Thomson, Vice Principal Resources and College Development
Status	Disclosable
Action	For Discussion

1 REPORT PURPOSE

1.1 This report provides an update on capital expenditure for the period from 1 April 2019 to end January 2020 against the approved capital plan for 2019/20 and provides an updated capital masterplan for the period.

2 RECOMMENDATIONS

2.1 The Finance and Resources Committee is asked to discuss the capital expenditure report against plan.

3 BACKGROUND

3.1 The Scottish Funding Council (SFC) provides capital funding to GCRB who then allocate it to the Glasgow Colleges and this funding is provided on a fiscal year basis, i.e. April to March. The Glasgow Regional capital funding allocation for 2019/20 is £3.54Million. GCRB allocated £1.65Million in total of this to Glasgow Clyde College, being £630k for life cycle maintenance and £1.023Million for very high priority estates maintenance.

3.2 The funding for very high priority estates maintenance for 2019/20 has been allocated to fund five projects as shown on the attached capital masterplan (on lines 4 to 7 of the report). These are Chiller Plant and Air Handling Units replacement, Disabled Access Lifts and Flat Roof and Lighting replacements all at the Cardonald campus, plus the replacement of the boiler plant at the Mary Stuart building at the Langside campus.

3.3 The capital expenditure from 1 April 2019 to end January 2020 against capital plan is attached, which shows expenditure against the latest capital masterplan as approved at the December Board of Management meeting.

3.4 The funding for very high priority estates maintenance is targeted to be spent by end March 2020. Given that some of these works were only able to be tendered quite far through the year and given the impacts of poor weather there may have to be some expenditure beyond end March however work is ongoing from the Estates team to endeavour to maximise expenditure as soon as is practicable.

3.5 The other two very high priority projects shown on the plan i.e. the Boiler/pipework installation at Cardonald and the Mary Stuart Building Cladding Replacement are completed and were funded from the 2018/19 allocation for very high priority estates maintenance.

3.6 The funding for lifecycle maintenance for 2019/20 has all been used for revenue costs for planned and reactive maintenance and other essential non-staff premises costs.

4 RISK ANALYSIS

4.1 There is a risk that if the capital masterplan is not achieved then the correct level of investment is not made to maintain a suitable educational experience for the students of Glasgow Clyde College.

5 LEGAL IMPLICATIONS

5.1 There are no specific legal implications associated with this capital expenditure update.

6 FINANCIAL IMPLICATIONS

6.1 The financial values of each of the capital masterplan project are highlighted within the report.

7 REGIONAL OUTCOME AGREEMENT IMPLICATIONS

7.1 The Regional Outcome Agreement implications are that each of the Colleges in Glasgow needs to have a suitable, fit-for-purpose estate and this is emphasised in discussion on any related funding allocations.

8 HAS AN EQUALITY IMPACT ASSESSMENT BEEN CARRIED OUT?

8.1 Not applicable.

Glasgow Clyde College - Capital Masterplan Update
Expenditure against plan 1st April 2019 to 31 January 2020 against 2019/20 Capital projects plan

Priority	Project Description - Capital Projects	Funded by	2019/20 Capital Projects Plan as approved at December Board of Management	2019/20 Capital Expenditure April 19 to Jan 20	Variance/ Balance remaining	Comments
1	Cardonald Campus Lifts project final stages	Foundation Approved	£150,000	£115,695	£34,305	Funding approved from Foundation for total three part large scale plant upgrade project. Lifts project progressed from May 2017 final stage retentions and lift lobby redecorations.
2	Boiler/pipework installation at Cardonald. (Completed)	SFC/GCRB very high priority works capital funding	£235,000	£126,445	£108,555	Replacement of boilers. Third boiler at Cardonald plus nursery pipework. Total project value £250k. Project now completed and expended between 18/19 and 19/20.
3	Mary Stuart Building Cladding Replacement (Completed)	SFC/GCRB very high priority works capital funding	£439,000	£429,267	£9,733	Cladding panels/curtain walling replacement. Replacement completed summer 2019.
4	Cardonald Chiller Plant and Air Handling Units replacement	SFC/GCRB very high priority works capital funding	£447,000	£21,463	£425,537	Chiller plant and AHU across Cardonald campus Tower building. Previous estimate based on condition survey in 2014. Works now being completed.
5	Disabled access lifts at Cardonald	SFC/GCRB very high priority works capital funding	£133,000	£15,424	£117,576	Several disabled access lifts in the Tower building and Business Centre due for replacement.
6	Replacement of flat roof area at Cardonald	SFC/GCRB very high priority works capital funding or life cycle maintenance	£138,000	£2,839	£135,161	Replacement of one remaining flat roof area at Cardonald.
7	Plan to use balance of 19/20 GCRB allocation for next two projects for high priority works up to total high priority estates allocation. Next two projects are Mary Stuart boiler plan upgrade and lighting replacements at Cardonald.	Use of balance of 19/20 SFC/GCRB very high priority works capital funding allocation	£305,000	£0	£305,000	Balance for next two high priority capital projects which are the Mary Stuart plant upgrade at Langside and lighting replacement at the Cardonald campus. In total there are five high priority projects being progressed in 19/20 which are these4 two projects plus projects 4, 5 and 6 above.
8	Lifecycle maintenance for works	Foundation funded	£80,000	£43,542	£36,458	Lifecycle maintenance works. Projects undertaken on a prioritised basis following planning discussions with faculties/units.
	Capital Masterplan 19/20 projects total		**£1,927,000**	**£754,675**	**£1,172,325**	

FINANCE AND RESOURCES COMMITTEE	
Date of Meeting	4 March 2020
Paper Title	Glasgow Clyde Education Foundation Update
Agenda Item	20.13
Responsible Officer	Janet Thomson, Vice Principal Resources and College Development
Status	Disclosable
Action	For Noting

1 REPORT PURPOSE

1.1 The purpose of this report is to provide an update on the activity of the Glasgow Clyde Education Foundation since last reported to the Committee.

2 RECOMMENDATION

2.1 Members are invited to **NOTE** this paper.

3 BACKGROUND

3.1 The Glasgow Clyde Education Foundation (GCEF) is a separate independent charitable organisation from the College.

3.2 The Foundation has three strategic funding priorities which are as follows :

Strategic Priority 1 Improved Pedagogy
Strategic Priority 2 Effective Learning
Strategic Priority 3 Capability and Capacity

3.3 Glasgow Clyde Education Foundation's charitable objectives as listed on OSCR are as follows:-

through grant giving (with a view that the organisation will grow its own funds to generate additional income for its beneficiaries) to enhance the learning experience for students, potential students and the communities (including by supporting (financially and otherwise) community and not for profit groups and organisations operating within the communities) served by Glasgow Clyde College (a registered Scottish charity, SC021182). In furtherance of its charitable purposes, the organisation will support (a) the delivery of improved teaching accommodation, facilities, infrastructure and/or equipment; (b) the development of teaching and curriculum resources and opportunities; and (c) staff development for the staff of the Glasgow Clyde College to assist and develop the student learning experience

3.3 A sum of £14.4M was transferred to the Foundation from the College as at the end of March 2014, which was the College cash backed reserves and a further sum of £600k was donated at the end of March 2015. There have been no further donations since that time. The Foundation now has around £6Million remaining after allowing for all previously approved bids.

3.4 The Foundation had their most recent meeting on 14th January 2020 and their next meeting is on 21st April.

3.5 The Foundation approved a capital bid from the College to fund £250k to pay for Lifecycle Maintenance which is shown on the Capital Masterplan, and this is being used for several projects including upgrading of a Science Lab at Langside to provide better access for those with mobility issues.

3.6 Since the date of the last Committee, the College has submitted two further revenue bids to the Glasgow Clyde Education Foundation which have been submitted for a) Staff Development, Leadership Framework and Core Values and for b) Commercial Investment during the early stages of the College's commercial income growth foundation. The total value of these two projects is £302k for the Staff Development, Leadership Framework and Core Values bid and £745k for the commercial investment project through until 2023.

Annual Summaries for those two projects over the three/four year period are below:-

	19/20	20/21	21/22	22/23	Total
Staff Development, Leadership Framework and Core Values	£92k	£180k	£30k	N/A	£302k
Commercial Investment	£113.4k	£247k	£253.2k	£131.5k	£745.1k
Total	£205.4k	£427k	£283.2K	£131.5k	£1047.1K

3.7 In addition the College presented the College Estates Strategy projects to their January meeting and the overall approach and four projects were supported. It was agreed that the College progress with the Environment Upgrade at Cardonald campus and to bring back further details to their April meeting on this project and the Student Space plans for Anniesland. The other two projects will be scheduled for a future summer period. The total value of the four projects is estimated at £2.75Million.

3.8 These are in addition to the previously approved bid for ICT investment in innovative technology for College learners and educators investing in solutions that embed these technologies in their every-day experience. This project has a value of £396k in year 1, and then £241k in each of the two years after that plus £28k investment in ESports equipment.

4 RISK ANALYSIS

4.1 There are no specific risk implications associated with this paper.

5 LEGAL IMPLICATIONS/FINANCIAL IMPLICATIONS/REGIONAL OUTCOME AGREEMENT IMPLICATIONS

5.1 GCEF is a separate charitable organisation and hence is a separate legal entity. The financial implications related to this paper are the funding of these agreed projects which is important for the future financial plans for the College.

6 HAS AN EQUALITY IMPACT ASSESSMENT BEEN CARRIED OUT?

N/A

FINANCE AND RESOURCES COMMITTEE MEETING

Date of Meeting	4 March 2020
Paper Title	College Strategic Risk Register: Financial Risks
Agenda Item	20.14
Paper Number	20.14A
Responsible Officer	Janet Thomson, Vice Principal Resources and College Development
Status	Disclosable
Action	For Noting

1 REPORT PURPOSE

1.1 This report considers the Financial Risk areas within the College's Strategic Risk Register which is updated regularly and reported to the Board of Management on a quarterly basis.

2 RECOMMENDATION

2.1 Committee Members are invited to note this paper.

3 BACKGROUND

3.1 The College's Strategic Risk Register is attached as at 24th February 2020. The Strategic Risk Register is updated regularly and considered at least quarterly by College senior management. Any changes to the Strategic Risk Register since it was last reported to the Board of Management at its December meeting are highlighted in red.

3.2 There are 15 risks on the College Strategic Risk Register six of which are financial risks which are shown on the first page of the Register and are risks F1 to F6. Three of these are scoring as high risk after mitigating actions which are Failure to achieve surplus targets for commercial activity, Failure to reduce College cost base on managed basis to meet requirements of the five year financial forecast, and Potential for refusal of SFC to fund VS (as assumed in 2019/20 agreed budget. The College is monitoring each of these risks on an ongoing basis and taking all relevant actions to help to mitigate them as far as possible.

4 RISK ANALYSIS

4.1 The College Strategic Risk Register is a key part of the College's risk management framework.

5 LEGAL IMPLICATIONS/FINANCIAL IMPLICATIONS/REGIONAL OUTCOME AGREEMENT IMPLICATIONS

5.1 The College is required to have a risk register as part of the Financial Memorandum and the financial implications are detailed within the financial risks section of the College Strategic Risk Register.

6 Has An Equality Impact Assessment been carried out?

6.1 N/A

GLASGOW CLYDE COLLEGE - STRATEGIC RISK REGISTER								Key of abbreviations : SFC = Scottish Funding Council, GCRB = Glasgow Colleges Regional Board, GCG = Glasgow Colleges Group, SDS = Skills Development Scotland, ESF = European Social Fund, JISC = Joint Information Steering Committee		as at 24th February 2020					
					Score Before Mitigating Actions				Score After Mitigating Actions						
Risk Ref	**New Risk Description**	**Risk Category**	**Link to Development Plan Goal**	**Risk Owner**	**Probability**	**Impact**	**Risk Score**	**Mitigating Actions**	**Probability**	**Impact**	**Risk Score**	**Risk Ranking after mitigating actions**	**Risk Timing - Short / Medium/ Long Term**	**Risk Score at last report to the Board**	**Risk Increasing/ Decreasing/ No Change**
Financial Risks															
F1	**Failure to achieve surplus targets for commercial activity**	Financial	Goal 3 & Goal 4 - Contributing to the local, regional and national economy, & ensuring operational effectiveness and efficiency	Assistant Principal International and Business Development	5	5	25	i) Ambitious commercial income/surplus growth plan agreed for 2019/20 through to 2022/23 with detail of how this will be achieved across the five main activity types. Overall income figures may have some offset from increased Flexible Workforce Development Activity. ii) Regular monitoring between Business Development Unit and Faculty Management of commercial activity and replacement activity identified as required. iii) Pipeline of activity managed to meet overall targets. iv) Costing templates completed for all commercial activity. Further monitoring of in year staff costs transfers of permanent staff costs ongoing. v) Increased engagement and marketing effort to maintain current business but also to open and grow new income streams. vi) Spread of activity across a range of activity areas to reduce risk of one large contract failure to overall surplus. vii) Review and develop market opportunities through business development strategy and grow new markets.	4	5	20	F1	**Medium**	20	No change
F2	**Failure to reduce College cost base on managed basis to meet requirements of the five year financial forecast**	Financial/ Organisational	Goal 4 - Ensuring operational effectiveness and efficiency	Principal/ Vice Principals	5	5	25	i) Five year financial plan prepared and presented to the Board which shows required cost reductions over the period in addition to the agreed five year commercial income growth plan ii) Cost reduction plan being implemented which requires reduction in staff levels and significant cuts in non-staff budgets across the College where possible iii) College commenced process of review of all areas to seek cost reductions, as well as seeking further efficiency through improved business processes. iv) Plan to implement first staff area change by October 2019 and through use of current VS scheme with required agreement with GCRB and SFC. v) Discussion on future potential changes being taken forward including academic management restructure. vi) Zero based budgeting for 19/20 onwards for non-staff costs.	4	5	20	F2	**Medium**	20	No change
F3	**Potential for refusal of SFC to fund VS ~~(as assumed in 2019/20 agreed budget)~~**	Financial/ Organisational	Goal 4 - Ensuring operational effectiveness and efficiency	Principal /Vice Principals	4	5	20	i) Detailed five year financial plan prepared and FFR which show recovery after VS is funded and hence present case to SFC. ii) Discussions within Glasgow Colleges Regional Board to share approach iii) Cost reduction plan being implemented which requires reduction in staff levels and significant cuts in non-staff budgets across the College where possible iv) Ensure stated teaching activity targets are met to meet SFC requirements.	3	5	15	F3	**Medium**	15	No change
F4	**Failure to achieve/maintain planned levels of non-SFC income**	Financial	Goal 3 & Goal 4 - Contributing to the local, regional and national economy, & ensuring operational effectiveness and efficiency	Assistant Principal International and Business Development	4	5	20	i) Regular monitoring between External Funding Unit and Faculty Management of non-SFC activity and any changes in level of delivery. ii) Keep informed of constitutional change implications of Brexit and impact on non-SFC activity for the College. Involvement in College sector Brexit forum and quantifying impacts. iii) Increased engagement and marketing effort to maintain current business but also to open and grow new income streams. iv) Continued work with key partners to ensure successful projects delivered and funding maintained as much as possible.	2	5	10	F4	**Medium**	10	No change
F5	**Adverse Funding changes in 2019/20 (SFC/SDS/ESF)**	Financial	Goal 4 - Ensuring operational effectiveness and efficiency	Principal/ Vice Principals	4	5	20	i) Financial plans developed by College Senior Leadership and monitored within framework of available activity funding through Glasgow Regional funding for teaching, student support funds and capital. Portfolio planning key element of cost base and monitored on ongoing basis. Portfolio for 2019/20 being developed. ii) Continue to aim to inform and influence funding allocations through Principals' Forum, Glasgow Colleges Regional Board, MSPs, and other appropriate bodies. Final funding allocation for 2018/19 announced. iii) Work with Colleges Scotland and Scotland's Colleges Partnership on lobbying regarding impact on ESF funding and development of future alternative resources iv) Projects progressed to address priority items as per College Capital masterplan based on affordability and potential for applications to Foundation v) Mary Stuart Building cladding now replaced. vi) Working to achieve Flexible Workforce Development Fund target levels.	2	4	8	F5	**Medium**	8	No change
F6	**Failure to achieve contracted overall teaching delivery targets for any key partner (SFC/SDS/ESF)**	Financial/ Organisational	Goal 1 & Goal 2 - Delivering exceptional learning opportunities, & growing exceptional partnerships	Vice Principal - Curriculum & External Relations	3	4	12	i) Annually plan and deliver portfolio to required quality standards, ensuring appropriate recruitment, retention and profile of students. ii) Discussions within Glasgow Colleges Group and with other partners to plan curriculum and make changes annually to meet market needs and Government and SFC guidance iii) Ensure stated teaching activity targets are met. iv) Work closely with relevant partners to ensure programmes implemented as planned v) Ensure all relevant agency (e.g. SDS) milestones and documentation requirements achieved. vi) College undertake effective competitor analysis, clear branding and focused marketing to maintain effective student recruitment	2	4	8	F6	**Long**	8	No change

GLASGOW CLYDE COLLEGE - STRATEGIC RISK REGISTER

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as at 24th February 2020

					Score Before Mitigating Actions				Score After Mitigating Actions						
Risk Ref	**New Risk Description**	**Risk Category**	**Link to Development Plan Goal**	**Risk Owner**	**Probability**	**Impact**	**Risk Score**	**Mitigating Actions**	**Probability**	**Impact**	**Risk Score**	**Risk Ranking after mitigating actions**	**Risk Timing - Short / Medium/ Long Term**	**Risk Score at last report to the Board**	**Risk Increasing/ Decreasing/ No Change**
					Score Before Mitigating Actions				Score After Mitigating Actions						
Organisational Risks															
O1	**Failure of College operational processes/ systems /ICT infrastructure (including risk of fraud and potential cyber attack)**	Organisational	Goal 1 & 4 -Delivering exceptional learning opportunities & Ensuring operational effectiveness and efficiency	Vice Principal Resources & College Development & Vice Principal-Curriculum & External Relations	4	5	20	i) Monitoring systems in place across College and feedback from relevant staff. Any issues addressed as necessary and action taken. Need to ensure key systems not impacted by financially challenging budget in 2019/20. ii) Business system improvement process in place iii) Infrastructure designed not to have single points of failure with all campuses operating a sophisticated dual-core network topology. iv) Virtualisation infrastructure which improves server resilience with two main data centres at different campuses. v) Member of JISC Information Security service which provides support to secure against cyber attack and regular ICT network penetration testing undertaken. vi) ICT backup procedures and Disaster Recovery planning. Penetration testing exercise completed. Cyber essentials plus status achieved. vii) Web filtering technology in place and uninterruptable power supply in place. viii) Fraud response plan in place	4	4	16	**O1**	**Medium**	12	Increasing, aware of incident at another College.
O2	**Negative impact on employee relations (e.g. national bargaining, industrial action, local consultation)**	Organisational / Reputational	Goal 1 & 2 - Delivering exceptional learning opportunities & Growing exceptional partnerships	Principal/ Assistant Principal HR	4	5	20	i) Focussed work with Trade Unions, specific and regular meetings with senior management, ensuring good flow of information, and ongoing communications. ii) Regular direct communication with staff e.g. staff briefings, focus groups. iii) Representation made through Employers Association Group, Colleges Scotland, Principals Forum, and GCRB, within national bargaining process. iv) Emphasis being made nationally on imperative of financial sustainability and affordability issues particularly given increased staffing costs and challenges of the Glasgow Regional context. v) Discussion with unions on impact on College financial sustainability and organisational impacts. vi) Business continuity planning used to ensure all stakeholders appropriately communicated with in any potential industrial action. vii) Ensure transparency of consultation process to maximise opportunities for enhanced communications with Trade Unions	3	5	15	**O2**	**Short**	15	No change; potential negative impact due to ongoing process of academic restructure
O3	**Failure to achieve acceptably high standard quality of teaching delivery and support for students and suitable student experience**	Organisational/ Financial	Goal 1 - Delivering exceptional learning opportunities	Vice Principal - Curriculum & External Relations	4	4	16	i) Monitor of teaching KPIs across all subject areas and action taken to address areas of concern. ii) Quality mechanisms undertaken through annual cycle including self evaluation and internal and external verification processes. iii) Heads of Curriculum and Unit Managers monitor quality and delivery of service during year and follow up on any issues. iv) Faculty staff work with students association, class reps and student feedback mechanisms to monitor feedback on quality and follow up on any issues v) Development of classroom observation protocol as intimated in national bargaining vi) Make efficiencies in business processes to deliver quality of services vii) Monitor feedback from student focus groups on student experience viii) Enhance the monitoring of a range of KPI data on an ongoing basis to quickly identify any emerging negative trends in student performance.	4	3	12	**O3**	**Medium**	12	Increasing; potential negative impact due to launch of academic restructure
O4	**Failure to achieve a sustainable fit for purpose College estate**	Organisational/ Financial	Goal 4 - Ensuring operational effectiveness and efficiency	Vice Principal - Resources & College Development	4	3	12	i) Capital masterplan in place and related to estates condition survey which highlights required investment to maintain College estate. Funding for 2019/20 for very high priority items allocated by GCRB to College although there are logistical issues in spending the funds within the timeframe. ii) Work with GCRB and SFC to ensure fully informed of estates requirements. iii) Estates Strategy Review being completed by Gardiner & Theobald & BDP. iv) Need to plan within very tight resources due to financially challenging budget for 2019/20 and items will be rephased as required. v)Langside residences lease assignation and guarantee document completed.	3	3	9	**O6**	**Long**	9	No change
O5	**Failure to recruit and retain an appropriately skilled and effective workforce**	Organisational/ Reputational	Goal 2 & 4 - Growing exceptional partnerships & Ensuring operational effectiveness and efficiency	Assistant Principal HR	3	5	15	i) Recruitment and retention of staff for a few skills areas remains challenging and College continues to use a range of approaches as appropriate. ii) Maintain open channels of communication with trade unions, college managers and their staff, and effective attendance management process in place. iii) All new staff have an induction process and annual training programme undertaken. iv) Cover arranged as required for absence of key staff members. v) Appropriate CPD provided for staff to meet identified skills gaps vi) Need to manage to retain appropriate staff through challenge of restructures	2	4	8	**O4**	**Medium**	8	No change
O6	**High Impact Disaster for College e.g. fire, long term power loss**	Organisational	Goal 4 - Ensuring operational effectiveness and efficiency	Vice Principal - Resources & College Development	3	5	15	i) Health and safety risk assessments in place and required testing and audits completed on an annual cycle ii) Business Continuity Plan for College in place. iii) Estates condition survey completed and prioritising projects through estates based on affordability. iv) Business interruption insurance in place v) Mary Stuart building cladding project now completed.	2	4	8	**O5**	**Medium**	8	No Change

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GLASGOW CLYDE COLLEGE - STRATEGIC RISK REGISTER								Key of abbreviations : SFC = Scottish Funding Council, GCRB = Glasgow Colleges Regional Board, GCG = Glasgow Colleges Group, SDS = Skills Development Scotland, ESF = European Social Fund, JISC = Joint Information Steering Committee		as at 24th February 2020					
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					Score Before Mitigating Actions				**Score After Mitigating Actions**						
Governance Risks															
G1	**Failure to meet all legislative and regulatory requirements and/or recommended guidance**	Governance/ Reputational	Goal 4 - Ensuring operational effectiveness and efficiency	Principal/ Clerk to the Board	4	5	20	i) Work within roles, responsibilities and legal implications of Post-16 Legislation and associated related guidance. Liaison with and maintaining ongoing dialogue with relevant bodies e.g. SFC, GCRB and Scottish Government. College ensure full knowledge and implementation of legislative, regulatory and guidance requirements including requirements of Financial Memorandum with GCRB. iv) Individual managers required to keep up to date with legislation relating to their areas and implement appropriate controls v) Ensure Board have appropriate training on key guidance and legislation and take proactive role of Board in ensuring meet all requirements. vi) Modern Slavery statement in place vii) Safeguarding officers and safeguarding forum on each campus viii) Seek legal advice as required. ix) Data Protection Officer in place to advise on General Data Protection Regulation	3	4	12	**G1**	**Medium**	12	No change
G2	**Failure to recruit, train and retain an appropriately experienced Board of Management**	Governance	Goal 4 - Ensuring operational effectiveness and efficiency	Clerk to the Board	3	4	12	i) Continue to maintain membership of Board of Management at suitable level with the correct level and mix of skills. Nominations committee now established. Succession planning taking place with the Nominations Committee considering future vacancies well in advance. ii) Annual self assessment for Board members and training provided as required. iii) Induction provided for all new Board members. iv) Ensure Board undertake an ongoing programme of training to meet CPD needs. v) Board member handbook in place and an annual review/update to be undertaken.	2	3	6	**G2**	**Medium**	6	No change
G3	**Failure to comply with Health and Safety and Safeguarding requirements**	Organisational	Goal 4 - Ensuring operational effectiveness and efficiency	Assistant Principal HR	2	5	10	i) Glasgow Clyde College Health and Safety and Safeguarding Committee and Campus Forums meet regularly to monitor health and safety arrangements and any issues are raised. ii) Health and Safety Officers working across the three campuses and ensure annual cycle of health and safety audits are completed iii) Regular reporting on Health and Safety to Organisational Development Committee as part of their remit requirements iv) Full review of Health and Safety Policy and Procedures being undertaken	1	4	4	**G3**	**Medium**	4	No Change

FINANCE AND RESOURCES COMMITTEE

Date of Meeting	4 March 2020
Paper Title	SFC Report on the Financial Sustainability of Colleges and Universities in Scotland
Agenda Item	20.15
Paper Number	20.15A
Responsible Officer	Janet Thomson, Vice Principal – Resources and College Development
Status	Disclosable
Action	For Noting

1 REPORT PURPOSE

1.1 The purpose of this report is to submit to the Committee a recent report published by SFC on the Financial Sustainability of Colleges and Universities in Scotland.

2 RECOMMENDATION

2.1 Committee Members are invited to note this paper.

3 BACKGROUND

3.1 The attached report provides an aggregate picture of the financial health and sustainability of the Colleges and Universities based on recent financial forecasts. The summary for the College sector is within pages 6 to 12 of the attached report and covers the period 2018/19 to 2023/24.

3.2 The overall reported position for the College sector is stated in the report as challenging across all indicators of sustainability over the next five years. As per paragraph 2.3 the aggregate position is an acceptable adjusted operating position overall to 2020/21 followed by increasing deficits in the later years of the plans. It also highlights significant variation between Colleges and an increase in the number of Colleges and regions subject to a higher level of engagement with SFC. The main reason for this position is rising staff costs particularly teaching staff costs following national bargaining which has an ongoing significant impact through pay awards.

3.3 Most Colleges forecast include action to address deficits that include staff restructuring which is the by far largest element of costs for all Colleges across their total cost base.

3.4 In addition, the report notes the significant reduction in the sector's overall cash position reducing from £59.1Million to £23.4 Million by 2023/24.

4 FINANCIAL IMPLICATIONS

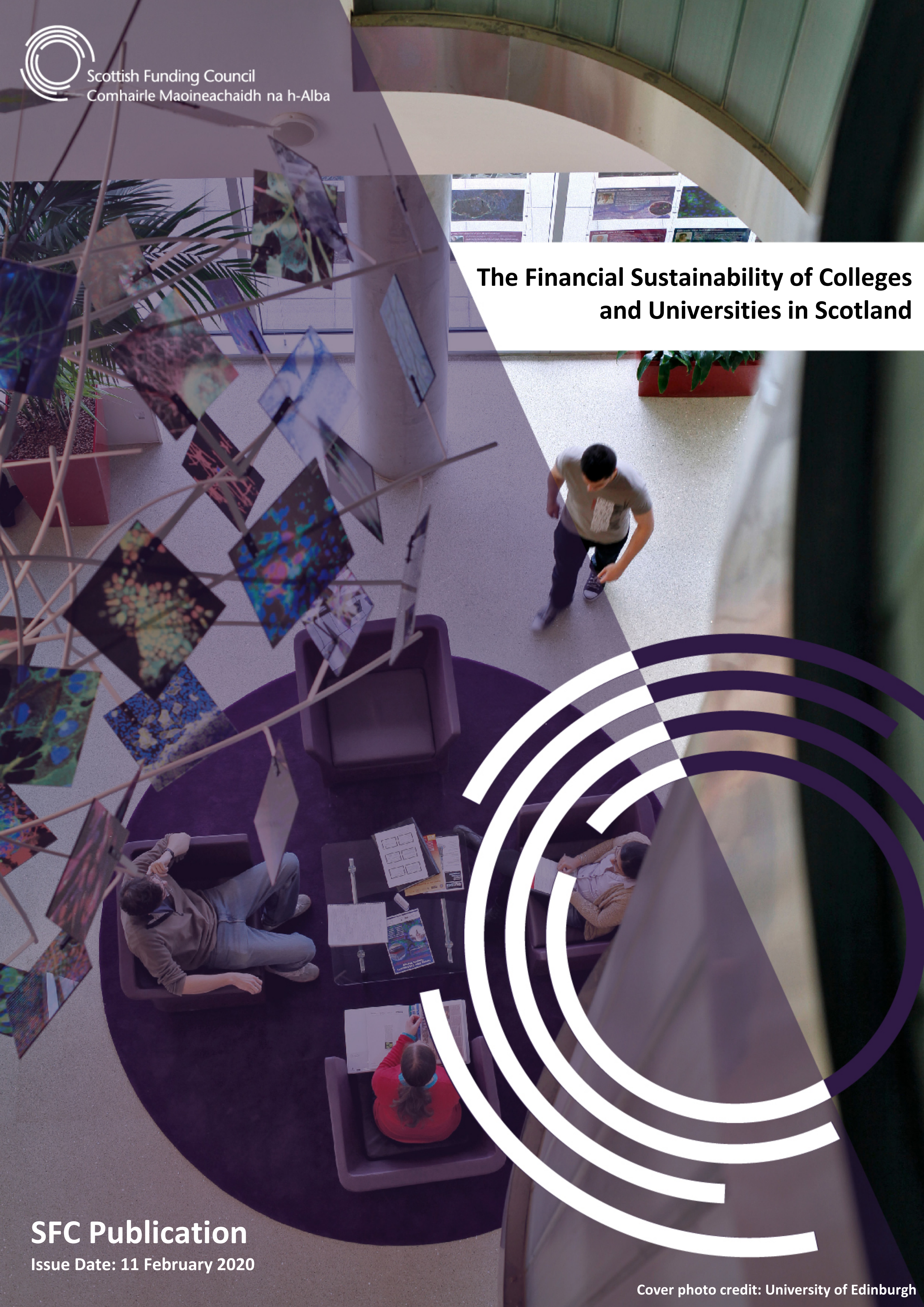
4.1 There are financial risks associated with this report in terms of both the financial forecasts and sustainability for the sector and for individual Colleges.

5 LEGAL IMPLICATIONS/REGIONAL OUTCOME AGREEMENT IMPLICATIONS

5.1 There are no specific legal implications in respect of the SFC report. In terms of the Regional Outcome Agreement (ROA), the College is charged with achieving financial sustainability as part of a condition of grant from SFC and to deliver the various targets with the ROA within the challenging financial forecasts and with staff reductions.

6 HAS AN EQUALITY IMPACT ASSESSMENT BEEN CARRIED OUT?

6.1 N/A



Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

The Financial Sustainability of Colleges and Universities in Scotland

SFC Publication

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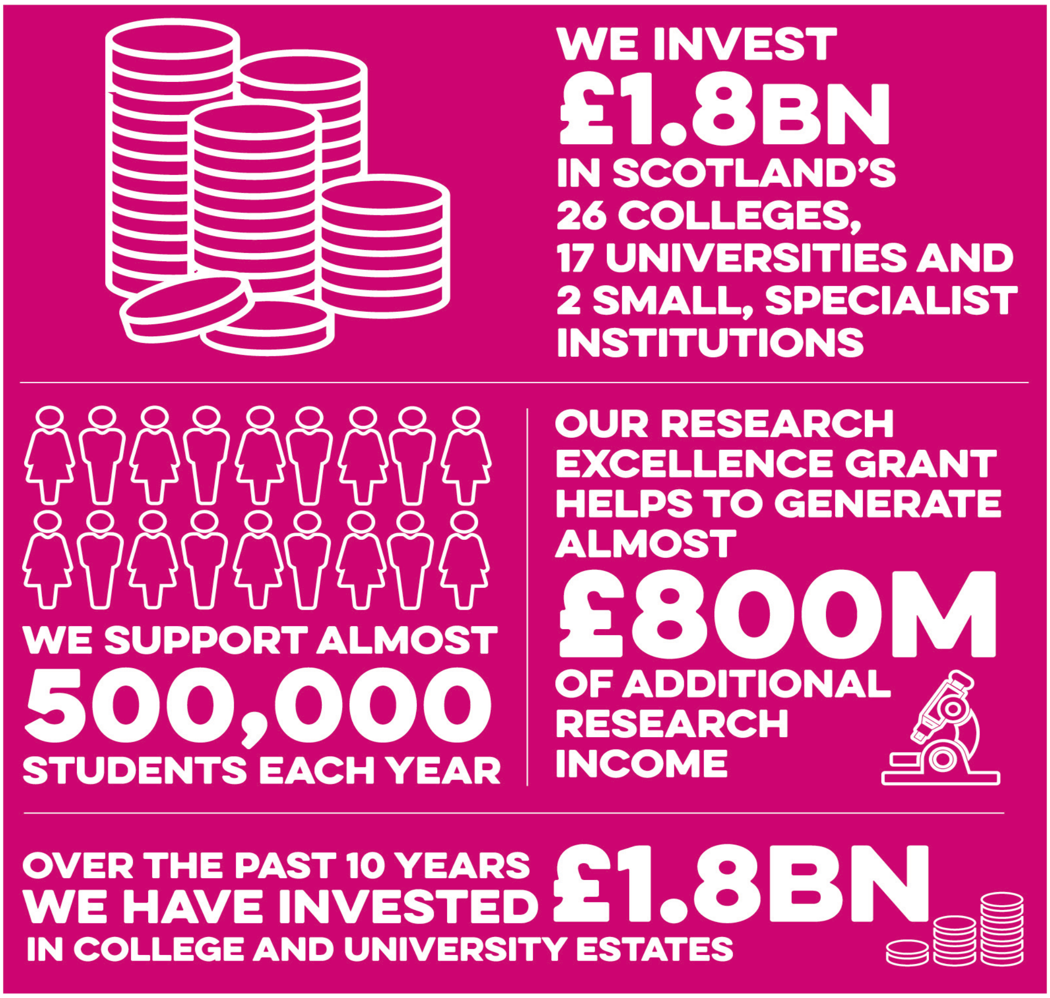
About us

LEADING, INSPIRING, INVESTING

We are the national, strategic body that funds further and higher education and research in Scotland.

- We invest in education that is accessible to learners from all backgrounds, gives them a high-quality learning experience, supports them to succeed in their studies, and equips them to flourish in employment, further study and fulfilling lives.
- We invest in excellent research and innovation that adds to current knowledge, delivers economic and societal value, enhances Scotland's international reputation and attractiveness, and makes the world around us prosperous, healthier and more sustainable.
- We ensure our autonomous colleges, universities and specialist institutions form part of a successful, world-leading, coherent and sustainable system of education that responds effectively to the future needs of learners and the skills needs of the economy and society, enhances our rich cultural life, and strengthens Scotland's international connections.
- We will be an excellent, outcome-focused public body that provides leadership, inspires confidence, models collaborative working, is committed to continuous improvement, and stewards public resources well.



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1. Introduction and Context

1.1. The Scottish Funding Council (SFC) is the national, strategic body that funds further and higher education and research in Scotland. Our main statutory duties and powers come from the Further and Higher Education (Scotland) Act 2005. Universities and colleges that receive public funds must meet the terms and conditions set out in accepted offers of grant, Outcome Agreements, and a Financial Memorandum (which also includes compliance with Scottish codes of governance). In the round, these require universities and colleges to make best use of public funds and to exercise good governance.

1.2. It is vital to the success of students and research activities, local communities and the wider Scottish economy, that the institutions we fund plan and manage their activities to remain sustainable and financially viable. Financial sustainability is, therefore, a condition of grant and is set out in our Financial Memorandum. SFC takes into account the underlying financial position and cash generative capacity when monitoring the financial sustainability of individual further and higher education institutions.

1.3. This report presents an aggregate picture of the financial health of Scottish institutions, based on an analysis of the information reported to us by each institution. It identifies key financial trends for the forecast period from submitted projections. Financial management is a dynamic process. The figures reported here are subject to ongoing change as governing bodies plan and make choices and decisions about the future, and as we engage with institutions about the robustness of their projections and future plans. While this presents an aggregate picture, there is significant variation in the financial position of individual institutions.

1.4. Scotland is one of the most highly educated countries in the world, with world renowned science and research excellence, and an ability to attract talent and investment. Our colleges and universities have a strong track record of adapting to change and managing challenges. There is no doubt that institutions are operating in a financial environment that is complex, changing, and difficult to predict. In particular, there is uncertainty in the wider context of public finances and the UK’s future relationship with the European Union, alongside financial pressures from pay and pension contributions, demographic and migration changes, and increasing competition for students. While this aggregate summary shows a challenging set of indicators of sustainability across colleges and for some parts of the university sector, this track record of adapting to changes in the environment will be important for the future.

1.5. Given this volatile and uncertain environment, robust financial management is critical to good governance, decision-making and future success. We, therefore, expect institutions to:

- Keep their performance, projections, and financial policies under regular review and ensure they test the continued reliability of underlying assumptions and their risk management strategies as they approve their future financial plans.
- Benchmark financial and other performance indicators with relevant institutions.
- Maximise opportunities for surplus-making activities, efficiencies and cost savings.
- Undertake workforce planning.
- Consider involvement in wider partnerships and collaborations that bring additional resources to the institutions, Scotland and particular regions.
- Consider models of provision that will be attractive to learners and meet the needs of the local economy.
- Understand, where appropriate, the UK and global context that can impact on an institution's future strategy.

1.6. Institutions are responsible for continued compliance with the Financial Memorandum including SFC's requirements in relation to financial sustainability and viability. SFC will continue to monitor individual institutions for early signs of financial difficulties and may increase our levels of engagement where an institution provides us with information that suggests they may face sustainability issues. Institutions are encouraged to approach us at an early stage in order that we can understand the emerging pressures and mitigating actions being taken. It is important that institutions tell us about changes in their situation that affect their sustainability or ability to continue to provide good quality learning and teaching or research activities, so that we can work together to secure good outcomes for individual learners, local communities, and for Scotland and its wider contribution in the world.

1.7. In addition, SFC's 2019-20 annual report and accounts will include an updated analysis of the financial sustainability of the college and university sectors, based on the review of 2018-19 financial statements.

2. College Sector

Summary indicators

2.1. The table below provides a summary of key college financial indicators across the years 2018-19 to 2023-24[1].

Financial Indicator	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23	Forecast 2023-24
Total income (£000)	768,680	786,841	780,640	781,296	776,780	779,894
SFC grant as % of total income	72%	72%	72%	72%	71%	71%
Operating surplus/(deficit) (£000)	(20,436)	(13,494)	(10,504)	(12,410)	(17,158)	(17,560)
Operating surplus/(deficit) as % of total income	(3%)	(2%)	(1%)	(2%)	(2%)	(2%)
Adjusted operating surplus/(deficit) (£000)	8,200	(344)	1,738	(777)	(3,545)	(5,086)
Adjusted operating surplus/(deficit) as % of total income	1.1%	(0.0%)	0.2%	(0.1%)	(0.5%)	(0.7%)
Net operating cash flow (£000)	51,201	20,156	28,516	26,632	23,704	23,024
Net operating cash flow as % of total income	7%	3%	4%	3%	3%	3%
Cash and cash equivalents net of overdrafts (£000)	59,094	40,077	38,827	35,674	29,865	23,400
Cash days	30	20	19	18	15	12
Borrowing (£000)	258,125	246,515	235,807	224,724	213,206	201,328
Borrowing as % of total income	34%	31%	30%	29%	27%	26%

Note: There is no balance sheet information for two of the non-incorporated colleges as they form part of the Local Authority. Therefore they are not included in the cash and borrowing figures above. Shetland College only provided financial information up to 2019-20 due to possible merger.

[1] All reporting references in this paper relate to the Academic Year, ending 31 July

2.2. Overall, the sector's reported future financial position over the next five years is challenging across all indicators of sustainability. The forecasts reflect the cost pressures facing the college sector. These pressures include increased employer contributions to pension schemes, funding cost of living pay increases, and estates maintenance. Colleges also face the prospect of reduced European funding.

2.3. In aggregate, colleges are forecasting an acceptable adjusted operating position up to 2020-21, followed by increasing deficits in the later years of the planning period. There is, however, significant variation between colleges in terms of their financial positions and performance that is not reflected in our aggregate indicators. Following our financial reviews, there has been an increase in the number of colleges and regions subject to a higher level of engagement.

2.4. Sector cash and equivalent balances are expected to reduce by 60% over the next five years, from £59.1 million in 2018-19 to £23.4 million by 2023-24, reflecting the changing operating position. Total long-term borrowing (including non-profit distributing and public finance initiative commitments) is expected to decrease from £258.1 million to £201.3 million over the same time period. Capital spend of £133.5 million is forecast over the planning period; just under half of that amount relates to one new campus development.

2.5. Most colleges predict action to address deficits that includes staff restructuring, as staff costs represent the largest proportion of colleges' expenditure. While the aggregate financial returns indicate a substantial reduction in staff may be required, this is based on the common key planning assumptions used in the forecasts and the figures are indicative.

2.6. The financial forecast returns from some colleges did not comply with our detailed planning guidance and failed to present a balanced operating position in the later years of the forecast period. We have asked these colleges for either revised returns or supplementary information about the mitigating actions required to bring them into financial viability. This means some of the figures reported here may be subject to further change.

2.7. Colleges will need to balance the need to restructure with their requirement to deliver regional outcome agreements and Government priorities, in particular the ability to meet student activity targets. We expect institutions to respond to financial challenges in ways that sustain and prioritise the delivery of good quality teaching and learning for students, and the overall student experience and the general health and wellbeing of the college workforce.

2.8. Details of the regional organisation of colleges across Scotland are provided in Annex A. An explanatory note in relation to the adjusted or underlying operating position indicator is provided in Annex B.

SFC financial return requirements

2.9. Colleges make the following financial returns to SFC in the course of the year:

- Financial Forecast Return (FFR), normally submitted at the end of June, comprising an outturn forecast for the current academic year and forecasts for the following five years.
- Mid-Year Return, comprising an updated outturn forecast for the current academic year.
- Annual accounts, submitted at the end of December, comprising the audited financial statements and supporting reports by the college's audit committee, internal and external auditors (also on an academic year basis).
- Monthly cash flow returns (incorporated colleges only) for Scottish Government budgeting and accounting requirements (see Annex A).

2.10. Colleges and regions experiencing heightened challenges to their ongoing sustainability also provide quarterly and monthly returns. The FFR is usually returned at the end of June but the deadline was extended to late September for 2019 to give colleges and regions sufficient time to fully take account of key planning assumptions within their financial returns.

2.11. The 2019 Financial Forecast Return (FFR) Call for Information included key planning assumptions[2] to assist colleges in producing their forecasts to support their financial planning.

2.12. The guidance stated that:

> 'SFC's Financial Memorandum with colleges and Regional Strategic Bodies (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.'

Adjusted operating position

2.13. The adjusted operating position (AOP) is intended to reflect the underlying operating performance after allowing for material one-off or distorting items or other items outwith the control of colleges. An explanation of how the AOP is calculated can be found in Annex B. In aggregate, colleges are forecasting an acceptable adjusted operating position up to 2020-21, followed by increasing

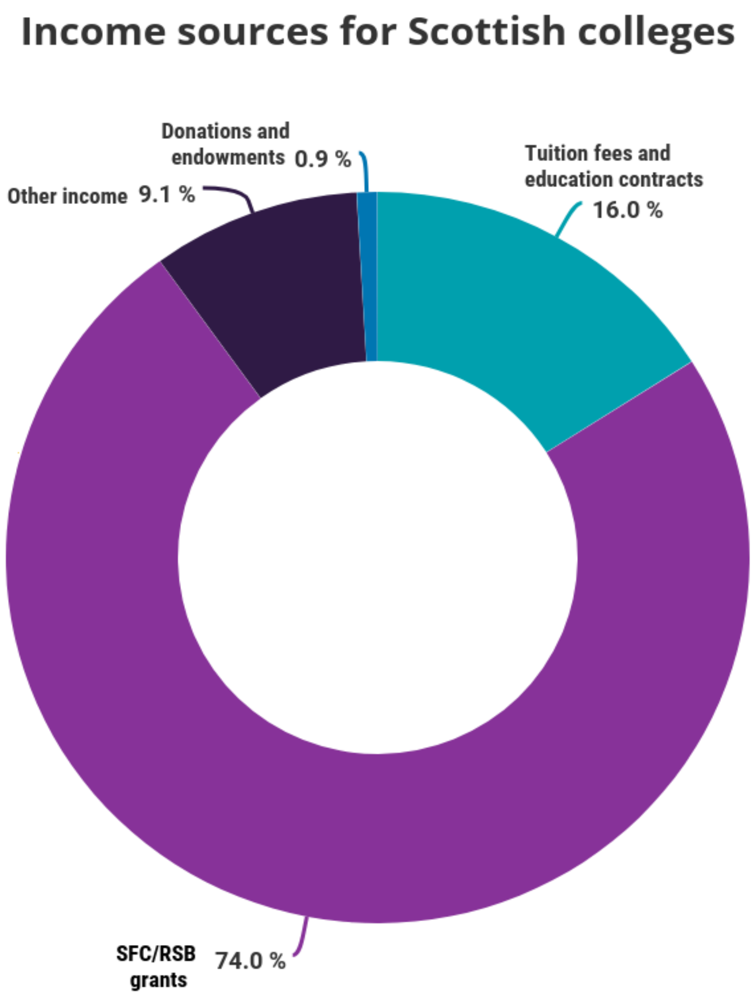
2 http://www.sfc.ac.uk/web/FILES/callsforinformation_sfcci042019/SFCCI042019_Call_for_information_2019_FFR.pdf

deficits in the later years of the planning period. It should be noted that the FFR analysis is ongoing and the figures reported here are subject to change as we engage with institutions.

Reliance on SFC grant

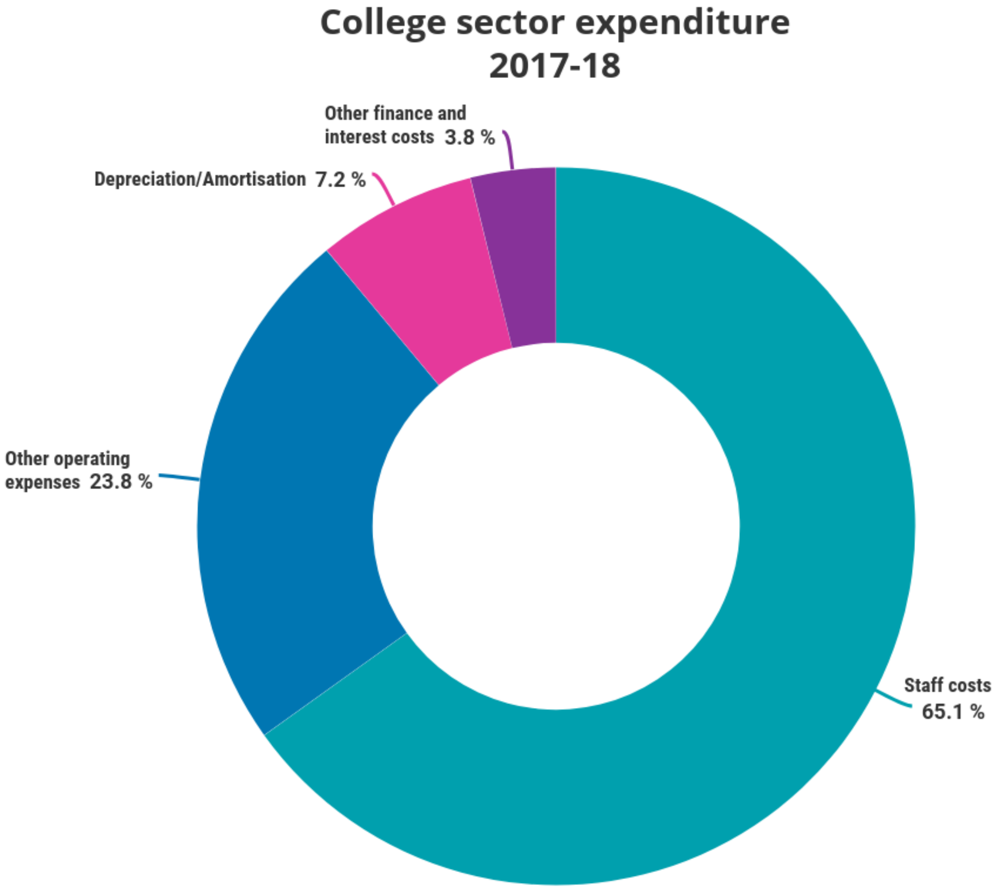
2.14. SFC grants are projected to account for 72% of total sector income in 2018-19 reducing slightly to 71% in 2023-24.

2.15. Sources of income for the college sector in 2017-18 are shown in the chart below:



College expenditure

2.16. A breakdown of the main expenditure headings for the college sector for 2017-18 is shown in the chart below.



Mitigating actions

2.17. Staff costs represent the largest element of college expenditure (68% by the end of the forecast period). This is, therefore, the area that colleges are focusing on to make efficiencies in order to deliver a balanced budget, given that the sector has in previous years delivered significant non-staff cost efficiencies.

2.18. The college sector forecasts suggest colleges plan to spend £5 million on staff restructuring in 2018-19 and a further £7.5 million over the remainder of the forecast period, in order to reduce the cost base to levels that allow them to be financially sustainable.

2.19. However, it is important to note that many colleges have reflected staff cost savings from restructuring activity in the forecasts but have not included the costs of restructuring. The cost of restructuring is therefore expected to be substantially higher.

2.20. We are engaging with colleges that are forecasting deficits over the planning period to clarify potential mitigating actions. There may also be liquidity concerns as several colleges that have not factored in restructuring costs are projecting low or negative cash balances during the forecast period.

2.21. It is expected that most of the restructuring will be addressed through voluntary severance schemes.

Cost of living increases

2.22. Colleges were asked to incorporate the lecturers' cost of living pay award, agreed in June 2019, in their forecasts. The cost of living pay awards are expected to have less of a financial impact on colleges in 2018-19 but will carry significant risks for colleges' financial sustainability for 2019-20 and beyond.

2.23. The support staff cost of living award agreed in September 2018 is reflected in the forecasts.

Cash balances and liquidity

2.24. Sector cash balances are forecast to amount to £59.1 million (30 days of expenditure) at the end of July 2019 and reduce to £23.4 million (12 days of expenditure) by 2023-24. Three colleges that failed to show a balanced operating position in the later years of the forecast period are currently forecasting negative cash balances by the end of July 2024. In addition, three colleges anticipate having less than 10 days of cash reserves by the end of July 2024.

2.25. As noted above, not all colleges have factored in the costs of restructuring that will be essential to ensure they are financially sustainable over the forecast period. It is therefore possible that the levels of cash across the sector will be lower and could result in more colleges reporting negative cash balances throughout the forecast period.

Scenario planning

2.26. Colleges have been encouraged to develop their own additional forecasts based on alternative planning scenarios if they believe these scenarios are more appropriate for their operating environment and circumstances. Several colleges provided details of alternative scenarios. All of these alternative scenarios would clearly result in a more challenging position. Scenarios included:

- Reduction of 1% in SFC funding.
- Increase of 1% in public sector pay policy.

- Funding reduced to 50% and 0% for additional Scottish Teachers Superannuation Scheme (STSS) costs (SFC planning guidance asked colleges to plan on the basis that these costs would continue to be fully funded throughout the planning period).
- Increase of 1% in Local Government Pension Scheme employer contribution costs.

Key risks

2.27. In preparing the forecasts, colleges identified a number of risks that could adversely affect their financial performance and sustainability. The most significant risk areas for colleges relate to:

- Changes to the funding model and colleges' ability to deliver regional outcome agreements and Government priorities. This includes the sector's ability to meet the core student activity target of c. 116,000 FTE places and other key performance measures.
- The impact of cost efficiencies, including reduced staff numbers and frontline student services, on both the quality of student experience and on the health and wellbeing of college staff.
- The impact of the UK exiting from the EU and the risk of reduced European funding.
- Additional staff costs arising from both cost of living pay awards and the outcome of the National Bargaining job evaluation exercise for support staff.
- Increases in employer contributions to the Scottish Teachers Superannuation Scheme and Local Government Pension Schemes.
- Addressing backlog estates maintenance and ICT/digital requirements.
- Challenges of diversifying income and generating additional surplus.
- The balance of portfolio of provision and how that impacts on student numbers.
- Insufficient funding to address student support requirements (SFC planning guidance asked colleges to plan on the basis that these costs would be met throughout the planning period).

SFC engagement

2.28. SFC operates a risk-based and proportionate approach to the way it engages with individual institutions. The level of SFC's engagement with colleges has increased for many colleges in recent years. In many cases this has related to our need for greater assurance about financial sustainability while securing good outcomes for students.

3. University Sector

Summary indicators

3.1. The table below provides a summary of key university sector financial indicators, by type of institution, across the years 2018-19 to 2021-22. Details of the university sector 'groupings' are provided in Annex C.

Financial Indicator	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22
Ancient	2,272,054	2,359,101	2,437,862	2,553,260
Chartered	966,395	994,811	1,049,786	1,176,279
Modern	655,482	677,255	691,966	702,973
SSI[3]	158,470	149,298	148,909	150,965
Total income (£000)	**4,052,399**	**4,180,466**	**4,328,523**	**4,583,477**

Ancient	21%	20%	19%	19%
Chartered	30%	28%	26%	25%
Modern	58%	56%	55%	54%
SSI[3]	34%	37%	36%	36%
SFC grant as % of total income	**30%**	**28%**	**27%**	**26%**

Ancient	61,128	98,032	37,408	69,116
Chartered	(111,779)	(7,018)	(17,869)	54,833
Modern	(21,787)	(9,808)	(6,879)	(6,166)
SSI[3]	4,971	(2,377)	720	97
Operating surplus/(deficit) (£000)	**(67,468)**	**78,829**	**13,380**	**117,880**

Ancient	2.7%	4.2%	1.5%	2.7%
Chartered	(11.6%)	(0.7%)	(1.7%)	4.7%
Modern	(3.3%)	(1.4%)	(1.0%)	(0.9%)
SSI[3]	3.1%	(1.6%)	0.5%	0.1%
Operating surplus/(deficit) as % of total income	**(1.7%)**	**1.9%**	**0.3%**	**2.6%**

Ancient	101,517	57,908	37,408	69,116
Chartered	4,349	(15,917)	(15,712)	57,255
Modern	(11,194)	(5,699)	(4,679)	(3,966)
SSI[3]	6,058	1,423	720	97
Operating surplus/(deficit) adjusted for staff restructuring costs and pension revaluation (£000)	**100,729**	**37,715**	**17,737**	**122,502**

[3] Scotland's Rural College receives SSI grant and is categorised as SSI for purposes of this table

Financial Indicator	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22
Ancient	4.5%	2.5%	1.5%	2.7%
Chartered	0.4%	(1.6%)	(1.5%)	4.9%
Modern	(1.7%)	(0.8%)	(0.7%)	(0.6%)
SSI[3]	3.8%	1.0%	0.5%	0.1%
Operating surplus/(deficit) adjusted for staff restructuring costs and pension revaluation as % of total income	**2.5%**	**0.9%**	**0.4%**	**2.7%**

Ancient	929,072	687,580	612,233	471,116
Chartered	240,731	199,131	180,242	151,191
Modern	107,207	112,614	126,987	123,322
SSI[3]	43,053	29,906	19,875	23,352
Cash and cash equivalents net of overdrafts (£000)	**1,320,063**	**1,029,232**	**939,337**	**768,981**

Ancient	163	118	100	74
Chartered	87	78	66	53
Modern	61	64	71	73
SSI[3]	110	78	53	61
Cash days	**117**	**92**	**79**	**63**

Ancient	138,632	94,275	n/a	n/a
Chartered	50,350	32,155	n/a	n/a
Modern	29,684	48,588	n/a	n/a
SSI[3]	8,979	(2,527)	n/a	n/a
Net cash flow from operating activities	**227,644**	**172,492**	n/a	n/a

Ancient	6%	4%	n/a	n/a
Chartered	5%	3%	n/a	n/a
Modern	5%	7%	n/a	n/a
SSI[3]	6%	(2%)	n/a	n/a
Net cash flow from operating activities as % of total income	**6%**	**4%**	n/a	n/a

Ancient	1,090,627	1,084,112	n/a	n/a
Chartered	289,933	343,621	n/a	n/a
Modern	243,416	237,816	n/a	n/a
SSI[3]	8,686	7,848	n/a	n/a
Total borrowing (£000)	**1,632,661**	**1,673,397**	n/a	n/a

Ancient	48%	46%	n/a	n/a
Chartered	30%	35%	n/a	n/a
Modern	37%	35%	n/a	n/a
SSI[3]	5%	5%	n/a	n/a
Total borrowing as % of total income	**40%**	**40%**	n/a	n/a

3.2. Overall, the sector's reported future financial position over the next three years is sound on the basis of the common key planning assumptions used in the forecasts. However, the forecasts are significantly skewed by the strength of the two largest institutions, the universities of Edinburgh and Glasgow. The sector's position is, therefore, considerably weaker when their projections are taken out of our aggregate analysis.

3.3. The financial pressures and uncertainties reflected in submitted forecasts include the withdrawal from the European Union, increased pension costs and estates maintenance costs. In general, the four ancient universities are better placed than others to respond to these cost pressures, and modern universities are more reliant on SFC grant funding.

3.4. The university sector expects to report an operating deficit of £67.5 million in 2018-19 followed by operating surpluses in each of the following years. It should be noted that the 2018-19 deficit position will be substantially higher as many institutions did not include the impact of the Universities Superannuation Scheme provision adjustments in their forecasts. Some volatility in results is to be expected under the Financial Reporting Standard (FRS) 102 accounting standard, as there may be a mismatch between the reporting of income and related expenses and the forecasts also include the accounting impact of several large items that distort year-on-year results (see Annex D). These include Universities Superannuation Scheme provision adjustments and exceptional staff restructuring costs. Excluding these items, the forecast underlying surplus for 2018-19 is £100.7 million, with surpluses projected over the remainder of the planning period ending 2021-22. Between eight and 11 of the 18 institutions are forecasting underlying operating deficits over the next three years.

3.5. The sector's financial forecasts indicate plans to undertake considerable staff restructuring over the period to 2021-22.

3.6. Cash and short-term investments are forecast to move from £1,320 million (117 cash days) in 2018-19 to £769 million (63 cash days) by the end of 2021-22. Borrowing is forecast to increase from £1,342 million in 2017-18 to £1,673 million in 2019-20. The projected reduction in cash and increase in borrowing reflect the impact of financing capital investment, which is estimated at £2.5 billion over the planning period.

3.7. Fee income represents the largest source of revenue in the sector. Institutions are increasingly reliant on international fee income; however, this represents a key risk as markets become ever more competitive and global events can occur over which institutions have no control. Income cross-flows, such as international fee income, are used to support other areas of operations such as research activity, which tends to be loss-making.

3.8. There is significant variation in the financial position of individual institutions. Several institutions are facing particular challenges to their financial sustainability and are subject to higher levels of engagement.

University financial returns to SFC

3.9. Universities make two financial returns to SFC in the course of the year:

- The Strategic Plan Forecast (SPF), submitted at the end of June, comprising an outturn forecast for the current year and forecasts for the following three years.

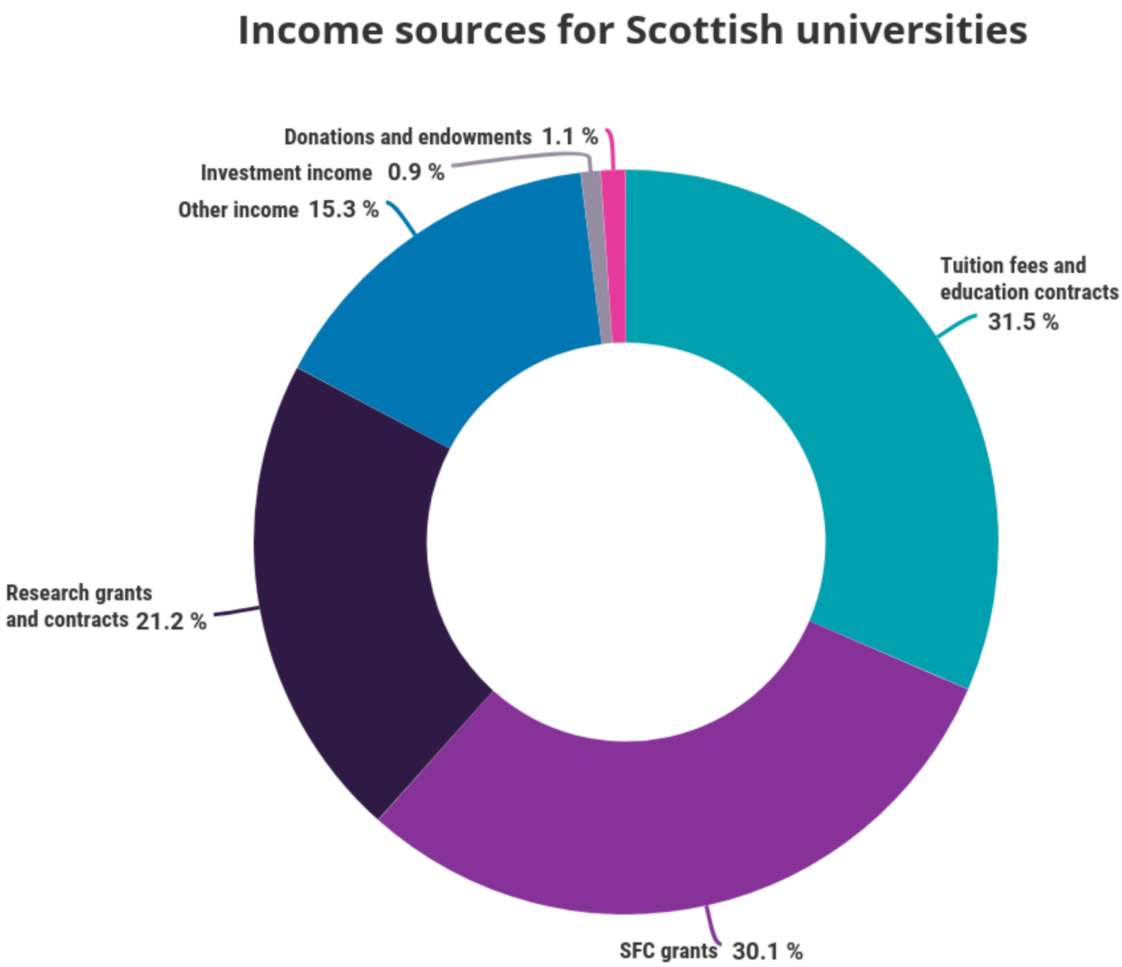
- The annual accounts, submitted at the end of December, comprising the audited financial statements and supporting reports by the institution's audit committee, internal and external auditors.

Operating position

3.10. Institutions were asked to provide financial forecasts, covering the period 2018-19 to 2021-22, by 30 June 2019. In preparing their financial projections, institutions were asked to ensure SFC grant for 2019-20 was based on the funding allocations announced in May 2019. Institutions were also asked not to forecast any increase in SFC grant for 2020-21 and 2021-22, as SFC had no information on Scottish Government budgets beyond 2019-20. Institutions were encouraged to develop additional planning scenarios if they believed they were more appropriate for their circumstances.

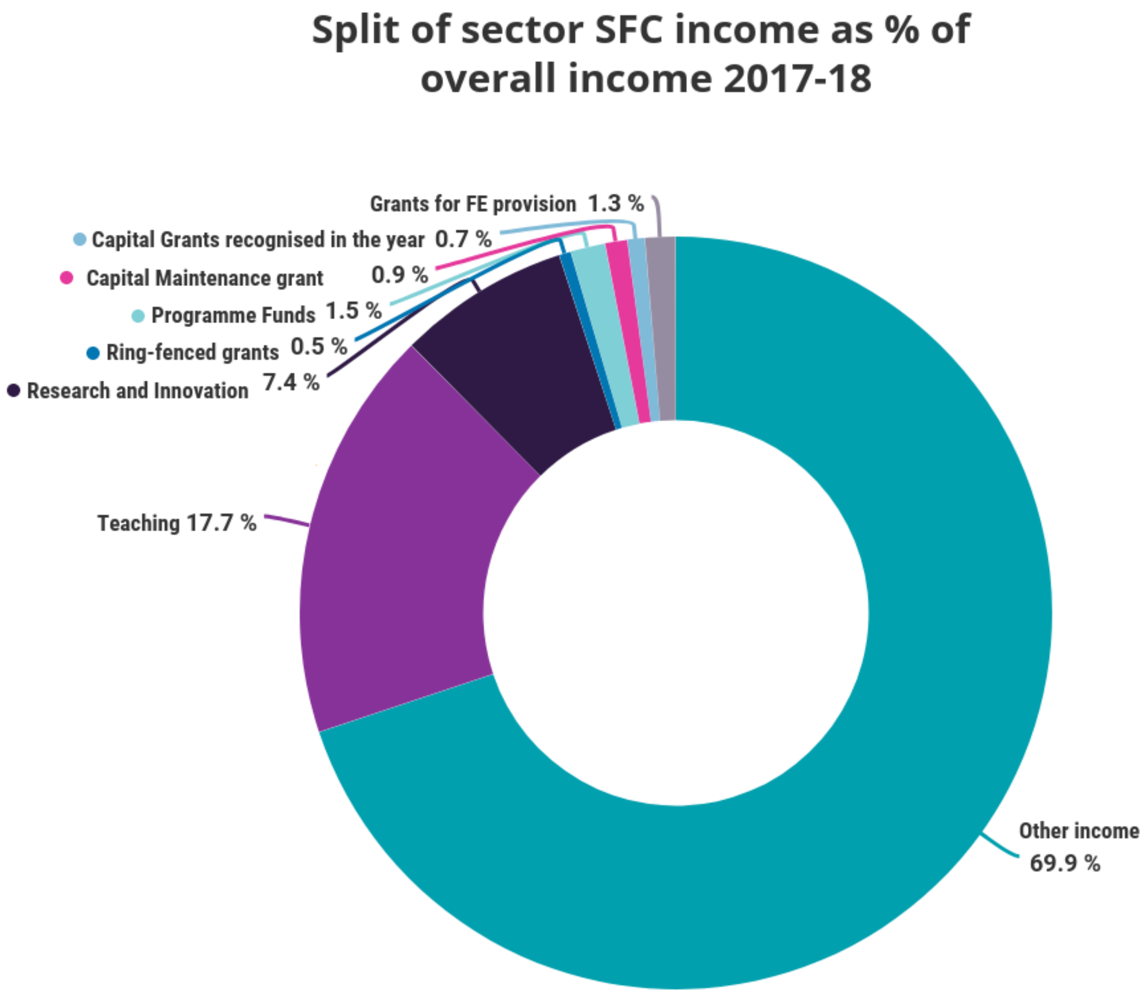
Sources of income

3.11. The chart below shows all sources of income for institutions in Scotland in 2017-18. Apart from SFC grants, universities receive income from tuition fees and contracts (including international student fees), research activity, commercial income, investment income and donations and endowments.



Reliance on SFC grant

3.12. The larger universities are generally not as reliant on SFC funding. SFC grants account for 30% of sector total income in 2017-18 and this is forecast to reduce to 26% by 2021-22. The majority of SFC grant is for teaching, which amounts to 18% of overall sector income, while SFC funding for research represents 7% of overall sector income.



3.13. There is a large variation in SFC grant reliance across the sector as illustrated below:

Funding Council grants as % of total income	**Actual 2017-18**	**Forecast 2018-19**	**Forecast 2019-20**	**Forecast 2020-21**	**Forecast 2021-22**
Lowest	15%	16%	15%	15%	14%
Average	30%	30%	28%	27%	26%
Highest	68%	78%	76%	77%	78%

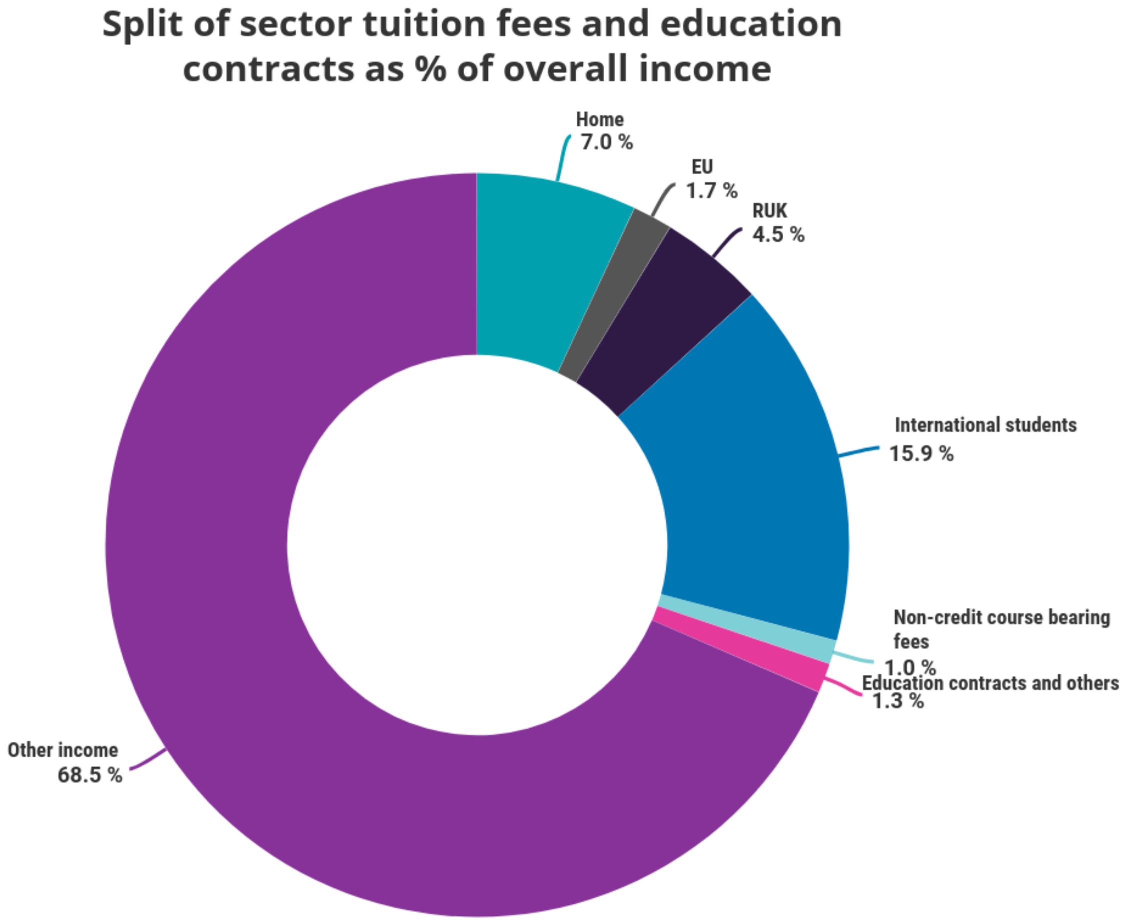
3.14. In 2017-18, the institution with the lowest reliance on SFC income was University of St Andrews at 15% while University of the Highlands and Islands had the highest proportion of its income from SFC, with 68% of its income coming from this source.

Other sources of income

3.15. All of the other sources of income come with associated costs and some of the activities can be loss making, for example research. This can be seen in the section on income crossflows at paragraphs 3.26 – 3.38 below.

International student fees

3.16. The chart below splits the tuition fee and education contract income into the different categories of income and demonstrates the significance of international student tuition fees as a source of income.

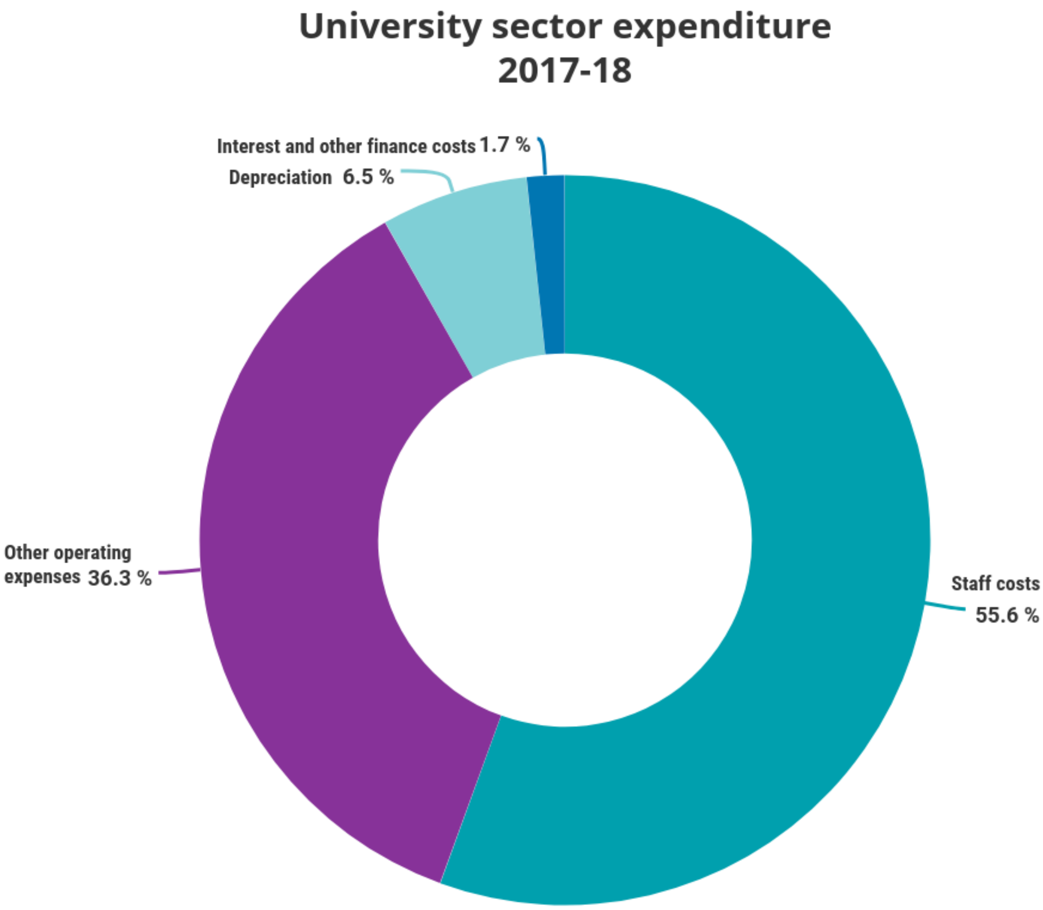


3.17. As in previous years, the largest anticipated increase in income from other sources in the forecast derives from international student tuition fees. In 2017-18, international fees represented 16% of the university sector total income and this is forecast to increase to 18% by 2019-20. It is clear that universities need this source of income in order to remain financially sustainable and to support other areas of their operation. For example, research can be a loss making activity and it is therefore important that institutions continue to plan to address this through other surplus generating activity.

3.18. We will be engaging with several institutions to assess the robustness of the level of increase in their projected international student tuition fee income over the forecast period. Non-EU tuition fees continue to be an area of significant risk due to the international markets becoming ever more competitive. There is also an impact on this market from UK immigration policies. It is encouraging that the UK Government has recently changed its policy of restricting post-study visas for international students and will now offer two year work visas for international graduates from next year.

University expenditure

3.19. A breakdown of the main expenditure headings for the university sector for 2017-18 is shown in the chart below.



Staff restructuring

3.20. The sector is planning to spend £30.8 million on staff restructuring between 2018-19 and 2021-22. Four universities are planning staff restructuring in each year of the forecast while another six institutions are forecasting staff restructuring in some of the years. It is recognised that some restructuring may be achieved through natural turnover.

Cash and borrowing

3.21. The sector is expected to remain liquid though cash and short-term investments are forecast to reduce on 2018-19 levels, moving from £1,320 million (117 days) in 2018-19 to £769 million (63 days) by the end of 2021-22. This reduction in cash over the forecast period mainly reflects the impact of financing capital investment. Institutions have provided assurances that capital investment will be re-profiled in the event that cash generation targets are not achieved.

3.22. The net cash inflow from operating activities is an important performance indicator in terms of assessing institutions' ability to generate sufficient cash to repay debt and for estates investment. The sector figure is forecast at £227 million in 2018-19 and £172 million in 2019-20. Only one institution in 2018-19 projected negative cash inflow from operating activities and in 2019-20 this increases to three institutions. The negative position for two of these institutions results from exceptional adjustments and there are no immediate concerns about their financial health.

3.23. Total borrowing is forecast to increase from £1,342 million in 2017-18 to £1,673 million in 2019-20 again reflecting an increase in capital investment in the sector. Borrowing represents 40% of turnover in 2019-20 compared to 36% in 2017-18.

3.24. Much of the sector's borrowing is now in the form of private placements due to the very low interest rates available. However, this type of borrowing involves large capital repayments at set points in the future with interest being paid in the intervening years. Out of the total sector borrowing figure of £1,342 million at the end of July 2018, £574 million was in the form of private placements. The universities with this form of borrowing will have to ensure they have the necessary funds to repay at the set points. Therefore, building up cash reserves, through generating ongoing surpluses, is essential to allow them to do this.

3.25. Levels of borrowing and pension commitments are sensitive to changes in how institutions are funded and ultimately the sustainability of the institutions. These are long-term obligations that must be fulfilled irrespective of the funding flows into institutions. It is important that institutions take into consideration potential increases in pensions costs which can be volatile and are outwith their control.

Transparent Approach to Costing (TRAC) and income crossflows[4]

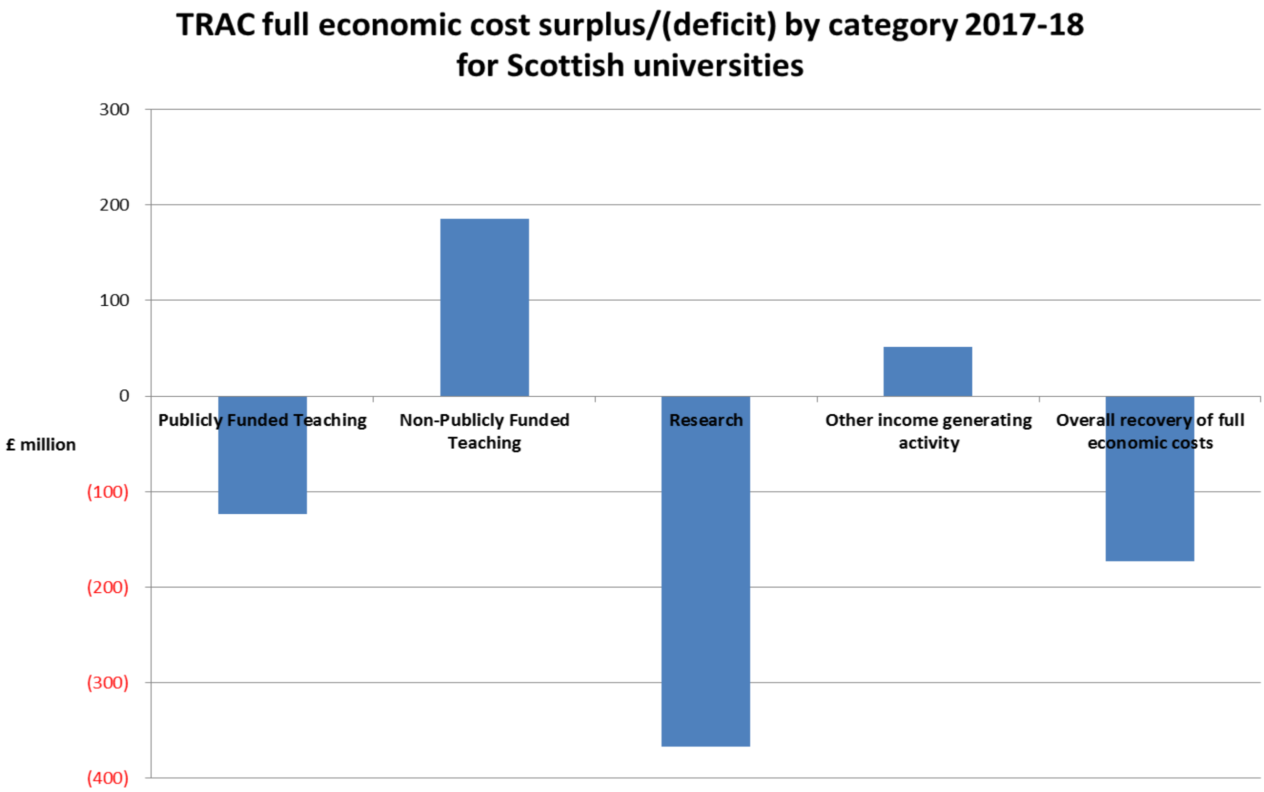
3.26. Our understanding of the performance of Scotland's universities can be

[4] All universities in the UK use the Transparent Approach to Costing (TRAC) methodology for costing their activities. TRAC was introduced in 2000 with a view to improving accountability for the use of public funds for research and to inform university decision making. TRAC was subsequently extended to other university activities, including teaching. The methodology for calculating TRAC was adjusted in 2015-16 to reflect changes resulting from the introduction of the FRS 102 accounting standard. For further information on TRAC on SFC's website: http://www.sfc.ac.uk/governance/institutional-finance-governance/institutional-finance/university-finance/transparent-approach-costing.aspx

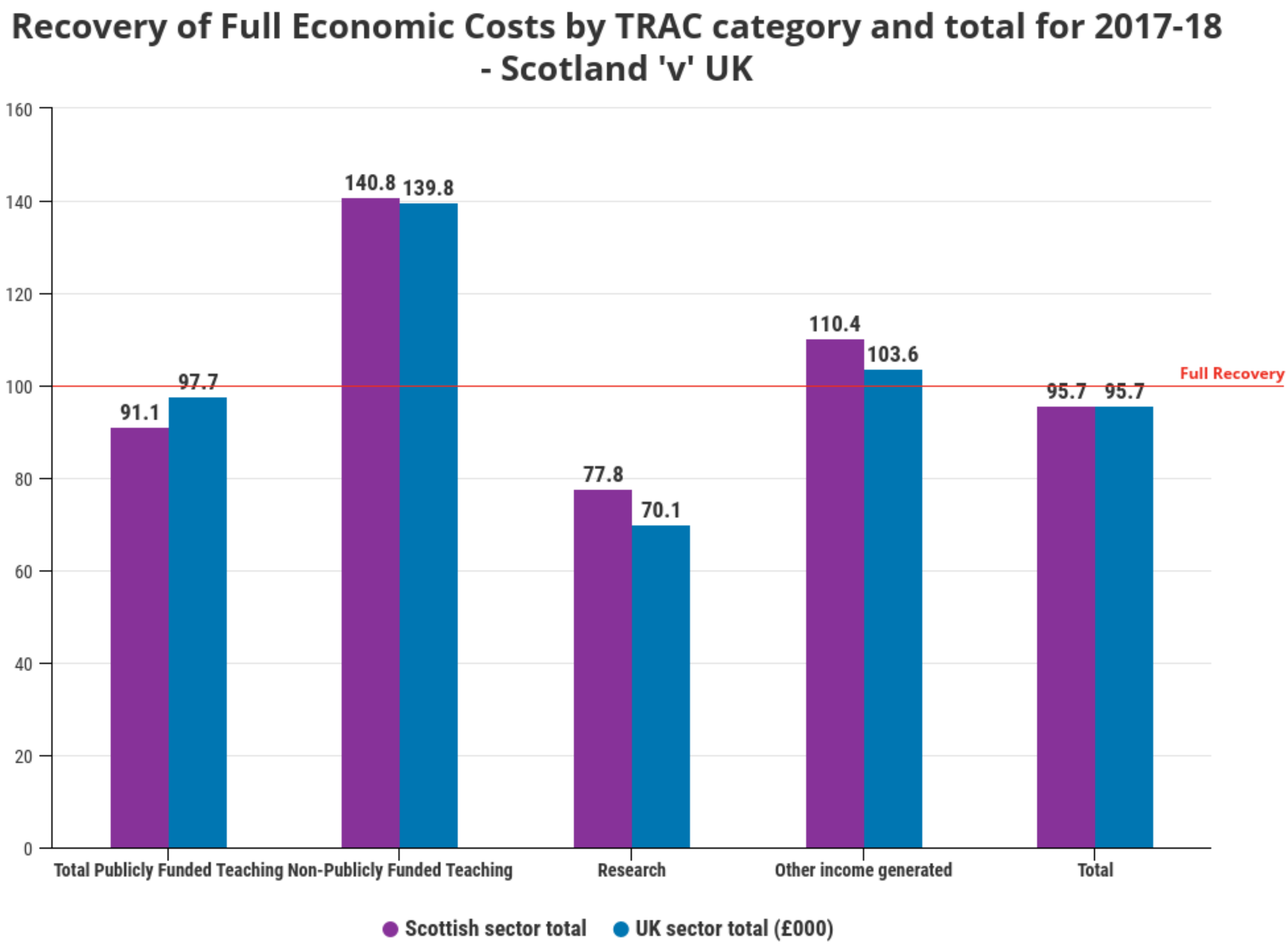
improved by considering income crossflows within an institution, highlighted through the TRAC data, and the impact they have on financial sustainability and the benefits or issues they create.

How is Scotland performing?

3.27. The chart below sets out Scottish universities' recovery of full economic cost surplus/(deficit) by TRAC category, using the 2017-18 figures as this is the latest information available.



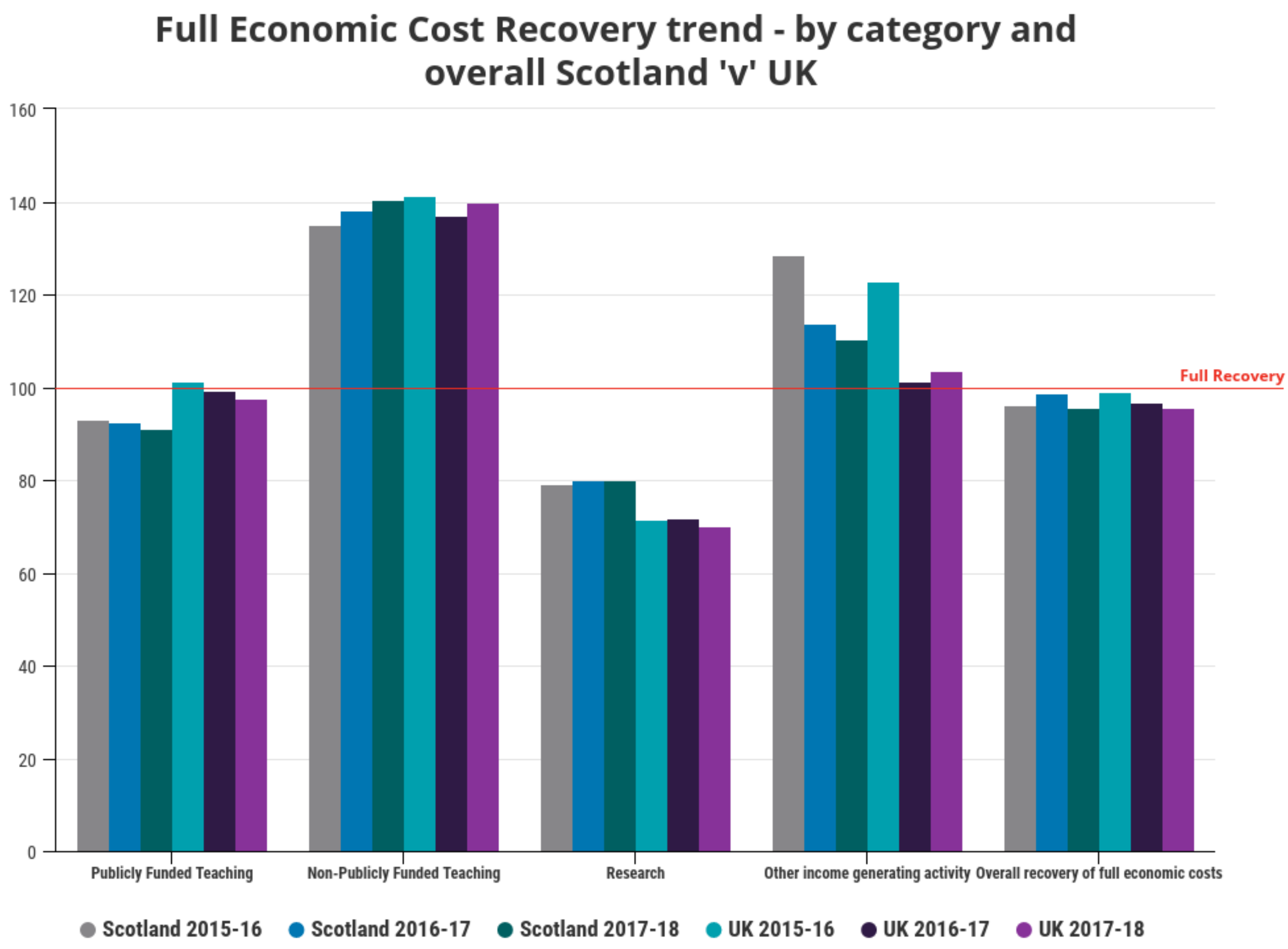
3.28. A comparison of each category against the UK results, in terms of recovery percentage, is presented in the graph below using 2017-18 figures.



3.29. The chart above shows that, in overall terms, Scotland recovers 95.7% of full economic costs, which is in line with the UK total. However, the position varies across institutions.

3.30. Scotland is performing slightly better than the UK as a whole in recovering full economic cost on non-publicly funded teaching, research activities and other income generating activities. However, it still falls short of 100% recovery on publicly funded teaching and research and therefore contributions generated by non-publicly funded teaching and other income generating activities are being used to meet these costs.

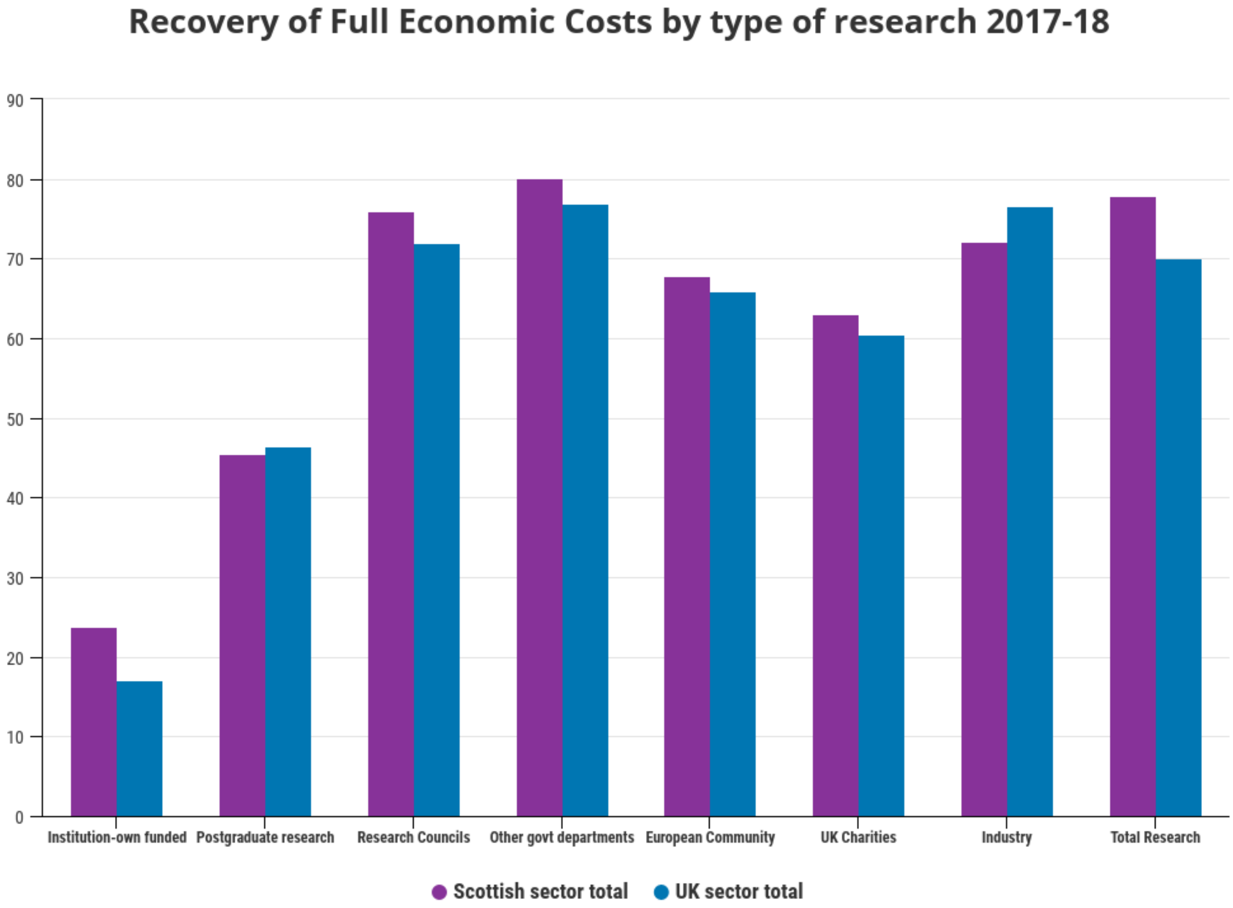
3.31. When looking at TRAC data, it is important to note that 2017-18 is the third year in which TRAC reporting has been prepared under the FE/HE Statement of Recommended Practice (SORP), applying FRS 102. This standard introduced some significant changes in the way financial performance is reported, making comparison difficult between the latest results and historical TRAC data prior to 2015-16 because of changes to the timing when some income is recognised in the accounts. The adoption of FRS 102 has resulted in greater volatility in reported surpluses or deficits and so it is necessary to take a multi-year view when assessing TRAC results. It is important to look at trends over a period rather than one year's results in isolation. Data for 2015-16 therefore formed the baseline for the start of a new time series of TRAC data and the trend data is set out below:



3.32. The trend data illustrates that recovery of full economic costs is most successful through non-publicly funded teaching which is largely reliant on international student recruitment which, as already highlighted in paragraphs 3.16 – 3.18 above, is uncertain and carries demand risks. The data for Scotland shows an increase year on year whereas the UK trend takes a dip in 2016-17.

3.33. Full cost recovery is low in Scotland for publicly funded teaching and there is a downwards trend for recovery. The rest of the UK outperforms Scotland in this category in each year of the trend data.

3.34. The area where there is the lowest recovery of full economic costs is research activity, albeit Scotland performs better than the UK as a whole. The chart below breaks down the recovery on research in Scotland in 2017-18 by research sponsor type:



3.35. The chart shows the levels of full economic cost recovered vary by research sponsor. The chart highlights that not only is there a flow of income from other activities to research but that the extent of the cross flows varies according to which organisation is funding the research. Research Council funding represents the largest sponsor of funding in volume terms and will have the largest impact.

3.36. The reasons for this vary. In some cases, certain funders do not fund overheads, or require an element of matched funding from the institution. The differential rates of full economic cost recovery will lead institutions to become more selective about the research funders they choose to work with in terms of financial recovery. However, institutions will find it challenging to maintain optimal full economic cost recovery on research activity given the limited portfolio of funders, spanning of projects over several years and the need for continual income flows to support the cost base.

3.37. The management of loss-making research by cross-subsidy from surplus-generating activities should be seen as part of an interconnected set of university activities. The international research reputation of universities, and their position in league tables, affects the recruitment of international students. The surplus from those international students assists with the sustainability of the research activity. Research reputation drives other income and strengthens staff recruitment and business relationships and so the TRAC deficit from research must be viewed in the context of the overall university strategy and management.

3.38. Institutions will also use their own funds and income cross flows in other activities to support their overall sustainability which involves generating an appropriate level of surplus. This will differ from institution to institution according to their circumstances.

Key risks

3.39. In preparing the forecasts, institutions identified a number of risks that could adversely affect their financial performance and sustainability. The most significant risk areas for universities relate to:

- The impact of the UK exiting from the EU.
- The rise in staff and pension costs.
- A fall in rest-of-UK recruitment in an increasingly competitive market.
- The review of Post-18 education and funding in England – lower tuition fees in England could have a significant impact on Scottish institutions.
- Any failure to achieve international student recruitment targets.
- UK visa and immigration regulations.
- Further unanticipated public spending cuts in teaching and/or research income.
- The impact of changes to UK research funding in the Higher Education and Research Act 2017.
- Failure to effectively manage major capital investment programmes and their financial impacts.

SFC engagement

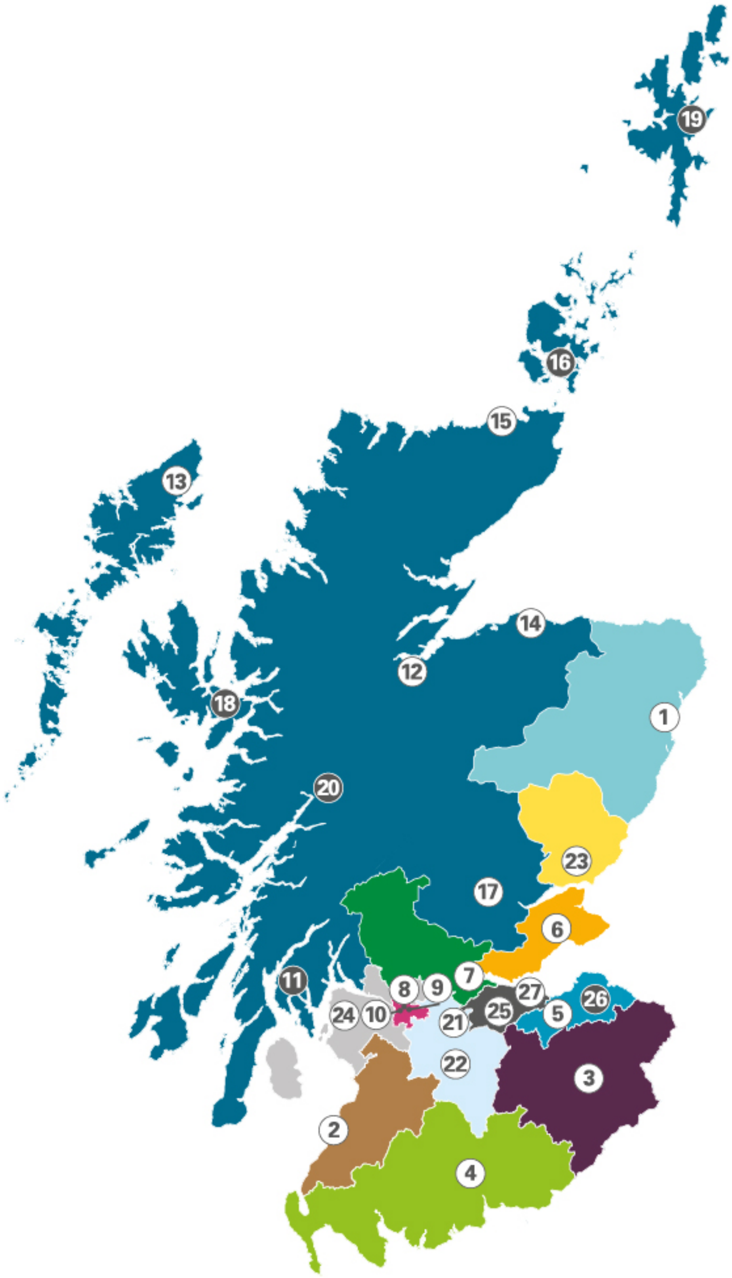
3.40. SFC operates a risk-based and proportionate approach to the way it engages with individual institutions. The level of SFC's engagement with universities has increased for many universities in recent years. In many cases this has related to our need for greater assurance about financial sustainability while securing good outcomes for students.

College Regions

1. The college sector in Scotland comprises 20 incorporated colleges and six non-incorporated colleges, organised into 13 college regions. Ten of these regions consist of one college. The three remaining regions (Glasgow, Highlands & Islands, and Lanarkshire) have more than one college. The individual colleges in Glasgow and the Highlands & Islands are assigned to the relevant Regional Strategic Body: Glasgow Colleges' Regional Board or University of the Highlands & Islands. In Lanarkshire, New College Lanarkshire is the Regional Strategic Body and South Lanarkshire College is assigned to the Lanarkshire Board. Details of all regions and colleges are set out on the next page.

2. Fundable bodies in the college sector can be incorporated or non-incorporated. Before the Further & Higher Education (Scotland) Act 1992, almost all publicly funded colleges in Scotland were run by local authorities. In 1993, most of these colleges were established with boards of management constituted under the 1992 Act. Colleges with a board of management constituted under the 1992 Act are commonly referred to as incorporated colleges. Incorporated colleges were reclassified as arms-length central government bodies in 2014 and are subject to Government budgeting and accounting requirements, including the provision of monthly cash flow returns, and are required to comply with the Scottish Public Finance Manual.

3. The 1992 Act does not govern the non-incorporated colleges which take a number of different legal forms and/or have differing constitutional arrangements. Two non-incorporated colleges (Orkney and Shetland) are still run by their local authorities.



Region		College
Aberdeen and Aberdeenshire	1	North East Scotland College
Ayrshire	2	Ayrshire College
Borders	3	Borders College
Dumfries and Galloway	4	Dumfries & Galloway College
Edinburgh and Lothians	5	Edinburgh College
Fife	6	Fife College
Central	7	Forth Valley College
Glasgow	8	City of Glasgow College
	9	Glasgow Clyde College
	10	Glasgow Kelvin College
Highlands and Islands	**11**	**Argyll College**
	12	Inverness College
	13	Lews Castle College
	14	Moray College
	15	North Highland College
	16	**Orkney College**
	17	Perth College
	18	**Sabhal Mòr Ostaig**
	19	**Shetland College**
	20	**West Highland College**
Lanarkshire	21	New College Lanarkshire
	22	South Lanarkshire College
Tayside	23	Dundee and Angus College
West	24	West College Scotland
West Lothian	25	West Lothian College
n/a	**26**	**Newbattle Abbey College**
n/a	27	SRUC

Note: The map shows the 20 incorporated colleges, the six non-incorporated colleges in Scotland (in bold) and Scotland's Rural College (SRUC) which is classed as a higher education institution but counts towards the achievement of the national target for colleges.

Source: Audit Scotland

College adjusted or underlying operating position

1. The adjustments to the operating position to give the underlying operating position for the colleges have two purposes:

   - Smooth the volatility in reported results arising from the FRS 102 accounting standard.
   - Recognise some of the reported costs do not have an immediate cash impact.

2. The underlying operating position is a better indicator of colleges' operational cash generative capacity.

3. The reported operating surplus/(deficit) figures have been adjusted for:

   - Depreciation net of deferred capital grant (incorporated colleges only).
   - Exceptional non-restructuring costs (impairments and lease dilapidation costs).
   - Non-cash pension adjustments.
   - Donations to arms-length foundations (ALFs) (incorporated colleges only).
   - Non-Government capital grant (e.g. ALF capital grant).
   - Exceptional income.
   - Loan repayments (incorporated colleges only).
   - Non-Profit Distributing Project (NPD) income applied to reduce NPD debt.

University groupings

1. The financial summary table and other sections in this report refer to the following four university groupings:

    Ancient universities (University of Aberdeen, University of Edinburgh, University of Glasgow and University of St Andrews).

    Chartered universities (University of Dundee, Heriot-Watt University, University of Stirling and University of Strathclyde).

    Modern universities (Abertay University, Edinburgh Napier University, Glasgow Caledonian University, University of the Highlands & Islands, Queen Margaret University Edinburgh, Robert Gordon University and University of the West of Scotland).

    Small and specialist institutions (Glasgow School of Art, Royal Conservatoire of Scotland, Scotland's Rural College and Open University in Scotland).

2. The Open University in Scotland is not included in this analysis due to different reporting arrangements in place.

Financial Reporting Standard 102

1. The introduction of new accounting rules in 2015-16 brought about significant changes to the way institutions' finances were measured and recorded and represented the biggest change in college and university accounting for 20 years.

2. The new accounting rules changed the way some income, expenses, assets, and liabilities appear on the financial statements and resulted in significant changes in the way numbers were reported in institutions' financial statements despite the substance of an institution's financial performance or its net worth not changing at all.

3. The change was introduced because the UK accounting standards setting body, the Financial Reporting Council (FRC), had been on a mission to harmonise UK accounting standards with international standards. This was completed in 2015, with the replacement of 40 different standards with a new code based on a single, internationally-consistent reporting framework.

4. The 2015-16 financial results were the first to report under the new accounting standard, known as FRS 102, and interpreted for the sector by the FE/HE Statement of Recommended Practice (SORP).

5. To help readers of the accounts, institutions have made extra effort to explain the most significant changes in their annual financial reports. Some have also explained the impact of the new standard on perceptions of the institution's long-term financial sustainability, as one of the features of FRS 102 has been increased volatility in the numbers from one year to the next.

6. Due to the volatility in the operating position, these figures are no longer meaningful indicators of the institutions' financial sustainability. Our focus has therefore changed to look at something that is meaningful for our purposes e.g. underlying operating position and levels of operating cash. We can also take assurance from the going concern statements and clean audit opinions in the accounts.

The Financial Sustainability of Colleges and Universities in Scotland

Issue date: 11 February 2020

Reference: SFC/CP/02/2020

Summary: This publication provides a summary of the financial forecasts for the university and college sectors. It formed part of our advice to Scottish Government in advance of the draft 2020-21 budget.

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