

8 April 2020

Dear Principal/Director of Finance

Mid-Year Return 2019-20

We recognise that the current COVID-19 crisis makes it very difficult for colleges to provide an accurate revised forecast of their 2019-20 financial position. However, it is important that the Scottish Funding Council (SFC) is in a position to make an overall assessment of the college sector's finances so that we can support colleges in the right way and assess how college finances play into the public finances for Scotland.

As you would expect, even during these challenging times, we are still all required to exercise proper accountability and control, and colleges are expected to continue to manage their activities to remain sustainable and financially viable. Incorporated colleges are still bound by existing financial guidance which includes, but is not limited to, the Scottish Public Finance Manual (SPFM), Consolidated Budgeting Guidance (CBG), and the Government Financial Reporting Manual (FReM), and principles, such as value for money and probity, remain critical. HM Treasury rules have not changed, so colleges are expected to keep to their allocated budgets for the financial year.

Just as colleges will individually be looking at various scenarios and risks in accounting to their Boards, we also need to obtain as comprehensive a picture as possible of college finances Scotland-wide.

To assist in this and to secure as consistent and meaningful a review as possible, we have attached a range of high level assumptions that you should use in preparing your Mid-Year Return (MYR).

Financial Commentary

It would be helpful if your commentary could clearly set out the expected financial impacts of COVID-19 on your College's operating position and liquidity in Academic Year (AY) 2019-20. While colleges are rightly looking for assurances on cashflow and revenues, you should also consider as part of this review what expenditure is now unlikely to be incurred as a result of COVID-19 (e.g. staff travel costs, teaching consumables, etc.). We do recognise that COVID-19 will have a significant impact on colleges' planned activities and expenditure, and colleges will need to reprioritise to manage this. Please provide details where reprioritisation of existing resources has been necessary in order that a balanced budget can continue to be delivered and include notes in the commentary that will help us to assess the value and scale of unplanned and/or unneeded/deferred expenditure. Any college projecting an

adjusted operating deficit position should clearly explain the reasons for the deterioration in the 2019-20 outturn. Please also let us know at the earliest opportunity if your college anticipates cash flow difficulties in the remainder of the current AY.

We are aware that some final decisions are still required in certain areas but this exercise will at least enable us to assess the overall financial values involved and may indeed help inform decisions that will need to be taken at a Scotland-wide level.

Revised Return Date

The deadline for submission of the MYR was originally set as 27 March 2020 but in light of the current situation this has been revised to 20 April 2020. We do appreciate that this will be challenging for colleges, but it is vital that we have this information quickly in order to assess the impact of COVID-19 on the sector.

Planning Assumptions

Detailed planning assumptions are set out in **Annex A**.

If you have any questions or comments about any aspect of this guidance, please contact Andrew Millar, Assistant Director, Finance (email: amillar@sfc.ac.uk, telephone: 0131 313 6538 or Wilma MacDonald, Senior Financial Analyst (email: wmacdonald@sfc.ac.uk, telephone 0131 313 6565).

Yours sincerely,



Lorna MacDonald
Director of Finance

Mid-Year Return 2019-20: guidance on assumptions

SFC core teaching grant

SFC will not recover core teaching grant where shortfalls against Outcome Agreement targets for AY 2019-20 have arisen as a result of the COVID-19 pandemic.

Funding for increased pension costs

Colleges should include funding for the increase in Scottish Teachers Superannuation Scheme pension costs for the full AY. Funding for the period April to July 2020, which will be paid to colleges in AY 2019-20, is set out in the published 2020-21 funding allocations communication.

European Structural Funds (ESF) activity

Colleges can continue to draw down ESF funding from their AY 2019-20 budget allocations. The ESF programme is partly funded by European Union funds, via the Scottish Government, based on additional ESF activity delivered by the sector. SFC will hold discussions with the Scottish Government's ESF division concerning the impact of the COVID-19 outbreak but cannot at this stage guarantee that colleges will be able to retain the full funding allocations if there has been a reduction in activity.

Colleges should therefore adjust forecast ESF income for any anticipated shortfall against the activity target. The expected reduction in activity and related grant income should be highlighted in the MYR commentary.

For cashflow planning purposes only, colleges should assume that any potential 2015-16 ESF Youth Employment Initiative recovery will be suspended at this time.

COVID-19 impact on costs

Colleges should include any additional costs they may now incur due to COVID-19 and provide supporting commentary on these costs. Colleges should also provide details of any anticipated cost savings arising from COVID-19 impacts, and capture these savings in expenditure forecasts.

Student support funding

Please refer to the updated [FE Student Support in Colleges - Covid-19 FAQs](#), published on SFC's website.

We are working with colleges and the National Union of Students (NUS) to consider how best to support students, particularly those in hardship. We expect colleges to explore their overall capacity to support students within existing resources.

Colleges should detail within the commentary the amount of any under/over spend now projected on Student Support funds. The amount of any anticipated overspend should be included in forecast expenditure.

Flexible Workforce Development Fund

Flexible Workforce Development funding will continue to be provided where activity has been delivered and related costs incurred.

Skills Development Scotland (SDS) Income

Colleges should detail their assumptions in relation to SDS income within their supporting commentary.

Commercial income

No commercial income should be assumed in the period April to July 2020 unless the College is able to deliver such activity remotely. Where planned commercial activity is no longer going ahead, colleges should include the associated expenditure if these are core costs that will still be incurred. The commentary should quantify the financial impact of COVID-19 on the College's commercial activity.

Payments to suppliers

Please refer to the updated [COVID-19 general Q and A for colleges and universities](#), published on SFC's website concerning payments to contracted suppliers.

UK Government Job Retention Scheme

Limited guidance has been made available to date on the UK Government Job Retention Scheme but it appears possible that colleges may be eligible to apply to the scheme in relation to members of staff who can be shown to be funded through commercial activity. However, it is not possible to guarantee whether such an application would have a successful outcome. The commentary should provide details of any college applications to the Scheme including any updates on the outcomes of such applications. Suppliers themselves have the opportunity to apply to the UK Government Job Retention Scheme should their employees not be required to work at this time.

Scottish Government colleagues are working with HM Treasury, and will issue further guidance for public bodies soon.