

## Finance Committee

### Minute

The forty-first meeting of the Finance Committee of the SFC was held on Tuesday, 31 May 2022 at 10.00am by videoconference.

**Present:** Lorna Jack (Chair)  
Professor Ewart Keep  
Professor John Wallace CBE  
Mhairi Harrington OBE

**Officers:** Andrew Millar  
Gavin Bruce  
Gordon Craig  
Gordon Laidlaw  
Lesley Aitkenhead  
  
Morag Campbell  
Richard Maconachie (Secretary)  
Sybille Rush (Clerk)  
Tiffany Ritchie  
Ursula Lodge

**In attendance:** Owen McKinstry (Scottish Government Finance)

**Apologies:** Kamran Durrani  
Karen Watt  
Peter Hookway  
Dr Stuart Fancey  
Dr Veena O'Halloran

### **22/61 Welcome**

The Chair welcomed members, officers and visitors to the meeting.

### **22/62 Chair's business: papers for discussion and declarations of interest**

The Chair reminded members and those in attendance of their responsibility to indicate if they have, or may be perceived to have, a conflict of interest under any item.

The following declarations of interest were made:

- Professor Ewart Keep – in relation to his role as Associate Fellow at a research centre at the University of Strathclyde, and in his role with the City of Glasgow College Board of Management
- Professor John Wallace – in relation to his role at the University of St Andrews

**22/63 Minutes of the previous meeting: 26 April 2022 (FC22Min04)**

The minute of the meeting on 26 April 2022 was **agreed** as a true record of the meeting, pending a minor change to the list of apologies in relation to Veena O'Halloran.

**22/64 Matters arising (FC/22/35)**

The Committee **noted** the paper and actions taken since the last meeting.

**22/65 Governance and financial sustainability in the college sector (FC/22/36)**

The Committee **received** a paper summarising the Council executive's analysis of colleges' Mid-Year Returns for Academic Year (AY) 2021-22 and providing an update on SFC's assessment of colleges' financial sustainability and governance.

This paper will be published on the Council website in edited format (to remove references to specific institutions or forecast information) as it includes information which, if disclosed, would be likely to prejudice 'substantially' the commercial interests of a person, company or a public authority (Freedom of Information (Scotland) Act 2002, Section 33).

The Committee **noted** the following key points:

- Overall, the financial climate for colleges appears to be becoming more challenging.
- One of the few options for colleges to make savings is to reduce staffing numbers, although this will likely have an impact on the student experience, learning outcomes and remaining staff.

- The sector adjusted operating position shows a deficit of £8.3m for AY2021-22, a worsening from the original Financial Forecast Return (£5.7m deficit).
- The sector held cash balances of £122.9m at the end of July 2021.

In discussion, the Committee:

- **Asked** whether the Committee should have sight of the value removed from the non-cash adjustments in the analysis set out in the paper, especially in relation to pensions.

The Committee **noted** that at this point in the year, most adjustments are in relation to depreciation, with pension adjustments due to be made once the pension valuation has been carried out.

- **Expressed concerns** around colleges' inability to meet their activity targets and considered whether this was a structural change rather than a short-term phenomenon.

The Committee recognised that under-delivery is not present in all colleges which raised the issue whether we are experiencing regional trends rather than sectoral.

- **Discussed** whether SFC should consider changing colleges' activity targets to better reflect actual ability to deliver.
- **Suggested** building incentives into the new college funding model to encourage colleges to seek out other sources of income and therefore make longer-term strategic choices.
- **Asked** for detail on the scale of colleges' under-delivery.
- **Asked** whether there was likely to be any movement on colleges' activity gaps towards year-end. The Committee **noted** that the activity gap varied significantly across the sector and that SFC would have a clearer idea of the final picture once the next return has been received at the end of June.
- **Considered** whether clawback should be paused in the current climate. The Committee **noted** that SFC does consider the impact of COVID-19 as well as the wider context of a college's circumstances in its decisions on applying clawback.

The Committee **concluded** that members were confident with the assurance provided in the paper and the level of engagement reported. Members **noted** the importance of horizon scanning for the future and **remarked** on the possibility of using the research community for some of the desired analysis of available data.

## 22/66 **Governance and financial sustainability in the university sector (FC/22/37)**

The Committee **received** a paper summarising the Council executive's analysis of the university sector's financial results for 2020-21, Financial Forecast Update returns for Academic Year 2021-22, and an update on SFC's assessment of institutions' financial sustainability and governance.

This paper will be published on the Council website in edited format to remove references to specific institutions or forecast information as it includes information which, if disclosed, would be likely to prejudice 'substantially' the commercial interests of a person, company or a public authority (Freedom of Information (Scotland) Act 2002, Section 33).

The Committee **noted** the following key points:

- The latest FFU (Financial Forecast Update) returns for 2021-22 show the sector is reporting an underlying surplus of £292.6m. This is a significant improvement (122%) on the original forecast (£131.6m surplus), largely due to a sharp increase in international fee income. Revenue from residences, catering and conferences is lower than expected because of COVID-19 impacts. While it is clear that the sector has responded well to the COVID-19 challenges, one-off income not yet matched by expenditure such as capital grants (including City Deal funding) make the position look better than it is.
- Sector cash and cash equivalent balances at the end of July 2022 are expected to be significantly higher than the original forecast, moving from £1.750bn to £2.255bn. The increase in cash balances reflects the better actual operating position for 2020-21 and forecast for 2021-22 and ongoing delays in implementing capital programmes and research activity (as a result of COVID-19 restrictions). Sector borrowing remains in line with the 2021 forecast; and

- There is significant variation between universities in terms of their financial positions and performance that is not reflected in the aggregate indicators with forecasts skewed by the projections for the larger institutions. Overall, financial sustainability remains challenging with ten institutions forecasting underlying deficits for the current Academic Year.

In discussion, the Committee:

- **Noted** that there was no immediate risk that any institution may fall into financial difficulties and that some institutions were doing well given the circumstances. However, the Committee also **noted** that there is a risk that some universities will be in severe financial difficulties in a few years' time.
- **Noted** that the success of some larger institutions masks the under-achievement of others.
- **Remarked** on the likelihood of competition on student numbers across the UK to increase and to provide a great challenge to the sector.
- **Noted** the need for universities to consider seriously their mission and possible areas of specialisation for the future to decide where their focus should lie.

{1x paragraph}

- **Noted** that some institutions had some very significant payments on capital borrowing due in the coming years. The Committee **agreed** that it would be helpful to have further details, including in future committee papers, on institutions' ability to make these payments further down the line.
- The Committee **noted** that SFC's Capital and Climate Change team is working on the Financial Transactions Programme for universities and is, as part of this process, actively exploring different funding models to ensure payments can be met.

{6x paragraphs}

**22/67 Draft Grant-in-Aid Letter 2022/23 (FC/22/38)**

The Committee **received** a paper including the draft grant-in-aid letter which sets out SFC's detailed budget for FY 2022-23 analysed in terms of HM Treasury's classification and reporting requirements.

This paper will be published on the Council website, but Appendix 1 is withheld from publication under the Freedom of Information (Scotland) Act 2002, Section 30: Prejudicial to the effective conduct of public affairs.

The Committee **noted** the draft letter as provided in the paper.

**22/68 Resource Return and provisional outturn (FC/22/39)**

The Committee **received** a paper providing an updated position on SFC's summary resource return and provisional outturn.

This paper will be withheld from publication on the Council website under the Freedom of Information (Scotland) Act 2002, Section 30: prejudicial to the effective conduct of public affairs.

{3x paragraphs}

The Committee **noted** the update provided in the paper.

**22/69 Running costs (FC/22/40)**

The Committee **received** a paper presenting the FY 2021-2022 outturn and the draft FY 2022-23 budget for SFC's running costs.

This paper will be withheld from publication on SFC's website under the Freedom of Information (Scotland) Act 2002, Section 30: Prejudicial to the effective conduct of public affairs.

The Committee **noted** the key points from the paper.

{5x paragraphs}

**22/70 Draft SFC Statutory Accounts (prior to ACC consideration) (FC/22/41)**

The Committee **received** a paper presenting a draft of the SFC Statutory Accounts.

This paper will be withheld from publication on SFC’s website under the Freedom of Information (Scotland) Act 2002; Section 27: Information intended for future publication, Section 30: Prejudicial to the effective conduct of public affairs.

The Committee **noted** that SFC was content to receive feedback from committee members via correspondence due to the late submission of this paper. This should be provided by Wednesday, 15 June.

The Committee also **noted** that a follow-up to the draft accounts was going to be available by mid-August. It was **agreed** that SFC should, at that point, note a due date for any feedback for this follow-up.

**Action:** Committee members to provide feedback to the draft SFC Statutory Accounts via correspondence by 15 June.

{1x paragraph}

#### **22/71 Scottish Government update on 2026-27 Spending Review**

The Committee **received** an oral update on the 2026-27 Spending Review.

The following four paragraphs will be withheld from publication on the Council’s website under the Freedom of Information (Scotland) Act 2002, Section 30: prejudicial to the effective conduct of public affairs.

{4x paragraphs}

#### **22/72 REF and REG – next steps on funding allocations**

The Committee **received** an oral update on next steps following the recent REG/REF funding allocations.

The following three paragraphs will be withheld from publication on the Council’s website under the Freedom of Information (Scotland) Act 2002, Section 30: prejudicial to the effective conduct of public affairs.

{3x paragraphs}

**22/73 Finance Risk Register (FC/22/42)**

The Committee **received** a paper providing the latest Risk Register.

This paper will be withheld from publication on the Council website under the Freedom of Information (Scotland) Act 2002, Section 30: prejudicial to the effective conduct of public affairs.

{9x paragraphs}

**22/74 ESF update (FC/22/43)**

The Committee **received** a paper providing an update on ESF programmes in which SFC is participating.

This paper will be withheld from publication on SFC's website under the Freedom of Information (Scotland) Act 2002; Section 30: Prejudicial to the effective conduct of public affairs.

The Committee **noted** the update as set out in the paper.

**22/75 Finance Committee Annual Report (FC/22/44)**

The Committee **received** a paper providing a report of the work of the Finance Committee for the period May 2021 to April 2022.

This paper will be published on the Council website.

The Committee **noted** the following key points:

- In its self-evaluation, the Committee highlighted the need to clarify which governance items are covered by the committee remit.
- There is a need to consider strategic matters and longer-term issues of high importance.

In discussion, the Committee:

- **Agreed** to meet for a strategic session in person before the next scheduled meeting in October.
- **Noted** that members should provide any feedback to the Finance Committee Draft Annual Report via correspondence by 15 June.

**Actions:**

- i) SFC/Committee Chair to schedule additional committee meeting for September 2022.



- ii) Committee members to provide written feedback to the Finance Committee Draft Annual Report by 15 June.

## **22/76 Long-term agenda (FC/22/45)**

The Committee **considered** the long-term agenda and:

- **Noted** that the Finance Directorate senior leadership team was working on a Finance transformation plan to strengthen the control environment and the capability of the Finance & Funding function.
- **Agreed** to dealing with some agenda items of forthcoming meetings via correspondence where necessary to free up time during meetings that are heavy on agenda items. This would need to be clearly recorded for a governance trail.
- **Asked** when the new College funding model would be presented to the Committee. The Committee **noted** that SFC will meet with the sector for a scoping meeting in mid-June and can then update its project plan and the long-term agenda.

**Action:** SFC to update the Committee's long-term agenda with an update on the College funding model.

## **22/77 Date of the next meeting**

The Committee **noted** the date of the next meeting as **4 October 2022**