

Performance and Resources Committee Meeting

Date of Meeting	Wednesday 7 March 2018
Paper Title	Regional Funding 2018/19
Agenda Item	11 (c)
Paper Number	PRC4-L
Responsible Officer	Jim Godfrey, Finance and Resources Director
Recommended Status	Disclosable
Action	For Discussion

1. Report Purpose

- 1.1. To enable the Committee to consider an approach to the funding of colleges for 2018/19.

2. Recommendations

- 2.1. The Committee is invited to **consider** the attached report and **comment** on the proposals that:
- A simplified approach for allocating revenue funding (to colleges) for 2018-19 is adopted. This will be based upon the relative share of funding in 2017-18.
 - The priority for capital funding in 2018-19 is to fund the 'very high' priority maintenance work identified within the National Condition Survey¹.
 - Capital funding is provided to City of Glasgow College towards the cost of the NPD contract.
 - An approach to any remaining Capital funding will be determined once these funds are known.
 - In respect of the various other funds, GCRB expects to follow Scottish Funding Council guidance in respect of each fund.

3. Background

- 3.1. The proposed Finance Strategy is the subject of a separate item on the agenda of this meeting. The proposals outlined above are consistent with Finance Strategy and in particular the aim of adopting a simplified approach to the way in which funds are dispersed to colleges.

¹ It may be necessary to make some updates to the works identified within the National Condition Survey and this will be addressed through the Estates Strategy.

3.2. This paper has been produced in advance of the Scottish Funding Council publishing its funding announcement for 2018/9. This funding announcement is now expected around the date that the papers are issued to the GCRB Performance and Resources Committee. It is anticipated that the funding announcement will be provided as a separate item on this agenda but there is unlikely to be sufficient time to fully reflect its impact within the proposed approach. A further revision to this document will be produced taking into account the views of the Committee and the impact of the funding announcement.

4. Risk Analysis

4.1. In considering the approach to funding the region's outcomes and ambitions, the following risks and mitigating actions are identified. These specific risks are cross-referenced to the Board's Risk Register².

Risk ID	GCRB Risk	Revenue	Capital	Other
0002	Effective working relationships are not developed/maintained with key partners due to a focus on short-term internal priorities.	The maintenance of positive and effective relationships with key partners, e.g. Scottish Government and SFC, are crucial. Working collaboratively with key partners will enable the Glasgow region to influence national policy and funding.		Some of these sources of funding, e.g. ESOL, are of critical importance to partners. The political and reputational risk exceeds the financial risk.
0004	Opportunities are missed/not resourced appropriately and the potential to add value via the strategic plan is overlooked.	The financial pressures facing the college sector, e.g. the cost of national bargaining, and the allocation of funding to meet specific purposes could limit the regional discretion. This might make it more difficult to allocate resources to meet regional ambitions.		
0006	Fewer learners achieving positive outcomes (reviewed 30 Oct 2017).	Any impact on the financial sustainability of a college will have implications on the outcomes, and ambitions, delivered.		The review of student funding may have a positive benefit re the ability of learners to achieve positive outcomes. On the other hand, and reduction in student funding, e.g. in relation to ESF funds, could have the opposite effect.

² At December 2017

Risk ID	GCRB Risk	Revenue	Capital	Other
0007	Financial sustainability is jeopardised by a reduction in funding and/or an increase in costs.	The revenue funding allocation is of critical importance to the three colleges. The total amount of funding allocated to Glasgow is key.	The colleges rely upon the capital grant to fund on-going expenditure, e.g. lifecycle maintenance. The High Priority maintenance requirements ³ have a high financial cost that is significantly higher than the funding received previously. Pressure to maintain the estate maintenance make it more difficult to fund IT and other regional priorities.	Some of these sources of funding, e.g. ESF and National Bargaining are significant and are of significant important to the three colleges.
0009	Working relationships within the Glasgow College Region (e.g. students, staff, board members) are ineffective and reduces our collective impact.	Financial pressures facing colleges can cause tension within the region, e.g. if the promotional of individual interests takes precedence.		

5. Legal Implications

5.1. There are no specific legal implications associated with this report.

6. Resource Implications

6.1. The financial implications are set out in the annex to this report.

7. Strategic Plan Implications

7.1. This policy is aligned to the Finance Strategy which is in turn aligned to the Glasgow Region Strategic Plan for College Education 2017-2022.

7.2. This policy is consistent with the Financial Memorandum and seeks to make progress on the regional ambitions within the available resource constraints.

³ Within the National Condition Survey

FUNDS OUTCOMES AND AMBITIONS

A core responsibility of GCRB is the deployment of resources to enable the achievement of the Regional Outcome Agreement and the ambitions of the Regional Strategic Plan. This is one of the primary objectives within the Finance Strategy for the Glasgow College Region.

GCRB therefore allocates funding to the three assigned colleges to enable them to meet these objectives. GCRB determines the allocation process in line with the priorities set by the Scottish Government and the procedures determined by the Scottish Funding Council.

In making allocations, GCRB has been guided by the following Funding Decision Principles:

- i) There is an open and transparent consultation process involving the assigned colleges prior to funding proposals being considered by the GCRB Board or its Committees.
- ii) The basis of any funding proposals and decisions are made clear and available to the assigned colleges.
- iii) Funding proposals and decisions consider issues of institutional and regional sustainability and balance competing demands.
- iv) Funding proposals and decisions support the achievement of regional goals and outcomes.

In December 2017, the Scottish Government announced the budget proposals for 2018/19. The principal change for 2018/19 is the provision of additional funds to meet the cost of the national bargaining for lecturing staff. However, the settlement remains challenging and there are unlikely to be additional resources for other activities.

The future funding allocations might therefore be considered in three distinct tranches:

- i) Revenue – that is the core grant that supports college provision.
- ii) Capital – which provides funding for lifecycle maintenance and investment in infrastructure.
- iii) Other – which includes all other funds, for example, European Social Fund (ESF) projects, Student Support, Flexible Workforce Development Fund (FWDF), English for Speakers of Other Languages (ESOL) and funding to support the cost of national bargaining.

The approach to the three elements of funding will be considered in turn.

In addition to the funding outlined above, Colleges also generate revenue (e.g. commercial income) and receive additional funding (e.g. from an Arm's Length Foundation).

REVENUE

- i) When the revised Funding Model was published by the SFC in December 2014, a consequence was that resources would move between regions. However, the Ministerial letter of guidance for 2015/16 capped the amount any college region could lose at 1% for that year. With the revised Funding Model, the share of resources identified for Glasgow was higher than under the historical arrangements and it was anticipated that progress to the revised regional allocations would be fully implemented after the transition period. However, this has not been the case and it seems unlikely that there will be a move to the revised regional allocations in the foreseeable future.
- ii) The planning assumption for the Financial Forecast Return (provided by the Scottish Funding Council in August 2017) stated that “Colleges should also assume that the transition to the simplified funding model will be put on hold during the period 2018/19 through to 2021/22.” The implication of this is that SFC appear to have moved from a formulaic approach to funding to a position of ‘steady state’. There must be some doubt as to whether the revised Funding Model, that was developed in 2014, will be ‘fit for purpose’ in 2022.
- iii) In recent years, GCRB has used a funding formula to allocate the core revenue grant to the assigned colleges. This formulaic approach was developed in 2015/16 and has many similarities with the revised Funding Model introduced by the Scottish Funding Council (SFC) for the financial year 2015/16. The regional funding formula has not always enjoyed the unanimous support of the individual colleges.

Against this background, consideration has been given as to how revenue funding for 2018/19 should be allocated. Two options are presented below for discussion and comments are invited. Views are also sought as to whether there are any other alternatives worthy of consideration.

Using a Funding Model to allocate funding to colleges in 2017-18

There were advantages to this approach, which included:

- i) The funding formula provided a link between some regional ambitions and the resources provided e.g. activity volumes by price bands.
- ii) There are some similarities between the revised Funding Model developed by SFC in 2014 and the one used by GCRB in recent years.
- iii) The process is transparent and the assigned colleges have been involved in its development.

The disadvantages of this option are:

- i) The formula uses a simplified approach to the allocation of funding and doesn't directly align to the range of ambitions within the regional strategy/outcome agreement.
- ii) If the total regional grant is constant, then any changes to the formula will result in an increase in grant to one college being offset by a reduction to another. Annual fluctuations in grant could be challenging for a college and introduce some instability.
- iii) There is a risk that colleges evaluate how the formula affects their position and then present a case for changing the formula to suit their circumstances. This has the potential to create conflict between colleges and also between a college and GCRB.
- iv) There is some subjectivity in determining the most appropriate data to be used in the formula (e.g. historic actual or forecast future).

Proposed approach for 2018-19 - Use the percentage allocated to each college for 2017/18 as the baseline and apply this percentage to the total regional grant for 2018/19.

In effect, if the region receives a percentage funding increase (or decrease) for 2018/19 then the three colleges would receive the same.

By way of background information, the relative share of the core grant to the 3 colleges in 2017/18 was:

	City of Glasgow College	Glasgow Clyde College	Glasgow Kelvin College	Total
Core Grant	£33,640,040	£28,770,478	£19,338,722	£81,749,240
Percentage	41.15%	35.19%	23.66%	100%

The advantages to this approach include:

- i) It is simple to use and understand - colleges are provided a level of resource and agree a set of outcomes which they must fulfil in return
- ii) The relative shares, and curriculum mix, of each college is now stable following the implementation of the regional curriculum and estates review. The percentage activity undertaken by each college is not expected to change.
- iii) It is consistent with the approach now being taken by the SFC i.e. the revised funding model is not being used and is unlikely to be so for the foreseeable future.
- iv) It provides greater certainty and autonomy for colleges, which enhances their ability to plan.
- v) The percentage allocations could be changed, for example if there is a future re-distribution in activity between colleges.
- vi) It provides an interim solution pending the development of a revised funding model by Colleges Scotland.

The disadvantages are as follows:

- i) The percentage allocation for each college is constant and doesn't reflect minor changes to curriculum activity.
- ii) The direct link between specific objectives and overall funding levels is limited.

CAPITAL

For 2017/18, GCRB introduced a Capital Funding Policy. This policy determined the allocation of capital grants to the assigned colleges in 2017/18 and the following grants were allocated:

	City of Glasgow College	Glasgow Clyde College	Glasgow Kelvin College	Total
Lifecycle Maintenance	£1,189,842	£842,128	£539,184	£2,571,154
LAN Infrastructure		£985,000		£985,000
STEM Innovation	£427,200			£427,200
Interactive Smartboards		£300,000		£300,000
Building Improvements			£284,000	£284,000

It was agreed that the Capital Funding Policy would be reviewed and this will take place before final funding decisions are taken for 2018/19. One significant development, during 2017/18, has been the publication (by SFC) of the National Condition Survey in December 2017.

The Condition Survey identifies that almost £900m has been invested in significant college developments over the last 10 years. The total spent in Glasgow was reported as follows:

	£m
City of Glasgow College	193.0
Glasgow Clyde College	109.8
Glasgow Kelvin College	42.0
Total	344.8

The investment in Glasgow equates to over 38% of the national total, which is significantly greater than the relative share of student activity (around 21%). This investment has helped to provide a high standard of college facilities in the region.

Notwithstanding the significant investment, the National Condition Survey also identified that £350m is required over the next 5 years to maintain the college estate nationally. The Annex to the report shows the amount required by each college in Glasgow, with the figures summarised below:

	Year 1	Year 2	Years 3-4	Year 5	Total
	Very High	High	Medium	Low	
	£'000	£'000	£'000	£'000	£'000
Glasgow Clyde College – Anniesland	11	31	1,410	184	1,636
Glasgow Clyde College – Cardonald	499	3,072	1,281	0	4,852
Glasgow Clyde College – Langside	108	255	1,091	998	2,452
Glasgow Kelvin College - East End	30	44	492	1	567
Glasgow Kelvin College – Easterhouse	135	138	151	153	577
Glasgow Kelvin College – Springburn	180	158	385	1,468	2,191
	963	3,698	4,810	2,804	12,275

It is important to note that the above figures do not include professional fees, contingencies, other costs, VAT, optimism bias and inflation allowance. Gardiner & Theobald (the report author) estimate that the full maintenance cost will increase by 222% when these other costs are included. If the figure of £12.275m is multiplied by 222% it gives a total requirement of £27.25m (just under £5.5m per annum for each of the next 5 years).

The total in the table represents 7.5% of the national maintenance requirements. This is significantly lower than the proportionate share of student activity (around 21%) and reflects the higher level of capital investment in Glasgow in the last 10 years.

The National Condition Survey provides an evidence base, which is expected to inform the future allocation of funds by the SFC to the region. In turn, it would be reasonable to conclude that the allocation of funds by GCRB would also be informed by the results of the Survey. If SFC allocate future capital funds in accordance with need, rather than activity, then there is a possibility that funds provided to the Region may decrease. The reason for this is that historical allocations have been based upon levels of student activity rather than need.

The indicative funding allocations for 2018/19 are awaited but, due to the factors identified above, we should be prepared for the fact that the level of regional discretion may reduce.

2018/19 Proposal

Fund those items that are deemed to be very high maintenance (within the National Condition Survey).

Provide an amount for Lifecycle Maintenance to City of Glasgow College that is equivalent to the original amount provided in 2017/18 (i.e. before the redistribution of the contingency). This is to meet part of the cost of the NPD contract.

The implementation of these proposals would result in the following budgeted amounts:

	City of Glasgow College	Glasgow Clyde College	Glasgow Kelvin College	Total
Lifecycle Maintenance	£1,056,800	£1,372,000	£754,900	£3,194,700

The SFC would need to provide a regional grant of £3.2m to enable the proposals to be implemented. If the grant is below this figure then we would need to consider how this will affect the above proposal.

Although the total figure is £1m less than 2017/18, and calculated on a needs basis, there is some consistency with the amounts provided in the current year. For example, the amount provided to:

- i) Glasgow Kelvin College for estates maintenance is the same.
- ii) Glasgow Clyde College for estates maintenance would increase significantly but the total grant is equivalent to 90% of the total grant received in 2017/18.
- iii) City of Glasgow College for estates maintenance (NPD contract) is the same.

The proposal has a number of advantages:

- i) It is consistent with the evidence base (as outlined in the National Condition Survey).
- ii) It enables the Glasgow Region to address all of the maintenance that is deemed to be a 'Very High' priority.

- iii) The amounts allocated provide stability of funding in that all 3 colleges will receive estates funding that is equivalent to (or higher than) the amount allocated in 2017/18.

If the grant exceeds this amount, then there would be further discretion regarding the utilisation of these additional funds. Pressing demands could include investment in IT infrastructure and additional investment in the estate to meet the High Priority estates requirements (identified in the National Condition Survey).

The potential consequences of this proposal are:

- i) Building maintenance effectively takes precedence over other needs such as investment in IT.
- ii) The amount of discretionary spend, e.g. on emerging regional priorities, is dependent upon the level of regional grant exceeding the level required for building maintenance.

2019/20

The following year presents a challenging picture, primarily due to the potential volume of works identified as being a high priority in the National Condition Survey. If the same process was implemented in 2019/20, as suggested for 2018/19, then it would result in the following:

	City of Glasgow College	Glasgow Clyde College	Glasgow Kelvin College	Total
Lifecycle Maintenance	£1,056,800	£7,454,800	£754,800	£9,266,400

The amounts in respect of City of Glasgow College and Glasgow Kelvin College are similar but it is the amount required by Glasgow Clyde College that increases significantly. This is due to the volume of high priority works identified in the National Condition Survey.

Given these figures, there is a risk that the regional capital allocation is insufficient to fund these works. In this situation, it would be necessary to scale back the works to fit the available grant. It is also likely to mean that there is no money available to meet emerging priorities, or IT investment.

OTHER

There are numerous other sources of funding which lie outside the core revenue and capital grants. The purpose of this section is to provide an outline of each project and the challenges going forward. In considering each project, there is the potential to consider the risk to the particular source of funding. The projects include:

i) European Social Fund (ESF) Projects

The Youth Employment Initiative ends on 31 July 18. This is the ESF project that has been delivered in Glasgow. The Glasgow Colleges will participate in the Developing Scotland's Workforce programme from 2018/19 (until 2021/22). The aims of the project are:

- (1) Provide higher level skills, upskilling and job progression.
- (2) Support emerging employment potential in specific sectors.
- (3) Provide higher level accredited 'nationally recognised qualifications'

One of the challenges facing the Glasgow Colleges is that the intervention rate for the Developing Scotland's Workforce programme is approximately one third of the previous Youth Employment Initiative. The long-term planning assumption (published by the SFC in March 2017) indicated that national ESF activity could reduce by 12,607 credits, and funding could reduce by £2m. Further details are awaited in terms of the arrangements for 2018/19.

ii) Student Support Funding

Funding for student support comes from the Scottish Funding Council and also from SAAS (for Higher Education students). The funding enables Colleges to pay bursaries, childcare and provide other support to learners.

There are two significant developments that could have a material impact on student support in 2018/19. Firstly, there is the Independent Review of Student Financial Support in Scotland. Scottish Ministers received the report on 20 November 2017 and are currently considering the recommendations⁴. Secondly, in 2017/18, the three Glasgow Colleges received £2.87m of ESF funding to provide student support for the Youth Employment Initiative. However, the Developing Scotland's Workforce project is focussed on HE students who are eligible for less student support from SFC. There is therefore a risk that the Glasgow region will lose the majority of the ESF funding (£2.87m) that it received in 2017/18⁵.

⁴ Further details were provided in the report to the meeting of the Performance and Resources Committee on 1 December 2017.

⁵ This planning assumption was set out in the paper 'Long-term Planning for the College Sector', which was produced by the Scottish Funding Council in March 2017.

iii) Childcare

Over the course of the period 2017-20, “colleges are required to work closely with SFC and Scottish Government to respond to the demand for additional early years staff”⁶. In respect of financial resources, it is expected that the process for 2018/19 will be similar to 2017/18. In other words, specific credit activity will be allocated to provide this training and there will be a financial allocation associated with this. From a regional perspective, the key action is to determine the allocation of this specific credit activity between the three colleges. Once this has been agreed, the funds will be allocated to the colleges on the same basis that they have been provided to GCRB.

iv) English for Speakers of Other Languages (ESOL)

In 2017/18, SFC provided a grant of £305,751 to the region for additional ESOL provision. In turn, this funding was provided to Glasgow Clyde College to deliver the ESOL plan for 2017/18 as agreed by GCRB, Glasgow Clyde College and the regional partners. The key change for 2018/19 is that “from 2018-19 all English for Speakers of Other Languages (ESOL) provision should be resourced from college core teaching funding.”⁷

From a financial perspective, the region needs to ensure that an equivalent amount is invested in ESOL services in 2018/19. An option would be to ring-fence such an amount within the college core teaching funding. This could be at a regional level or within the allocation provided to each college. If it is included within the amount allocated to each college there might need to be a reporting mechanism to demonstrate how the monies have been used. However, even at this level of investment may be insufficient to meet the overall demand for ESOL services.

v) National Bargaining

It is expected that the additional cost of implementing the outcome of the national bargaining arrangements will be offset by an additional grant. In 2017/18, the SFC produced a spreadsheet showing the cost to each college and provided a supplementary grant. A similar process is expected for 2018/19. As such, it is anticipated that GCRB will receive these amounts regionally and transfer an equivalent amount to each college.

vi) Other

There are some other sources of funds that have been agreed by SFC with individual colleges in the past. Examples include amounts to meet the cost of Voluntary Severance and the Bridge to Business project. As GCRB assumes all of the responsibilities of fully operational status, the funding for these arrangements will also flow through GCRB. The arrangements for each funding stream are different and it is expected that the process will not change. The only change is that GCRB becomes responsible for the funds, and associated activity, and will therefore require assurance that the projects are on target to deliver the required outcomes.

⁶ SFC Guidance for the development of Outcome Agreements: 2018-19 to 2020-21 (November 2017)

⁷ ESOL funding arrangements from AY 2018-19, published in November 2017 by SFC

For each of the funding streams identified in this section has a different purpose and criteria. As such, the financial arrangements of each are expected to follow the processes specified by the Scottish Funding Council. The role of GCRB, in respect of these other funds, might include:

- i) Presenting the regional case, e.g. in respect of the funding allocation.
- ii) Allocating funds to individual colleges. In some situations, this may be in accordance with SFC allocations, e.g. National Bargaining and with others there may be a greater degree of regional determination.
- iii) Liaising with external partners, e.g. ESOL funding.