

FINANCIAL FORECAST RETURN (FFR) FOR COLLEGES: 2021-22 TO 2026-27



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REFERENCE:	SFC/CI/05/2022
SUMMARY:	This Call for Information requests colleges to complete a medium-term financial forecast return for the period 2021-22 to 2026-27.
FAO:	Principals, Finance Directors and Board Secretaries of Scotland's Regional Colleges, non-assigned non-incorporated colleges, and Regional Strategic Bodies; and the general public.
FURTHER INFORMATION:	CONTACT: Andrew Millar / Wilma MacDonald JOB TITLE: Assistant Director / Senior Financial Analyst DIRECTORATE: Finance TEL: 0131 313 6538 / 0131 313 6565 EMAIL: amillar@sfc.ac.uk / wmacdonald@sfc.ac.uk

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FINANCIAL FORECAST RETURN (FFR) FOR COLLEGES 2021-22 TO 2026-27

PURPOSE

1. This Call for Information requests colleges to complete a medium-term financial forecast return for the Academic Years (AY) 2021-22 to 2026-27. It includes indicative funding assumptions that will assist institutions in their financial planning.
2. Regional colleges, non-assigned non-incorporated colleges, and Regional Strategic Bodies (RSBs) should send their returns to the Scottish Funding Council (SFC) by 30 September 2022.
3. For all multi-college regions, individual returns will be required from the RSB for each of the assigned colleges by 30 September 2022.

FINANCIAL FORECAST RETURN

4. The financial forecast return (FFR) is an established part of SFC's financial health monitoring framework. Financial projections are a key source of information in enabling SFC to monitor and assess the medium-term financial planning and health of institutions.
5. SFC's Financial Memorandum with colleges and RSBs requires institutions to plan and manage their activities to remain sustainable and financially viable. It is therefore critical that institutions take the necessary actions to balance their adjusted operating position, reflect these actions in their FFRs, and provide a full description of their financial plans in the FFR commentary.
6. Institutions should aim to achieve a balanced budget each year. Where a deficit is forecast in any year, institutions must work towards bringing income and expenditure back into balance over the forecast period. Institutions should provide us with a narrative which clearly sets out the actions that will be required to address financial sustainability challenges, and any resulting adverse impact on staff and students. Please also provide copies of relevant Board or Finance Committee papers; if these papers include the narrative requested, a separate commentary is not required.
7. We expect institutions will review their business models/strategic plans in light of the tight financial environment. Please provide a brief summary of changes made and/or under consideration. If no review has taken place, please provide the reason for this.
8. SFC will take into account the adjusted operating position and the cash generative capacity of institutions when monitoring financial health. There is no change to the guidance on how the adjusted operating position is calculated.

9. We have provided income and expenditure assumptions that should be used in preparing the financial forecasts (see Annex A). In preparing SFC grant funding assumptions we have taken account of the Scottish Government's Spending Review published on 31 May 2022. **It is important to note that we have no information on Scottish Government funding beyond Financial Year 2022-23 so these assumptions are indicative.**
10. This year's return follows the same format as last year's FFR and 2020-21 annual accounts return. We have updated the sensitivities sheet to include the additional information relating to efficiencies that we requested in the Interim FFR return.

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 the net contribution from such activity)
 - the barriers to generating commercial income, including any anticipated continuing 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. Any donations to ALFs should only be made where budget cover is available from net surpluses arising from commercial activity. Government funds cannot be donated in this way. Please contact SFC if your college is considering an ALF donation.

RETURN OF THE FFR

13. Finance Directors will receive an individual spreadsheet which we have pre-populated with the 2020-21 annual accounts figures. For assigned colleges, we will send the pre-populated return to the RSB.
14. Guidance for completion of the return can be found in Annex B below. A blank copy of the spreadsheet return template is published on our website along with this Call for Information. The template is unlocked so that it can be used in preparing the figures for the return. We would request that institutions complete the prepopulated return provided for submission to SFC.
15. Institutions are required to complete the forecast figures for the period

2021-22 through to 2026-27. Please note that the guidance in Annex B requests a commentary on the financial forecasts which should cover the context in which the forecasts have been prepared. Your commentary will be as important as the figures you submit, as this will help us better understand the particular issues facing your institution and will support follow-up engagement. Scenario planning is a normal part of financial planning. Please include commentary on any additional scenario planning, working through a range of assumptions and options to show the trade-offs involved, and choices you could make to reach an optimal position for your institution.

16. 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

17. Please email an electronic copy of the return in Excel format, and the financial commentary to SFC by 30 September 2022. Please also provide copies of the relevant Committee and/or Board papers. If the schedule of governing body meetings makes it difficult to achieve this deadline, please contact us as soon as possible. In that instance, please provide a draft return including the full commentary by 30 September 2022 with the final approved version to be provided as soon as possible thereafter.
18. Where staff restructuring costs are included in 2022-23, institutions should provide a copy of the related business case (where not already submitted to SFC). Institutions should also outline restructuring plans beyond 2022-23, where applicable, in the financial commentary.
19. Electronic copies of the return and supporting documents should be sent to isg-returns@sfc.ac.uk.

FURTHER INFORMATION

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



Richard Maconachie FCCA

Director of Finance

ANNEX A

KEY FFR PLANNING ASSUMPTIONS

1. SFC is providing planning assumptions that should be used in preparing the FFR, in order to ensure consistency across the sector. In preparing SFC grant funding and pay/inflation assumptions we have taken account of the Scottish Government's Spending Review published on 31 May 2022. Scottish Government will continue to set budgets annually over the Spending Review period so assumptions beyond FY 2022-23 are indicative. Institutions should therefore also develop any additional planning scenarios they consider appropriate for their operating environment/circumstances.

KEY ASSUMPTIONS

CREDITS AND TEACHING INCOME

2. Core funding for 2022-23 should be based on the final college sector funding allocations for AY 2022-23 announced on 26 May 2022 ([SFC/AN/14/2022](#)).
3. As we have confirmed to the sector previously, we will not recover funds for shortfalls against core outcome agreement targets for AY 2021-22 where these are related to COVID-19. Institutions should assume that European Social Funding (ESF) 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. The same applies to funding for activity under the National Transition Training Fund (NTTF) and Young Person's Guarantee (YPG). Any potential shortfall in ESF, NTTF and YPG should be clearly highlighted in the return and your supporting commentary.
4. As in previous years, we are providing institutions with guidance on assumptions in relation to SFC grant funding from 2023-24 to 2026-27 that should be used in preparing the FFR. To be clear, this is not an indication of future funding allocations. These assumptions are being provided to support sector wide planning under a potential scenario. For these purposes institutions should assume that SFC grant funding and related credit targets remain unchanged from those set out in the 2022-23 final funding announcement.
5. Institutions should note, however, that separate funding for Foundation Apprenticeships cannot be confirmed beyond 2022-23. Any potential associated impacts would be smoothed across the sector.
6. **Regional Strategic Bodies** will need to advise their assigned colleges of their funding assumptions over the forecast period to 2026-27.

FLEXIBLE WORKFORCE DEVELOPMENT FUND

7. Colleges should assume that Flexible Workforce Development Funding will continue but with a likelihood of a reduced budget from 2023-24.

YOUNG PERSON'S GUARANTEE

8. Colleges should assume that this funding will not continue beyond 2022-23.

FUNDING FOR COUNSELLORS

9. Colleges should assume that this funding will only continue at 2021-22 levels for FY 2022-23 with clarification of funding for remainder of AY 2022-23 to be confirmed.

ACCESS TO FREE PERIOD PROVISION

10. Colleges should assume that this funding will continue at 2021-22 levels.

FUNDING FOR DEFERRED STUDENTS

11. We will consider mitigating circumstances relating to deferred student credits when considering delivery against credit target. In the meantime, for the purposes of the FFR, it should be assumed that 2021-22 funding for deferred student credits that are not required will be recovered.

STUDENT SUPPORT FUNDING

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

CAPITAL MAINTENANCE

13. SFC Capital Maintenance funding should be based on the final 2022-23 funding allocations announced on 26 May 2022 pending finalisation of the infrastructure strategy. Institutions may choose to use some of their lifecycle maintenance budget for other capital 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.
14. Institutions should assume that funding for digital poverty will not continue at 2022-23 levels.

NON-SFC INCOME

15. Non-SFC income projections should be prepared taking account of local circumstances. Institutions will need to take account of the latest available information from staff with

responsibility for securing and delivering non-SFC funded activity while taking account of anticipated levels of demand.

STAFF COSTS

16. 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 has been provided by Colleges Scotland although it should be noted that costs relating to support staff job evaluation are subject to change.
17. 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 AY 2022-23 final funding announcement. For AY 2022-23, institutions should apply current Scottish Government Public Sector Pay Policy:
 - Setting a guaranteed wage floor of £10.50 per hour, going beyond the current real Living Wage rate of £9.90.
 - Providing a guaranteed cash underpin of £775 for public sector workers who earn £25,000 or less.
 - Providing a basic pay increase of up to £700 for those public sector workers earning between £25,000 to £40,000.
 - Providing a cash uplift of £500 for public sector workers earning above £40,000.
18. From 2023-24 onwards, institutions should assume pay awards of 2% for all staff. Incremental increases should also be reflected throughout the period, where appropriate.
19. Institutions should demonstrate how they would plan to generate efficiencies, where applicable.
20. Institutions should not assume increases in social security costs. Pension cost forecasts should reflect any known or expected increases to employer contribution rates. Where any increases are forecast, institutions should not assume any additional SFC funding support.
21. Institutions should assume that funding will not be provided for severance costs.
22. FRS 102 pension adjustments should be excluded from the forecasts.

NON-STAFF COSTS

23. Non-staff cost projections should be prepared taking account of local circumstances.

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 apply Office for Budget Responsibility forecasts for inflation to non-staff costs: 3.7% for 2022-23, 2.3% for 2023-24 and 2.0% for the following three years, where applicable.

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

ESTATES

25. Estates-related costs projections should be prepared taking account of local circumstances.

DISPOSALS

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

COST SAVINGS/EFFICIENCIES

27. Forecasts should reflect cost savings required to bring income and expenditure into balance. We appreciate that some of these savings will have already been identified, but there may be work ongoing to secure the remainder. In order to capture this across the sector, we have added a table to the FFR template (this is on the new 'Efficiencies and Sensitivities' worksheet).
28. The baseline for measuring staff and non-staff cost savings should be the prior year (e.g. 2020-21 actuals for 2021-22, 2021-22 updated forecast for 2022-23).

CASH FORECASTING

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

ALTERNATIVE SCENARIO

30. We understand that college Directors of Finance have agreed an alternative set of assumptions for use by institutions in their scenario planning. For ease of reference these are set out in the table below:

Assumptions	Year 1	Year 2	Years 3-5
	2022-23	2023-24	2024-2027
NTTF & YPG Income	Nil	Nil	Nil
Reductions in FWDF Income	20%	10%	10%
Pay award increases	5%	5%	3%
Inflation (non-staff costs excl. utilities)	9%	7%	7%
Increase in Gas unit prices	230%	8%	17%
Increase in Electricity unit prices	27%	54%	17%

ANNEX B

GUIDANCE FOR COMPLETION

STRUCTURE OF THE FFR

1. The FFR takes the form of an Excel spreadsheet which has twelve worksheets. A copy of the spreadsheet is published along with this Call for Information.
2. Eleven of the sheets require input by the institution. We suggest the order of completion is:
 - (i) 'Pension assumptions'.
 - (ii) 'Arms-Length Foundation (ALF) funding'.
 - (iii) 'Income'.
 - (iv) 'Expenditure'.
 - (v) 'SoCIE'.
 - (vi) 'Adjusted operating result'.
 - (vii) 'Balance Sheet'.
 - (viii) 'Cashflow'.
 - (ix) 'Capital expenditure'.
 - (x) 'Efficiencies and sensitivities'.
 - (xi) 'Declaration'.

COMPLETION OF THE FFR

INPUT OF FINANCIAL FORECAST FIGURES

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

SHEETS NOT REQUIRING COMPLETION

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

COMMENTARY

7. Institutions should also provide a commentary on the financial forecasts. This serves five purposes:
 - To explain how the financial forecasts represent the institution's strategic plan.
 - To enable a proper understanding of key aspects of the financial forecast.
 - To explain the actions taken by the institution to remain sustainable and financially viable, including financial and non-financial impact of cost saving measures.
 - To explain the impact of any other scenarios considered by the institution.
 - To explain any potential alternative options and trade-offs you could make, to reach a more optimal position for your institution.
8. The following areas should be covered by the commentary

INTRODUCTION

9. 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.
10. We expect institutions will be reviewing their business models/strategic plans in light of COVID-19 and the tight financial environment. Please provide a brief summary of changes made and/or under consideration. If no review has taken place, please provide the reason for this.
11. This section should also summarise the expected financial impacts of COVID-19 on your institution's operating position and liquidity, as set out in subsequent sections of the commentary.

REVIEW OF FINANCIAL PERFORMANCE 2021-22

12. Discuss the key features of the latest forecast financial performance in 2021-22, highlight positive and negative variances from previous forecasts (e.g. 2021 FFR / 2022 interim FFR) and the main reasons for these variances.

SFC RECURRENT GRANT

13. You should confirm that SFC grant income for 2022-23 is in accordance with the AY 2022-23 final college sector funding allocations issued on 26 May 2022 ([SFC/AN/14/2022](#)).

CHANGES IN TUITION FEE INCOME AND OTHER INCOME

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

COMMERCIAL INCOME

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

CHANGES IN STAFF AND NON-STAFF COSTS

16. Discuss the reasons for year-on-year movements in pay and non-pay expenditure and the impact on non-pay expenditure of price changes and changes in the level of activity.
17. In particular the following areas should be addressed:
 - Assumptions regarding pay awards and their impact on pay expenditure.
 - Assumptions regarding utilisation of job evaluation funding.
 - Assumptions regarding staff numbers.
 - Assumptions regarding staff restructuring including voluntary severance or compulsory redundancies.
 - Assumptions regarding future pension contribution costs.
 - Assumptions regarding inflationary pressures.

CASH BUDGET FOR PRIORITIES (INCORPORATED COLLEGES ONLY)

18. 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 following table.

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

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

CONTINGENCY PLANNING

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

RISK MANAGEMENT

21. This should provide details of the key risks identified when preparing the forecast and details of the risk management strategies devised to deal with them. Institutions should describe the corrective actions that would be taken to address identified risks.

ALTERNATIVE SCENARIO PLANNING

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

ANY OTHER INFORMATION

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