Association of Colleges
Promoting. Representing. Supporting.

College financial plans – some assumptions

There is a belief in some quarters that colleges are not good enough at forecasting[1] though there is sometimes denial about the way in which government policy makes this more difficult. By now, colleges should have most of the information they need for 2016-17 budgets but there are some areas to watch for 2017 and beyond including:

- inflation: This is currently 0% on the CPI index but predicted by the Bank of England to be back at 2% by late 2017 though the EU referendum outcome may have an impact (see later in this note).
- pay: discussions have yet to start between either AoC or SFCA and the recognised trade unions.
- national insurance: There was an increase in national insurance in April 2016. The full-year effect of this change means that staff costs in 2016-17 will be around 2% higher than they were in 2015-16 though the difference depends on the make-up of pay.
- pensions: LGPS employer contributions are due to change in April 2017 and may rise because of low interest rates and action by some funds to reduce deficit recovery periods. TPS contributions will next change in April 2019. HM Treasury has reduced the discount rate for the next valuation which implies an increase in the employer contribution rate.
- the minimum wage: increased to £7.20 from April 2016 but due to rise by around 25% over the next 3 years to reach the promise that it will be over £9 in 2020).
- the apprenticeship levy: payable by almost all colleges at 0.5% of any payrolls over £3 million.
- exam fees: These invariably rise by more than inflation because of lack of competition and government inspired curriculum change.
- energy prices: These are currently at a relatively lower level because the oil price is less than 40% of the level reached in 2013.
- subscriptions: Government spending cuts likely to result in the more costs being passed onto institutions. This will be a particular issue in higher education.
- interest rates: These are currently at low levels because of the 0.5% Bank base rate but already rising for colleges because of increasing bank margins and likely to rise further because of an assessment that colleges are a higher financial risk.

On funding, the things to watch are:

[1] NAO "Overseeing Financial Sustainability in Further Education" Page 24

- the possibility of changes to EFA funding rules as an early response to Lord Sainsbury's technical education report and the concerns about A-level drop out. It is already getting quite late for firm plans but it is possible that there may be penalties for lower retention (looking at enrolments over a two year span).

- the plan to reform bursary allocations because the current funding distribution derives from the pattern of EMA recipients in 2009. There are no details on any planned change but there could be considerable changes if a different measure was used (for example free school meal receipt).

- the multiple changes being introduced in apprenticeships and the likelihood that the focus on introducing the levy will mean less change than expected in other areas. Despite the political rhetoric they may be limited funds for growth in apprenticeship numbers in smaller companies. The plan to introduce some degree of co-funding in 2017 could hit demand among smaller employers which will be a particular issue for colleges.

- the plans to give combined authorities some ability to vary adult education budget allocations in 2017-18. There are nine devolution deals which promise combined authorities control of the 19+ further education budget in 2018 and more may be agreed in the rest of this year. All of the deals promise that there will be a transfer of responsibilities as well as money; that there will be a new funding formula to calculate the size of the central government grant to local/combined authorities and that there will be a chance for allocations to be varied within an agreed national framework. SFA staff are working to a timetable that should have the 2017-18 framework ready by early autumn and also outline plans for the new funding formula (to set locality budgets).

- the possibility that the higher education fee caps will rise in 2017-18 and afterwards if government plans go ahead. Only colleges whose fees are already at the £9,000 or £6,000 limits are affected by these changes.

- continuing shifts in the funding received by individual colleges which follow shifts in enrolment which, in turn, result from local demography and institutional behaviour and reputation. The biggest determinant of 16 to 18 funding is the previous year's recruitment. Higher education income is now very demand-driven as a result of the removal of the caps on student numbers.

The outcome of the EU referendum on 23 June 2016 creates another economic uncertainty These are the known issues:

- The consensus among economists (summarised in an IFS report in May 2016[2]) is that a vote to leave would have the short-term effect of increasing interest rates, reducing investment, reducing employment and increasing the government's budget deficit. This, in turn, might force further public spending cuts on top of those announced in the 2015 Spending Review and the March 2016 Budget. Given normal public spending timetables, these would probably be scheduled to start in the 2018-19 financial year

[2] IFS "Brexit and the UK public finances"

though the timing would depend on whether the government wanted to provide a fiscal stimulus. In the longer run, the scale of public services depends on the size of the economy.

- Colleges earn most of their income from the UK Government and students who live locally. Over the next two years a share of college income will be directed by levy paying employers and by local government (combined authorities). The risk identified by the Skills Minister, Nick Boles, in a speech on 13 June 2016 is that the government might decide to postpone the apprenticeship levy if there is Leave vote to reduce pressure on employers. This, in turn, and that this would lead to cuts in government apprenticeship spending for the 2017-18 academic year and would add to savings in post-16 education and training.

- A leave vote would take a minimum of two years to implement. An obvious immediate question for colleges is what happens to European Social Funds which were worth £100 million in income in 2014-15 but an uncertain amount in 2015-16. The Vote Leave campaign has promised to protect structural fund budgets (using the money saved on EU contributions) but generally mention other spending areas first (ie research, farm support) and have also promised to increase other spending (eg on the NHS).

Julian Gravatt
Assistant Chief Executive, 15 June 2016