

Towards a New Horizon



Strategic Plan 2007-10

Appendix (v)

Budget Strategy 2007/08

THE COLLEGE BUDGET AND FINANCIAL SUSTAINABILITY STRATEGY FOR FINANCIAL YEAR 2007/08

1. INTRODUCTION

Members will be aware that the College's Scheme of Delegation requires the Board of Management (normally through its Finance Committee) to approve the annual budget.

This report represents the budget and financial sustainability strategy for the forthcoming session and will form the foundation for the College's budget for 2007/08. It seeks to apprise members of:

- (a) the award of the College's grant-in-aid for financial year 2007/08;
- (b) the ongoing position with respect to the College's European Social Fund (ESF) applications/approvals which relate to calendar years 2007 and 2008; and
- (c) progress with respect to the College's financial sustainability and the ongoing use of specific resource allocations to the College.

2. THE FINANCIAL CONTEXT

Scottish Executive Spending Plans

Following a period of consolidation in terms of student numbers and funding, the Executive's allocation to the Scottish Funding Council (SFC) to cover 2007/08 represents an overall increase in cash terms of 5%. This increase will, however, have to cover the HM Treasury's inflation assumption and pay guidance for 2007/08. It will also have to cover allocations in the context of the final allocations

against *Lifelong Partners* strategy and the embedding of previously-funded 'one off' allocations which serves to inflate the increase.

Additionally, funds have been allocated to the sector to meet the extra costs of employer contributions for staff who are members of the Scottish Teachers' Superannuation Scheme (STSS), based on periodic actuarial variations (previously funded directly by HM Treasury). From 2006/07 these allocations were incrementally embedded in core grant in aid. This too has an effect of inflating the apparent increase.

The overall funding is aimed towards supporting Scottish colleges in terms of:

- teaching support;
- student support;
- social inclusion and widening access;
- college estates and infrastructure;
- information and communications technology (now embedded in core grant);
- achievement and quality improvement; and
- the long term development of the further education sector.

Following a period of substantial expansion in student numbers (with the sector achieving and surpassing its CSR target of 40,000 additional learners in three years, one year early) then a three year hold on further growth, it is intended that the planned growth introduced in 2006/07 continues. This growth was planned to take three forms:

- (a) funded growth for school/college activity;
- (b) growth in general activity with an increase in the unit of resource; and
- (c) geographically targeted strategic growth. (The College has not been included in this form of growth).

From the spending plans the overall funding settlement for the FE sector for financial year 2007/08 comprises:

	£m
Teaching	439.8
Improvement	18.5
Student Support	69.0
Other	0.3

This paper relates in the main to funding for teaching and student support, including an attempt to take account of further allocations which will be announced on an ongoing basis in coming months. The strategy is the core document in the College's position statement on financial sustainability.

The College Context

The College has generally stabilised the budget for the previous three financial years despite a background of volatility in the College sector.

A number of factors (previously reported to the Board in the context of progress updates on the College's financial recovery and security plans and regular budgetary control reports) have seen the College's financial position improve quite significantly in recent years. These factors have included:

- a range of funding and policy changes by the Scottish Executive and the Funding Council which resulted in Langside College receiving appropriate funding allocations for students who could not afford to pay fees (fee waiver grant compensation) and partial funding for refugees and asylum seekers (grant in aid and fee waiver grant). The College awaits details of the allocation of additional funds to support some of this provision for English for Speakers of Other Languages;
- good progress in achieving the main options for action set out in the financial security plan, including:
 - cost controls
 - efficiency savings
 - staff restructuring
 - improvements in income recovery and permeation into new markets; and
 - the introduction of the Sustainable Curriculum Model (including Portfolio Review);
- a subject realignment exercise;
- a Fair Treatment Initiative which promoted a more effective and efficient set of arrangements for the employment of staff.
- successful application for EU retrospective funds which attracted £1.7m and have been issued to support future ESF and other development activities;
- the establishment of a capital investment reserve which is augmented annually;

- the establishment of an economic development reserve which assists the College meet its economic development aspirations, particularly providing match funding for ESF programmes
- effective use and plans for the use of the allocation of Scottish Executive funds aimed to ensure the sector's financial security; and
- focussed intervention during the financial year to ensure that certain significant budget targets were met and that targets which were unmet were compensated by action taken elsewhere.

The 2005/06 annual accounts indicated an operational surplus of £80,000, an historical cost surplus of £210,000 and a positive balance of £1,363,000 in the income and expenditure reserve. The estimated year end position for 2006/07 again shows a small operational surplus.

During the course of 2007/08 the College will continue to implement a strategy for financial sustainability with specific action plans and locally-based operational plans aimed at improved efficiency on the basis of sustainable curricula and ongoing portfolio review including maximising staff utilisation.

The College has also set out future plans for business development, international student recruitment and measured growth in both open and distance learning and workbased SVQs.

Investment in Reform and Financial Security Funds

With respect to the 'Investment in Reform' fund, established in 2002/03, the College was given permission by the Funding Council to utilise the funds specifically as follows (this was part of the 2003/04 financial report):

- (i) £250,000 - to reduce the College indebtedness (fully utilised);
- (ii) £500,000 - to support the College's restructuring, retirement, severance and retraining initiatives (this is still ongoing); and
- (iii) £200,000 - to support initiatives aimed at strengthening the management of the College (fully utilised by 2004/05).

The College is on target to use all of the resources allocated. In 2007/08, using further funds allocated by the Funding Council for financial security, the main focus will be on:

- (a) rationalisation of the severance scheme mainly aimed at middle and strategic managers;

- (b) the review of curriculum areas based on viability analysis and estates requirements, looking to an increase or decrease in the curriculum offering. 2005/06, for example, saw the final student cohort of construction provision in the College. In 2006/07 the College terminated its motor vehicle engineering provision. Using the Sustainable Curriculum analytical Model all courses are subject to termination, relocation or scale reduction; and
- (c) the investigation of further interventionist models to release staff.

Financial Security Funds

In 2004/05 the College also received additional funding from the Funding Council under the heading of 'Financial Security, Disability Legislation and other Priorities'. The College has made and will continue to make significant use of this funding and future 'one off' allocations in order to conduct a number of 'risk reduction' measures which aim to reduce the College's overall reliance on grant-in-aid.

Detailed project plans will be approved, implemented and monitored for each project.

A Review of 2006/07

Financial year 2006/07 was a challenging one for the College and one in which a number of important corners turned in 2005/06 were reinforced. The estimated year end position presently projects an operational surplus of £80,000.

The 'tightness' of the 2006/07 operating environment has been influenced by two compelling factors:

- (i) the decision taken by the College to provide programmes (mainly to asylum seekers and ESF beneficiaries) which led to activity levels beyond the funding agreement with the Funding Council; and
- (ii) a range of external influences outwith the College's control (eg visa issues, changes to employers' NI contributions, minimum wage increase, variations in utilities costs, conditions attached to SFC funding, pension and superannuation issues etc).

These factors have been ameliorated by:

- (i) the decision taken by the College to continue to operate its economic development reserve where required (originally established following the successful bidding round to the West of Scotland Objective 2 European Structural Funds Programme). These funds can allow the College to:

- (a) provide match funding to the College's EU projects;
 - (b) support social inclusion and community development initiatives (for which the College was commended in the 2004 HMIe Review); and
 - (c) fund a range of economic development initiatives (which reinforces the Objective 2 Plan);
- (ii) salary stability - 2006/07 was year one of a two year salary agreement; and
- (iii) the adoption of a 'fair treatment' collective agreement, including a development programme for part time staff, which enhances budget setting in relation to staff costs and reinforces the Board's commitment to a 'social partner' model of industrial relations in the College.

All these elements will pertain in 2007/08 including a further two year salary agreement.

European Funds

The strategy which was adopted by the Board in 2005/06 continues to pertain.

The College has taken a keen interest in the debate over the future of European Structural Funds in Scotland as the 2000-06 Programme comes to an end (with funding being 'prolonged' until 2008) and the New Single Programme for Lowlands and Uplands Scotland gathering pace.

A 'shadow round' of applications has taken place and the College has secured resources which will allow it to deliver programmes until 2008 (in partnership with the newly established South East Glasgow Regeneration Agency). The main change to the administration of the Programme is the introduction of 'variable intervention rates'.

The two main thrusts of the strategy are:

- (i) all College-led ESF courses will be operated as discrete projects (in previous rounds 'infill' into ESF courses had been encouraged - this is now seen as exceptional on the grounds of course viability); and
- (ii) sharing the 'burden of application' with partners. The College also provides matching co-finance in the form of staffing to support joint ESF projects with:
 - Glasgow Local Development Companies (CEDA, The (Gorbals) Initiative, Greater Pollok Development Company, Govan Initiative);

- 'Third Sector' and voluntary organisations (Taleem Trust, Prospects etc); and
- 'regional' or 'national' bodies (such as WOSCOP and SFEU).

The College will further develop our specific partnership for ESF in the South East of Glasgow to meet the challenges set out in the 2007-13 Single Programme for Lowlands and Uplands Scotland, in the context of Glasgow's Community planning structures.

The following projects will operate in session 2007/8 and are a combination of extensions to existing projects under prolongation funds and a new project under the interim shadow funds. Both will generate significant income for the College to part fund College and student beneficiary costs.

Project	Ref No	Total cost 07 - 08	College match	Maximum ESF Grant
Activate Govanhill	2.1/N/SY/6/104607	£62,090	£34,150	£27,941
Langside ASDAN Programme	2.1/N/SY/6/105073	£16,934	£9,314	£7,620
Langside Achievement Programme	2.1/N/SY/6104892	£26,656	£14,661	£11,995
Ways to Work	LU/ESF/S1/2007/0034	£416,595	£229,127	£187,468
Totals		<u>£522,275</u>	<u>£287,251</u>	<u>£235,024</u>

The income to the College from both prolongation and shadow round funds is projected to be significantly less than previous ESF income. This reduction will be partly offset by substantial increase in non standard activity (NSA) due to the transfer of former ESF funded projects to NSA.

Other External Funds

The College continues to seek additional funding for a range of programmes that require substantial additional resource input but which are central to the College Mission. These include Funds from Glasgow Community Learning Strategy Partnership (GCLSP) for 3 Adult Literacy and Numeracy projects listed below.

SOUTHWEST COMMUNITY LEARNING DEVELOPMENT PARTNERSHIP

Glasgow City Council Funding

Staffing	£27,640
Non Staffing	£467
Totals	£28,107

Other Funds

Awards for All (Staff)	£9,890
H Fraser	£2,220
Totals	£12,110
Project Total	£40,217

CASTLEMILK LEARNING TOGETHER

Glasgow City Council Funding

Staffing	£51,621
Non Staffing	£1,500
Totals	£53,121
Project Total	£53,121

LANGSIDE ALN PARTNERSHIP

Glasgow City Council Funding

Staffing	£30,761
Non Staffing	£0
Project Total	£30,761

ALL ALN FUNDS

£124,099

3. THE FUNDING METHODOLOGY

Background

For funding purposes the Funding Council continues to measure taught student activity in terms of weighted student units of measurement (WSUMs). It describes its funding methodology as follows:

"For a course leading to a recognised vocational qualification or a college certificate, one WSUM is equivalent to roughly 40 hours of learning. A one-year, full time further education course broadly equates to 20 WSUMs or 800 learning hours. A one-year higher education course broadly equates to 15 WSUMs or 600 learning hours. Activity is weighted to reflect the differing costs of courses."

Following consultation with the sector, the Funding Council has, from 2005/06, amended the definition of courses which qualify for the full-time fixed tariffs. The aim of this action is to ensure the accurate reflection of WSUMs to planned delivery and contribute to the creation of parity in the measurement of full-time and part-time activity for funding purposes.

The College successfully reorganised much of its provision in accordance with the Budget Strategy statement for 2004/05 to accommodate this new approach and ensure that activity levels were maintained in 2005/06 and thereafter. Academic staff have cooperated fully in this process which has included a subject realignment, a 'root and twig' review (enhancement) of the Highers programme and a rationalisation of ESOL provision.

Whilst the College continues to deliver more weighted SUMs than the Funding Agreement secures the gap between the Agreement level and the actual is narrowing as the Executive and SFC rectifies the 'underfunding' of activity such as school/college activity and ESOL. Furthermore, the College is presently introducing a strategy of reducing its WSUMs activity through widened and managed course disengagement.

The Funding Agreement

The College continues to favour the procedure to base recurrent grant allocations upon a forward-looking funding agreement under which colleges will be expected to deliver an agreed volume of student activity (measured in WSUMs) in the forthcoming academic year based on a standard 'price' (for 2007/08 this is a 'cost' to the Funding Council of £195.76 - an increase of 3%).

The reduction in the tariff in 2005/06 resulted in the Funding Council reducing all college's funded activity targets by an equivalent amount. In this respect the actual activity delivered by colleges remained broadly the same but it was measured differently and as such adjustments may be regarded as technical. In 2006/07 and 2007/08 targets have been increased.

Notwithstanding this the leeway for colleges that fall below their activity targets has been re-based at 2%.

The methodology also comprises an assumed notional fee income (which is deducted) and an initial fee waiver grant (which is added and may be augmented).

The College, for the sixth year, can expect full fee waiver grant compensation and welcomes this aspect of the methodology as a key stabilising feature in funding for the College.

Furthermore, the College welcomes the decision with respect to the inclusion of fees for school students with fee waiver grant.

Key Elements of Funding (see Table 1 of the attached press release for sector allocations)

The allocations are now directly linked to aims expressed in the funding Council's Corporate Plan for the next three years as follows:

	2006-07 (£'000)	2007-08 (£'000)	% Change from 2006-07
Aim 1 access to learning and Aim 2 relevance of learning			
Teaching			
Net core activity grant	354,994	372,519	4.9%
Fee waiver	48,940	51,404	5.0%
NEET ⁴		3,000	NA
Skills and employer engagement		2,000	NA
Knowledge Transfer		2,000	NA
Scottish Teachers' superannuation scheme	7,003	4,669	-33.3%
Strategic growth	4,110	4,221	2.7%
Total	415,047	439,812	6.0%
Aim 2 relevance of learning, Aim 3 high-quality learning, Aim 6 international and Aim 7 world-class institutions			
Improvement			
Quality enhancement	8,848	9,215	4.1%
Access and participation	3,060	3,088	0.9%
Skills and employability	0	2,500	NA
Strategic development grant (see note 8)	5,000	1,181	-76.4%
Mergers and collaboration (see note 8)	0	1,000	NA
Procurement activities	500	500	0.0%
International	0	300	NA
College governance leadership and management development	250	550	120.0%
FE development directorate	180	180	0.0%
Total	17,838	18,514	3.8%
Aim 1 access to learning			
Student support			
Bursary	54,596	56,070	2.7%
Further education hardship fund (FEHF) and childcare fund (CCF) ⁹	12,629	12,970	2.7%
Total	67,225	69,040	2.7%
Other grants			
Chief Executive's discretionary fund	250	250	0.0%
Audit Scotland fee	29	30	2.7%
Total	279	280	0.3%

Key issues continuing from last year

- a slight growth in general funded activity;
- a shift back to centrally-held resources from activity-based funding. £7m is still to be allocated (for NEET work, knowledge transfer and employer engagement and skills);
- a 3% increase in the standard price per WSUM; and
- an increase in fee waiver grant which is now shown separately in the published allocations. The Council formally commits to full fee waiver grant compensation (subject to affordability).

Supplementary Elements

- entry costs - £11m (increase by 10%)
- social inclusion premiums (retention and achievement) - £14m (increased by 11%)
- remoteness factors - £6.7m (increased by 24% - 17% in 2006/07)
- achievement factor - £4.1m (increased by 5%)

Termination of HE Consolidation and Control Totals

Colleges are no longer allocated specified levels of full-time HE provision (based on full-time numbers and notional fees).

4. THE COLLEGE ALLOCATION

On the basis of the Funding Methodology set out above, the SFC has offered the following resource allocation at this time to Langside College for the academic year 2007/08:

[a] <i>Main Funding</i>	:	£11,261,000 (2006/07 : £10,935,000)
<i>(elements and bases)</i>		(2005/06 : £10,161,000)

This settlement is based on a requirement to deliver at least 52,420 weighted SUMs worth of student activity. It now includes full fee waiver grant. The SFC incremental embedding of grant for STSS continues.

Without including subsequent allocations for addressing the issues of young people not in education employment or training, skills and employer engagement and knowledge transfer (for which the College expects an allocation of (£140,000) and the additional funding for ESOL (for which the College expects £150,000) the overall effect is a 2% increase to the College.

The main elements of the College's recurrent grant-in-aid, compared to previous years, are as follows:

	2005/6 £'000	2006/7 £'000	2007/8 £'000
Net Core grant	7,122	7,769	7,995
Fee Waiver grant	1,548	1,763	1,833
Actual Initial Grant	8,670	9,532	9,828
<i>Supplementary Elements</i>			
Social Inclusion	558	567	517
Widening Access/Entry Cost	274	271	275
Achievement	81	100	92
Additional Supplementary Funding			
NEET	0	0	60 (Est)
Skills and Employer Engagement	0	0	40 (Est)
Knowledge Transfer	0	0	40 (Est)
ESOL	0	0	150 (Est)

The initial grant-in-aid, therefore, sees the College receive the following additions/deductions:

net core grant	-	up by 3.1%
fee waiver initial grant	-	up by 4% (nb in 2005/06 the Council allocated only 90% of the estimated FWG)
entry costs	-	up by 1.5%
social inclusion premium	-	down by 8.8%
achievement premium	-	down by 8%

The College continues to be disappointed that the Funding Council's decision to apply the new Scottish Index of Multiple Deprivation (using the 20% most disadvantaged data zones) has had the effect of reducing in relative **and** real terms the level of social inclusion resourcing to the Glasgow Colleges. An early estimate suggests that the Glasgow Colleges 'lost' over £600,000 in the last three funding rounds as a result of this decision. This funding impact is compounded by the resultant additional funding given to rural colleges in all three rounds.

Likewise, despite the fact that the College recruits over 1300 students from Lanarkshire the Funding Council's targeted growth funding has been allocated to other colleges based in Lanarkshire.

[b] *Student Support Funding*

	2005/6	2006/07	2007/08
<i>Bursaries</i>	£1,004,708	£1,095,075	£1,068,410
<i>Other student Funds</i>	£558,192	£543,895	£460,378

This settlement, when an adjustment is made to allow comparison with previous years, represents a significant decrease in cash terms over the previous year. (The figures include hardship and other funds for asylum seekers). The Funding Council is, however, committed to a 'self correcting' approach to the management of student funds and it is likely that an attempt will be made following the successful bid in 2006/07 to reconfigure allocations in-year to meet demand. The College bid for £70,000 extra in the call for additional funding.

The figures for other student funds reflect a downturn in the number of asylum seeker students and a shift towards full time learning across the board which resulted in a reduction in headcount.

Members, will no doubt recall that bursary administration requires to be funded from recurrent grant and that the allocation is now ring fenced for bursary grant and maintenance only.

Additionally, the Funding Council has now taken on responsibility for the 'roll out' nationally of Educational Maintenance Allowances. The College estimates that 180 students are likely to require EMA support. At present EMA funds are 'demand led' and will be allocated to colleges in accordance with estimates (but adjusted in line with actual demand).

[c] *Capital Formula Funding*

	2005/06	2006/07	2007/08
<i>Capital & Estates</i>	£571,429	£571,429	£571,429

This settlement represents 2.3% of the total allocation available to the sector (after strategic and inherited commitments have been met) of £25m. The allocation comprises a base allocation (£100,000) plus an activity-based allocation (£471,429).

Members will no doubt be aware that the Council has continued to prioritise Glasgow in the 2004-07 funding period to receive the 'lion's share' of capital grant. As part of this the College has approval, in principle, from the Council of £32.9m funding for our New Build on the Langside Campus.

The College will continue to operate a challenge bidding model for the allocation of a proportion (c£220,000) of this grant and will seek to commit the remaining proportion (c£350,000) to support the estate strategy.

[d] *Beattie Report formula funding*

2005/06	2006/07	2007/08
£37,257	£38,439	£37,261

This allocation is 'ear marked' to assist the sector to promote inclusiveness and initiatives for students with learning difficulties.

[e] *Grant for increased employer contributions to the Scottish Teachers' Superannuation Scheme (STSS)*

2005/06	2006/07	2007/08
231,931	£173,948	£115,996

This allocation aims to meet the increased employer contributions (7.15% - 12.5%) for staff who are members of STSS.

It is the Council's intention to incorporate this funding fully into main recurrent grant by 2008/09, in this round 75% of the funding is in the main funding allocation. This has the effect of reducing the apparent value of the allocation.

[f] *'One off' allocation for non recurring purposes*

2005/06	2006/07	2007/08
£204,878	incorporated in main funding allocation	

This element was shown, and reported on, separately in the 2005/06 round.

5. PLANNING ASSUMPTIONS

Financial Sustainability and Market Share

In 2006/07 the College aims to achieve a cost per WSUM which is significantly better than the average for the sector. In 2004/05 the College achieved this target (College, £179 - Sector £194). Likewise, in 2005/06 the College unit

cost* at £194 is likely to be significantly lower than the sector average as the WSUM targets/values were re-based as a result of the revised funding methodology. For 2007/08 the overall College target is £205 per WSUM. An efficiency of at least 315 WSUMs, on average, per full time equivalent lecturer has been set. As outlined above, this will require further efficiencies and tight controls on staffing levels, achieved in part in the next phase of the College's severance scheme, the College's ongoing budget review process and the close interrogation of the curriculum offering.

The key target for financial sustainability continues to be the maintenance of a positive balance of income over expenditure by the end of the period in the context of the Board's financial security plan for the period which will produce a 2006/07 operational surplus of £80,000. In 2007/08 every endeavour will continue to be made to generate an appropriate surplus to support the College's estate strategy.

The College will introduce or achieve:

- provision of student activity of 54,000 WSUMs (although the College seeks the Funding Council approval to deliver 55,000 WSUMs) - this represents a targeted shift from 2% (in 1999/2000) to approximately 2.4% in terms of the College's share of total sector activity (the College is funded for 52,420 WSUMs). This will allow the College to reduce the impact of 'scaling' on future grant allocations as well as providing match funded activity for ESF beneficiaries and additional programmes for asylum seekers;
- improvement in efficiency levels in terms of staff utilisation (a target of at least 315 WSUMs per FTE lecturer will be set and monitored in 2007/08);
- a review of strategic management structures;
- a new severance scheme which aims to reduce staffing levels - in the context of the College's Sustainable Curriculum Model (including portfolio review) and a VFM strategy;
- full fee waiver grant compensation (included in grant-in-aid) of £1.9m in 2007/08. This will be augmented further as the Funding Council and the Scottish Executive agreed to 'automatic' fee waiver grant for school students in line with the recently published school/college review document (**Lifelong Partners**);
- business surpluses and increased income from short courses, provision to international students as well as income from the College's new learning initiatives;

- increased income as a result of the removal of the cap on recruitment of higher education students.
- Funding Council approval at 'Gateway 4' (cost certainty) for the planned new build in January 2008;
- improved efficiency levels as a result of further implementation of the viability and value for money drive and full staff utilisation; and
- a raised level of ESF support to learners in programmes in which the 'burden of application' for *some* programmes is shifted from the College to key partners and in many cases includes contributions from employers.

The key challenges to the College in 2007/08 are to achieve an operational surplus and a positive balance in the College's income and expenditure reserve account by ensuring that the budget which is set serves to stabilise the College's financial position. The budget strategy aims for an operational surplus of **£50,000**, an historical cost surplus of **£180,000** and a balance of **£1,853,000** in the income and expenditure reserve account for the period to July 2008.

* all unit cost data will be subject to rebasing at sector level from 2006/07

The projected surplus for 2007/08 is based on the assumption that the College will achieve its targets of an operational surplus of £80,000 in 2006/07 and a balance in the income and expenditure reserve of **£1,673,000**.

The reduction of the target operational surplus for 2007/08 is an indication of both the unforgivingness of the funding round and how difficult it is to properly forecast budgets in a further education context which is made increasingly volatile by subsequent allocations after budgets have been set it further confirms the need for continuous monitoring and reporting an accurate, updated information base to support informed decision making.

A more extensive range of financial and efficiency targets are set out in the 2006-09 Strategic Plan (*see Appendix 1*). These will continue to pertain.

Specific Planning Assumptions

The College's budget formulation for financial year 2007/08 has been based upon the undernoted additional assumptions:

- the likely rate of inflation as expressed by the SFC in their grant letter is 2.7%;
- the staffing budget will rise by 2.8%, plus incremental increases of 1% (in line with the two year pay settlement unless either reductions in provision are necessary or new business opportunities emerge);
- supplies and materials budget lines, within the overall supplies and services budget, will be reviewed and realigned with subject and curricular alignment;
- the recognition that some accelerated depreciation (£90,000 over the next four years) will need to be reflected in the College accounts as a consequence of the New Build project;
- the impact of the Chancellor's Budget statement with respect to National Insurance contributions in 2007/08 will be significant;
- the assessment which will be required of the possible impact of VAT obligations or benefits during the period of estate strategy implementation will have no impact on the 2007/08 revenue budget;
- an anticipation that Insurance Premiums will increase, despite the College sector's best value exercise, due to other factors outwith the sector's control;
- the requirement to maintain a very close watching brief with respect to the College's FRS17 obligation as the Board approved an early retirement element within the security plan and Investment in Reform proposals. The College will continue to fully disclose its FRS17 obligation;
- an awareness of the increase in pension contributions which was a consequence of the actuarial review requested by the College external auditors and increased participation by part-time staff;
- a continued increase in superannuation costs (met by funding from SFC);

- that the *College* will continue to provide programmes for school students beyond the specific funding allocated under the auspices of *Lifelong Partners*;
- an anticipation that the *College* will attract ESF support of £235,024;
- that the *College* proposal to increase student activity (by 2000 WSUMs) which continues to be in line with SFC and Scottish Executive guidance and the requirements of the proposed funding agreement will **not** be approved;
- recognition that audit and other costs are likely to increase as a consequence of the requirements of the ESF Verification and Audit Section, the Estates Strategy and other audit activities;
- an anticipation that a phase 2 'Energising initiative' will produce real cost savings in operational terms;
- awareness of the impact and compliance costs of recent employment legislation eg SENDA, Health & Safety, Fairness at Work and Family Friendly Policies (the *College* has fully implemented three specific policies as part of the 2002/03 Partnership at Work agreement);
- an assessment of reactive and planned maintenance costs will be required as a consequence of the review of the priorities in the *College's* revised Estate Strategy and the need to move the *College* estate to a life cycle maintenance model of estates and space management;
- recognition of the need to comply with Disability Discrimination Act (all buildings will continue to be accessible to the physically disabled);
- an acceptance that there may be implementation costs associated with SQA and new qualifications beyond the funds allocated;
- an expectation of support from SFC's Strategic Development Fund for at least **two** collaborative projects;
- an expectation of specific support from SFC's Strategic Development Fund for *Glasgow-wide* developments in the context of the *City Strategy*;
- recognition that Quality Assurance will be more expensive in real and opportunity cost terms;
- an expectation that the Strathclyde European Partnership 'management fee' could rise above inflation;

- an expectation that fees for membership of the West of Scotland Colleges' European Partnership will rise by 2%;
- an expectation that the College will continue to derive financial benefit as a result of the dissolution of the Glasgow College Group;
- recognition that there are likely to be costs associated with the extension of the provisions of the Data Protection legislation (as a consequence of compliance with the 1998 Act);
- an expectation that the College will receive an allocation of **£30,000** to support its HN modernisation plans;
- an expectation that the College will not require to request instalments of grant-in-aid ahead of schedule (during and between financial years) in recognition of its particular position in relation to cash flow;
- recognition that there are likely to be recurrent costs associated with the College's operation of the Govanhill Campus, and
- an expectation that the new regulations as part of the Police Act (1997) may cost the College up to £30K in costs relating to criminal record checks for students on work placements.

The College recognises that it is unlikely that all of these assumptions will be fulfilled and that the accuracy of its financial projections will be subject to a number of externally influenced factors (including SFC decisions). In planning its budget for financial year 2007/08, the College will continue to conduct a risk management/sensitivity analysis which considers the effect of identified factors on the validity of its financial planning process. A contingency planning exercise has also to be conducted in accordance with the Board's Strategic Management Action Plan - this will augment strategic management commitment to an interrogation of every budget line. This exercise will take place in August to October 2007 in accordance with the attached Financial Planning, implementation and review cycle (*Appendix 2*).

The College's approach to salary awards to staff has been conducted within Treasury Guidelines to the Public Sector and within the fiscal limits achievable in the proposed budget. The salary awards for 2006/07 and 2007/08 have been agreed (2.8% in each year). This will enhance the predictability of the budget management process. The College academic trade union (EIS/FELA) has confirmed its acceptance that it will consider two year pay awards for 2008/09 and 2009/10.

7. THE COLLEGE BUDGET - FINANCIAL YEAR 2007/08

The Approach

The College has found it necessary to amend its approach to budget formation as a result of both the implementation of the new academic structure and the action plans set out in the financial security plan.

The budget formation process involves all members of the SMT, academic and support staff managers. The SMT will monitor income and expenditure regularly and quarterly reports will be presented to the Board's Finance Committee.

The planning process has sought to link explicitly planned provision and growth imperatives with cost management and efficiency measures.

In addition, targets for activity, staffing costs, fees and income will be confirmed with appropriate budget holders and academic managers. Use of the sustainable curriculum management model, through facilitation, will allow informed 'real time' decisions to be made on staff levels and resource allocation.

Opening Position

The College believes that it will commence the financial year 2007/08 with a positive balance in the income and expenditure reserve account of £1,573,000.

Expenditure and Income (excluding bursaries and other student funds)

The financial sustainability plan approved by the Board (when more recent information is taken into account) shows the following:

- the College forecasts that in financial year 2007/08 it will spend approximately **£14,312,850**. This is currently being re-examined in the light of the revised estimated year end position for 2006/07 and other factors; and
- the College forecasts that in financial year 2007/08 it will recoup income of, at least, **£14,517,210**. This will include elements of supplementary support from the Funding Council and support from the Scottish Executive for ESOL programmes announced in April 2007. Again this is currently being re-examined in the light of the revised estimated year end position for 2006/07.

However, every endeavour will be made to increase the operational surplus with the intention of supporting key college development initiatives including the new build and the Estates Strategy.

Student Funding

The College welcomes the consolidation of funding schemes made available by the Scottish Executive for funding students and widening access. It expects to spend 100% of all allocations for 2007/08 amounting to, approximately, £1.5m in total. (As well as approximately £190,000 for young students who may qualify for Educational Maintenance Allowances).

Capital and Estates

The College submitted its full business case for a Langside Campus new build to the Funding Council in April 2006. The total costs approved for the project are now **£34.9m**. The Capital Investment Committee approved the project in principle and this approval has been homologated by the full Funding Council.

A wide range of other (smaller) projects were implemented under the challenge bidding model operated in the College as a result of SFC's formulaic capital allocations in previous sessions.

The formulaic aspects of the 2007/08 SFC capital allocation will continue to be utilised on a bidding basis within the College aimed at improving the College estate. The bidding round is already well underway.

The overall estate strategy is to create a new building on the Langside Campus as well as maintaining a strong presence in the local community.

Limited borrowing has been approved by the Board to contribute to the funding of the estates strategy.

The key immediate estates plans, outwith the Full Business Case, include:

- review of needs in Castlemilk;
- further consideration of alternative accommodation needs for the delivery of provision in Greater Pollok;
- review of requirements for maintaining a learning centre in Toryglen;
- consolidation of our new learning campus in Govanhill opened in August 2006;

- joint development discussions with Cardonald and Reid Kerr Colleges with a view to exploring the Barrhead learning facility ('College Centre') to be operated on behalf of East Renfrewshire Council; and
- joint development work with the Glasgow Central Mosque.

Revenue funds continue to be allocated to ensure that a planned maintenance cycle is operated by the College with a view to meeting full lifecycle costs for all of the College estate.

Cash Flow

The College anticipates that it will not face cash flow difficulties in the new financial year mainly as a result of both sound and prudent management of funds by the College (and SFC flexibility in the ongoing allocation of funds).

Financial Management

The College plans to make further improvements in its financial management and in its reporting schedules during 2007/08 particularly as a result of the introduction of a new payroll/HR system. The re-establishment of separate Finance and Property Committees was the first stage and continues to assist in this process.

Furthermore, a new planning register, including financial planning, implementation and review was introduced in the present session and will fully impact in 2007/08.

The College, taking account of all appropriate advice and requests from Board committees, Audit Scotland, the SFC Governance and Management Appraisal Section, our external auditors (KPMG) and our internal auditors (presently BDO Stoy Hayward but the College is likely to conduct a tender exercise for the internal audit function) will look to improve, further, its management information to Board members and budget holders.

Likewise, a comprehensive risk assessment/sensitivity analysis and a twice yearly contingency planning exercise will be carried out in the new financial year to underpin the College's financial sustainability strategy.

8. VALUE FOR MONEY (VFM)

The College will continue to seek best value for public expenditure in accordance with advice from Audit Scotland and our auditors. Furthermore, it will implement appropriate action plans on the basis of guidance and advice from SFC's GMAP team and the SFC implementation plans in relation to the sector governance and the Scottish Executive's Review of Scotland's Colleges.

Additionally, the 2004 HMIe Review Report (which was not subject to a follow up), preparation for the 2008 HMIe Review and other monitoring and audit exercises will be taken into account.

The College will, therefore, during 2007/08:

- ensure that all audit report recommendations are addressed by Assistant Principals in association with the appropriate sub committee of the Board in the context of revised operating plans;
- continue to explore the best sustainable value achievable from collaborative approaches to service provision and agreements within Scotland's colleges and the SPUC including 'on line' purchasing;
- continue to contract with VAT Services Ltd to explore on an ongoing basis the opportunity for the College to achieve VAT savings;
- continue to contract with Expense Reduction Analysis (ERA), as appropriate, to explore best value in relation to various budget headings;
- fully implement, through facilitation, 'best value' decision making with respect to course provision through application of the Sustainable Curriculum Model;
- placing a requirement on our support staff sections to set out a sustainable VFM statement as part of their development plans following a specific VFM study on the effectiveness of operational planning in support staff sections;
- maintain a revised deposit and ethical investment policy and associated procedures;
- continue to rationalise the use and usefulness of College owned and leased property (including consideration of reversion from sales);

- seek to review the costs and benefits of outsourcing specific College functions. The Funding Council has agreed to support the College in the 2006/07 'benchmarking club' exercise in collaboration with Cumbernauld, John Wheatley and North Glasgow Colleges. The club will continue to operate in 2007/08;
- review on an ongoing basis management and leadership functions. The Funding Council provided support for the College in the 2006/07 round to allow the College to establish an SMT quality improvement fund of £26k;
- continue to identify means by which all staff can contribute to general efficiency;
- review the out-of-hours opening of College buildings;
- work with service providers, suppliers and vendors to secure best prices available;
- seek to ensure that the College's revenue earning courses, including national schemes such as SVQs, are financially viable;
- seek to rationalise and reduce payments to external bodies (in 2005/06 - 2006/07 this included a 'root and branch' review of membership and the dissolution of the Glasgow Colleges Group);
- streamline and improve additional support measures for ESF beneficiaries, Highers students and students who need additional learning support by means of lunchtime, weekend and 'twilight' core skills workshops; and
- enter into a series of collaborative bids for funding with sister colleges and community planning partners (particularly in Glasgow) with a view to generating efficiencies.

9. CONCLUSION

A draft of the College's revenue budget for 2007/08 sits within the Financial Sustainability Strategy and this is contained in the Financial Forecast Return dispatched to the Funding Council. This is currently being revised for submission in June 2007.

10. RECOMMENDATIONS

The Finance Committee is asked to:

- (i) note and endorse the budget and financial sustainability strategy for 2007/08;
- (ii) note and endorse initial forecasts set out in the attached draft budget and financial sustainability strategy for 2007/08;
- (iii) note and endorse the College's proposals for European Social Fund applications and programmes; and
- (iv) instruct the Principal to finalise a budget for 2007/08 to be set out with the financial forecast return for approval by the Board at its June meeting.

AGH/MW/COLLEGE BUDGET 2007

20 April 2007

Amended 24/04/07/JD

Amended 1 /05/07/JMK

Amended 03/05/07/MW

Amended 03/05/07/JMK

Amended 16/05/07/HB

2007/10 STRATEGIC PLAN

FINANCIAL TARGETS

	ACTUAL 2003/04	ACTUAL 2004/05	ACTUAL 2005/06	TARGET 2009/10
Designated plus income and expenditure reserves (cumulative surplus) % of total income	7.5%	8.5%	9.8%	10%
Operating Surplus % of total income	0.4%	0.5%	0.6%	0.5%
Unit Cost per WSUM	182	179	194	199
WSUMs per FTE teaching staff	292	293	310	320
Staff costs % of total expenditure	70%	70%	72%	70%
Recurrent Grant as % of total income	64%	63%	65%	65%