# SOUTH LANARKSHIRE COLLEGE

**Report to:** BOARD OF MANAGEMENT
**From:** Keith McAllister
Head of Finance

**Date:** Meeting of 24th April 2020

## 1 Introduction / Purpose of Report

The main purpose of this Report is to present the College's management forecast for the 12 months to July 2020 in light of the COVID 19 situation and the most recent submissions to the Scottish Funding Council.

## 2 Papers presented

App 1 ~ Commentary on the updated financial position.
App 2 ~ Updated management financial forecast for the year to 31st July 2020
App 3 ~ Comparison of management forecast as at February and April 2020
App 4 ~ Mid Year Forecast (MYR) which is to be submitted to SFC in April 2020
App 5 ~ Cashflow return submitted to SFC in April 2020

## 3 Management Forecast – 12 months to July 2020

The Management Forecast has been updated to take into account the external, up-to-date information that is available to the College allied to internal estimates re the financial outturn for the year. The updated situation is estimated to be a deficit in the region of £142k, but this is heavily caveated as the situation re many of the income and expenditure lines may change.

**Appendix 1** has a full commentary on each income and expenditure line. It also includes a commentary on the Cashflow position. It should be noted that the College anticipates that it will not have to utilise its overdraft facility in the period to 31st July 2020. It is too early to say whether this will be the case as we move into the new financial year.

**Appendix 2** has a table showing the management forecast for the year compared to budget and the previous year. It also shows the variance to budget. **Appendix 3** is a table for information showing the management forecast for the year as previously reported to the Board in February compared to the forecast now. The main movements are the increase in SFC income re support for pension costs; salaries increased due, partly, to covering for COVID-19 costs; and an allowance across several cost lines for additional costs of the lockdown and remote working situation.

**Members to review and note the Management Forecast for the year to July 2020 and the cashflow position.**

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## 4 Report to the Funding Council – Mid Year Return (MYR)

Colleges are required by SFC to prepare a mid-year financial forecast (MYR). This was originally to be submitted in March, but updated guidance was issued to take account of the potential implications of the COVID-19 situation and this has now to be submitted by the end of April.

The Return reflects the management forecast figures in **Appendix 2**, adjusted to take account of SFC instructions on the treatment of non-cash items. The Return is attached as **Appendix 4** and incorporates notes on variances from budget and, as requested, an indication of lost income and additional costs that may accrue as a result of the pandemic. The College was also asked to comment within the Return on its cashflow situation, and this has been done.

This Return is submitted via New College Lanarkshire, who have been instructed by SFC to consolidate the figures for the two Colleges. The variance analysis for each College is to be submitted separately.

**Members are asked to note the Report, including the notes on variances from budget and cashflow, for submission to SFC as part of a Regional return.**

## 5 Report to the Funding Council – Cash Drawdown for April 2020

The College submits a monthly cash drawdown request to SFC. The April drawdown is attached as **Appendix 5** and maps out the College's anticipated cash balance figure to the end of the year. Whilst the table shows the situation at the end of the month, it should be noted that the "pinch point" for cash is immediately prior to SFC's distribution of monthly grant in aid on or around the 14th of the month. The work undertaken to build up to the drawdown return does not indicate that the College will require to utilise its overdraft facility in the period to 31st July 2020.

**Members are asked to note the Report and the anticipated cash balance, and the estimate that the overdraft facility will not be required.**

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## 6 Indicative Grant in Aid allocation for 2020/21, issued 5 April 2020

Activity levels remain the same as in 2019/20 although we are still to be told the Region's level of EU-supported activity.

1 - The guidance notes that the Region is being given an additional £449k to address the shortfall in STSS pension contributions in 2019/20. We can now incorporate our portion (approx £133k) into our management forecast for this current year which is very significant given issues with the loss of fee and local authority income elsewhere.
2 - SFC say that the increase in Grant in Aid is 5.1% but, if my logic is correct, the increase is actually 4.03%, which is effectively a standstill allocation given inflation and the potential increases in salary awards that may accrue during the year.
3 - Although it is stated that the activity and funding for EU-supported activity SHOULD remain the same, no allocation has been made as yet.
4 – There is a welcome increase in capital funding. This is split into two; firstly, the backlog maintenance funding which should be distributed as per the identified issues identified by the estates report commissioned by SFC some three years ago, and secondly, an allocation based on activity. Re the former, we are relatively hidebound by the report. As regards the latter, this tranche of funding has dropped considerably in previous years, and it's encouraging that SFC have recognised that it has to be increased to keep the sector estate in good order. An increase in 50% in this category is very welcome, albeit this is on a fairly low base compared to (say) 5 years ago.
5 - Student support rises by 3.81% over the 2019/20 after the in-year distribution. This, however, is only for hardship re FE students and childcare for both FE and HE students. We have a serious issue re hardship funding for HE students which has not been addressed despite our many appeals.
6 - SFC hope to maintain the funding for the Flexible Workforce Development Fund programme at 2019/20 levels.
7 - SFC state that they hope that they can fund the support for the provision of sanitary products and the additional counselling at 2019/20 levels but there is no amount mentioned for either in the circular.

**Members are asked to note the information contained in the indicative allocation document and the impact on Regional finances. Members should also note that the split of funding is still the subject of discussion between the two Colleges.**

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## 7 Risk

The College faces an adverse impact in three main areas of risk that directly affect the financial arrangements in place. The first is the obvious increase in risk in terms of short-term financial sustainability. The College has reviewed its income and outgoings on a line-by-line basis and has reported its concerns to SFC via the Mid-Year Return. The College is confident that it will reach its activity target and thus not be liable to any possible clawback of its main source of income. The Funding Council has stated that it is looking to be proactive where colleges report a cashflow issue.

Secondly, the College has been very proactive in setting up online alternatives to face-to-face teaching and learning. It is hoped that this will mitigate the impact on the student learning experience, although the impact on practical subject areas is not known as yet.

Thirdly, the College has been developing its Business Continuity Plan to mitigate the effects of a major breakdown in service. The COVID-19 situation has resulted in these arrangements being activated. In terms of continued financial reporting and processing, these arrangements are proving to be successful. This was reported to the College's external audit providers in an online meeting held on 20th April; the College expects to be able to provide all necessary information for the audit should the lockdown situation persist. The interim audit visit is planned to start on 15th June with the final visit scheduled for the two weeks commencing 28th September.

**Members are asked to note the arrangements in place re risk mitigation as the current situation affects the financial function of the College.**

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## 8 Student Support

SFC have issued guidance on the use of the sector's allocation of student support, with bursary travel payments being stopped along with support for FE and HE childcare. This is causing many students hardship but SFC has directed colleges to utilise the remainder of the allocation of bursary and childcare support to hardship payments for students on courses classed as Further Education. The College student support staff are currently assessing applications from students and the first of the payments was made on Tuesday 14th April. A small additional amount has been made available from SAAS to allow an allocation of hardship funds to be directed to Higher Education students, but this does not fully address the needs being flagged up by students a situation that has persisted for some years as regards HE students.

**Members are asked to note the changes made in the support arrangements to assist the College's student population.**

## 9 Review of Payments to Contractors

The College is reviewing its contracts to assess where contractors should be approached with a view to moderating their charges which will not be delivered during the lockdown. This would tie in with the Government's arrangements for what is essentially loss of business on the suppliers' behalf. Once agreement is reached with the College as to the value of the non-profit element of a service, an application is made to the Government scheme for this and the College would be reimbursed. This will be done in conjunction with APUC (Advanced Procurement for Universities and Colleges) who advise the College on procurement. Whilst the College normally has the dedicated service of a 0.5 FTE APUC secondee who would deal with this on our behalf, our secondee has left APUC's employment and the recruitment process has not been completed. They have now provided the College with alternative support and the process can start in earnest this week.

The College is not heavily exposed in this area as there is little in the way of major services that are fully outsourced and it has to be noted that health and safety inspections etc have to be maintained.

Following discussions prior to the Government's furlough arrangements, the College agreed with the refectory providers that both parties wished the employment and salaries of the staff who provided the face-to-face service to

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**9 Review of Payments to Contractors** (continued)

staff and students not to be affected by the lockdown. To enable this to be funded, it was agreed that both Inspire and the College would forego their profit share element of the contract and utilise this to retain the staff on full pay (i.e. top up the furlough pay which is only 80% of salary). Inspire and the College will review the arrangements in May.

The College has also been in regular continuing dialogue with the nursery provider on campus - Bertram (as recently as Tuesday this week). Most of their business is from the College's students although Bertram also provide services to people who have no link with the College. The organisation pays an annual facility fee to the College over the full 12 months of the year irrespective of numbers of children being cared for, as part of a fixed term agreement where the College provide the space and maintain the premises. This is essentially a rental agreement and is a different arrangement to the refectory service as there is no profit share element to the contract with Bertram.

The nursery is now closed to children but, to date, the nursery provider has been paid by the College to retain the childcare places (April payment takes us through to May). Correspondingly they have paid their rental in full and the expectation is that this will continue. Bertram is paying their staff in full but, we understand, are making use of the furlough arrangements. The College will review in May whether or not to make a further final payment for the year to Bertram, given the SFC recent guidance on childcare funds.

**Members are asked to note the arrangements being instituted to identify appropriate contracts and liaise with outsourced service providers.**