

Appendix 2

Orkney College UHI Financial Forecast Return 2019 Commentary

Introduction

Orkney College UHI is unincorporated and operates as a diverse tertiary institution spanning all levels of the Scottish Credit and Qualification Framework. The College provides education from access level to postgraduate taught programmes through to research alongside undertaking commercial activity. The College meets the needs of the local community and economy, operating at local, national and international level which places wide ranging demands on a small institution but can have the advantage of spreading risk and reward across a number of areas.

The College continues to grow the range of further and higher education to meet local demand, in particular the 'Orkney Offer' for senior phase pupils. Education is delivered alongside an active research portfolio which continues to be an integral part of the institution.

Both current and future financial uncertainties place considerable strain on human resource planning. For example the increased depth of provision which allows more access points for students, to further education in particular, places challenges when seeking to broaden the curriculum into other areas to meet current and emerging local needs.

The prioritisation in deploying financial resource is becoming increasingly challenging. Generally the estates are in a good repair, however issues are emerging which will require considerable investment. Injections of funding such as the Backlog Maintenance Grant, which allowed one-off essential building work to take place, are going to continue to be required against a backdrop of decreasing capital and maintenance grants. More immediately, simply to keep up with technology, investment is required in the information technology infrastructure which is essential for attracting and retaining students in a remote location which is particularly aware of the importance of current and emerging technology.

Review of financial performance 2018 to 2019

Financial year 2018 to 2019 figures are draft. However, in agreement with the Scottish Funding Council, Orkney College UHI undertakes budgetary planning and reporting based on financial years in line with the Council. No further movement is expected.

Beginning the year predicting a balanced budget, the mid-year return allowed for the possibility of a shortfall of £100,000 within the area of Research Business Unit.

Research Business Unit income did fall short of target, other areas of the College performed slightly better than anticipated reducing the prediction by half however following a recommendation from external audit that the method of calculating bad debt provision be reviewed this resulted in a one off increase. The net effect for the whole college is £103,200 in-year deficit for 2018 to 2019. When added to the balances of previous years this give a small cumulative surplus of £4,700.

Scottish Funding Council Recurrent Grant

The college has modelled current and future funding on a combination of the funding advised and which is flowing currently, an overall reduction of 4% between 2020 to 2021 and 2023 to 2024 and ongoing support for the increase in lecturing pension costs. There are elements of risk associated with all these areas, in particular current funding to support National Bargaining and support for the increased costs of the Scottish Teachers Pension Scheme.

Changes in Tuition Fee Income and Other Income

Total fee income has steadily risen since 2011 to 2012, reaching a peak in 2016 to 2017. Whilst there is movement within years the general trends are decreases in full time further education, part time undergraduate and full time undergraduate fees offset by increases in part time further education and part time and full time post-graduate taught and post graduate research fee income.

Fee income for 2019 to 2020 is predicted to increase in line with activity targets and pricing levels. In areas where no fee increase can be applied income is predicted to remain at a similar level with steady overall recruitment. Income from part-time further education and post-graduate taught is predicted to increase in line with inflation.

Income through Skills Development Scotland had been declining however this increased in 2018 to 2019 partly due to Foundation Apprenticeships but also to an increase in Modern Apprenticeship activity. Foundation Apprenticeship income is predicted to increase from 2020 to 2021.

Under 'Other Income' the Developing Young Workforce grant ceases at the end of financial year 2020 to 20201. *Future funding to support the costs of Distant Islands Allowance is included in the 'Other Income' section of the Financial Forecast Return. Based on the college being in receipt of funding to cover lecturers only, this averages around £120,000 each year, increasing to around £255,000 if support staff are included.*

Commercial Income

2018 to 2019 was again a year of mixed fortunes for the Research Business Units. Staffing reductions were implemented in one area with the full year effect of savings showing in 2019 to 2020. Overall sustainability continues to be a significant risk to financial security against a backdrop of increased financial pressures elsewhere in the College. Currently options are being explored with the aim of a more secure financial position in future. *Future funding in the region of £90,000 to support the costs of more secure market positioning is included in the 'Research' section of the Financial Forecast Return.*

Changes in Staff and Non-Staff Costs

Looking at the current and future staff budget, overall full-time equivalents have increased marginally by around 3 full time equivalents over the last five years. Some opportunities for turnover savings have been taken however capacity in one area is often offset with increased demand in another. Reduced staffing does not always result in any net financial gain as there is often a corresponding reduction in income.

For forward planning a pay award of 2% has been assumed for all staff. *If the pay award was 1% the reduction in staff costs would be in the region of £40,600, in 2020 to 2021, £81,100 in 2021 to 2022, £124,900 and in 2022 to 2023 and £167,500 in 2023 to 2024.*

If the pay award was 3% the increase in costs would be in the region of £38,200 in 2020 to 2021, £84,000 in 2021 to 2022, £130,000 in 2022 to 2023 and £178,600 in 2023 to 2024.

Support for the additional cost of lecturers' pension is included throughout as per the guidance. *If this were to be removed the result would be an annual decrease of around £111,000.*

All saving opportunities are considered however an overall reduction in full time equivalent staff could prove detrimental to provision. Where possible the college avoids compulsory staffing reductions but has gone down this route in the past and may do so again if assessed to be unavoidable. The pressures on remaining staff need to be considered and carefully managed alongside the financial savings of any reduction in staffing levels. *To achieve a balanced forecast position within the information currently available a reduction in the region of 3.0 full time equivalents is has been allowed for in the 'Staff' section with effect from academic year 2022 to 2023.*

Non-staff expenditure in 2018 to 2019 was generally minimal. This is an area of increasing concern as the estate and, in particular, the information technology infrastructure can no longer sustain the low budget support. The possibility of rates relief is being investigated. 80% relief would benefit the college by around £115,000 annually. This has not been included in forecasting.

Risk Management

The key risks are identified as:

1. Staffing

The Council made a decision to shadow the pay element of National Bargaining for academic staff, subject to certain conditions. In the Outcome Agreement Funding Announcement for 2019 to 2020 (<http://www.sfc.ac.uk/publications-statistics/announcements/2019/SFCAN102019.aspx>) the Scottish Funding Council requires remaining colleges to formally sign up to the National Recognition and Procedures Agreement in order to continue to receive the harmonisation/job evaluation funding. In academic year 2018 to 2019 an element of the total National Recognition and Procedures Agreement funding was withheld based on the Council position at that time. At present the position has not changed.

Financial support for the additional salary cost of the Distant Islands Allowance payment is being pursued by the island colleges (Lews Castle, Orkney and Shetland). Receipt of funding to support this cost for all staff would result in an annual increase in the region of £245,000. If this funding is not received, as a minimum for lecturing staff for which for the island colleges pay a salary when Distant Islands Allowance is taken into account greater than the rest of Scotland, this results in increased costs for Island Colleges which as a result represents a risk in terms of the College financial position.

Whilst staff turnover and absence does not necessarily greatly affect income and expenditure, it does present challenges which can affect business continuity depending on the measures available to mitigate any issues.

2. Commercial and Research

Overall financial viability in Research Business Units is challenging with some areas performing more strongly than others. In 2018 to 2019, two areas generated a surplus, one returned a deficit. The College's research activity profile attracts grant funding and helps with Orkney's higher education profile. However, this area of work presents financial risk and where necessary staffing levels have been reduced and/or other potential exit/cost reduction strategies identified. This remains an area of concern and future support strategies are being put in place.

3. Future of further education funding

As a small college with a proportionally high increase in staff costs the future distribution of further education funding by the Regional Strategic Body will be of critical importance to future financial security.

4. Student numbers

The College has generally been successful in meeting Credit targets. Senior Phase and Developing Young Workforce are providing more opportunities for young people to stay on at school and this is impacting on the number of young people going to college full-time. Although this is not necessarily a negative in terms of the experience of the young people, it does amount to an element of risk when planning student numbers. The 'Orkney Offer' is leading to increased numbers of young people sharing learning between school and college and the introduction of Foundation Apprenticeships in 2016 to 2017 has seen numbers increase steadily to a healthy update of 25 in 2019 to 2020. The College strives to address provision gaps introducing Skills for Work Engineering in 2018 to 2019 and now and the National Certificate in Engineering in 2019 to 2020. Finding the resource to equip and refresh the curriculum whilst maintaining breath is a considerable challenge.

Higher National programmes continue to attract almost exclusively local students and so the field of applicants each year is finite. Undergraduate and postgraduate degree programmes led by Orkney do attract students from outside the County at a national and international level. In order to increase student numbers in Orkney it is necessary to increase the range of courses available here. In most cases this will be through networked provision which involves the delivery of modules through blended learning from other academic partners. In balance to teaching received from other academic partners in the UHI the College delivers more than it receives across a range of academic subjects and this compensates financially for the number of students enrolled locally.

5. Information Technology and Estates Infrastructure

The current constrained financial position is putting pressure on the non-staff elements of the budgets. In particular the technology to support students and staff is falling behind. An injection of funding is required.

6. Exit from European Union

The situation requires ongoing monitoring. The College will give consideration to the breath of curriculum as part of the management of ending of European Structural Investment Funds.

7. Overall Financial Position

Although the College has set a balanced budget for the financial year 2019 to 2020 indications are that commercial income is unlikely to meet target, however there are a number of mitigating actions in progress which would compensate for any shortfall.