Edinburgh College

For the future you want

FINANCIAL STRATEGY
2018 - 2023

FINANCIAL STRATEGY

1. EXECUTIVE SUMMARY

Edinburgh College has a Strategic Plan for 2017 – 2022. This is the second Strategic Plan since the College came into existence and comes at a pivotal time for the College and the FE sector across Scotland. The Strategic Plan sets out the vision, values and strategic priorities for the College over the next five years ahead. The Principal and Board of Management have a clear vision that by 2022 Edinburgh College will be seen as a vibrant, dynamic and confident College that inspires success in its students and staff, delivers outstanding performance, and is highly regarded by partners, employers and the wider Scottish, UK and global communities.

This Financial Strategy covers the period from 2018 – 2023 in line with the current date and the final year of our financial plans. This has now moved on one year from the 2017 – 2022 Strategic Plan in line with financial forecasts.

The Strategy sets out five key strategic aims:

- Delivering a superb student experience.
- Providing an excellent curriculum.
- Supporting & inspiring our people.
- Valued in partnership & communities.
- An efficient & effective college.

A key element of the Edinburgh College Financial Strategy is to support and advise the College management team in achieving these strategic aims. There will be particular emphasis on increased efficiency, financial performance and sustainability assisted by improved systems and growth in commercial income.

This strategy will be reviewed on an annual basis to ensure the plans are progressing as expected, and again in June 2023.

2. BACKGROUND & CONTEXT?
Where are we now?

Introduction

In April 2016, the College launched a Business Transformation Plan following declining income levels brought about by low student numbers, poor student retention figures, and other challenging income targets unlikely to be met due to economic contraction. The three-year Business Transformation Plan outlined a sustainable business model for the future. This contained four programmes (financial sustainability, curriculum relevance, workforce development, and student recruitment and retention) which provided a framework to enable the College to show operational improvements.

In the first two years of the plan (2016/17 and 2017/18) the College exceeded its financial targets set out in the plan and has set a budget for 2018/19 (the final year) in line with this - it is a £0.5m surplus before repayment of SFC grant. The table in Appendix 1 shows savings made over the period of the transformation plan.

The College has recently approved the budget for 2018/19 which is incorporated into the financial forecasts included in Appendix 2. Some key points are as follows:

2.1 Income

SFC grant income reflects the 2018/19 indicative allocation in delivering 186,612 credits. This includes £0.44m in income in line with a 1% credit uplift. An additional £1.15m has also been funded by the SFC for national pay bargaining. £1.1m of funding for Job Evaluation has been excluded until the timing of this is known.

Tuition Fee and education contract income is lower by £0.4m largely caused by a reduction in employability contract income as well as FE/HE self-payer fees and SAAS – due to universities lowering entry requirements and offering competing courses.

Commercial and international income is showing a net increase of £0.43m, across international, bespoke and scheduled short courses, as well as workforce development activity offset by a fall in SDS income (£0.24m).

2.2 Expenditure

Included within the budget figures are recurring savings of £1.4m compared to the 2017/18 budget, which includes £0.9m (22 staff) in relation to VS Phase 4 (£0.35m of savings were forecast from this scheme in the transformation plan), plus £0.7m non-pay budget savings.

The staffing budget includes national bargaining pay increases in line with the income, associated pay awards to other staff, incremental pay increases, apprenticeship levy costs and pension contribution increases as well as the VS reduction described above. The budget also includes amounts to cover the latest accepted (support staff) and offered (teaching staff) cost of living increases.

Staff budgets and operational budgets are regularly reviewed to identify in-year savings which will reduce financial pressure during the 2018/19 financial year. Progress has been made with HR on establishment management reporting which will assist in controlling staff costs. Maximisation of procurement savings is a significant part of this strategy which is aligned to the Edinburgh Region Procurement team strategy.

2.3 Overall Operating Position

The 'Bottom-line' shows a surplus of £0.5m prior to the first repayment to the SFC of the BTP cash advance grant of £0.5m. This breakeven position after the SFC repayment equates to a positive Underlying Operating position of £1.3m.

There is a requirement to repay £2.9m to the SFC of advanced BTP cash which was needed to meet our liabilities in 2016/17 following the reduction in credits and associated income outlined above. This is shown in our cash-flow as repayable from 2018/19 to 2020/21; £0.5m is forecast to be repaid in 2018/19 with £1.2m in the following two years.

The College has overall significantly improved its financial position since 2016/17, and also shows an improved financial sustainability position.

3. STRATEGIC AIMS AND OBJECTIVES
Where do we want to get to (and how do we get there)?

There is a potential inconsistency between what is seen as strategically desirable and what can be realistically achieved, especially given the limited resources and reduced opportunities through contraction in public finances. Therefore a fundamental objective of the College's financial strategy is to close any gap between the current cost of service and the costs contained within the financial forecasts.

This will be done in such a way that the College's exposure to financial risk remains manageable and, in particular, that the financial strategy is sustainable and robust. There must therefore be an appropriate balance between ambition and risk appetite.

Regular tightening of government funding adds to the pressure already faced by many institutions. These pressures include increases in taxes, pension costs, national pay settlements, and exposure to commercial markets where success is often dependent on the ability to demonstrate a competitive advantage. Ultimately, the immediate funding pressures will only be reduced by aligning priorities to the budget, reducing operational expenditure and increasing alternative income/funding sources.

STRATEGIC OBJECTIVES

The College's strategic financial and sustainability objectives can be achieved by:

I. Increasing commercial activity and other income generating activities to compensate for real reductions in government funding:

- Increase growth in commercial and international contracts.
- Ensure that the SFC and other government funding opportunities are optimised, which will sustain our core service provision. Achieve all activity targets.
- Be at the forefront of market opportunities including community joint ventures, partnerships and cross-College solutions.
- Monitor Contribution of Associate Degree Income.
- Examine income potential from underutilised staff.
- Explore opportunities within existing learning and teaching partnerships/ contracts to widen access, and to extend the inherent value in these contracts - longer term arrangements.
- Commercial projects should be assessed using full economic costing. All activities to contribute towards central overheads.

II. Reducing expenditure and working within budget

- Improving the efficiency and effectiveness of our resource allocation models so as to improve operating cash-flows that are sustainable and sufficient to support planned levels of service, investment, and capital expenditure.
- Mitigating the exposure to significant elements of the cost structure over which we have restricted control, most significantly staff costs through national pay agreements, or which are inherently volatile – e.g. maintain a Priority Based Budgeting approach which aligns service priorities and procurement strategy to funding.
- Undertake regular reviews of spending to identify areas where savings can be made to sustain the financial position.
- Increase value for money from procurement practices.
- Continued emphasis on monitoring staff establishment.

III. Increasing efficiency, increased digitalisation and improved systems

- Improve staff utilisation, and minimise central support costs thereby enabling the College to become leaner and more operationally sustainable.
- Continually review and implement improved finance and financially integrated systems.

IV. Improving the efficiency of the estate

- Strategically plan the replacement of fixed assets. Capital budget to align with the Strategic Plan and incorporate a specified amount each year for equipment/ICT replacement, and invest to save.
- Review the estate to ensure that it is the right size for the financial delivery of College services and hours of operation are financially sustainable (monitor rental income against cost).
- Liaise with the Estates team to review benefits of all investment notably the CEEP project which has seen LED lighting across the campuses, new boilers at Milton Road and CHP at Granton.
- Liaise with the Estates team on climate change and sustainability – quantifying the success of the Carbon Management Plan and other work.
- Liaise with the ICT team on their strategy and the associated costs savings and other benefits.

V. Good Governance and value for money

- Demonstrating high public value in the use of taxpayer’s money, within an overarching good governance structure in all aspects of finance and procurement activity.
- Detailed reporting on the use of student funds.

KEY RISKS

- SFC funds are dependent on targets being achieved. Performance short-falls, outcome based funding, and/or activity transfers will lead to reduced income or clawback. This is a risk area given the challenges in recruiting students associated with changes in political agendas and competing universities, a change in the future funding model, and the possible effects of Brexit

- Other public funding streams are not so readily available and are often offered at less than the full economic cost of delivery. Therefore it could become very difficult to financially optimise these opportunities.

- Recent years have seen a decline in international and commercial income due to a very competitive market and change in government policy. Current forecasts show a reversal of this trend so there is much work required to identify market opportunities and grow these areas for often minimum outlay. Workforce development funds are assisting with this over the following years.

- Regular real funding cuts, reallocation of activity across the sector, and potentially large unfunded cost of living pay increases are a high risk. It is therefore imperative to continually review the cost base to identify future savings/reductions/closures to improve the financial position.

- The capital budget has previously been reduced to low levels given the scale of investment required in the estate and ICT. Future capital expenditure will largely be funded through SFC Capital Funds. There is an ongoing risk that these funds will reduce further over the next few years. The effect of fixed asset revaluations will also impact on the College's targeted financial outcome.

The financial strategy for Edinburgh College is designed to be effective in its support of quality student education, appropriate curriculum growth, and prioritised spend towards its strategic priorities which will achieve a long-term sustainable future.

This financial strategy focuses on the efficiency and effectiveness with which the College uses its available resources. Improvement will arise through regular reviews of existing curriculum provision, effective staff utilisation, estate rationalisation, leaner support services, and where appropriate removing or redeploying existing spending patterns. This will necessitate a strong oversight of operating cash-flows, and a requirement to achieve income targets through the academic cycle.

FINANCIAL FORECASTS

The 2017/18 to 2022/23 forecasts **(Appendix 2)** show a near break-even in 2017/18 (forecast) and break-even thereafter (before £1.2m loan repayments in 2019/20 and 2020/21). To achieve this the cost savings shown at the bottom of the chart need to be achieved. Grant income assumptions are in line with SFC guidance. There is assumed to be no increase in other sources of income (apart from commercial and international – 10% annual increase) or other operating costs. Staff costs assume cost of living increases (in addition to pay harmonisation) in line with support staff agreement and lecturing staff pay offer and then 2% thereafter. The Appendix also shows the important measure of underlying operating result over the period.

Appendix 3 shows a positive cash position over the period.

Income and expenditure metrics are shown in **Appendix 4,** highlighting the increasing proportion of income accounted for by staff costs and the increased proportion of income attributed to commercial and International.

4. PERFORMANCE MANAGEMENT?
Monitoring, Evaluation & Governance

Detailed reporting with updated systems and defined accountability are key to performance management. The progress and success of this strategy will be continually monitored and measured in a number of ways:

Strategic Objective	Performance Measure
Increase Commercial activity and other income generating activities to compensate for real reductions in government funding	Income reporting, forecasts and pipeline Activity measures supporting income
Reduce expenditure and working within budget	Monthly expenditure reporting against budget Procurement reporting
Increase efficiency, digitalisation and improved systems	Regular reporting on KPIs Benchmarking Quantifying /reporting effects of system developments
Improve the efficiency of the estate	Capital allocation process Reporting on benefits of Capital Expenditure Reports on capital utilisation and future capital renewal Working with the Estates team on KPIs that measure the efficiency of the estate
Good governance and value for money	Governance and financial reporting Audit reports

5. GOVERNANCE
Who is responsible?

This Financial Strategy will be implemented and managed by members of the Finance team as follows:

- Head of Finance
- Finance managers x 3

The SMT (Senior Management team) will participate in overseeing the delivery of the strategy. There will also be links to 'Blueprint' project teams responsible for the development and delivery of a longer term vision for the curriculum, and its effect on the estate to meet future requirements of students, staff and stakeholders.

The chief operating officer will oversee and report progress to the Executive team and Policy and Resource committee which in turn will report to the Board of Management.

6. PERFORMANCE REPORTING
When will we review and report progress?

Strategic Objective	Performance Reporting
Increase Commercial activity and other income generating activities to compensate for real reductions in government funding	Monthly financial and activity reporting at management/heads meetings, performance reviews and SMT
Reduce expenditure and working within budget	Monthly financial and activity reporting Regular /annual procurement reporting
Increase efficiency, digitalisation and improved systems	Monthly financial and activity reporting Ad-hoc reports on projects Strategic Plan reporting Benchmarking reports annually in conjunction with other colleges
Improve the efficiency of the estate	Annual Capital Allocation Process Monthly financial and activity reporting Report on capital utilisation and future capital renewal Working with the Estates team on KPIs that measure the efficiency of the estate
Good governance and value for money	In line with governance and financial reporting to committees Regular audit reports

7. CONTACT DETAILS

Who do I contact to get more information or other copies?

Head of Finance

Appendix 1

Savings Through the BTP 2016 - 19

	Staff	Actual	Staff	Target
		£'m		**£'m**
VS Related	135	4.4	134	4.6
Indicative Posts Not Filled	12	0.5		
	147	**4.9**	**134**	**4.6**
Non-Pay Savings		1.8		1.2
		6.7		**5.8**
(Going back a further 2 years to merger - there have been further staff costs reduction of £7.6m = Total £12.4m).				
		£'m		
Staff Costs (per annual accounts)	2015/16	45.9		
Indicative Budget	2018/19	46.7		
Effect of national pay, other pay awards, increases in pensions/NI, apprenticeship levy, structure changes (capacity).				

Appendix 2

FINANCIAL FORECAST 2018/19 TO 2021/22	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Indicative Budget	Indicative Budget	Indicative Budget	Indicative Budget	Indicative Budget	Indicative Budget
	£000's	£000's	£000's	£000's	£000's	£000's
INCOME						
Funding Council Grants	49,227	50,472	50,225	50,225	51,425	51,424
Tuition Fees & Education Contracts	9,099	8,694	8,694	8,694	8,694	8,694
Commercial & International	5,921	7,209	7,481	7,779	8,108	8,469
Other Income	2,130	2,239	2,293	2,293	2,293	2,293
Endowment & Investment	5	5	5	5	5	5
TOTAL INCOME	**66,382**	**68,619**	**68,644**	**68,943**	**70,471**	**70,832**
EXPENDITURE						
Staff Costs	45, 592	48,112	49,691	50,178	50,684	51,211
Other Operating Expenses	15,080	14,948	14,593	14,404	14,228	14,061
Depreciation for the year	5,246	4,955	4,955	4,955	4,955	4,955
Debt Interest and Other Finance Cost	625	605	605	605	605	605
Research Development	10	0	0	0	0	0
TOTAL EXPENDITURE	**66,553**	**68,620**	**69,843**	**70,142**	**70,471**	**70,832**
Surplus/(deficit(before other gains and losses and share of operating surplus/ deficit of joint ventures and associates	**(171)**	**(0)**	**(1,200)**	**(1,200)**	**(0)**	**0**
Add:						
Depreciation net of deferred capital grant release (incorporated colleges only)	2,059	2,024	2,024	2,024	2,024	2,024
Deduct:						
Exceptional Income	0	**(500)**	**(1,200)**	**(1,200)**	0	0
Revenue funding allocated to loan repayments and other capital items	1,541	1,011	774	799	826	855
Underlying Operating Result	**347**	**1,513**	**1,250**	**1,225**	**1,198**	**1,169**
Staff Efficiencies			636	527	515	515
Other Operating Expenditure			318	263	259	257
Total cost savings required			**954**	**790**	**774**	**772**

Appendix 3

CASH FLOW FORECAST 2018/19 TO 2022/23	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's	£000's	£000's
OPENING CASH BALANCE	4,799	3,055	4,140	4,287	4,434	5,781
SURPLUS/(DEFICIT) PER FORECAST	(171)	(0)	(1,200)	(1,200)	0	0
NON-CASH ITEMS						
Add: Depreciation	5,246	4,955	4,955	4,955	4,955	4,955
Less: Deferred Grant Release	(3,187)	(2,931)	(2,931)	(2,931)	(2,931)	(2,931)
Movement in Short-Term Liabilities	(567)	-	-	-	-	-
CASH ITEMS NOT IN I/E						
Bank Loan Repayments	(377)	(377)	(377)	(377)	(377)	(377)
Lennartz Repayments	(775)	(262)	0	0	0	0
Pensioners Payments against Provision	(300)	(300)	(300)	(300)	(300)	(300)
CLOSING CASH BALANCE	**4,669**	**4,140**	**4,287**	**4,434**	**5,781**	**7,128**
Repayment of Student Funds + Advance GIA 16/17	(1,614)	-	-	-	-	-
	3,055	**4,140**	**4,287**	**4,434**	**5,781**	**7,128**
NOTES:						
Assumed student support funds income and expenditure matched, no cash impact						
Full pay-back of £2.9m advance cash between 2018/19 and 2020/21						

Appendix 4

Income & Expenditure metrics- 2017/18 to Forecast 2022/23

Budget Year	% Staff costs to Total Income *	% SFC Grants to Total Income *	% Commercial & International to Total Income *
Budget 2017/18	68.6%	74.1%	8.9%
Budget 2018/19	70.4%	74.1%	9.6%
Forecast 2019/20	**72.0%**	**74.0%**	**9.8%**
Forecast 2020/21	72.4%	73.6%	10.2%
Forecast 2021/22	71.2%	73.5%	11.5%
Forecast 2022/23	71.3%	72.2%	12.6%

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