



Finance and Resources Committee

DATE:	23 rd August 2021
TITLE OF REPORT:	Head of Finance Report – Financial Forecasts
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PURPOSE:	To update the Committee on the College’s management forecast for the 12 months to July 2021.
KEY RECOMMENDATIONS/ DECISIONS:	To review and note the financial forecast for the year to July 2021 and the figures which have been fed into the draft Financial Forecast Return for the year to July 2022 as submitted to SFC.
RISK	<p>The main risks to the financial forecasts are:</p> <ul style="list-style-type: none"> • Fee income is lower than anticipated, however this is offset by lower than anticipated salary costs and a cash injection from SFC. • That there is an increased level of non-payment of fees and a subsequently higher write off figure. • The ring-fenced capital funding is not sufficient to fully support the capital works being undertaken and that the College has had to release funds from its own resources to cover the gap. • There is an ongoing exercise to check the allocation of major works and replacement which may amend the forecast outturn. • The roofing work being undertaken revealed an issue with the sealing membrane resulting in a significant and unplanned additional cost that will be incurred in financial year 2021/22.
RELEVANT STRATEGIC AIM:	<p>Sustainable Behaviours - to ensure the continued financial sustainability of the College.</p> <p>Highest quality education and support – high quality working and learning environment.</p>

SUMMARY OF REPORT:

Due to a combination of positive circumstances towards the end of the financial year, the College can now predict a surplus for the year to 31st July 2021.

The management forecast attached has been incorporated into the draft Financial Forecast Return (FFR) which has been submitted to the SFC.

The financial split of the 2021/22 Regional grant-in-aid allocation is awaiting final agreement with NCL and the anticipated figures have been incorporated into the draft FFR and the management financial forecast for 2021/22.

1. Introduction

The papers to support the Financial Forecast for the year to 31st July 2021 as at 31st July are attached as follows:

- Commentary Appendix 1A
- Management P & L Appendix 1B
- Balance Sheet Appendix 1C

2. Financial Forecast – Appendices 1A and 1B

The forecast as at 4th August, Appendix 1B, shows a predicted surplus of £291k for the year to 31st July 2021, £484k above budget. Appendix 1A has a commentary on the figures.

It should be noted that the College was in receipt of additional discretionary SFC funding at the end of March and this has allowed the previously forecast deficit to be extinguished. Added to this, the salary levels for the last four months of the financial year were markedly down on what was forecast, and the income from Education Contracts (with the local authority and Skills Development Scotland) have not been affected by the COVID restrictions to the degree anticipated.

The number of in-year additional SFC funding allocations, and the method of dealing with these in accounting terms will result in the spend on, in particular, capital projects and purchased assets being reviewed prior to the preparation of the financial statements. This exercise will also result in the expenditure shown in as “SFC Grants” in the financial forecast (Appendix 1B) being reallocated to the relevant expenditure headings or to Fixed Assets.

The result of this exercise may result in the forecast position being amended accordingly.

It should be noted that the College's cash position at 31st July as per the Balance Sheet (ref. Appendix 1C) is inflated for the central funding received to finance the extensive capital works that will be carrying on into the next financial year, and the unutilised student support funds which will be returned to SFC presently.

Note that all Appendices (1) are work in hand and final data will be published in Annual Accounts

3. Year 2021/22 Grant in aid allocation – Appendix 2

Although the process for the dissolution of the Lanarkshire Region is in train, SFC have made an allocation to the Region for financial year 2021/22, rather than to the two constituent colleges. Discussions have taken place between NCL and SLC to agree the split of the Regional allocation (see Appendix 2) and whilst this is not finally agreed, it is unlikely to change to any significant extent and this has allowed a more robust overview budget to be drawn up.

It should be noted that there has been a transfer of credit activity from what was termed “ESF-supported” to “core”, which is to be welcomed as the College did have in the region of 12% of its activity part-funded by EU monies.

The schedule highlights the additional funds allocated to the College over the 2020/21 financial year but it cannot be assumed that this additional funding will be made available in 2021/22.

4. Draft Budget for 2021/22 – See Appendix 1B

The initial draft of the 2021/22 Budget is contained within Appendix 1B, which allows comparison with the projected outturn for 2020/21 and the budget for that year. This formed the basis of the draft (Financial Forecast Return) FFR sent to SFC, but the College has until mid-October to formulate its final draft and, with the final agreement with NCL almost in place, the budget can now be broken down for allocation. It is still the objective to produce a break-even situation for 2021/22 and budgetary discussions with College managers will take place with this in mind.

The main financial challenges and risks for the College will surround national collective bargaining for support staff, which remains a work in progress, and the re-establishment of a solid fee base.

A final draft of the budget will be presented to the Committee in time for it to be considered and presented to the October meeting of the Board of Management. This version will incorporate a more medium-term forecast, as per the guidance from SFC. To this end, the sector's college finance directors have been working with SFC to agree upon a set of key assumptions to incorporate into a longer-term forecast. Financial Forecast Return (FFR)

As mentioned in Section 4 above, the College is required to submit a finalised FFR in mid-October which will cover the periods 2020/21 to 2023/24. SFC have been liaising with the sector heads of finance over the issue of sensitivity analysis and the annual financial assumptions to be used. SFC will also be using this extension period to further discuss future funding and student activity plans with the Scottish Government.

It is intended that, subject to receipt of funding and other assumptions, the full budgeting exercise will be complete in time to run the financial plan through both College management and the Finance Committee by late September and thence to the Board of Management for approval on 5th October. The approved FFR will then go to the SFC in advance of its mid-October deadline.