Financial Strategy 2016-17 to 2021-22

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Financial Strategy 2016/17 to 2021/22

1.1 Introduction

The College is committed to sound financial management and planning, good corporate governance and the delivery of services which provide value for money. This document provides the medium term Financial Strategy for Glasgow Kelvin College for the period 2017/22.

This is the first 5 year financial plan for the College and supersedes the merger business case and extends the previous three year strategy which the College had been working to.

Audit Scotland have recommended that Colleges should develop long term financial planning and that these should cover at least a 5 year period. Additionally, session 2016/17 provides a useful point to re-base College plans as the implementation of the Glasgow Regional Curriculum and Estates Review is now largely complete and the College believes it is now in a stable position with no further reductions in activity planned.

However, at the time of writing, the College is formulating a long term plan in a particularly uncertain period with the following factors having to be considered:

- the Scottish Budget does not provide any information on FE sector funding beyond the 2017/18 financial year;
- very significant above inflation pay increases appear to have been offered to all teaching staff within the national bargaining framework over the planning horizon with no confirmation that these will be funded fully by Government in the medium to longer term;
- no changes to terms and conditions associated with the new pay framework have been agreed;
- the Scottish Government have indicated that funding is likely to be challenging in the coming years but have committed to maintaining the current level of teaching activity in the FE sector; and
- the impact of the decision to leave the EU is uncertain, this is already resulting in short term inflationary pressure and is likely to result in reduced funding, long term economic impacts and some reductions in activity during the planning horizon as the sector benefits from EU resources at present.

The Financial Strategy is aligned with the College annual budget for 2016/17 and sits alongside the Value for Money Strategy and Procurement Strategy. It also seeks to outline a capital funding strategy which is consistent with the Estates and ICT Strategies. Alongside these other planning documents, the strategy describes the financial objectives of the College, provides medium term financial plans and a framework for the development of future operational budgets. It also provides a strategy for financing the objectives of the College detailed throughout the plan whilst maintaining financial security and sustainability.

1.2 Financial Environment

The financial context facing the College is influenced considerably by the fiscal situation facing the public sector overall in addition to specific college sector challenges. The environment is uncertain, however, the Scottish Government have repeatedly expressed a commitment to maintain current levels of student activity delivered by the sector.

The College has had to make a large number of assumptions that are critical to the financial plans of the College over a 5 year planning horizon, clearly there are risks and uncertainties in respect of these assumptions which are largely outwith the ability of the College to manage:

- learner activity in the sector and the College will remain at 2016/17 levels in terms of the funded Credits total;
- the pay deal for teachers will progress as planned and will be fully funded by the provision of additional resources;
- any further inflation rises for both teaching and support staff will be in line with the Public Pay Policy which will remain at 1% per annum and these will be fully funded through future inflation increases in the core grant price per credit; and
- the College will require to achieve further efficiency savings to enable it to continue to provide a high quality learning environment and facilities and absorb the costs of non-pay inflation.

These assumptions largely support a plan for the College to continue at roughly its current scale, with similar staffing and student numbers and the same Estate which will be maintained as outlined in the Estates Strategy. In the absence of any concrete information from the Scottish Government to the contrary these are the baseline assumptions that inform the medium term plan.

The recent Fraser of Allander Institute report on the challenges facing the Scottish Budget is far more bleak and would indicate that the above assumptions are optimistic. In the absence of any official medium term financial planning documents, scenario analysis is conducted towards the end of this report which seeks to model the impact on student numbers, staff numbers and quantifies the potential impact of pay awards not being funded or offset by changes to terms and conditions which improve efficiency and flexibility in delivering learning provision and services . It also seeks to model the impact of changes to terms and conditions for teaching staff which will enable the College to improve efficiency.

1.2.1 Reclassification of Colleges

Further Education Colleges in Scotland were reclassified as public bodies in 2014. All excess cash reserves required to be transferred beyond the College accounting boundary in order to ensure that they were available to be invested in College activities in future years. The College donated £3.2m of its cash reserves to an independent arms-length foundation (ALF) in March 2014 and has since had support from the ALF totalling circa £1m. Offsetting this, the College sold its City Campus and has transferred £1m back to the ALF in 2016/17 to fund specific Estates programmes in 2017/18. The College therefore does not hold any excess cash reserves although the Glasgow Kelvin Learning Foundation does have approximately £3m in financial resources available to it as at February 2017. These may be available to help support the objectives contained within the College planning framework. There are other significant restrictions on the ability of the College to make decisions independent of the Scottish Funding Council and Scottish Government.

1.2.2 Public Funding

The assumptions outlined above are that the College will be funded for a steady state in terms of teaching activity and that pay awards and harmonisation costs will be funded in full. A sensitivity analysis on core assumptions is provided below. In the event that the College is required to implement pay awards which are not funded there will be a requirement to review fundamentally the way in which the College delivers learning and teaching, its Estates Strategy and the way it operates with local partners. New, more radical approaches to the delivery of learning and teaching may require to be considered within the period of this plan.

It is however clear that the assumptions above are likely to be optimistic and a more favourable funding environment is extremely unlikely and is not therefore considered in this planning framework.

1.2.3 Decision to Leave the EU

It is assumed that the teaching activity currently funded by the EU will continue to be funded by the Scottish Government from its resources. EU funding which support trans-national activity provides a valuable enhancement to a large number of courses which would not otherwise be available, the impact on the financial model the College is working within would be limited if this funding and activity was to end. There are further potential impacts on staff recruitment and retention and student recruitment.

1.2.4 Cost Pressures

The costs of employing staff have increased substantially in recent years. National Insurance contributions (paid by employers) have increased and pension contributions likewise, these are now 17.2% for teachers and 19.3% for support staff. The College is currently paying £2.9m in contributions for staff pensions annually. It is assumed that there will be no further contribution rate increases.

The apprenticeship levy will add a further £70k per annum to employment costs. The indication from Government is that this will not result in additional funding for apprenticeship places, which the College would have anticipated resulted in additional teaching activity. There is a real risk that inflation may be higher in the coming period than it has in recent year, this will need to be absorbed in current budgets for non-staffing costs.

Additionally, the increases in the minimum wage are also a significant cost pressure as catering, cleaning and security contracts in particular are increasing in cost as a consequence.

1.3 Financial Objectives

The key financial objective of the College is to balance its budget each year. The current framework which applies to the FE sector means that the College can only spend within the budget allocated by the Scottish Government via the SFC.

The requirement to balance the budget is on an income and expenditure basis, which includes non-cash depreciation and deferred capital grant release transactions. The impact of this is that the College, by setting a balanced budget, generates cash which enables it to make payments in respect of its long term Lennartz (VAT) liability. Once the Lennartz liability is settled, the College will have excess depreciation cash which is expected to allow it to set a deficit budget equivalent to the difference between the depreciation charge and the release of deferred capital grant. It is intended that this cash is allocated to revenue maintenance which will in turn allow some of the maintenance allocation from the SFC to be re-allocated to capital to fund asset replacement.

Lennartz Balance 31 July 2016	£1,082,000
Repayments funded from depreciation cash:	
2016/17	(£ 432,000)
2017/18	(£ 432,000)
2018/19	(£ 218,000)

Therefore, it is anticipated that the College will operate at a deficit of £200k in 2018/19 and £400k from 2019/20 onwards in order to part finance asset replacement and renewal, all else being in line with the base case outlined in this strategy. This is affordable in cash terms as the planned deficit will be less than the net non-cash costs.

The College will continue to minimise the level of cash it holds in line with the requirements of the Scottish Public Finance Manual (SPFM). It will use the Government Banking Service from 2017. It is also seeking additional efficiency savings in line with the Value for Money Strategy and is aiming to grow its non-SFC income in line with its Business Development Strategy.

In the event that the College is able to operate at a surplus, surplus funds can be donated to the arms-length foundation. However, for the period of this plan it is anticipated that all available resources will be invested by the College in the delivery of education, investment in staff development, the estate and in equipment. The only planned transfers to the arms-length foundation are in respect of the capital receipt from the sale of city campus which cannot all be utilised within the 2016/17 financial year.

The financial objectives for each year are set out in detail in the annual budget and in the value for money strategy. The College will plan to:

- budget for a break-even income and expenditure position in 2016/17 and 2017/18;
- from 2018/19 onwards it will budget for a deficit equivalent to its net depreciation charges;
- invest appropriately in its estates, ICT and essential equipment which supports learning and teaching;
- continue to minimise its cash balances; and
- improve efficiency.

Efficiency will be improved through the implementation of the Value for Money Strategy which will be reviewed annually.

2. Current Financial Context

The College is in an improved financial position as consequence of the sale of City Campus, its improved financial performance in session 2015/16 and the effectiveness of the implementation of the Value for Money strategy.

It does not hold excess reserves, as required of it as a Public Body, however, the Glasgow Kelvin Learning Foundation does hold resources which may be available to support activity or capital investment in the future. There is a significant long term issue in respect of pension liabilities included on the College balance sheet, however these are not within the control of the College and are effectively underwritten by the Scottish Government.

The Colleges balance sheet as 31 July 2016 is outlined below:

BALANCE SHEET			**Actual 31.07.16**
			£000
Fixed assets	a)	Land and buildings	53,366
	b)	Equipment	1,421
Total Fixed Assets			54,787
Current assets	a)	Debtors	1,234
	b)	City Campus Debtor	6,000
	c)	Cash at bank and in hand	838
Total current assets			8,072
Creditors: amounts falling due within one year			
	a)	Lennartz creditor	433
	b)	Trade creditors	238
	c)	Taxation and social security	435

	d)	Accruals and deferred income	2,709
	e)	City Campus	3,000
	f)	Deferred Capital Grant	1,605
	g)	Other creditors	547
Total creditors < 1year			8,967
NET CURRENT ASSETS/LIABILITIES			(895)
TOTAL ASSETS LESS CURRENT LIABILITIES			53,892
Creditors: amounts falling due after more than one year			
	a)	Lennartz creditor	650
	b)	Deferred Capital Grant	38,842
Total creditors >1 year			39,462
Total pension provisions			11,939
NET ASSETS			2,461
Reserves	a)	Income and expenditure reserve	(5,864)
	b)	Revaluation reserve	8,325
Total reserves			2,461

The College is now in a healthy and stable financial position, however, it remains critical to its sustainability that it operates within a balanced budget framework in the coming years, aside from the potential use of net-depreciation cash once the Lennartz liability is settled. The above Balance Sheet is now in the revised format which complies with current accounting standards. This has resulted in deferred capital grants being treated as if it was a creditor although it is actually cash which has been received in the past and used to buy assets and is now being released to Income each year to partly offset the depreciation charges on the assets the grants paid for. This makes the current asset and balance sheet appear worse than it would have under the previous accounting framework.

The College budget for session 2016/17 is set and this is used as a baseline for financial planning going forward. The key aspects of the College financial plans going forward are described below and are incorporated in the summary figures:

2.2.1 SFC Income

Realistically it is accepted that public funding is not going to increase in real terms (by more than inflation). It is assumed student activity will stay at 2016/17 levels throughout the planning period. It is assumed that the activity mix (FE / HE and Price Band profiles) will remain broadly constant and Glasgow Kelvin College will receive its fair share of regional resources based on the credit funding model.

It is assumed that there will effectively be a flat cash settlement which is uplifted by an amount equivalent to the additional cost of the pay awards. This uplift is shown separately in the planning figures but it is anticipated it will be rolled into the core grant total.

It is assumed that the Captial / Maintenance Grant will increase as outlined in the draft Scottish Budget. The capital grant for the College in 2016/17 is £840k and it is assumed that this will increase by at least £400k to reflect the greater need Glasgow Kelvin College has for Capital Investment. Once Lennartz is settled in full the College will operate at a deficit and will transfer £400k of this to capital replacement. The College will prepare a Capital Plan now it has resources available to it. The Capital plan will cover 5 years and will be based on the figures contained within this document.

It is assumed that the national ESF project will continue at its 2016/17 level and this funding will be replaced by resources from the Scottish Government when the UK leaves the EU.

2.2.2 Staffing

The staffing budget accounts for 72% of expenditure and is critical to the financial planning model.

It is assumed that the staffing budget will remain constant, excluding the impact of future pay awards. There will be a requirement for efficiency savings and a small reduction in staffing to fund the apprenticeship levy (£70k per annum). It is therefore assumed staffing levels will reduce by 2 FTE in 2017/18 and a further 1 FTE per year thereafter as a contribution to increasing costs.

There is no plan for further restructuring or VS as the baseline assumption is approximately constant core activity levels, relatively stable curriculum offer and that the College will continue to operate from 4 campuses.

If the national ESF project ends and / or the Foundation Apprenticeship Programme does not continue there will be further reductions in staffing required.

For the purposes of financial modelling, the projected costs of pay awards are shown separately in cash terms and are cumulative annual costs from the 2016/17 baseline.

For support staff it is assumed that increases from 2017/18 onwards will be at public pay policy and that this will not change from its current 1% level.

For teaching staff it is assumed that the nationally negotiated pay deal will be implemented as agreed and that progress towards moving un-promoted teaching staff to £40,026 by 2019/20 will have a knock on impact on promoted staff salaries. Finally it is assumed a 1% inflationary uplift will be applied.

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Staffing FTE	450					
Teaching	260	-1	-1		-1	
Support & Management	190	-1		-1		-1
Staffing Costs (£'000)						
Baseline – Support & Management	6,388	6350	6,350	6310	6,270	6,270
Baseline - Teaching	13,849	13,805	13,760	13,760	13,710	13,710
Pay awards Support & Management	-	64	128	191	254	317
Pay award – inflation teaching	-	141	287	437	589	742
Pay award – harmonisation teaching	-	340	695	1050	1050	1050
Total assumed pay inflation costs	*****	**545**	**1,110**	**1,678**	**1,893**	**2,109**
Total Staff Cost	**20,237**	**20,700**	**21,220**	**21,748**	**21,873**	**22,089**

*4 months may be payable in 2016/17 not budgeted

The key conclusion of the above table is that with a modest assumed reduction in FTE and the current staffing complement and roles, payroll costs will increase by circa £2.1m per year by 2021/22 in cash terms. This is an overall increase of around 10%. In the event that the pay awards are not funded and the College can only afford its 2016/17 cash payroll budget then there would need to be a reduction in FTE of around a further 50 FTE, taking the total reduction in staffing to approximately 55 FTE. If the national ESF project does not continue or is not replaced this reduction would increase to circa 67 FTE.

The College's workforce plan will need to consider how such scenarios would be managed.

2.2.3 Revenue Budget

The baseline revenue projection is provided below. As stated above this assumes constant activity and that pay awards are fully funded by increases in the core grant. It assumes some increase in non-SFC income but as a proportion of income this reduces due to the impact of the SFC funding the pay inflation costs. Growth in non-SFC income will result in increased costs. Additionally, the College would expect to be allocating 74% of its budget to paying staff, this proportion would increase very significantly if pay inflation is not funded.

In respect of the forward planning data currently available to the College, the draft Scottish Budget for 2017/18 indicates a 2.7% increase in revenue funding, therefore the assumed increase in SFC Grant in the baseline plan for 2017/18 is realistic. It is assumed that this is a permanent uplift to the resources available to the sector.

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Income						
SFC Grants	20,604	20,604	20,404	20,204	20,204	20,204
SFC Pay Award Funding	-	545	1,110	1,678	1,893	2,109
Donation from ALF	150	150	150	150	150	150
Foundation Apprenticeship	450	450	450	450	450	450
Fees / Grants / Other non-SFC Income	5,203	5,250	5,300	5,350	5,400	5,450
Release of Deferred Capital Grants (non-cash)	1,550	1,550	1,550	1,550	1,550	1,550
Total Income	**27,957**	**28,549**	**28,964**	**29,382**	**29,647**	**29,913**
Staff Costs	20,237	20,700	21,220	21,748	21,873	22,089
Other Operating Expenses	5,839	5,899	5,994	6,084	6,224	6,274
Depreciation (non-cash)	1,950	1,950	1,950	1,950	1,950	1,950
Total Expenditure	27,957	28,549	29,164	29,782	30,047	30,313
Budgeted Surplus / (Deficit)	**0**	**0**	**(200)**	**(400)**	**(400)**	**(400)**
Staff costs as % of income	**72%**	**73%**	**73%**	**74%**	**74%**	**74%**
Non sfc income as % of income	**21%**	**20%**	**20%**	**20%**	**20%**	**20%**
SFC Capital Budget	**20**	**420**	**600**	**800**	**800**	**800**

2.2.4 Scenario Planning

The above forecast is tested for a number of alternative scenarios. In the current context it is assumed that the above forecast is a best case scenario and could be considered to be unrealistically optimistic in the medium term. The financial implications of alternative scenarios are outlined below. Each scenario is described and numbered, the table below these descriptions provides a projected deficit for each scenario on the basis that all else remains as above. As the Scottish Government have published their intentions for 2017/18 in the draft budget it is assumed that the baseline for that year is certain enough that the baseline for this year can be assumed to be appropriate. The figures presented below are indicative only and a detailed annual budget would need to be constructed each year as is normal practise:

Scenario 1 – *Activity commitment remains constant, SFC settlement is flat cash with no additional pay increase funding and pay awards outlined above need to be paid*.

In this scenario, the College could not operate on a sustainable basis as it does at present. Cumulative deficits would be £6m by 2021/22 and therefore radical change would be required very quickly and this scenario is not manageable or feasible. The delivery model would need to be changed radically along with the mix of staff employed. Such a significant transition would take several years to manage and would require some form of transitional funding arrangement and a strategy to change the mix of the workforce. However, it is assumed that the baseline position for 2017/18 is not affected in this scenario.

Scenario 2 – *Activity commitment reduced by 6% (3% in 2018/19 and 3% in the following year), SFC settlement is flat cash (no reduction to offset reduced activity) and pay awards need to be funded*.

A 6% reduction in activity would require the College to reconsider its estate strategy and other overhead costs. This would require a 6% reduction in staffing at all levels to contribute towards funding the pay increases. This would remove 30 FTE posts over 2 years and require a £500k annual reduction in non-staff costs. This scenario is extremely difficult but it is feasible from a financial perspective. The reduction in staff would be difficult to achieve within the necessary timescales and would need further significant severance / redundancy cost funding. However, the deficits which would result from this scenario are potentially manageable whilst enabling the College to remain viable, albeit at a smaller scale.

Scenario 3 – *Funding from the SFC is per Scenario 1 but activity commitment remains constant and there is a pay freeze implemented from 2018/19 onwards but harmonisation for teaching staff continues.*

The operating deficit position is improved against scenario 1 but there would need to be some reduction in activity and staffing to enable the College to remain viable. This would be less severe than in scenario 1 but still significant as cumulative deficits of circa £4m are likely to be generated over the period.

Scenario 4 – *In this scenario it is assumed that the funding situation is per scenario 1 and that pay awards are per the base case plan.*

This scenario assumes that the pay harmonisation costs are funded through changes to terms and conditions for teaching staff and the introduction of new staff contracts which would change the split between teaching and non-teaching staff over the period of the plan. It is accepted that this would be phased in and the assumption is a 4% saving in 2018/19 on base case teaching staff costs and a further 4% in 2019/20 followed by 1.5% in each of the following 2 years. This would be the equivalent of increasing teaching contact hours by 1 hour per week in 2018/19 and a further hour in 2019/20 for un-promoted teaching staff. Savings in years beyond this would be made through changes to the delivery model and staffing / on line delivery mix.

The table below summarises the financial impact of the scenarios outlined above.

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Base Case Operating Position	0	0	(200)	(400)	(400)	(400)
Scenario 1						
Impact on income	0	0	(565)	(1,133)	(1,348)	(1,564)
Impact on expenditure	0	0	0	0	0	0
Operating Deficit		**0**	**(765)**	**(1,533)**	**(1,748)**	**(1,964)**
Scenario 2						
Impact on Income	0	0	(650)	(1,320)	(1,900)	(2,100)
Impact on staff costs (reduced FTE)	0	0	600	1,300	1,310	1,320
Impact on non-staff costs	0	0	50	200	500	500
Operating Deficit	**0**	**0**	**(200)**	**(490)**	**(490)**	**(680)**
Scenario 3						
Impact on Income	0	0	(650)	(1,320)	(1,348)	(1,564)
Impact on Expenditure	0	0	210	423	638	854
Operating Deficit	**0**	**0**	**(640)**	**(1,297)**	**(1,110)**	**(1,110)**
Scenario 4						
Impact on Income	**0**	**0**	**(565)**	**(1,133)**	**(1,348)**	**(1,564)**
Impact on Expenditure	**0**	**0**	**560**	**1,100**	**1,300**	**1,500**
Operating Deficit			**(205)**	**(433)**	**(448)**	**(464)**

There are an infinite number of scenarios which could be modelled. Further realistic modelling cannot be done until better longer term plans are made available by the Employers' Association and the Scottish Government. The critical issues to the College financial planning are:

- staff inflation pay rises;
- pay harmonisation for teachers;
- staff terms and conditions;
- funded student activity levels; and
- cash funding from government.

Other shocks will inevitably occur during a 5 year planning horizon, these may include:

- further increases in minimum wage or living wage commitment increasing contract costs;
- increases in pension contributions for staff to address deficits;
- other changes to employer costs / NI contributions; and
- additional legislative burdens, for example data protection or climate change legislation.

These will need to be managed as they become known. It is again stated that the College is attempting to plan 5 years ahead at a time when it does not have any meaningful planning basis from the Scottish Government or the SFC.

In the event that the pay harmonisation which appears to have been offered to teaching staff is not honoured because it is not affordable, the risk of industrial action will be high.

There are other scenarios which would be worse than those outlined above, for example if cash allocations to the sector were reduced and some elements of the pay increases had to be funded the College would be in difficulty very quickly. A redundancy process would need to be implemented. It has to be assumed that the Scottish Government would recognise that current activity levels are not achievable in such a situation.

2.2.5 Estates

The College will require to address several key estates issues during the life of this plan. These will require to be funded from capital allocations from the GCRB. Asset sales proceeds and from the Glasgow Kelvin Learning Foundation. The formula capital allocations will be required for standard equipment life cycle replacement and not for large scale Estate projects. Likely priorities are:

- Springburn Roof
- West Campus Repairs
- Easterhouse Subsidence Repair

This assumes that planned works in winter 2016/17 for which funding has already been agreed are completed with resources already confirmed. The College is still hopeful that it will be able to retain sales proceeds from the 2016 sale of City Campus, this funding is strategically important. The Capital Investment Plan will be reviewed annually and this provides further detail on priorities.

2.2.6 Other Income

The College will continue to seek sources of other income. Focus will be placed on the development of the College as a Commercial College and leading provider of apprenticeship programmes funded by Skills Development Scotland. At the time of writing around 20% of College income is deriving from non-SFC sources, it is intended that this increases, however, additional commercial income results in additional costs and only helps the funding situation if it is profitable and can be managed within the existing estates constraints.

2.3 Capital Investment

The base case scenario assumes that £400k per year will be transferred to the annual capital budget once Lennartz is settled in 2018/19. This will be essential for equipment replacement.

Other capital projects will require to be funded from other sources such as:

- proceeds from asset sales;
- specific capital allocations from SFC / GCRB;
- support from Glasgow City Council & Wheatley Group;
- fundraising and donations; and
- Glasgow Kelvin Learning Foundation.

Borrowing and leasing are unlikely to be possible due to the borrowing constraints associated with public body status.

The Capital Expenditure Budget is outlined below along with sources of funding:

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Income						
SFC Grant*	1,000	420	420	420	420	420
Depreciation Cash (following Lennartz settlement)	0	0	200	400	400	400
Glasgow Kelvin Learning Foundation / Asset Sales Proceeds	650	2,840	1,200	200	200	200
Total	1,650	3,260	1,820	1,020	1,020	1,020

The table above outlines a minimum budget for capital expenditure priorities. It is hoped that this will be augmented by specific capital investment from Government. This is not an unreasonable assumption as public sector capital investment may be one way in which the Government attempts to mitigate any economic slowdown caused by the decision to leave the EU and a significant increase in sector funding is proposed in the Draft Scottish Budget for 2017/18.

The College has a more detailed Capital Investment Plan that sits alongside this document, the ICT Strategy and the Estates Strategy.

2.4 Cash Flow

The 31 July 2016 cash balance is in line with previous plans and is manageable within the context of a balanced cash budget per the base case planning scenario outlined above.

Any scenario which plans for a deficit will result in cash flow issues very quickly and will then result in the College not being able to pay suppliers, staff and learners.

2.5 Pension Provisions and Staff Costs

The College cannot estimate the year to year fluctuations in pension liabilities. It has a policy of no enhancements to pensions upon retirement or severance. The cost of staff pensions is budgeted for as part of the costs of employing staff. Likewise the impact of decisions on pension enhancements made by legacy colleges is also budgeted for.

This strategy does not seek to generate resources to pay longer term pension liabilities other than the employer costs described above. The schemes themselves set the contribution rates taking the liabilities into account. The movements in the level of net liability for the Strathclyde Pension Fund scheme is also not budgeted but is calculated annually and included in the College accounts.

2.6 Reserves

The College aims to hold no excess reserves. Its balance sheet contains significant pension liabilities which are essentially a negative reserve. The College considers that it is a Going Concern as these liabilities are effectively underwritten by Government.

2.7 Procurement

The College has a procurement strategy in place and the recent external review of procurement indicates that the College is performing well in this regard, confirming that it is compliant with the procurement legislation and is achieving value for money.

2.8 Value for Money

A separate Value for Money strategy is in place and has been in the implementation phase from June 2015. Progress is monitored by the Financial Control Committee and Audit & Risk Committee. This is the document which outlines how the College will improve its efficiency throughout the period of this plan. The implementation of this document is the key driver of efficiency improvement at the College.

2.9 Costing & Pricing

The College will seek to continue to ensure that it able to meet its activity target within the financial resources available to it. Decisions regarding the necessary number of teaching hours, class sizes and mix of teaching activity are important elements in achieving this.

The Business Development team have a costing model in place which ensures all commercial activity makes an appropriate contribution to overhead costs. This applies to any activity that is not eligible for SFC or Skills Development Scotland funding.

3. Risk

There are a number of key risks associated with this strategy which will have a significant impact on the College. These are modelled in the scenarios but there are several ones which will impact on the ability of the College to deliver future ROA targets, improve the quality of the learner experience and / or remain financially viable:

- nationally negotiated pay awards do not come with either additional funding or changes to terms and conditions;
- industrial action by staff;
- participation in the Employer's Association;
- reductions in learner activity mean Estates strategy becomes inappropriate;
- inability to reduce staff numbers or change staffing mix quickly enough to make required savings;
- insufficient levels of capital investment budget;
- decision making by GCRB having adverse impact on College; and
- inability to retain asset sales proceeds.

The Risk Register will continue to be a live document which will manage the risk facing the College as the environment changes and planning assumptions become clearer. It also outlines the Board of Management's appetite for Risk.

4. Sustainability

The College will only be able to remain sustainable if it can operate on a balanced cash budget basis in the medium term and meet the commitments and targets in the Glasgow Regional Outcome Agreement each year.

Funding staff pay rises and pension liabilities are likely to be the single largest challenge to sustainability.

5. Key Priorities

The main objectives outlined in the previous medium terms financial plan have all been overtaken leaving the College in a strong position going forward. Priorities for the coming five years are therefore:

- influence and manage the impact of national bargaining;
- establish and operate within a budget consistent with this strategic framework;
- maintain and repair the estate;
- invest and modernise the ICT Infrastructure and equipment to ensure the quality of the learner experience is maintained;
- review and reduce staffing in the event that pay increases are not funded;
- establish a longer term workforce and succession plan;
- continuously review the curriculum offer;
- develop commercial, apprenticeship and international contract work;
- implement and refresh the Value for Money Strategy and Capital Investment Plan annually.