Board of Management

June 2022

Forecast for the year 2021/22 and Budget for the Year 2022/23

1. Introduction

As members will be aware, the Scottish Funding Council (SFC) announced the indicative funding allocations for college regions in March 2022. Members will recall that the allocation to the Lanarkshire Region was a reduction of 3.4% in funding and a similar reduction in the regional credit target. This has now been confirmed in the final allocation announcement issued on 26 May.

In addition, whilst members should note that the Lanarkshire Regional Board has not yet agreed the funding and credit split in the Region, there has been a meeting between the management of both colleges at which a draft split was agreed in principle, pending Lanarkshire Regional Board agreement, largely mirroring the arrangements for academic year 2021/22.

Therefore, the College has proceeded to draft the academic/financial year 2022/23 budget based on the funding allocation to the Lanarkshire Region and assuming that the Lanarkshire Regional Board will continue to provide 27.1% of regional funding and credits to South Lanarkshire College.

2. Scottish Funding Council (SFC) Guidance

As in previous years, the College will plan to produce a balanced budget for each of the three years to 2024/25. Whilst the SFC guidance has not been received as yet, it is anticipated that they will call for an interim FFR (Financial Forecasting Return) Budget for submission by 30th June 2022 which will only cover 2022/23.

In addition, members should note that SFC have indicated that there will be a call for a FFR with an extension of the reporting requirements later in the calendar year to cover the three accounting periods to 2024/25. It is anticipated that this submission will have a deadline of 30th September 2002. This will allow the sector to consider its position in the short term, the outcome of the Scottish Government Resource Spending Review and the final outturn for session 2021/22.

SFC also issues its guidance on assumptions, in conjunction with the Finance Directors' Network, re the term of the budget forecasting request for the three years of the final budget forecast. This allows a comparison by college, but individual colleges are at liberty to incorporate the effect of local circumstances where appropriate. Members should note that in multi-college regions it is anticipated that there will be collaboration in this area of financial forecasting. Previously the College has adhered to SFC guidance however it has sought to take account of its own financial planning assumptions, as set out below.

For a number of years, the Lanarkshire College Region has allocated a credit target for both core activity and ESF-supported activity. The latter has been reduced in stages, with the activity involved being transferred to core as a consequence of Brexit.

Therefore, core activity will be the only strand of activity funding from session 2022/23 onwards.

3. PLANNING ASSUMPTIONS

- The College is planning on an assumption of a reduction of grant and aid from the SFC over the next 3 years.
- Expecting inflation to the Bank of England target above 2% for some time, inflation for the 2022-23 will be above 9%, which will have a negative impact on the College's non staff expenditure.
- Assume that staff pay awards will be no higher than staff public sector pay policy.
- That there will be a freeze on recruitment.
- Employer's contribution to National Insurance will continue to rise.
- Assume no increase in employers' pension contributions.
- The College assumes that it will take more than three years to recover alternative sources of income to balance the budget.
- The College assumes it will make value for money savings to offset drop in funding.
- The College assumes that Higher Education recruitment will decline resulting in a loss of fee income.
- The College assumes that there will be no further funds available for capital expenditure over and above the annual formulaic allocation.
- There will be insufficient central funds to meet the costs of the job evaluation for support staff.
- It is expected that the College will deliver the 2022-23 credit target.
- It is expected that the College will deliver the Flexible Workforce Development Fund target.
- The College will plan to deliver its services as efficiently as possible and make savings of approximately £500.k through:

    - Efficient and effective timetabling of lecturing staff within agreed contractual arrangements.
    - Reducing the temporary teaching staff budget by a minimum of £200k.
    - Reduce the marketing budget by £55k
    - Reducing materials to support learning by 10%.
    - Reducing the staff development budget by 25%.
    - No overtime unless an essential business case is made.
    - Not to appoint replacements for vacancies unless essential.
    - Review all external accreditations, with the aim of reducing this by £30k p.a.
- The College assumes it will pay the fees associated with the ongoing investigations.

On the basis of the above the College is planning to reduce expenditure over the period of this plan so that the budget is balanced in line with the resources available to it

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Notes on each line of the Budget projections are as follows:

Income

1. It is assumed that the College will meet its core activity target for the three years of the budgeting period. However, note 3 makes mention of a potential shortfall in credits re a ring-fenced allocation of activity for 2021/22. As regards 2022/23 and the two years beyond, colleges should assume a "flat cash" settlement with efficiencies having to be inbuilt into this which equates to, for 2022/23, an effective decrease in income of approximately 3.4%.
2. Whilst the UK is not, of course, a member of the EU, the College was allocated activity which is tagged as ESF income, as part of the Regional allocation for 2021/22. The College assumes that it will achieve the target set. As noted above, ESF-supported activity will be phased out in 2022/23, with there being a transfer to core activity.
3. The SFC Activity Related income is a one-off payment to assist the College meet the demands of delivering the completion of courses started but not completed in 2020/21. The College assumes that this income will be receivable but the forecast for 2021/22 makes provision for a potential shortfall in this activity. The sector is in discussion with SFC as to whether to provide for clawback. There is, as yet, no similar allocation for 2022/23.
4. The sector has been instructed to assume a level of funding for the three-year period based on the 2021/22 allocation.
5. Backlog maintenance is based on a set programme and funding laid down by SFC. This is minimal in 2022/23 and there has been no notification of funding thereafter.
6. It has been assumed that the job evaluation exercise will be completed and paid in the year to July 2023.
7. Colleges have been advised to assume a similar level of SFC support for two of the smaller tranches of funding.
8. The College has not achieved its allocated capacity re the Flexible Workforce Development Fund as a result of the pandemic therefore the budget forecast assumes a steady growth in this area.
9. The projection reflects the run down in the Employability Fund project; note that the Alternative Funding income assumes an increase in Modern Apprentice income.
10. Income from Fees is assumed to follow general activity levels with a downturn in HN fees due to lower enrolments on higher education courses as noted at the start of term being offset by a steady growth in CITB (Construction) funded activity.
11. The College is setting itself modest but increasing targets for non-core / alternative income, including that generated by commercial activity.
12. Other Income represents the contribution from the nursery facility, which is assumed to be constant over the period of the forecast. It is also assumed that the refectory provision will not have to be subsidised, with greater staff and student numbers on campus contributing to increased income.

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Salaries

13. Recurrent staffing costs reflect a steady level of employee numbers commensurate with activity levels, with notes as follows:
    - Salary awards - for 2021/22, the forecast reflects the offer made to lecturing and support staff for the period from 1st September 2022 and, for 2022/23, an allowance allied to Scottish Government public pay policy guidelines;
    - A decrease of £200k in temporary lecturing costs for AY2022/23 requiring further efficiencies for the year;
    - No further increases in employer contributions in respect of pensions or National Insurance Contributions.
    - A freeze on recruitment with, as has been commenced already, each departure being reviewed as to whether a replacement need be made
14. The Pension Provision covers the increase in the College's liability for staff members given early retirement some 25 years ago.
15. It is assumed that the SFC accrued funds for the implementation of the national job evaluation scheme exercise will be sufficient to meet any additional costs which result.

Non-Salary Expenditure

16. SFC estates funding over the past two years should allow the College to utilise its own funds to address replacement over the period of the projection, but acknowledgement of above-average increases in utility costs have been factored into Property costs. The College has a fund in place to address capital investment requirements and procedures in place to submit applications for funding and to monitor subsequent spend.
17. SFC Capital grants incorporate the formulaic allocation via the SFC grant in aid allocation but reflects the significant decrease in Backlog Maintenance for 2022/23.
18. The SFC – Other expenditure reflects the income allocated.
19. Net Depreciation reflects the considerable increase in the valuation of College buildings, which was undertaken at 31st July 2021 as part of the normal cycle.
20. Central Services costs are based on the baseline of 2020/21, adjusted for specific additions, but reflecting the requirement to decrease costs. All departments will be charged with keeping their spend to the reduced allocations.
21. The reduced marketing budget reflects the move to online advertising resulting in an associated decrease in costs over 2021/22 and 2022/23.
22. The allocation to Academic Supplies reflects the blended delivery model at the current activity level for the duration of the period of review and the investment in central digital resources, plus a factor for inflation. A 10% decrease will be imposed for 2022/23.
23. Cross College costs cover staff development and investment in the College nursery and makes an assumption that there will be a cost to providing a refectory service although this should produce a surplus once the College has its full complement of staff and students back in the building.
24. The College has assumed the relevant costs re the governance issues in 2021/22 and is making a provision for further costs in 2022/23.

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4. Draft Budget and Interim Financial Forecast Return 2022/23

Attached as the appendix is the paper which contains the interim FFR and Draft budget for session 2022/23. Members should note that:

i) The FFR projects a deficit of £572k for the current academic year; and
ii) The draft budget for 2022/23 projects a deficit of £541k.

The draft budget contains a number of savings to reduce the projected deficit and is based on the planning assumptions set out in section 3 above. The College is aware that a number of these assumptions may change as a consequence of external factors and further in year adjustments may be required.

As members will be aware the College is required to take steps to reduce any budget deficit therefore it is intended that a value-for-Money Working Group will be established in order to identify efficiency measures which will return the College to a balanced budget from August 2023. This Working Group will be chaired by the Acting Principal and a report will be consider by the Board at its first scheduled meeting in calendar year 2023.

Recommendations

Members are recommended to:

i) Note the contents of this report;
ii) Note that the Lanarkshire Regional Board has not confirmed the final allocations to both colleges;
iii) Approve the draft budget and interim Financial Forecast Return as set out in this paper;
iv) Require the Acting Principal and Head of Finance to bring forward a Financial Forecast Return report to the first meeting of the Board in session 2022/23; and
v) Require the Acting Principal and Head of Finance to bring forward a Value-for-Money Strategy for the period 2023/25 which will support the financial sustainability of the College to the first scheduled meeting of the Board in calendar year 2023.

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