

## Appendix 2

# Orkney College UHI Financial Forecast Return 2018 Commentary

## Introduction

Orkney College UHI is a diverse tertiary institution spanning all levels of the Scottish Credit and Qualification Framework providing 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 and operates at local, national and international levels which places wide ranging demands on a small institution but has had the advantage of spreading risk and reward across a number of areas.

## Review of financial performance 2017 to 2018

Financial year 2017 to 2018 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.

Following a challenging year financially for the main teaching areas in 2015 to 2016, 2016 to 2017 saw the return of a surplus. However, 2017 to 2018 saw a reversal with the return of, an albeit very small, deficit in the main teaching areas. The Research Business Units by contrast followed a relatively successful year in 2015 to 2016 with an overall deficit in 2016 to 2017 and then with an overall surplus in 2017 to 2018.

The net effect for the whole college is £40,000 surplus for 2017 to 2018.

## Scottish Funding Council Recurrent Grant

For 2017 to 2018 a revised further education funding model has been implemented by the University of the Highlands and Islands which favourably affects the funding for Orkney College UHI, giving better recognition of the impact of remoteness. 2018 to 2019 has a modest increase on 2017 to 2018. For 2018 to 2019 UHI agreed upon a transition period for the largest three academic partners who had identified financial turbulence implications of fully exiting from 'Remoteness' funding. With this being a transitional arrangement, it is expected that the smaller and island partners should see a further increase in 'remoteness' funding in 2019 to 2020 which will continue at a steady level thereafter. From 2020 to 2021 funding previously allocated for National Bargaining is incorporated in the main grant proportionate to credit activity as per Scottish Funding Council guidance. Modelling the impact of this

change reduces the impact of the direct costs of National Bargaining in the longer term but is offset somewhat with the requirement to fund 'cost-of-living' pay awards. This future distribution of further education funding in UHI, along with remoteness funding, will be of critical importance to the future financial security of Orkney College UHI.

## **Changes in Tuition Fee Income and Other Income**

Fee income from part-time further education has consistently increased from 2011 to 2012 to 2015 to 2016, reaching a peak in 2016 to 2017. Part of the increase reflects income from cyclical activity which reduced in 2017 to 2018 with the next cyclical increase now predicted in 2022 to 2023. Full time further education income is relatively static. Higher education fee income is also relatively static overall but with a general increase in post-graduate taught fee income and a small decrease in undergraduate fee income. Income through Skills Development Scotland is declining very slightly due to a reducing funding model, although student numbers are expected to remain steady. Any financial impact of a regional UHI contract for Modern Apprenticeship will become evident from 2019 to 2020 onwards.

From 2017 to 2018 onwards 'Other Income' is predicted to be stable with income from 'Sales' and the Developing Young Workforce grant forming the main sources, the latter being allocated to relevant expenditure.

## **Commercial Income**

2017 to 2018 was again a year of mixed fortunes for the Research Business Units with two areas returning a surplus, and one a deficit. Staffing reductions are being implemented in one area in 2018 to 2019 with the full year effect of savings in 2019 to 2020. For 2018 to 2019 a surplus is possible in two areas, and a balanced position is the aim in the other where financial success has been achieved in the past but lacks consistency. Overall sustainability in commercial and research continues to be a significant risk to financial security against a backdrop of an increased profile of Research Excellence Funding.

## **Changes in Staff and Non-Staff Costs**

Overall staffing full-time equivalents have remained at a similar level since 2016 to 2017, where they increased marginally from 2015 to 2016. Opportunities for turnover savings have been taken. However, capacity in one area is often offset with increased demand in another which has meant the overall full-time equivalent as remained almost static. In some cases, mainly at higher education level, the loss of teaching hours also means the loss of associated income. Reduced staffing especially teaching related posts does not always result in any net financial gain as there is often some corresponding reduction in income.

All saving opportunities are considered and it is anticipated that the equivalent of around 2.0 full-time equivalent combined lecturing/support reduction will be required mid-year in 2020 to 2021; 1.0 full-time equivalent full-year in 2021 to 2022 with potentially a further 2.0 full-time equivalent mid-year in 2022 to 2023. Where possible the college avoids compulsory staffing reductions but has gone down this route in the past and may do so again if it is 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.

Non-staff expenditure in 2017 to 2018 included procurement of funded equipment, otherwise expenditure was generally minimal.

## **Risk Management**

The key risks are identified as:

### **1. Future of further education funding**

The stability and consistency of the revised model introduced by the Further Education Regional Board will be key for Orkney College UHI, in particular the remoteness element along with the transition out of National Bargaining funding to increased credit funding. It is not anticipated that credit activity will increase significantly which makes the management of withdrawal of European Structural Investment Funds an important consideration in curriculum planning. As reported earlier the 2017 to 2018 allocation of further education funding through UHI was favourable to Orkney College UHI. The future review of the distribution of further education funding within UHI will remain of critical local importance.

### **2. Pay awards and national pay structures**

The Council made a decision to shadow the pay element of National Bargaining for academic staff, subject to sufficient funding being provided through the Scottish Funding Council to cover the additional costs. Following Financial Forecast Return guidance that the Scottish Funding Council will now incorporate the sector level funding for National Bargaining in to the funding model, rather than decreasing this funding to 66% in 2020 to 2021, 33% in 2021 to 2022 and 0% in 2022 to 2023 the College has attempted to model the implications for Orkney College and incorporate these into the Financial Forecast Return accordingly. This decision should significantly reduce the direct financial risk attached to National Bargaining but is balanced in part by the expectation by the Scottish Funding Council that colleges will fund annual cost of living related pay increases by efficiency gains.

### **3. Research**

Overall financial viability in research areas is challenging. Some research areas are performing more strongly than others. In the 2017 to 2018 financial year, two

research area generated a surplus, one returned a deficit. Experience over a number of years has shown two of the Research Business Units to be amongst the most difficult areas of the College to financially forecast as many decisions on grant funding and commercial income fall outwith the direct control of the College. Funding bid submissions and considerations extend over comparatively long periods of time and the amount of money at stake in proposals can be quite large. The College's research activity is externally of quite high profile and helps with Orkney's higher education profile. However, this area of work has also historically represented the highest financial risk and where necessary staffing levels have been reduced and/or other potential exit/cost reduction strategies identified.

#### **4. Further education student numbers**

The College has historically been successful in meeting Credit targets however 2017 to 2018 has seen particularly low numbers in full time courses. Whilst this is not expected to continue into 2018 to 2019, it does present a risk both to the core and European Structural Investment Fund grant in 2017 to 2018, although the college will still contribute to the overall UHI European Structural Investment Fund target. 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 at age 16 so 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 in future years but it is taking time for this to have an impact, especially in terms of shared provision in school years S5 and S6. The College introduced Foundation Apprenticeships in 2016 to 2017 with no successful applications, the offering was extended in 2017 to 2018 and secured a low level uptake. 2018 to 2019 has resulted in increased numbers. Further improvements in timetabling and more continued focussed work to inform and encourage schools, young people, parents and guidance teachers of the parity and benefits of vocational alternatives in S4, S5 and S6 is required. The College has addressed provision gaps particularly around hairdressing and sports & leisure and is introducing engineering in 2018 to 2019. Finding the resource to equip and refresh the curriculum is a considerable challenge.

#### **5. Higher education student numbers**

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 more than compensates financially for the number of students enrolled locally.

## **6. Exit from European Union**

The situation requires ongoing monitoring.

## **7. Overall Financial Position**

The College has set a balanced budget for the financial year 2018 to 2019 and with good student recruitment and carefully managed staffing levels we would anticipate a manageable year, however the 2019 to 2020 is expected to present significant financial challenges so 2018 to 2019 must be used to put in place arrangements to minimise financial risk for 2019 to 2020 onwards.