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## Finance Committee meeting minutes

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The 42<sup>nd</sup> meeting of the Finance Committee of the Scottish Funding Council was held on 4 October 2022 via video conference.

<b>Present:</b>	Lorna Jack (Chair) Professor Ewart Keep Professor John Wallace Mhairi Harrington OBE Dr Veena O'Halloran
<b>Officers:</b>	Richard Maconachie (Secretary) Andrew Millar Gavin Bruce Gordon Craig Sybille Rush (Clerk) Tiffany Ritchie Ursula Lodge
<b>Observers:</b>	Paula Haynes (SFC)
<b>Scottish Government:</b>	Owen McKinstry Peter Hookway
<b>Apologies:</b>	Lesley Aitkenhead Rufus Logan

**22/78 Welcome**

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

**22/79 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 members declared an interest:

- **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.
- **Dr Veena O'Halloran** – in relation to her role as Special Adviser to the Principal of the University of Strathclyde, and her role in supporting the Committee of Scottish Chairs in its review of the Scottish Code of Higher Education Governance.
- **Mhairi Harrington OBE** – in relation to her position as Chair of the Adult Learning Strategic Forum for Scotland.

**22/80 Minutes of the previous meeting: 31 May 2022 (FC/22/Min05)**

The minute of the meeting on 31 May 2022 was agreed as a true record of the meeting.

**22/81 Matters arising (FC/22/46)**

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

The Committee **agreed** to closing the following items:

- 22/51
- 22/59 (The Committee **agreed** to having half of its meetings in person going forward.)
- 22/66 (i and ii)
- 22/70
- 22/75 (i and ii)
- 22/76

The Committee **agreed** to keeping item 22/73 on the Matters Arising and to considering the Risk Register at the next meeting.

### Strategic finance overview

The Committee **received** an oral report with an overview on strategic finance issues for FY 2022-23 and FY 2023-24. The Committee **noted** the key points.

{8x paragraphs}

22/82

### Governance and financial sustainability in the college sector (FC/22/47)

The Committee **received** a paper reporting on the current financial sustainability of the college sector based on an analysis of the Interim Financial Forecast Returns for the years 2021-22 and 2022-23.

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 forecasts reflect a return to pre-COVID levels of activity though this was disrupted by the outbreak of the new COVID variant mid-way through Academic Year 2021-22.
- The sector is forecasting an underlying operating deficit of £8.2m for Academic Year 2021-22.
- The 2021-22 funding allocation included additional COVID-related 'consequentials' in the form of one-off funds but many colleges do not expect to achieve student activity and other income targets during 2021-22.
- The sector operating position is expected to deteriorate further in 2022-23 to a deficit of £12.5m.
- Colleges remain highly dependent on SFC grant which is projected at 79% of total income for the sector in both years.
- Cash and equivalent reserves are forecast to reduce from £122.9m at the end of July 2021 to £99.7m by the end of July 2022 and then to £64.0m by the end of July 2023.
- Five colleges are forecasting less than twenty days' expenditure held in cash reserves at the end of July 2022.

- Sector borrowing is forecast to decrease from £244.1m at the end of July 2021 to £221.0m at the end of July 2023.

The Committee **noted** that SFC has developed the structure and content of this paper to reflect previous feedback received from the Committee.

The Committee **welcomed** the inclusion of the additional information in the university and college papers.

In discussion, the Committee:

{1x paragraph}

- **Remarkd** on the difference in survival plans in the two sectors whereby the college sector appears to be shrinking, while the university sector is seeking to grow its student numbers.
- **Noted** that many colleges have been financially vulnerable for some time and there does not appear to be a long-term solution. Members **noted** the need to consider, in the medium-term, mitigations for activity targets.

{1x paragraph}

- **Agreed** that there is a need to have a strategic discussion with the SFC Board at the strategy session on 10/11 November.

{1x paragraph}

- **Highlighted** the need to engage with the NSET agenda and increase employer engagement.
- **Noted** that the focus should not only be on full-time students, and there is a need to offer more flexible solutions to reflect changing demands. The Committee also **noted** that this approach has a risk of only benefitting the larger, more successful colleges.
- **Noted** it is essential SFC to communicate with institutions about plans for AY 2023-24 and that SFC advocate to SG the sharing of information with the sector on scenario modelling.

**Action:** Committee members to have strategic discussion with SFC Board around financial risks at strategy session on 10/11 November.

## 22/83 Governance and financial sustainability in the university sector (FC/22/48)

The Committee **received** a paper reporting on the current financial sustainability of the university sector based on an analysis of the Strategic Plan Forecast returns for the years 2021-22 to 2023-24.

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 sector is forecasting an underlying operating surplus of £370.2m for Academic Year 2021-22.
- The level of underlying surplus is expected to decline sharply to £34.6m and £16.5m in 2022-23 and 2023-24 respectively.
- The sector operating position looks better than it is due to receipt (in all years) of one-off income not matched by expenditure in relation to capital grants, in line with the requirements of the FRS 102 accounting standard.
- Tuition fee revenue represents the largest source of income for the sector. Levels of international fee income have increased sharply in recent years and the forecasts confirm that trend is expected to continue.
- Income from residences, catering and conferences was severely impacted by COVID-19 but is expected to recover to pre-pandemic levels over the forecast period.
- There continues to be significant variation between institutions in terms of their financial performance that is not reflected in the aggregate indicators.
- Cash and equivalent reserves are forecast to increase slightly from £2,136m at the end of July 2021 to £2,381m by the end of July 2022.
- Sector borrowing is forecast to decrease from £1,718m at the end of July 2021 to £1,631m at the end of July 2024.

In discussion, the Committee:

- **Noted** the strong contrast between the two sectors where the university sector is able to consider ways to manage the situation. Members **highlighted** the need to ensure we maintain the competitiveness of Scottish universities.

{1x paragraph}

### University of the Highlands and Islands

The Committee **noted** Annex D providing a detailed commentary on developments within UHI.

{5x paragraph}

### 22/84 Available funds reconciled to latest Grant-in-Aid letter (FC/22/49)

The Committee **received** a paper presenting the Financial Year 2022-23 grant-in-aid allocation to SFC as set out in the final Budget Allocation and Monitoring Letter.

This paper will be published on the SFC 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.

The Committee **noted** the information provided and **noted** that there was a possibility of further downward budget revision.

### 22/85 Resource Return (FC/22/50)

The Committee **received** a paper providing a summary of the September resource return to the Scottish Government, based on financial information to 31 August 2022.

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.

The Committee **noted** the key points.

{4x paragraphs}

The Chair **suggested** SFC consider including capital maintenance funding and spend in the Finance Risk Register. SFC confirmed that this is taken forward as part of the review of the capital funding model.

**Action:** SFC to consider including the capital maintenance funding and spend in the Finance Risk Register, which is being taken forward as part of the review of the capital funding model.

### 22/86 Year-to-date spend and projected outturn (FC/22/51)

The Committee **received** a paper presenting the budget monitoring information for FY 2022-23 and the forecast outturn figures as detailed in the Resource Return.

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 provided.

#### 22/87 2023-24 Budget scenario planning (FC/22/52)

The Committee **received** a paper providing an overview of the impacts of potential budget changes for FY 2023-24.

This paper will not be published on the Council website as it includes information which, if disclosed, would be prejudicial to the effective conduct of affairs (Freedom of Information (Scotland) Act 2002, Section 30).

The Committee **noted** the information presented in the paper.

{8x paragraphs}

#### 22/88 ESF update (FC/22/53)

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

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.

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

#### 22/89 Capital Decision Point Committee (CDPC) update (FC/22/54)

The Committee **received** a paper providing an update from the last meeting of the CDPC.

This paper will be published on the Council website in edited form under the Freedom of Information (Scotland) Act 2002, Section 30: Prejudicial to the effective conduct of public affairs.

The Committee **noted** the update provided and **noted** that SFC plans to publish the College Infrastructure Strategy in November.

{1x paragraph}

**22/90 Financial Risk Register (oral)**

The Committee **received** an oral update on developments with SFC's Risk Register.

{3x paragraphs}

**22/91 Update on College Funding Model (FC/22/55)**

The Committee **received** a paper providing an update on the work of the College Funding Model Focus Review Group.

This paper will not be published on the Council website as it includes information which, if disclosed, would be prejudicial to the effective conduct of affairs (Freedom of Information (Scotland) Act 2002, Section 30).

The Committee **noted** the update provided.

{3x paragraphs}

**22/92 Long-term agenda (FC/22/56)**

The Committee **considered** the long-term agenda and **noted** the following additions:

- Strategic finance overview (every meeting)
- Financial deep-dive (December, February, May)

**Action:** SFC to consider which meetings of the Committee will best lend themselves to face-to-face meetings.

**22/93 Date of next meeting**

Members **noted** that the next meeting of the Committee would take place in person on 6 December 2022.