



Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

**Financial forecast return (FFR) for
further education institutions
2019-20 to 2022-23**

SFC Call for Information

Issue Date: 9 June 2020

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Summary: This Call for Information requests colleges / Regional Strategic Bodies to complete a medium-term financial forecast return for the period 2019-20 to 2022-23.

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

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Financial forecast return (FFR) for further education colleges 2019-20 to 2022-23

Purpose

1. This Call for Information requests a medium-term financial forecast return for the period 2019-20 to 2022-23. It also includes indicative assumptions that will assist institutions in their financial planning.
2. Regional colleges, non-assigned non-incorporated colleges, and Regional Strategic Bodies (RSBs) should send their returns to the Scottish Funding Council (SFC) by 30 June 2020.
3. For all multi-college regions, individual returns will be required from the RSB for each of the assigned colleges by 30 June 2020. For RSBs that are producing consolidated accounts in 2019-20, a consolidated regional spreadsheet return and commentary should also be prepared and sent to SFC. The consolidated return and commentary may be forwarded to SFC at a later date.

Financial forecast return

4. The financial forecast return (FFR) is an established part of SFC's financial health monitoring framework. The FFR, in providing financial projections over a four year period (the current academic year and the following three years), is a key source of information in enabling SFC to monitor and assess the medium-term financial planning and health of institutions.
5. For incorporated colleges, the additional information provided through monthly cash flow returns also feeds into SFC's monitoring and assessment of financial health.
6. SFC's Financial Memorandum with colleges and RSBs requires institutions to plan and manage their activities to remain sustainable and financially viable. **It is therefore critical that institutions take the necessary actions to balance their operating position, reflect these actions in their FFRs, and provide a full description of their financial plans in the FFR commentary.** Colleges must prepare a balanced budget for 2020-21 and/or have a deliverable plan to reach a balanced budget over the forecast period.
7. The FRS 102 accounting standard has brought about significant changes to the way some income, expenditure, assets and liabilities are reported in institutions' financial statements and has resulted in increased complexity and volatility in financial results from one year to the next. In addition, it is expected that most incorporated colleges will report deficits in their published accounts as a result of spend of the cash budget for priorities (CBP). SFC will take into

account the 'adjusted' operating position, including CBP spend, and the cash generative capacity of institutions when monitoring financial sustainability. There is no change to the guidance on how the 'adjusted' operating position is calculated as set out in previous guidance.

8. We have provided 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 budgets beyond Financial Year 2020-21 so these assumptions are indicative.
9. We would encourage institutions to also consider further scenario planning.
10. In general terms, this year's return follows a similar format to last year's FFR and 2018-19 annual accounts return. However, we have added income and expenditure worksheets, which will give us further detail to support the summary figures contained in the Statement of Comprehensive Income and Expenditure.

Commercial income

11. There are specific requirements to provide commentary on commercial income - see Annex B. SFC requires this information from each institution to assist in creating a picture of commercial income received across the sector (what it is, where it comes from, how it is funded and net contribution from such activity) and understand more about the barriers to generating commercial income for some institutions, including the anticipated financial impact of COVID-19.

Arms-length foundations

12. 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.

Return of the FFR

13. Guidance for completion of the return can be found in Annex B below. A blank copy of the spreadsheet is published along with this Call for Information on our website.
14. Institutions are required to complete both the 2018-19 actual figures and the forecast figures for the four following years. 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 particular issues facing your institution, and will support follow-up

engagement. It should also capture your additional scenario planning, working through a range of assumptions and options that help you and us understand the trade-offs involved, and choices you could make, to reach an optimal position for your institution / region.

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

Information requested

16. Please email an electronic copy of the return in Excel format, and the financial commentary, along with a copy of the Committee or Board paper accompanying the FFR, which should include details of any additional planning scenarios that have been considered and approved by the institution's governing body, to SFC by 30 June 2020. If the schedule of governing body meetings makes it difficult to achieve this deadline, please contact us as soon as possible. In that instance, please provide a draft return by that date with the final approved version to be provided as soon as possible thereafter.
17. Electronic copies of the return and supporting documents should be sent to isg-returns@sfc.ac.uk.

Further information

18. 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 letter.



Lorna MacDonald
Director of Finance

Key FFR planning assumptions

1. In order to assist colleges with planning and to ensure consistency across the sector, SFC has worked closely with a group of college Finance Directors to develop guidance on key assumptions that should be used in producing the financial forecasts. It is important to note that we have no information on Scottish Government budgets beyond Financial Year 2020-21 so these assumptions are indicative. Institutions should therefore also develop additional planning scenarios if they believe they are more appropriate for their operating environment / circumstances.
2. Key assumptions:

Credits and teaching income (Core and European Social Fund activity)

Core funding for 2020-21 should be based on the final funding allocations announced on 7 April 2020. Additional funding for ESF activity for 2020-21 will be announced on 9 June. Table 1 provides details of indicative funding allocations for the period to 2022-23 for planning purposes.

As stated in our COVID-19 general Q and A, at this stage it is not possible to know with certainty what the impact of COVID-19 will be on college performance against Outcome Agreement measures (including student activity targets). However, we fully expect that there may be a shortfall against the student number credit target and we will take account of these exceptional circumstances. **We will not recover funds for shortfalls against core outcome agreement targets where these are related to COVID 19 for AY 2019-20 and AY 2020-21.** Institutions should assume that ESF funding is dependent on delivery of core activity targets, and if it is anticipated that core credit targets will not be met funding should be adjusted accordingly. Any potential shortfall in ESF funding should be clearly highlighted in the commentary.

Table 1 assumes that there are no plans to revise activity targets for any region prior to 2022-23 when there will be a 2.7% reduction at sector level in activity – this is based on the assumption that the Developing Scotland’s Workforce (DSW) European Social Fund (ESF) programme will end in 2021-22. In addition SFC has reduced the activity targets further for three colleges as part of our managed approach to sustainability for the college sector. These volume reductions will allow us to increase the credit price and help mitigate losses for the remaining colleges to 2.5% between 2020-21 and 2022-23.

SFC has taken the assumed activity levels (once the ESF project ends) and derived the funding levels for this activity based on the current credit funding model.

Institutions should use the planning assumptions set out in Table 1 to prepare the FFR. In addition, we would encourage institutions to develop additional alternative scenarios and consider how these would impact on forecasts. For instance, due to demographic changes and other factors, it may be appropriate for institutions to consider an increase or reduction in the activity targets reflected in Table 1. SFC will work with the college sector and other key stakeholders on the development of SFC's new funding model.

Clearly, **Regional Strategic Bodies** will need to advise their assigned colleges of their funding assumptions over the forecast period to 2022-23.

Flexible Workforce Development Fund

Colleges should assume that Flexible Workforce Development funding will continue at 2019-20 levels.

Student support funding

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

Regional Strategic Bodies will need to advise their assigned colleges of their funding assumptions over the forecast period to 2022-23.

Capital Maintenance

SFC Capital Maintenance funding should be based on the final 2020-21 funding allocations announced on 7 April 2020. For 2020-21 only, institutions may choose to use some of their lifecycle maintenance budget for other priority needs, for example ICT/digital needs to support students' learning in different ways. The high priority capital grant should remain focused on already identified priority works.

Regional Strategic Bodies will need to advise their assigned colleges of their funding assumptions over the forecast period to 2022-23.

Non-SFC income

Assumptions for non-SFC income projections should be prepared taking account of local circumstances. Institutions will need to take account of the latest available information from staff with responsibility for securing and

delivering non-SFC funded activity while taking account of anticipated levels of demand. Forecasts should reflect anticipated reductions in non-SFC/commercial income resulting from COVID-19 restrictions. Further detail on pre-COVID-19 income projections and the expected financial impact should be included in the commentary.

Institutions should include estimated income from applications to the Coronavirus Job Retention Scheme for the period up to the end of October 2020.

Staff costs

The impact of National Bargaining harmonisation / job evaluation costs for all staff and any workforce planning requirements should be incorporated in the FFR. Detail on this (up to and including 2019-20) has been provided by Colleges Scotland though it should be noted that costs relating to support staff job evaluation are subject to change.

Institutions should also factor in cost of living pay award increases for lecturing staff and for support staff. For support staff, forecasts should provide for increases arising from the current job evaluation exercise, based on Colleges Scotland costings and SFC job evaluation funding set out in Table 6 of the 2020-21 funding announcement. For all staff, institutions should apply the Colleges Scotland Employers' Association pay award assumptions from 2020-21 onwards. Incremental increases should also be reflected throughout the period, where appropriate.

Institutions should not assume increases in social security costs. Pension cost forecasts should reflect any known or expected increases to employer contribution rates.

For the purposes of this financial return, institutions should assume the additional funding (to cover the forecast increase in STSS employer contributions arising from the September 2019 rate increase) will continue throughout the planning period to the end of AY 2022-23. However, you should note that this is a planning assumption and no decision has been made concerning funding beyond 31 July 2021.

Institutions should assume that funding will be provided for voluntary severance costs, up to a maximum of 6 months' pay for individual staff members affected. Within your commentary you should clearly highlight the position if SFC were unable to support this.

FRS 102 pension adjustments should be excluded from the forecasts.

Non-staff costs

Assumptions for non-staff cost projections should be prepared taking account of local circumstances. Institutions should use their current non-staff costs as a baseline and will need to take account of movements in associated income streams. Institutions should demonstrate where they plan to generate efficiencies, where applicable.

Estates

Assumptions for estates-related costs should be prepared taking account of local circumstances.

Disposals

Forecasts should reflect any planned property disposals and include both expected proceeds and costs of disposal. Institutions should assume that proceeds will not be retained by the Institution, unless specifically agreed with Ministers / SFC.

Key risks

The 'key risks' page requests institutions to set out material risks to income and expenditure and, if possible, quantify these risks. These risks should correspond with institutions' risk registers. It is expected that the results of this work will be reflected in the FFR financial commentary and associated papers that will be considered and approved by the institution's Governing Body.

Institutions are requested to provide a copy of the Governing Body papers to SFC along with the FFR, and other scenarios presented to the Governing Body, in order to provide assurance that robust planning arrangements are in place.

Cash forecasting

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

Table 1: Funding allocations for 2020-21 to 2022-23 for planning purposes

College / Region	2020-21 Core credit target	2020-21 ESF credit target	2020-21 Core + ESF credit target	Core + ESF funding 2020-21	Reduction in credit target after ESF ends	Reduction in activity target	Additional change to mitigate losses to 2.5%	Credit target 2022-23 for planning purposes	Price * volume funding 2022-23 for planning purposes	Reduction in funding before mitigation	Mitigation	Price * volume funding 2022-23 for planning purposes after mitigation	Reduction in funding after mitigation	Associated reduction in activity targets
Ayrshire College	124,086	791	124,877	£37,146,306	-3,709	-3.0%	0	121,168	£35,970,639	-3.2%	£247,009	£36,217,648	-2.5%	-3.0%
Borders College	25,176	454	25,630	£9,204,895	-761	-3.0%	0	24,869	£8,404,111	-8.7%	£570,662	£8,974,773	-2.5%	-3.0%
Dumfries & Galloway College	30,176	622	30,798	£10,609,714	-915	-3.0%	0	29,883	£9,858,953	-7.1%	£485,518	£10,344,471	-2.5%	-3.0%
Dundee & Angus College	103,314	4,091	107,405	£30,290,405	-3,190	-3.0%	0	104,215	£29,901,667	-1.3%	£0	£29,901,667	-1.3%	-3.0%
Edinburgh College	186,612	1,257	187,869	£48,299,863	-5,579	-3.0%	0	182,289	£48,053,959	-0.5%	£0	£48,053,959	-0.5%	-3.0%
Fife College	130,234	2,255	132,489	£37,454,244	-3,935	-3.0%	0	128,554	£35,995,475	-3.9%	£522,413	£36,517,888	-2.5%	-3.0%
Forth Valley College	84,201	1,686	85,887	£23,970,846	-2,551	-3.0%	-1,000	82,337	£23,973,850	0.0%	£0	£23,973,850	0.0%	-4.1%
Glasgow Region	368,592	16,383	384,975	£100,175,053	-11,433	-3.0%	0	373,541	£99,788,274	-0.4%	£0	£99,788,274	-0.4%	-3.0%
Highlands & Islands Region	112,382	0	112,382	£49,707,030	0	0.0%	0	112,382	£40,473,066	-18.6%	£7,991,288	£48,464,354	-2.5%	0.0%
Lanarkshire Region	170,545	11,099	181,644	£51,043,924	-5,395	-3.0%	0	176,250	£50,240,118	-1.6%	£0	£50,240,118	-1.6%	-3.0%
Newbattle Abbey College	921	0	921	£917,345	0	0.0%	0	921	£917,345	0.0%	£0	£917,345	0.0%	0.0%
North East Scotland College	129,770	2,235	132,005	£34,243,389	-3,920	-3.0%	-4,259	123,825	£34,244,131	0.0%	£0	£34,244,131	0.0%	-6.2%
Sabhal Mor Ostaig	799	0	799	£1,756,537	0	0.0%	0	799	£1,756,537	0.0%	£0	£1,756,537	0.0%	0.0%
SRUC	22,747	0	22,747	£9,515,409	0	0.0%	0	22,747	£10,289,333	8.1%	£0	£10,289,333	8.1%	0.0%
West College Scotland	152,855	5,838	158,693	£43,911,429	-4,713	-3.0%	-1,755	152,224	£43,912,339	0.0%	£0	£43,912,339	0.0%	-4.1%
West Lothian College	43,646	707	44,353	£12,028,194	-1,317	-3.0%	0	43,035	£11,559,913	-3.9%	£167,576	£11,727,489	-2.5%	-3.0%
	1,686,054	47,418	1,733,472	£500,274,583	-47,418	-2.7%	-7,014	1,679,040	£485,339,711	-3.0%	£9,984,466	£495,324,177	-1.0%	-3.1%

Guidance for completion

Structure of the FFR

1. The FFR takes the form of an excel spreadsheet which has twelve sheets. 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' (all institutions) & 'Cash budget for priorities' (incorporated colleges only).
 - (vii) 'Balance Sheet'.
 - (viii) 'Cashflow'.
 - (ix) 'Capital expenditure'.
 - (x) 'Key risks'.
 - (xi) 'Declaration'.

Completion of the FFR

Input of financial forecast figures and comparatives

3. The sheets in the spreadsheet contain blue highlighted boxes for the input of the actual and forecast figures.
4. Please note that only whole numbers can be input into the return. Please do not link the spreadsheet to another document or change the formatting in the spreadsheet.
5. Please enter explanations for any significant variances where appropriate.

Sheets not requiring completion

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

Commentary

7. Institutions should also provide a commentary on the financial forecasts. This serves four 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 any potential alternative options and trade-offs you could make, to reach a more optimal position for your institution / region.
8. The following areas should be covered by the commentary:

Introduction

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

This section should also summarise the expected financial impacts of the COVID-19 pandemic on your institution's operating position and liquidity, as set out in subsequent sections of the commentary.

Review of financial performance 2019-20

Discuss the key features of the latest forecast financial performance in 2019-20 and highlight positive and negative variances from previous forecasts (e.g. 2019 financial forecast return / 2020 mid-year return).

SFC recurrent grant

You should confirm your assumptions regarding SFC grant income which should be in accordance with the 2020-21 final funding allocations issued on 7 April 2020([SFC/AN/06/2020](#)), and supporting table setting out assumed forecast funding for the period to 2022-23, attached to this communication.

Changes in tuition fee income and other income

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

Commercial income

You should document plans for commercial income generation and any barriers. Please also confirm what this activity is, how it will be funded and confirm the expected net contribution from such activity. Please quantify how income forecasts, particularly for 2020-21, have changed as a result of COVID-19 impacts.

Changes in staff and non-staff costs

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

In particular the following areas should be addressed:

- Assumptions regarding pay awards and their impact on pay expenditure.
- Assumptions regarding utilisation of job evaluation funding.
- Assumptions regarding staff numbers.
- Assumptions regarding future pension contribution costs.

Cash budget for priorities (Incorporated colleges only)

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

College	CBP £000
Ayrshire College	1,324
Borders College	252
City of Glasgow College	1,156
Dumfries & Galloway College	390
Dundee & Angus College	1,055
Edinburgh College	2,547

Fife College	2,152
Forth Valley College	613
Glasgow Clyde College	612
Glasgow Kelvin College	442
Inverness College	496
Lews Castle College	143
Moray College	424
New College Lanarkshire	863
North East Scotland College	1,161
North Highland College	97
Perth College	529
South Lanarkshire College	197
West College Scotland	1,639
West Lothian College	190

Balance sheet – cash position

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

Contingency planning

Institutions should provide details of contingency plans and potential mitigating actions that would be undertaken in the event of adverse movements on income and expenditure. It would be helpful if institutions could set out details of all potential actions, including the pros and cons of each action, in addressing adverse variances.

This section of the commentary should include the scenario under which additional funding is not available for voluntary severance costs.

Risk management

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

- Institutions should describe the corrective actions that would be taken to address identified risks. In addition, please provide details of the additional financial scenarios considered by the Board which explain any potential alternative options and trade-offs you could make to reach a more optimal position for your institution / region.

Any other information

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