Edinburgh College

Edinburgh College

FINANCE STRATEGY

2023 - 2026

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1. EXECUTIVE SUMMARY

As Scotland's Capital College, Edinburgh College's responsibility, reach and impact is significant. We deliver life-changing education and training to people across the city, the region and beyond. We must build on the strong foundations already in place, to ensure we continue to be the right shape and right size to deliver for our people, our region and our partners.

This Finance Strategy is one of five strategic pillars (Commercial, People, Curriculum and Digital) that will enable our College to deliver for our people, our region and our partners. It is predicated on the funding settlement from the Scottish Government (SG) which is based on 'flat-cash' over 2023-26, in line with the Scottish Funding Council (SFC) financial forecast assumptions. This means that all staff pay increases, and supplies and services inflation, must be covered by the College.

In 2022-23 our College is forecast to report an Adjusted Operating Position (AOP) of a £0.1m deficit, which represents a significant improvement of £0.95m on the budgeted position for 2022-23 of a £1.05m deficit. This financial performance has been driven by a mixture of stronger than anticipated commercial income performance, efficiency savings, and achieving 98% of the SFC credit target, thus avoiding any financial claw back by the SFC for not meeting the credit target. A Voluntary Severance (VS) Scheme was also completed in 2022-23, which was delivered with support costs of £1.3m, and will help the College realise recurring annual savings of £2.2m.

In spite of this good financial performance, for the three-year period 2023-26, our College must deliver an additional £4.1m cost savings and/or income growth to achieve a balanced AOP. These financial improvements will have to be generated by driving efficiencies, reducing costs, whilst accelerating commercial income growth. It is important to emphasise that optimising procurement savings will also be a key component in closing the financial gap.

During this period, there will continue to be a high-profile national negotiation across the public sector for higher pay awards due to inflation/cost of living impacts, which will likely result in frequent industrial action. It is anticipated that future national pay claims in the college sector will, as a minimum, reflect inflationary pressures. These unfunded cost increases are reflected in our College's financial forecast for recurring deficit positions.

Our Finance Strategy responds to all of the above factors. It outlines why our College faces deficit positions, what the extent of those positions will be, and how we intend to address these projected positions. It is also well aligned to the College's new strategic plan, which prioritises support for learning and teaching, improving IT infrastructure, systems and digital services, maintaining the College estate, investing in non-SFC growth, and continuing to invest in our workforce.

2. BACKGROUND AND CONTEXT

2.1. Where are we now? – National Context

Following the Scottish Government's funding settlement, the SFC is maintaining core teaching funding at the same level as last year (2022-23) for the college sector. In preparing the SFC funding allocations to colleges, changes have been made to the credit targets for individual colleges, based on recent performance and demographic trends. Credit allocations have consequently been lowered by 10%, with a balancing average price increase to ensure that overall SFC funding is unchanged from Academic Year (AY) 2022-23. From AY 2023-24 onwards, SFC flexibilities linked to the crisis-based funding, introduced to support colleges and students during the pandemic, will be removed.

The reduction in credit target and subsequent increase in credit price is a positive step by the SFC, that more closely reflects anticipated student demand. However, the credit funding mechanism still reflects an input measure, rather than an outcome measure, and represents a minimum level of credit-bearing learning and teaching activity that colleges should deliver, in order to avoid the recovery of SFC funds.

In AY 2023-24, our College will receive £49.97m to deliver 164,857 credits. The forecast for 2024-25 and 2025-26, assumes there will be no increase (in SFC cash terms) beyond the current Financial Year (FY) 2023-24 level for credit-bearing learning and teaching activity.

The Scottish Government's FY 2023-24 budget provides a sector capital budget of £82.4m; an increase of £7.7m (10.3%). Some of this uplift (£3.0m) relates to a commitment to provide funding for Fife College's new Dunfermline Learning Campus. Also, similar to FY 2022-23, £5m has been earmarked by the Scottish Government for supporting digital poverty across colleges, universities and community learning and development (CLD) providers. A full breakdown of sector capital funding is as follows:

Capital Maintenance	£31.2m
High priority needs, including health and safety issues	£ 4.7m
Fife College (new Dunfermline Campus)	£41.5m
Digital Poverty (for colleges/ universities/CLD)	£ 5.0m
Total Sector Capital	£82.4m

As indicated above, circa £4.7m of total sector capital budget will be used on maintenance, to support the highest priority needs, including known and emerging health and safety initiatives, and regulatory compliance matters during FY 2023-24. Our College's share of the SFC capital maintenance budget is unchanged at £3.7m, but the backlog and lifecycle maintenance elements are now combined to provide greater flexibility in the use of this funding.

All of the above, equates to 'flat funding' of £61.8m for our College (combined teaching and student support), and excludes any effect of current inflation, which as of September 2023 stood at 6.3% p.a.

The adverse impact of a 'flat cash' settlement means that funding future national pay awards, covering inflation on supplies and services, and investing for growth will continue to be particularly acute over the next three years.

Our College will therefore have to achieve £4.1m in cost savings and/or recurring income/surplus growth by 2025-26 to improve financial sustainability forecasts before the 2026-27 financial year.

It is also important to note that Audit Scotland's latest annual report on Scotland's Colleges identified that colleges are vital to learners and local communities. However, risks to the college sector's financial sustainability have increased since the report, indicating that rising staffing costs are colleges' biggest financial pressure. The report also noted that the Scottish Government's funding for the sector has reduced by 8.5% in real terms between 2021-22 and 2023-24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.
In summary, Audit Scotland indicated that significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the SFC urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are financially sustainable for the future.

2.2. Where are we now? – Regional Context

In June 2023, an independent review of the national and regional skills delivery landscape was undertaken by James Withers. The review considered skills functions and the remits of Scotland's national and regional public bodies, making 15 recommendations for future adaptations to support the strategy for economic transformation.

The Withers' report concluded that substantial change is required to ensure the funding system is fit for the future and that the time to bring about these changes is now, to ensure a just transition. This is against the backdrop of wider education reform and the challenges of a tight fiscal environment, and rising living costs. Our College will adapt its finance strategy in line with the five key structural reforms identified in the report, when further detail is known:

- To move responsibility for national skills planning from Skills Development Scotland (SDS) and Scottish Funding Council (SFC) to the Scottish Government. (Recommendation 3)
- To establish a new single funding body, which brings together responsibility for all post-school learning and training funding functions from SFC, SDS and, potentially, the Student Awards Agency for Scotland (SAAS). (Recommendation 5)
- To give the new qualifications body a clear remit for overseeing development and accreditation of all publicly funded post-school qualifications and the underpinning skills frameworks and occupational standards. (Recommendation 8)
- To substantively reform SDS to focus on the development of a national careers service, with a mission to embed careers advice and education within communities, educational settings and workplaces across Scotland. (Recommendation 11)
- To give the enterprise agencies a clear remit for supporting businesses with workforce planning as an embedded and integrated part of business development and planning. (Recommendation 13).

At a regional level, SFC's review of Coherent Provision and Sustainability (June 2021) remains relevant with colleges continuing to face a series of cost pressures, including increasing financial challenges from cost of living pay awards, employers' pension contributions, maintaining the college estate, and the UK's withdrawal from the European Union.

In the review, SFC's recommendations on longer-term investment in regional colleges aims to address sustainability issues, although flat-cash funding does not address this long-term priority. The most significant risk areas for colleges that could adversely affect their financial performance and sustainability relate to their ability to maintain short-term liquidity, sudden changes in public funding, additional staff costs arising from both cost of living pay awards and the outcome of the National Bargaining Job Evaluation exercise for support staff, and increases in employer contributions to the Scottish Teachers Superannuation Scheme and/or Local Government Pension Schemes.

It is acknowledged across the sector that the current funding model for regional colleges is no longer fit-for-purpose, as there are existing historical adjustments within credit price allocations. This results in a credit price disparity across the sector when delivering the same activity, and unjustifiably places our College on one of the lowest credit prices in the sector. We would receive approximately £2.9m additional funding if paid the same credit price as a neighbouring regional college that delivers a similar curriculum. It is also likely that due to the size of our College estate, and the mortgage loan, the capital maintenance cost will be one of the highest in the sector, which leads to a double negative impact as a result of the current SFC/SG funding approach.

It is similarly acknowledged that our College's regional demography is changing more quickly than many other college regions, with an increasing population and a rising number of vulnerable students, requiring additional financial and other forms of support. However, it is still uncertain if the proposed new funding model will accommodate such regional demographic changes, due to the risk of destabilising other colleges. However, should the funding model changes proceed to a full conclusion, then our College could be one of the main beneficiaries.

2.3. Where are we now? – College Context

As in previous years, we face difficult choices on spending, including the future affordability of our current operating model. Our College needs to not just maintain financial sustainability, but also manage to transform itself to be financially 'future-proofed' for the medium-term (3-4 years), and longer-term (5-10 years).

This requires a strong alignment between the level of affordability and the curriculum offer, including, how learning is delivered in the future; qualifications and skills training demand; supporting businesses in the region; upskilling/reskilling of people in employment; the scale of support services and the operational model; and the workforce planning strategy.

There is similar pressure on capital funding as the SG's funding falls short of the estimated costs of maintaining our College estate. The combined capital and maintenance funding of £3.7m is less than in 2016, despite increased maintenance requirements and rising costs.

In common with the majority of the sector, the key operational risks include, constraints in the ability to generate alternative sources of income; unfunded increases in national pay; unfunded increases in pensions and National Insurance; minimal funding for investment in digital and new/emerging technologies, and restrictions in shaping course portfolios (due to inflexible staff contracts) to meet demand from learners, industry and stakeholders.

Our College has already outsourced its main non-core facilities which includes catering, cleaning and part of facilities management, as well as sharing procurement services through APUC. Therefore, opportunities for other shared services in response to the financial challenges faced by the sector, including deeper collaboration and/or outsourcing, will be considered as they arise.

Grant in Aid Funding

Our College's main source of funding from the SFC (£49.91m) is based on a credit activity target which is predicated on student full-time equivalents (FTEs). However, growth in part-time (PT) provision and lower associated credit value is not fully reflected in the SFC's funding model being measured in FTEs.

This PT growth has been stimulated by government policy (such as Flexible Workforce Development Fund, FWDF), as well as changing individual demand from students and businesses. It's noticeable that in 2016-17, 50% of students studied PT and in 2022-23 this increased to 76%. Full-time (FT) students have reduced by 13% over the same period. This type of shift, and the inflexibility of the SFC funding model, exerts considerable pressure on our College's ability to achieve its Regional Outcome Agreement targets, which guarantee its core (SFC) grant income. Consequently, this exposes the College to potential financial claw-back by the SFC.

In addition, since 2018, Scottish Awards Agency Scotland (SAAS) fee income has reduced by £1.2m partly due to the SG giving additional student places to universities, the lowering of entrance qualifications and incentives given to prospective students by universities, and the shift from FT to PT study. This change in student demography has exerted considerable pressure on the College when trying to achieve 10,500 alternative SFC credits (equivalent to £2.7m in credit value) through existing course provision.

There is also a minimum 50% student funding discrepancy (rising to 100% discrepancy) between colleges and universities core funding prices, when delivering the same level of HN study and qualification. In addition, SAAS fee funding has not increased in over 10 years.

Commercial and International Income

There are positive signs of recovery in commercial and international activity which has now nearly returned to pre-pandemic levels. There will potentially be opportunities for growth in alternative income streams, third-party collaborations and/or overseas contracts in the coming years. However, seed funding, which is an important constituent for commercial growth, needs to be identified and/or sourced to secure future sustainable income streams.

Against the backdrop of significant SG funding challenges, the Commercial Strategy is essential in supporting the current and future financial sustainability of our College. The budget for 2023-24 has been set to show growth in international and commercial income as follows:

- Commercial FWDF income is projected to be down £0.8m, and Skills Development Scotland (SDS) Modern Apprenticeships (MAs) funding down £0.1m. This will be partially offset by higher revenues from bespoke courses (up £0.15m) and scheduled courses (up £0.15m). Growth is also forecast in commercial hires and lets.
- The International income budget has increased by £0.11m, year on year, whilst associated travel costs, consumables and overseas agency commissions have increased by £0.07m in total, leaving a positive net benefit of £0.04m.

Whilst continued commercial and international income growth is expected in subsequent years, this has not yet been factored into the three-year financial forecast. This is due to ongoing work on internal income generation planning and reporting in this area, which, once complete will facilitate the setting of clearer and more ambitious targets across three key areas, Curriculum, Professional Services, and Commercial and International, with associated income streams clearly identified.

3. AIMS AND OBJECTIVES

3.1. Where do we want to get to?

Financial Aims and Objectives for 2023 - 26

This medium-term finance strategy supports one overarching strategic aim, which is:

- To achieve a balanced AOP

And, two distinct strategic and related objectives, namely:

- to achieve the necessary short to medium-term savings or income growth required for financial sustainability aligned to our strategic plan, and
- to develop an operating model which is future-proofed.

Our College doesn't have access to alternative sources of funding via its Development Trust, and it cannot hold cash reserves (per SG direction). Therefore, to address our future financial deficit position we must achieve a balanced AOP through innovative solutions to closing the financial gap. However, a number of key points must be considered:

- A further reduction in core credit activity with potential to further increase efficiency within teaching and support, but with no reduction in SFC funding.
- A planned deficit with SFC approval - which might require cash liquidity support, pending business case to support structural change.
- The need for more flexible staffing models which addresses the dynamic shift between full-time and part-time study.

The financial forecasts over the next three years have identified upcoming cost pressures and the level of mitigating actions required, whilst being mindful of maintaining an ongoing quality educational provision.

Although our College is experienced in facing financial challenges, there has already been an unprecedented £28m cash removed from core budgets since 2014-15, and this has resulted in around 440 staff leaving the organisation to help reduce staff costs.

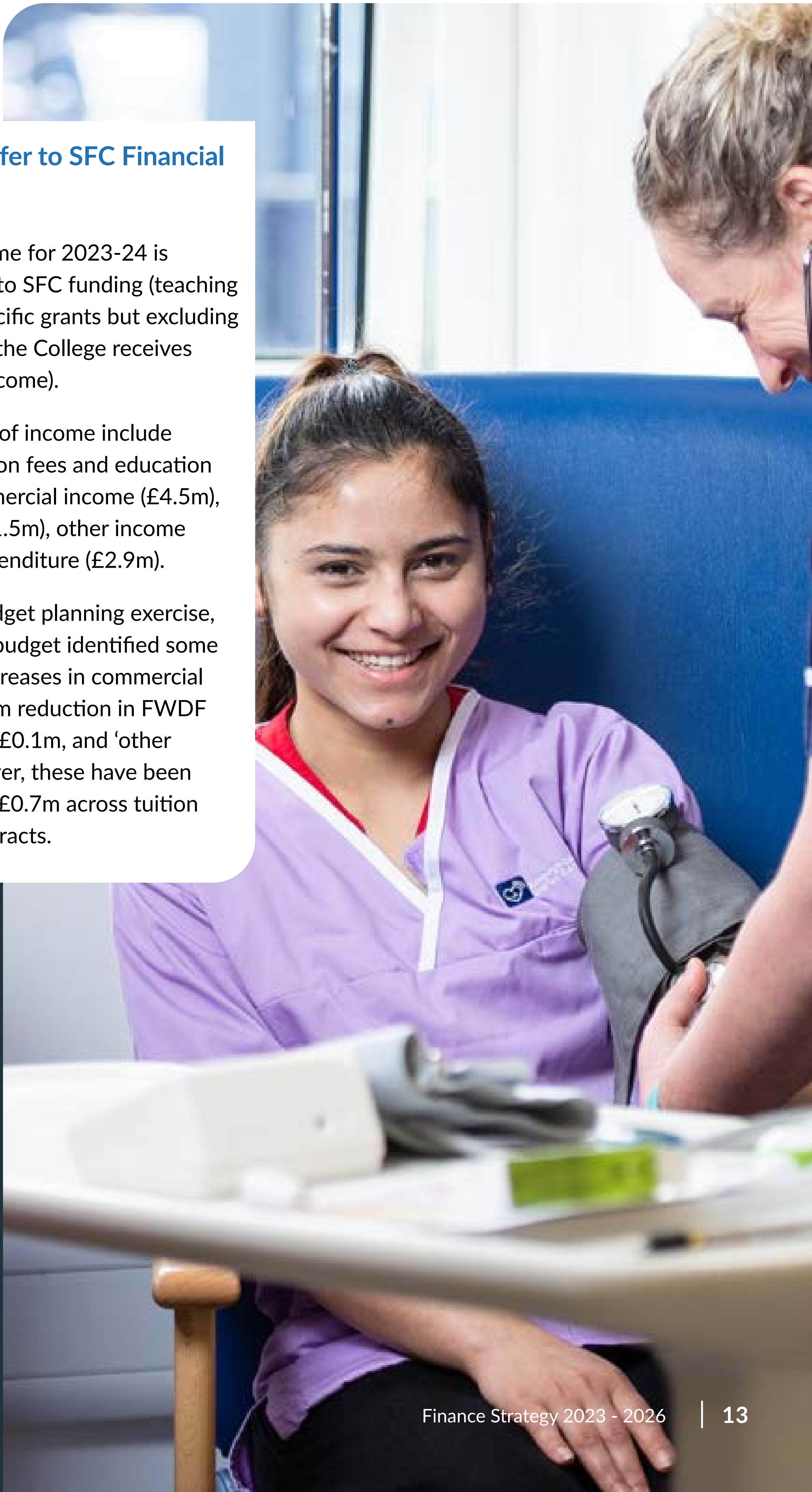
Therefore, implementing flexible staffing models will be extremely challenging, in order to demonstrate financial sustainability from FY 2023-24 onwards.

Income 2023-24 (Refer to SFC Financial Forecast Return)

Our College's total income for 2023-24 is £70.2m, and in relation to SFC funding (teaching grant, childcare and specific grants but excluding deferred capital grants) the College receives £52m (74.1% of total income).

The other main sources of income include SAAS fees (£2.9m), tuition fees and education contracts (£3.3m), commercial income (£4.5m), international income (£1.5m), other income (£3m), and deferred expenditure (£2.9m).

During the 2023-24 budget planning exercise, a review of the income budget identified some key movements with increases in commercial +£0.5m (excluding £0.8m reduction in FWDF funding), international +£0.1m, and 'other income' +£0.8m. However, these have been offset by a reduction of £0.7m across tuition fees and education contracts.



Expenditure 2023-24 (Refer to SFC Financial Forecast Return)

Our College's total expenditure for 2023-24 is £73.2m of which the highest cost is staff salaries at £50.9m which includes the savings already achieved of £2.2m from the 2022-23 VS scheme, offset by an increase in the cost of living budget of £1m which is still pending agreement by Trade Unions for both 2022-23 and 2023-24.

Budgeted expenditure (total £73.2m) has increased by £0.1m from 2022-23 due to higher staff costs (£0.5m indicative pay award aligned to current management offer), higher premises costs of £0.3m (Total Facilities Management, TFM, contract price rises), increased catering costs of £0.1m and higher depreciation charges (£0.6m 2022-23 year-end revaluations and unfunded assets). These increases have been largely offset by lower net VS costs of £1m, and lower FWDF external trainer fees (net £0.4m – related to the lower income).

College salary costs now account for 75.9% of expenditure (excluding depreciation) and have consistently exceeded Grant in Aid (GIA) income prior to savings released from VS schemes. Only through strong financial management has our College ensured that staff costs alone, as a % of GIA, have reduced from a peak of 116% in 2015-16 down to 102% for 2023-24, however this remains a significant financial risk going forward.

Given current (2023) high levels of inflation, pay demand from the Trade Unions has exceeded public sector pay policy in 2023-24, and will potentially be the same in 2024-25. This could be compounded by changes to staff terms and conditions (such as additional holidays), and/or changes in government policy on pay.

The 2022-23 and 2023-24 pay negotiation is ongoing, although the current management offer has been applied to the budget (approximately 8.5% over the two years) and reflected in the sensitivity analysis showing alternative financial effects.

The staff and operational overhead budgets will be regularly reviewed for in-year savings to reduce cash-flow pressure and reduce the deficit during the financial year.

Overall AOP 2023-24 (Refer to SFC Financial Forecast Return)

The 2023-24 AOP shows a starting budget of £0.7m deficit, which it is hoped can be brought back to a balanced position through delivering efficiencies and income growth during the operating year.

Financial Forecast 2023-26

Our College has undertaken significant work throughout prior years in achieving balanced budgets. However, as a result of the SG's 'flat-cash' settlement for 2023-24 (potentially the same for 2024-25 and beyond), unfunded pay and NI increases, hyper-inflationary energy prices costing £1m more than 2021-22, plus £0.4m income reduction in SAAS fees due to fewer FT students, this finance strategy is very much focused on closing the financial gap through savings or income growth of £4.1m to balance our budget by 2025-26 and deliver a break-even AOP.

This challenging strategy starts with a 2023-24 budget deficit of £0.7m. Beyond this year (2023-24), if there isn't sufficient income growth then further innovative solutions must be found potentially through flexible staffing models.

Total forecast income shows an inflationary improved position through to 2026 at circa £70m, and although commercial and international income has increased to pre-pandemic levels, this is partially offset by forecast reductions in SAAS fees and in 'other' tuition income.

Total forecast expenditure remains 'flat-lined' at circa £72.4m on the basis that balanced budgets can be struck following the release of savings or income growth. The £2.4m difference between the Income and Expenditure budget (through to 2026) and the AOP reflects the movement between depreciation net of deferred capital grant releases, loan repayments plus payments against provisions.

There are two potential future cost risks which relate to the catering service and the Granton Waterfront Nursery. The outsourced catering contract was agreed as being 'cost-neutral' to the College however, during the pandemic, the catering service was reduced in scale due to a significant drop in footfall, resulting in the College then being liable to pay a subsidy. This subsidy cost £194k in 2021-22 and c.£150k in 2022-23 as a result of online teaching and staff working from home. Flexible working arrangements adversely affect footfall at campuses which continues to be lower than required to generate sufficient sales. A more innovative catering contract is currently being considered for tender in July 2024 to minimise this financial risk.

Over the past 4-5 years the nursery (at Granton Campus only) has had difficulty performing to a break-even financial position due to staff pay being significantly higher than private providers, compounded by challenges passing on full cost increases to customers due to market competition. This year (2023-24) prices have increased by 10% to catch up on prior years.

The nursery predominantly provides a service to the community as 77% (previous 66%) of children using the nursery are from commercial clients, whilst 6% (previous 4%) are from staff, and 17% (previous 30%) from students. The nursery has been working closely with The City of Edinburgh Council on new initiatives and is forecast to post a break-even position in 2022-23 (excluding direct costs of cleaning, heat/light, and maintenance). It is likely that the effect of national pay will adversely affect nursery financial performance over the next year or two. The financial performance of the nursery will be closely monitored through each financial period.

Financial Forecasts 2022/23 to 2025/26

Financial Forecasts 2022/23 to 2025/26	2022/23	2023/24	2024/25	2025/26
	Flat Cash Final Budget	Flat Cash Indicative Budget	Flat Cash Indicative Budget	Flat Cash Indicative Budget
	£000's	£000's	£000's	£000's
INCOME				
Funding Council Grants	54,646	54,901	54,801	54,701
Tuition Fees & Education Contracts	6,916	6,205	6,205	6,205
Commercial & International	6,207	6,041	6,163	6,289
Other Income	2,194	2,990	2,990	2,990
Endowment, Investment and Bank Interest	1	50	50	50
TOTAL INCOME	**70,028**	**70,187**	**70,208**	**70,234**
EXPENDITURE				
Staff Costs	51,413	50,935	50,405	50,475
Other Operating Expenses	15,636	15,651	15,596	15,650
Depreciation for the year	5,557	6,146	6,026	5,906
Debt Interest & Other Finance Costs	504	515	484	453
TOTAL EXPENDITURE	**73,108**	**73,246**	**72,511**	**72,484**
Surplus/(deficit) before other gains and losses and share of operating surplus/deficit of joint ventures ans associates	(3,080)	(3,059)	(2,230)	(2,250)
Add:				
Depreciation net of deferred capital grant release (incorportated colleges only)	2,869	3,249	3,230	3,210
Deduct:				
Revenue funding allocated to loan repayments and other capital items	840	894	926	960
Adjusted operating position	(1,051)	(704)	0	(0)
- Efficiencies required in year for balanced AOP	0	0	2,374	1,694
- Recurring efficiences from prior years	0	0	0	2,374
Cumulative financial gap from 2022/23	0	0	2,374	4,068

Indicative Cash Flow FY 2023-26

Our College's cash-flow position reflects the achievement of financial savings over future years and the impact of cost savings (including potential VS payments) and/or income growth, which shows a deterioration in the cash balance over the period, from £4.2m to £0.6m.

This continues to be a precarious position for an institution generating circa £67.5m of cash income (excluding deferred capital grants) per year, reflecting the particularly challenging 'flat-cash' funding approach from the SG/SFC.

This very low cash balance creates a difficulty in managing cash-flows, particularly in relation to the timing of grant receipts, other income, and expenditure, and specifically in March and July of each year.

The risks previously highlighted in an SFC report on the financial sustainability of colleges adversely affects cash-flow management, and as expected is forecast to worsen with future flat-cash funding settlements.

Cash Forecasts 2022/23 to 2025/26

Cash Forecast from 2022/23 to 2025/26	Forecast	Final Budget	Indicative Budget	Indicative Budget
	2022/23	**2023/24**	**2024/25**	**2025/26**
	£000's	**£000's**	**£000's**	**£000's**
Opening Cash Balance	5,494	4,200	596	596
Surplus/(deficit) per financial forecast	(2,956)	(3,763)	(2,303)	(2,250)
Non-Cash Items				
Add: depreciation	5,657	6,146	6,026	5,906
Less: deferred grant release	(2,788)	(2,897)	(2,797)	(2,697)
Cash Items not I/E				
Bank Loan repayments	**(569)**	**(601)**	**(633)**	**(667)**
Pensioners payments against provision	(271)	(293)	(293)	(293)
Additional cash movements				
Other cash movements at year end	(367)	(2,196)		
Closing Cash Balance	**4,200**	**596**	**596**	**596**

Efficiences and Income Growth Targets to be Achieved by 2025-26

The efficiences target is £4.1m over the next three years to bring about a break-even AOP.

Risks During 2023-26

There are several key significant financial risks facing our College, which include, a lack of investment to grow, potential adverse impact in further reshaping of the College, and limited investment in our IT infrastructure and digital ambitions.

However, within the strategic vision there are other financial risks which could undermine our College's progress towards being financially sustainable, which include:

- There is no SFC/SG financial support available to fund a future VS scheme which will likely be required over the strategic period. The offer of SFC liquidity support will help immediate cash-flow pressure, but will adversely impact the following year's cash-flow, as SFC only offer advanced cash.
- Introduction of more flexible staffing models will adversely affect 'business as usual' and the quality of the student learning experience. It also puts at risk achieving the new SFC credit targets plus other income targets potentially leading to a financial claw-back and/or insufficient revenue.
- The sector also continues to make representations relating to the inequity in funding approaches across the wider tertiary landscape.
- Sufficient numbers of staff no longer apply for the VS scheme. The Scottish Government previously confirmed that colleges are not required to adhere to the wider public sector government policy of no Compulsory Redundancy.
- Our growth ambitions and untapped potential require investment to develop our capacity, therefore the regular funding reductions and continued 'one-year funding' model presents a particular challenge as to how we can respond. Commercial activity 'seed' funding from SFC and/or SG does not exist for the sector, therefore our College will continue to influence and lobby both SFC and SG accordingly.
- Future national pay awards are agreed but unfunded by the SG therefore more cost reductions need to be identified to break-even. The impact of higher pay awards is also shown in the sensitivity analysis in this strategy.
- Our College does not achieve break-even AOP in 2024-25 which could result negatively on the cash balance going forward.
- Planned new funding model not developed, implemented nor funding redistributed as planned or not incorporating demographic shifts across the sector due to the potential destabilisation of colleges losing activity.

Financial Key Performance Indicators

The table below shows key the performance indicators which highlight the challenges faced by the college over the next three years. In particular, from 2023-24 SFC funding is 76.9% of all income generated, which is only sufficient to cover staff costs. Debt, pensioners payments & mortgage servicing which is 2.1% of income (£1.3m per year).

Despite the College being heavily reliant on SFC grant income, there is significant pressure on the College to generate other sources of income to cover its core non-pay overheads at 23.1% of total costs (excluding depreciation), circa £16m.

The number of days cash on hand is precariously low, showing an average of 3.3 days from 2023-24, which determines how long the College can continue to pay its operating expenses given the amount of cash available. The College's monthly cashflow analysis provides a more accurate days' cash on hand position, but due to very little cash reserves (per government policy) this measurement tends to fluctuate through the year.

Key Performance Indicators (Excludes Deferred Income, Depreciation & Childcare)	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
SFC Funding as a % of Income	79.9%	76.8%	76.9%	76.9%	76.9%
Staff Costs as a % of Income	76.1%	77.4%	76.9%	75.9%	75.8%
Financial Objectives	77.4%	77.1%	77.1%	77.0%	77.0%
Debt, Pensioners and Finance cost as a % of Income	2.0%	2.0%	2.1%	2.1%	2.1%
Days ratio of cash to Expenditure	29.9	7.1	3.3	3.3	3.3

Financial Sensitivity Analysis 2023-26

The sensitivity options include:

- Additional £0.5m income or reduced costs from 2022-23.
- Decrease of £0.7m (lower income or higher staff costs (1.3%) from 2022-23).
- Impact of a delay in lecturing staff leaving, through the VS scheme, by July 2023.
- An increase in pay by a further 1% (circa £0.5m) from 2023/24 onwards (3.5% already budgeted).

Sensitivity 1 - Annual £0.5m INCREASE in income or DECREASE in costs over period				
	2022/23	2023/24	2024/25	2025/26
Indicative forecast	**£000's**	**£000's**	**£000's**	**£000's**
AOP after all targeted efficiencies and income growth	(1,051)	(704)	0	(0)
Closing cash balance	1,300	596	596	596
Change in projection	-	500	500	500
Revised AOP after all targeted efficiencies and income growth	**(1,051)**	**(204)**	**500**	**500**
Revised cash balance (cumulative)	**1,300**	**1,096**	**1,596**	**2,096**
Summary Effect: A favourable movement of £0.5m through the AOP each year (from 2023/24) and higher cash balance from 2023/24 onwards. Require less one-off financial support and/or liquidity advance from the SFC.				

Sensitivity 2 - Annual £0.7m DECREASE in income or INCREASE in pay (1.3%) over period				
	2022/23	2023/24	2024/25	2025/26
Indicative forecast	**£000's**	**£000's**	**£000's**	**£000's**
AOP after all targeted efficiencies and income growth	(1,051)	(704)	0	(0)
Closing cash balance	1,300	596	596	596
Change in projection	-	(700)	(700)	(700)
Revised AOP after all targeted efficiencies and income growth	**(1,051)**	**(1,404)**	**(700)**	**(700)**
Revised cash balance (cumulative)	**1,300**	**(104)**	**(804)**	**(1,504)**
Summary Effect: An adverse movement of £0.7m through the AOP each year (from 2023/24) and lower cash balance at the end of each year (from 2023/24). Requires more staff reductions to balance AOP position & additional one-off financial support and/or liquidity from the SFC from 2023/24 onwards.				

Sensitivity 3 - 20 FEWER lecturing staff leave by July 2023 but in April 2024				
	2022/23	2023/24	2024/25	2025/26
Indicative forecast	**£000's**	**£000's**	**£000's**	**£000's**
AOP after all targeted efficiencies and income growth	(1,051)	(704)	0	(0)
Closing cash balance	1,300	596	596	596
Change in projection	497	(1,571)	0	0
Revised AOP after all targeted efficiencies and income growth	**(554)**	**(2,275)**	**0**	**0**
Revised cash balance (cumulative)	**1,797**	**(478)**	**(478)**	**(478)**
Summary Effect: An improved AOP position in 2022/23 owing to lower VS costs (partly offset by slightly higher associated staff costs). An adverse AOP movement of £1.6m in 2023/24 (as the VS costs for 20 lecturers would move into this year), with an additional 9 months of costs. There would then be a lower cash balance in both 2023/24 and future years. Require more staff reductions to balance the AOP position from 2023/24 onwards.				

Sensitivity 4 - INCREASE pay by a further 1% from 2023/24 onwards (circa 3.5% already budgeted)				
	2022/23	2023/24	2024/25	2025/26
Indicative forecast	**£000's**	**£000's**	**£000's**	**£000's**
AOP after all targeted efficiencies and income growth	(1,051)	(704)	0	(0)
Closing cash balance	1,300	596	596	596
Change in projection	0	(492)	(492)	(492)
Revised AOP after all targeted efficiencies and income growth	**(1,051)**	**(1,196)**	**(492)**	**(492)**
Revised cash balance (cumulative)	**1,300**	**104**	**(388)**	**(880)**
Summary Effect: An adverse movement of £0.5m through the AOP from 2023/24 and lower cash balance at the end of each year. Require more staff reductions to balance AOP position & additional one-off financial support and/or liquidity from the SFC from 2024/25 onwards.				

4. FINANCIAL CONCLUSION

Our College faces significant financial pressures to progress towards a sustainable financial future. However, we can achieve this position through the successful delivery of our financial plan which is to deliver savings and/or grow income by circa £4.1m over the next three years. This is based upon known assumptions from the SFC, although these assumptions could prove to be unrealistic given the uncertainty of national pay, and inflation beyond 2025-26.

Our College will focus on removing subsidies from non-core activities within the catering service and Granton Waterfront Nursery, which will enable any in-year 'free cash' to be diverted to our main core provision or for growth.

There is no cash funding from SG to support colleges' VS schemes which places significant financial pressure on cash, therefore, cash will need to be robustly managed to ensure there is sufficient cashflow to pay staff and suppliers when payments are due. The offer of cash liquidity support from the SFC is helpful, but essentially defers cash pressure to the following year, as it is not additional cash, purely an advance of cash.

Our College will continue to focus on improvements to processes through technology and simplifying procedures to remove workload burden on existing staff as other staff leave or posts are removed from establishment. Throughout this period, focus will be maintained on increasing student numbers and improving retention and attainment. Change in workforce profiles to improve efficiency within the curriculum and support will improve future service provision towards the achievement of future ambitions.

5. STRATEGIC FINANCIAL OBJECTIVES

The following table indicates a set of Key Performance Indicators (KPIs) for our Financial Strategy:

	Year 1- 2023-24	Year 2– 2024-25	Year 3- 2025-26
Achieve a balanced AOP position.	Recover from forecast £0.7m deficit position through cost savings and income growth.	Drive efficiencies and income growth to achieve the required £1.6m savings target.	Drive efficiencies and income growth to achieve the required £1.8m savings target.
Remove or optimise the potential subsidies from non-core provision	Catering and Nursery	TBC	TBC
Maintain cash-flow to minimize the requirement of liquidity support from the SFC.	Prepare business case for potential VS scheme if no SG funding provided for pay awards.	Prepare further VS scheme if savings targets not met.	
Identify 'free-cash' to invest in future growth for the curriculum and international/ commercial activities.	Ensure the College applies for all funding it could be considered eligible for.	Ensure the College applies for all funding it could be considered eligible for.	Ensure the College applies for all funding it could be considered eligible for.
Invest in technology to improve processes and for simplifying procedures (part of Digital Strategy).	Align finance with Digital Strategy. Plan for implementation of Cloud based SaaS Unit 4 (finance system) migration.	Align finance with Digital Strategy.	Align finance with Digital Strategy.

6. GOVERNANCE

6.1. Who is responsible?

The Chief Operating Officer and Director of Finance and Infrastructure will have lead responsibility for delivery of this strategy.

They will be supported in this task by members of the Executive and Senior Management teams, and managers in the Finance and Estates teams.

The Planning and Resources Committee and Audit and Risk Assurance Committee will be responsible for maintaining oversight and evaluation of the delivery of the strategy, reporting in turn to the Edinburgh College Board of Management.

6.2. When will we review and report progress?

Delivery of our Finance Strategy will be underpinned by monthly performance reviews through the management accounts performance reports.

These reports are reviewed, analysed, and subsequent remedial action agreed, by the Executive and Senior Management teams.

Our Finance Strategy will be reviewed in 2026.

Finance Strategy 2023 - 2026

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