Edinburgh Colleges – Merger Business Case

17th April 2012

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1. Executive Summary

This document is the Business Case for the new "Edinburgh" College. It summarises the content, inputs, and assumptions utilised within the Business Case and financial model

The case for Edinburgh College is premised on assumptions that support public value and preventative spending and seek to make best use of public funds. The basic premise is to keep resources as close to the student as possible.

1.1 Key Messages

- Collectively the three individual colleges produced a surplus of £3m in the year ended July 2011; this is forecast to reduce to £300k in year to July 2012.

- The expected reduction in grant income in 2012/13 is approximately £4m, with further reductions of £2.5m p.a. in the following two years.

- Income of the Edinburgh College will reduce by £19m (24%) over the period from 2010-11 to 2014-15. This is the equivalent to the size of Jewel & Esk College.The effect on curriculum, access, jobs and asset usage needs to be explored in detail.

- An income reduction of this scale will lead to a reduction in output and capability unless cash is invested to enable new ways of delivery. The College forecasts fixed asset investment of £25m over the plan period.

- The merger will reduce management costs. There will also be need to be a substantial reduction in teaching and support costs. The Base Case assumes a 60% reduction in management roles and a 17.5% reduction in teaching and support roles.

- A net job loss of c.240 FTE will be required over the period 2012- 2014. This will comprise c.100 teaching roles, 90 support roles and 50 management roles.

- The Base Case targets financial viability (1% surplus on turnover and positive cash flow) from 2015 to enable future investment at College and Regional level.

- The main risks to the Base Case are;delivery of the integration activity and merger savings; inflation of staff and non-staff costs,the ability to generate ongoing international income, changes that may arise through harmonisation of terms and conditions.

- The merger process will be cognisant of the views of a range of stakeholders; a viable business plan will be required by the Colleges bankers to maintain access to the long term lending of £12.5m that will be in place at the time of merger.

- The cost of merger is estimated at £14.7m, of this £10.5m relates to VS. Implementation funding of £7.7m is expected from the SFC via a mixture of the "Invest to Save" fund and the College Transformation Fund. Facilitation funding of £0.6m has been received.

- Merger funding of £3.7m will be utilised to support voluntary severance activity in advance of the Vesting Day of 1st October 2012.

1.2 Key Assumptions

A number of assumptions underlie the building of this business case and these include;

- A reduction in managerialism evidenced by arapid reduction of both academic and corporate management costs for the new College.
- A level of operating surplus and positive cashflow generated by the Collegesufficient to support institutional sustainability but recognising the need to maximise resources wherever possible to enhance the student experience. The College is targeting to achieve an operating surplus of circa 1% of turnover.
- The management of liquid assets is a critical and sensitive issue.The proposed ceiling of 10% of annual revenue has been considered in the financial plan.

The Business Case has been developed against a background of substantially reduced funding and a desire to focus Further Education resources into more specific areas of provision. In order for the college to remain viable the Base Case assumptions reflect substantial reductions in staffing cost.

The key assumptions are discussed in appendices 3 & 4 and summarised in the table below:

The income figures reflect the information provided within the SFC grant letter re 2012/13 together with management estimates of future grant, commercial and international income based on the latest guidance available. SDS income of c. £3m may be allocated to the College for 2012/13. At this stage there is no clarity on the key deliverables and the costs of achieving them – revenue and cost estimates have been excluded from this plan.

The cost reduction estimates consider the % reductions required to the expected costs for this year (2011/12).

Base Case model assumptions

Grant income	2011-12 Budget £k	2012-13 Yr 1	2013-14 Yr 2	2014-15 Yr 3	2015-16 Yr 4	2016-17 Yr 5
SFC Core Grant income			40,903	38,612	38,612	38,612
Grant reduction %			5.6%	5.6%	0.0%	0.0%

Other Income					
Other income growth %	2.0%	2.0%	2.0%	2.0%	2.0%
Other income margin %	10%	10%	10%	10%	10%

no.	Staff costs	Av Sal + oncosts £k	2011-12 Budget £k	Reduction %	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	2017 cost no infl'n	check
17	Senior mgt	90	1,559	60.0%	50%	100%	100%	100%	100%	624	40%
42	Academic mgt	50	2,124	60.0%	50%	80%	100%	100%	100%	850	40%
22	Corporate mgt	50	1,122	60.0%	50%	80%	100%	100%	100%	449	40%
549	Teaching staff	40	21,957	17.5%	30%	70%	100%	100%	100%	17,834	81%
523	Non teaching staff	30	15,687	17.5%	40%	60%	100%	100%	100%	12,017	77%
	Temporary staff		2,488	30.0%	0%	0%	100%	100%	100%	1,238	50%
1,154			**44,937**							**33,010**	73%

Non -staff costs										
Admin & Central services		**8,964**	10%	20%	50%	100%	100%	100%	**7,815**	87%

Other variables	2012-13 Yr 1	2013-14 Yr 2	2014-15 Yr 3	2015-16 Yr 4	2016-17 Yr 5
staff cost inflation %	0.0%	0.0%	1.0%	1.0%	1.0%
non staff cost inflation %	2.0%	2.0%	2.0%	2.0%	2.0%

1.3 Base Case: Key outputs

The Base Case assumes a Vesting Date for the College of 1st October 2012. The financial plan aims to demonstrate a sustainable financial position within three years of merger with an accounting and cash surplus being generated at this stage.

The substantial level of grant reduction will require management action to reduce costs across the College. This will lead to a 60% reduction in management staff and costs, together with a 17.5% reduction in teaching an support staff. Work is required to develop and document the curriculum and productivity changes required to enable the colege to meet its academic and social commitments whilst remaining financially viable.

The colleges have provided a no Compulsory Redundancy commitment to July 2014. The Base Case assumes that the colleges will commence a VS programme pre-merger (2011-12) with further schemes in 2012-13 and 2013-14. The Base Case assumes that the the 1:1 cost of severance over the period of the plan will be funded by a mixture of SFC funding and College reserves.The assumptions are documented in App.3& 4.

The cost of the merger is forecast at £14.7m. This comprises £10.5m of severance costs – assuming the cost of one years employment is paid on average over the three years £9.5m and an estimate of £1m for pension stretch; £1.5m for harmonisation costs, £2m to cover IT, rebranding and other merger costs and £0.7m for merger facilitation.

Summary outputs of the Base Case model ;

Base case model outputs: Key metrics

Job reductions (Cumulative)	B\F position pre VS activity	2012-13 Yr 1	2013-14 Yr 2	2014-15 Yr 3	2015-16 Yr 4	2016-17 Yr 5	% red jobs & £k	share of otal reduction
Teaching - occur at start of financial year	549	**29**	**67**	**96**	**96**	**96**	17.5%	41%
cost saving £K cumulative	*21,957*	*1,153*	*2,690*	*3,842*	*3,842*	*3,842*	17.5%	41%
Management	82	**25**	**42**	**49**	**49**	**49**	60.0%	21%
cost saving £K	4,805	*1,442*	*2,493*	*2,883*	*2,883*	*2,883*	60.0%	30%
Non teaching	523	**37**	**55**	**92**	**92**	**92**	17.5%	39%
cost saving £K	15,687	*1,098*	*1,647*	*2,745*	*2,745*	*2,745*	17.5%	29%
Total job reductions no.	**1,154**	**90**	**164**	**237**	**237**	**237**	**20.5%**	
cost saving £K	**42,449**	***3,692***	***6,830***	***9,471***	***9,471***	***9,471***	**22.3%**	
			3,138	2,640				

Merger costs	2011-12 Yr 0	2012-13 Yr 1	2013-14 Yr 2	2014-15 Yr 3	2015-16 Yr 4	2016-17 Yr 5	Total
Facilitation	725						**725**
Severance costs	4,092	3,438	2,940	-	-	-	**10,471**
Harmonisation costs	-	-	256	402	402	402	**1,462**
IT & other integration costs	308	900	792	-	-	-	**2,000**
Total	**5,125**	**4,338**	**3,988**	**402**	**402**	**402**	**14,658**
SFC Merger Funding	**4,288**	**3,138**	**862**	**-**	**-**	**-**	**8,288**

I&E Account	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Income	80,551	76,802	69,797	63,802	60,789	60,928	61,068
Surplus \ (deficit) pre merger exceptionals		351	(296)	(348)	843	846	847
Exceptional costs		(837)	(1,200)	(3,126)	(402)	(402)	(402)
Surplus \ (Deficit) post exceptionals		**(486)**	**(1,496)**	**(3,474)**	**441**	**444**	**445**
Surplus as a % of Turnover		-0.6%	-2.1%	-5.4%	0.7%	0.7%	0.7%
Balance Sheet							
Revenue Reserves less pension deficit		**49,112**	**47,616**	**44,142**	**44,582**	**45,026**	**45,471**
Cash & Debt position							
Cash C/F		**17,976**	**11,495**	**4,630**	**4,320**	**4,514**	**4,709**
Cash as % of Revenue		25%	17%	7%	7%	7%	8%
Total Debt C/F		**(12,514)**	**(12,224)**	**(11,934)**	**(11,644)**	**(11,354)**	**(11,064)**

2. Business case - Context

The case for the New College is premised on a number of key assumptions that both support a clear premise of public value and preventative spending as outlined by the Scottish Government and that also seeks to make best use of public funds during challenging economic times. The basic premise of keeping resources as close to the student as possible is threaded strongly throughout this business case and is equally reflected in sections 4 and 5 of the full merger proposal document and associated academic benefits.

A number of assumptions underlie the building of this business case and these include;

- A reduction in managerialism evidenced by arapid reduction of both academic and corporate management costs for the new College.
- A level of operating surplus and positive cashflow generated by the Collegesufficient to support institutional sustainability but recognising the need to maximise resources wherever possible to enhance the student experience. The College is targeting to achieve an operating surplus of circa 1% of turnover.
- The management of liquid assets is a critical and sensitive issue. The proposed ceiling of 10% of annual revenue has been considered in the financial plan.
- The College will be able to generate sufficient cash resources to facilitate;
    - The continued usage of key assets at Sighthill, Forthside, Granton, Milton Rd.and Midlothian
    - The development of better access in both East Lothian and Craigmillar, to enhance the student experience and enable an early development of " equivalence" for students in terms of resources and facilities
- The College is aware of the potential requirement to provide IT support to Newbattle Abbey College. This Business Case has no provision for any costs that may arise in respect of this activity.

This Business Case reflects the current vision of the Merger Executive Board (MEB).

The production of a robust Business Case is difficult, particularly at a time of rapid change and uncertain finances. Reality is alwaysdifferent from the plan but this document and the process of development has enabled the identification and consideration of the key issues and delivery risks to be managed through the merger process, and alternate options for future management to consider.

3. Business Case – Introduction to the document

The purpose of this document is to summarise the process, content, inputs, and assumptions utilised within the Business Case and financial model for the new college that will be formed by the merger of Stevenson College Edinburgh (SCE), Jewel & Esk College (JEC) and Edinburgh's Telford College (ETC). The new college is referred to as Edinburgh College or the College throughout this document.

A Base Business Case and associated financial plan has been developed and is described within Section 3 of this document. The intention of the Business Case is to identify the scale of the actions required for Edinburgh College to be sustainable post-merger.

The Base Case demonstrates that the College can build a sustainable financial position post-merger. The scale of merger efficiencies required and some of the risks and sensitivities relating to their achievement are described within the document.

The Base Case considers the potential effect of reduced grant funding to the FE sector over the period 2011-15.

This paper does not detail the strategies and plans required to implement the changes; these will be documented within the specific functional strategy documents.

The Business Case document is structured as follows;

Section 4provides a narrative outline of the Base Case merger scenario.

Section 5 provides summarised forecast financial information covering I&E, Balance Sheet and cash flow out-turns supporting the Base Case narrative.

Section 6provides alternative scenarios that may arise and the key financial and economic sensitivities that need to be considered.

Section 7provides the risks to the achievement of the Base Case and actions that could be taken to mitigate the financial effects of the risks arising.

The appendices provide detailed information to support the Base Case and sensitivities;

Appendix 1 provides a background to the financial model and its development process.

Appendix 2 includes the detailed financial information for each college together with a merged position.

Appendix 3 includes the analysis of the cost and benefits arising from the merger activities outlined in Section 4.

Appendix 4 provides details on the key financial and economic assumptions underpinning the Base Case.

4. Edinburgh College – Base Case narrative

4.1 Yr 0 2011-12 Pre-merger actions

The colleges need to prepare for a reduction of 8.5% in core grant income for the year 2012-13. The intention is to run a VS scheme with the aim of delivering a reduction of £3.7m p.a. on the current staff costs of c £45m p.a. This will be funded by SFC merger and transformational funding. The cost will be managed to the 1:1 level required over the three year period of VS activity.

The VS costs will arise within the individual colleges and the SFC funding will be allocated by the Executive Board to each college as appropriate. The process for selection and management of the VS candidates will be managed centrally by the Executive Board

Early upfront costs are likely to include severance costs of principals \ very senior managers although some may need to stay into Yr1 2012-13 to ensure continuity until new Principal is in place – expected no later than Dec 2012.

The best case is likely to be that £1.4m of annualised savings can be delivered from VS of senior and academic \ corporate management roles in time for vesting date (or shortly thereafter); hence teaching and non-teaching savings of £2.3m are required – c 90 jobs in total. This could be higher if there is the opportunity to recruit temporary staff to cover short term delivery gaps. The detail of the savings is in Appendix 3

Additional activity will be required prior to vesting day (1/10/12) or shortly thereafter to aid delivery of;

- Rebranding of college and campuses
- Unified communications systems
- ID badges
- Single approach for student funding

Where possible, this activity will be funded utilising facilitation funds provided by SFC.

The individual college finance teams will need to manage the accounting required for merger activity and consider the work required to harmonise accounting principles prior to vesting day. This activity is assumed as unlikely to materially affect the reported surplus and reserves position for the new college.

4.2 Yr. 1 – 2012-13; initial merger activity

Yr 1 of the merger business case guide the detailed 12-13 budgets for the individual colleges plus an overlay of any specific merger costs and savings that are likely to occur – i.e. the substantial staff savings outlined above.

A new principal and senior team will be in place during this year – no later than Dec 2012.

The College will aim to deliver 96% of the 2011-12 WSUMs on the existing campuses and there will be no merging of courses or delivery in Yr1 although the viability of focusing

Sustainability and Built environment at Granton and Clean energy at Midlothian will be considered.

The curriculum teams will work together to develop a new college curriculum in time for Yr2 – commencing delivery from August 2013. This will require all marketing and support documentation to be in place by Feb \ March 2013.

The corporate and non-teaching teams will merge during the year. Management structure will be in place by Q1 2013 and final structure will be complete by the end of June 2013.

Plans for the delivery of commercial and international income growth will be developed.

Vesting Day will happen two months into the new financial year but the aim will be to manage the college as one financial entity from 1st August 2012. Initially this will simply require consolidation of existing reports but there will be move towards one process across the college during Yr2-3. The process for financial management, reporting and control will need to be robust from Vesting Day.

A second VS scheme will be introduced in Q1 2013 and will support the exit of those teaching and non-teaching staff whose roles become redundant as the new curriculum and corporate structures are identified. These costs will be funded by SFC in the main. The current financial plan assumes the removal of a further 74 jobs with an on-going staff cost saving of £3.2m p.a.

4.3 Yr. 2 – 2013 -14; bedding down the merger

2013-14 will see a single curriculum and the potential savings that should arise particularly in terms of academic mgt and teaching staff. These savings will be required as the college will have to cope with a further reduction of 5.6% in grant funding – no current information on output \ outcome levels required.

Some courses will be merged and there will be a need to support staff and students whose courses move to a different campus. The underlying ethos will be to maintain local access for lower level courses but to develop specialist centres for higher level delivery.

New harmonised terms and conditions for all staff will be introduced by the end of the financial year – possibly a staggered delivery but all teaching staff to be on a new contract by the end of June 2014. A high level estimate of the cost of implementation and on-going operation is estimated within Appendix 3.

The proposed changes to college governance will be in place by this time and there is expected to be a move towards national bargaining on terms and conditions. This Business Case does not reflect any costs that may arise from this national initiative.

The no CR commitment will cease at the end of this financial year and there will be a final VS scheme introduced in Q1 2014 to support the exit of those whose roles have become redundant by the increasing integration of the colleges. These costs will be funded by SFC in the main. The final VS activity is expected to remove a further 73 jobs with an on-going cost saving of £2.7m

There will be on-going investment in physical and IT assets required to ensure that the college can deliver the curriculum efficiently.

Consideration will be required on the potential effects of the regionalisation activity and the opportunities arising to increase income or further reduce the cost base.

Commercial and international growth opportunities for the new college should be starting to crystallise.

4.4 Yr. 3 – 2014 -15; a new world

At the start of 2014- 15 the no CR commitment will have run its course and the new college will have to deal with a grant reduction of 5.6% - no current information on output \ outcome levels required.

The work on merging the curriculum should be completing this year and any specific support for staff or students on previously merged courses will cease.

The longer–running integration activities such as financial and systems integration should complete by the end of this year.

If the VS scheme has delivered the staff reductions required the college will be in the position of running a small surplus

The College will have clarity on its income at this stage but it will need to ensure its costs are in line or be prepared to cover the deficits from cash reserves.

Further work will be performed to identify the level of curriculum provision and the delivery processes.

4.5 Yr. 4 – 2015-16; post-merger – looking forward

The new college should be able to show it is broadly viable at this stage. Income should be in line with Year 3 and staff costs should be getting to where they need to be

4.6 Yr. 5 – 2016-17; steady state

Broadly an extrapolation of Yr4 – the College will not be identifying new merger savings at this stage.

5. Key financial information

5.1 Edinburgh College forecast I&E account 2012 – 2017

Income & Expenditure a\c - Actual 31st July 2011	£k					Pro-forma I&E a\c Forecast 2012 - 17 £K					
	SCE	JEC	ETC	New Coll		2012	2013	2014	2015	2016	2017
Income											
Funding Council grants	19,794	15,074	26,086	60,954		54,600	49,684	45,746	43,455	43,455	43,455
Tuition fees and education contracts	4,871	2,575	5,883	13,329							
Research grants and contracts	1,224	-	943	2,167		17,914	16,975	17,194	17,334	17,473	17,613
Other income	543	1,523	1,651	3,717							
Endowment and investment income	153	124	107	384							
Exceptional merger support grants					*8,288*	**4,288**	**3,138**	**862**	**-**	**-**	**-**
Total income	**26,585**	**19,296**	**34,670**	**80,551**		**76,802**	**69,797**	**63,802**	**60,789**	**60,928**	**61,068**
Expenditure											
Staff costs	18,203	10,910	19,738	48,851		44,937	40,217	36,520	33,298	33,301	33,304
Exceptional restructuring costs	-	833	873	1,706		175	175	175	175	175	175
Exceptional pension costs	-	-	211	211		576	576	576	576	576	576
Other operating expenses	5,961	4,556	9,674	20,191		19,895	19,413	19,443	19,183	19,316	19,450
Depreciation	1,291	1,628	2,702	5,621		5,780	5,774	5,774	5,915	5,915	5,915
Interest payable	27	789	284	1,100		800	800	800	800	800	800
Exceptional merger support costs					*14,658*	**5,125**	**4,338**	**3,988**	**402**	**402**	**402**
	25,482	**18,716**	**33,482**	**77,680**		**77,288**	**71,293**	**67,276**	**60,348**	**60,485**	**60,623**
Surplus on continuing operations	**1,103**	**580**	**1,188**	**2,871**	*(6,369)*	**(486)**	**(1,496)**	**(3,474)**	**441**	**444**	**445**
Gain \ (Loss) on disposal of fixed assets	0	142	(3)	139		-	-	-	-	-	-
Retained surplus	**1,103**	**722**	**1,185**	**3,010**		**(486)**	**(1,496)**	**(3,474)**	**441**	**444**	**445**
Staff cost as a % of Turnover						62%	60%	58%	55%	55%	55%
Surplus as a % of Turnover						**-0.6%**	**-2.1%**	**-5.4%**	**0.7%**	**0.7%**	**0.7%**

The I&E forecast reflects the initial forecasts amended by the expected grant funding reductions of circa 21% over the period 2012-15 and the management actions and assumptions outlined in this document.

Guidance on the level core SFC grant availability for the period 2012 -2014 has been provided. In addition the colleges currently receive a range of other short term grants. Estimates of the future levels of these grants have been made by the colleges.

Commercial income grows by 10% over the life of the plan with a margin of 10% on the new business. Despite this growth the overall income for the College falls by 16% over the life of the plan.

Expenditure will be managed to reflect the efficiencies that will arise on merger but also the reduced activity level which will inevitably arise given the reduced level of grant funding.

The merger efficiencies and reduced activity will lead to reduced staffing levels as set out in detail in Appendix 3. The overall cost of merger is analysed in Appendix 4 together with the merger grants to be received from the SFC. The position is reflected in the exceptional cost and grant figures above.

The Base Case shows a sustainable position, staffing reductions happen in structured manner as described in Appendix 3 and the plan carries inflation assumptions to minimise the effect of external shocks. A surplus is generated from 2014-15. The detail behind the I&E information above is included in Appendix 2.6.

The Staff cost % by the end of the plan is 55%. This is comparable to the best in UK sector; the challenge of achieving this level of reduction should not be underestimated.

Costs relating to FRS 17 have not been forecast at this time as the college has no control over the reported number.

5.2 Edinburgh College forecast Balance Sheet 2012 – 2017

Balance Sheets - Actual 31st July 2011	SCE	JEC	ETC	New Coll	2012	2013	2014	2015	2016	2017
	£k				Pro-forma Balance Sheet Forecast 2012 - 17 £K					
Fixed assets										
Land and buildings	31,376	59,157	54,026	144,559	142,158	143,725	144,280	142,375	140,017	137,707
Equipment	1,203	3,584	5,465	10,252	8,373	8,532	8,703	8,693	8,636	8,531
Other	-	-	-	-						
	32,579	**62,741**	**59,491**	**154,811**	**150,531**	**152,257**	**152,983**	**151,068**	**148,653**	**146,238**
Current assets										
Stocks	-	15	32	47	47	47	47	47	47	47
Debtors	1,908	478	1,055	3,441	3,441	3,441	3,441	3,441	3,441	3,441
Investments		4,000		4,000	2,600	900	900	900	900	900
Cash at bank and in hand	8,656	767	11,849	21,272	15,376	10,595	3,730	3,420	3,614	3,809
	10,564	**5,260**	**12,936**	**28,760**	**21,464**	**14,983**	**8,118**	**7,808**	**8,002**	**8,197**
Creditors: amounts falling due within one year				-						
Loans		(290)	(301)	(591)	(290)	(290)	(290)	(290)	(290)	(290)
Payments received in advance	(164)		(1,829)	(1,993)	(1,993)	(1,993)	(1,993)	(1,993)	(1,993)	(1,993)
Trade creditors	(366)	(775)	(278)	(1,419)	(1,419)	(1,069)	(1,069)	(1,069)	(1,069)	(1,069)
Taxation and social security	(544)	(937)	(865)	(2,346)	(2,346)	(2,346)	(2,346)	(2,346)	(2,346)	(2,346)
Accruals and deferred income	(2,558)	(1,338)	(2,395)	(6,291)	(5,791)	(5,791)	(5,791)	(5,791)	(5,791)	(5,791)
Amounts owed to SFC		(1,769)		(1,769)	(869)	(869)	(869)	(869)	(869)	(869)
Other creditors	(599)			(599)	(599)	(599)	(599)	(599)	(599)	(599)
	(4,231)	**(5,109)**	**(5,668)**	**(15,008)**	**(13,307)**	**(12,957)**	**(12,957)**	**(12,957)**	**(12,957)**	**(12,957)**
				-						
Net current assets / liabilities	**6,333**	**151**	**7,268**	**13,752**	**8,157**	**2,026**	**- 4,839**	**- 5,149**	**- 4,955**	**- 4,760**
				-						
Total assets less current liabilities	**38,912**	**62,892**	**66,759**	**168,563**	**158,688**	**154,283**	**148,144**	**145,919**	**143,698**	**141,478**
				-						
Creditors: amounts falling due after more than one year				-						
Bank loans		(12,514)	(6,724)	(19,238)	(12,224)	(11,934)	(11,644)	(11,354)	(11,064)	(10,774)
Mortgage				-						
Other creditors				-						
Lennartz VAT	(483)	(4,112)	(1,024)	(5,619)	(5,019)	(4,419)	(3,819)	(3,219)	(2,619)	(2,019)
	(483)	**(16,626)**	**(7,748)**	**(24,857)**	**(17,243)**	**(16,353)**	**(15,463)**	**(14,573)**	**(13,683)**	**(12,793)**
Provisions				-						
Early retirement provision	(1,291)	(691)	(2,955)	(4,937)	(4,937)	(4,937)	(4,937)	(4,937)	(4,937)	(4,937)
Other	(31)		(240)	(271)	(271)	(271)	(271)	(271)	(271)	(271)
	(1,322)	**(691)**	**(3,195)**	**(5,208)**	**(5,208)**	**(5,208)**	**(5,208)**	**(5,208)**	**(5,208)**	**(5,208)**
				-						
Net pension asset / (liability)	**(2,416)**	**(2,100)**	**(3,539)**	**(8,055)**	**(8,055)**	**(8,055)**	**(8,055)**	**(8,055)**	**(8,055)**	**(8,055)**
NET ASSETS	**34,691**	**43,475**	**52,277**	**130,443**	**128,182**	**124,667**	**119,418**	**118,083**	**116,752**	**115,422**
Represented by:										
Deferred capital grants										
SFC	12,843	30,115	22,772	65,730	63,955	61,936	60,161	58,386	56,611	54,836
Other	494	-	-	494	494	494	494	494	494	494
	13,337	**30,115**	**22,772**	**66,224**	**64,449**	**62,430**	**60,655**	**58,880**	**57,105**	**55,330**
Reserves										
Income and expenditure account (excluding pension reserve)	11,152	5,279	32,981	49,412	48,926	47,430	43,956	44,396	44,840	45,285
Pension reserve	(2,416)	(2,100)	(3,539)	(8,055)	(8,055)	(8,055)	(8,055)	(8,055)	(8,055)	(8,055)
Revaluation reserve	12,618	2,003	-	14,621	14,621	14,621	14,621	14,621	14,621	14,621
Designated reserve		8,178	63	8,241	8,241	8,241	8,241	8,241	8,241	8,241
	21,354	**13,360**	**29,505**	**64,219**	**63,733**	**62,237**	**58,763**	**59,203**	**59,647**	**60,092**
				-						
TOTAL	**34,691**	**43,475**	**52,277**	**130,443**	**128,182**	**124,667**	**119,418**	**118,083**	**116,752**	**115,422**
					-	-	-	-	-	-

The forecast Balance Sheet reflects the change in the financial activity of the College.

The fixed asset base will be strengthened by and overall investment in property and other Fixed assets of £25m over the plan period. SFC capital funding is forecast to total £6m over the equivalent period.

The intention is that the College will continue to use all existing sites and assets; hence there should no need for material disposals or write offs. The merger of accounting policies is not expected to make a material change to depreciation rates.

The 2011 Current Assets position is dominated by strong cash reserves of £21m held by SCE and ETC. These will reduce over the over the plan period following repayment of the ETC term loan of c. £7m which is likely to happen pre-merger, financing of the excess merger costs of £6.4m and financing of the on-going investment activities outlined above.

Current Liabilities reflect standard trading activities and no material level of change is forecast.

The major items within long term creditors relate to the JEC loan funding and Lennartz VAT liability across all three colleges. These are expected to amortise in line with current repayment schedules. The JEC investment cash will be utilised to repay loans from SFC and retentions held; both items relating to historical property issues.

The merger is unlikely to affect the outstanding pension liabilities within the Balance Sheet.

The College reserves reduce in the early years of the plan as the effect of the grant reductions feeds through as losses within the I&E a\c. This position stabilises in the later years of the plan.

5.3 Edinburgh College forecast Cashflow 2012 - 2017

Cash Flow actual Y/E 31st July 2011 £K					Pro-forma Cash Flow Forecast 2012 - 17 £K					
	SCE	JEC	ETC	New Coll	2012	2013	2014	2015	2016	2017
Reported surplus \ deficit	**1,103**	**723**	**1,185**	**3,011**	**(486)**	**(1,496)**	**(3,474)**	**441**	**444**	**445**
Depreciation	1,291	1,628	2,702	5,621	5,780	5,774	5,774	5,915	5,915	5,915
Deferred capital grant released	(931)	(950)	(775)	(2,656)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)	(2,775)
Pension cost less contribs	7	(211)	(33)	(237)						
Net int payable	(153)	665	177	689	800	800	800	800	800	800
Dec \(Inc) in debtors	(938)	(84)	160	(862)						
Inc \ (Dec) in creditors	83	547	(468)	162						
other	0	(4)	11	7						
Cash inflow (outflow) from operations	**462**	**2,314**	**2,959**	**5,735**	**3,319**	**2,303**	**325**	**4,381**	**4,384**	**4,385**
Int (paid) \ received	117	(758)	(206)	(847)	(800)	(800)	(800)	(800)	(800)	(800)
Cap expenditure - buildings	0	390	(224)	166	(500)	(4,500)	(3,500)	(1,000)	(500)	(500)
Capital expenditure - other					(1,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Capital funding received					1,000	2,106	1,000	1,000	1,000	1,000
Lennartz VAT repaid					(600)	(600)	(600)	(600)	(600)	(600)
Financing repaid - BAU	0	(1,027)	(299)	(1,326)	(7,315)	(290)	(290)	(290)	(290)	(290)
Reduction in SFC loan -JEC										
Reduction in retentions - JEC										
Increase (Decrease) in cash	**579**	**919**	**2,230**	**3,728**	**(5,896)**	**(4,781)**	**(6,865)**	**(309)**	**194**	**195**
Balance Sheet cash B/f					**21,272**	**15,376**	**10,595**	**3,730**	**3,420**	**3,614**
Balance Sheet cash C/f				*21,272*	**15,376**	**10,595**	**3,730**	**3,420**	**3,614**	**3,809**
Add: JEC investments				*4,000*	2,600	900	900	900	900	900
Adjusted Balance Sheet cash C/f				*25,272*	**17,976**	**11,495**	**4,630**	**4,320**	**4,514**	**4,709**
Cash as a % of Annual revenue					25%	17%	7%	7%	7%	8%
Total debt C/F				*(19,829)*	**(12,514)**	**(12,224)**	**(11,934)**	**(11,644)**	**(11,354)**	**(11,064)**
Net cash				*30,715*	**5,462**	**(729)**	**(7,304)**	**(7,324)**	**(6,840)**	**(6,355)**
Net cash as a % of Turnover (Annual revenue)				*39%*	8%	-1%	-12%	-12%	-11%	-11%
Target liquid assets	*10%*				*7,251*	*6,652*	*6,267*	*6,038*	*6,038*	*6,038*

Cash generation remains strong over the life of the forecast. Although the effect of reduced income and severance does lead to deficits within the I&E a\c, the high level of depreciation ensures that the College continues to generate cash surpluses through the life of the plan.

The cash is utilised to pay off the ETC term loan facility (£7m), fundmerger costs (£6.4m), fixed assetdevelopment (£25m) and repay loan capital and Lennartz VAT.

Balance Sheet cash reduces from c. £25m to £4m over the life of the plan. The debt position reduces in line with the agreed repayment profile.

The net cash position (cash – loans) is negative but the plan demonstrates cash generation after servicing and repayment of the loans.

6. Alternative scenarios and sensitivities

The Base Case Scenario considers the changes required to cope with reduced funding and the need for the College to remain financially viable in order to deliver on-going services and generate cash for investment at College, regional and national level.

6.1 Base Case scenario

The key metrics of the Base Case are set out below;

Base Case	2011-12 Yr 0	2012-13 Yr 1	2013-14 Yr 2	2014-15 Yr 3	2015-16 Yr 4	2016-17 Yr 5
Cumulative job reductions no.: occur at start of year		90	164	237	237	237
Surplus \ (Deficit) post exceptionals	(486)	(1,496)	(3,474)	441	444	445
Cash C\F	17,976	11,495	4,630	4,320	4,514	4,709

The total job losses assume a reduction of 60% of base costs in management roles and 17.5% of base costs in teaching and non-teaching roles. The job losses are front loaded with 90 of the 237 total leaving prior to, or just after Vesting Date.

The model assumes expenditure on pre-merger activity around IT and rebranding. This may be delayed. The financial pain both from an accounting and cash perspective is taken during the first two years of the merger and the college can then move forward from a position of strength, assuming no further cuts in SFC funding.

The cash position of £4.3m in 2015excludes the debt outstanding of c. £11.5m.

6.1.1. Challenges to the Base Case

Inflation – a 1% increase over the planned amounts for staff and non-staff costs would cost c£520k p.a. – this will be difficult for the College to cover from the forecast post-merger accounting surplus.

6.1.2 Base Case plus Other Income Growth options

Commercial and international income – the plan currently has growth set at 2% p.a.at a margin of 10%.   An alternative scenario would be to reflect no growth in Yr.1 due to a focus on merger with growth of 3% in Yrs. 2& 3 and 5% thereafter. A margin increase to 15% is also assumed. The key metrics are set out below;

other income growth	2011-12 Yr 0	2012-13 Yr 1	2013-14 Yr 2	2014-15 Yr 3	2015-16 Yr 4	2016-17 Yr 5
Cumulative job reductions no.: occur at start of year		90	164	237	237	237
Surplus \ (Deficit) post exceptionals	(486)	(1,510)	(3,471)	462	504	545
Cash C\F	17,976	11,481	4,619	4,331	4,585	4,880

The revised scenario builds on the already sustainable position and improves the reportedsurplus and cash flow position.

6.2 Delaying the process of staff reduction in the Base Case

The Base Case assumes that VS activity starts immediately (Q2 2012) and the funding required to enable this will be provided by the SFC to the individual colleges prior to merger to facilitate this process.

There is concern that the VS packages will not encourage leavers given the commitment to no CR. This may lead to a delay in achieving the Base Case job reduction target.

The profile underlying the Base Case assumes that 50% of targeted managers and 30% of teachers will leave under the terms of the 2012 VS scheme; with 100% of targeted managers and 70% of teachers leaving by end of July 2013.

The scenario for delayed redundancy reflects a20% take up in 2012; 50% in 2013 and 100% (in line with Base Case) in 2014. The key metrics of the scenario are set out below:

delayed take up of redundancy	2011-12 Yr 0	2012-13 Yr 1	2013-14 Yr 2	2014-15 Yr 3	2015-16 Yr 4	2016-17 Yr 5
Cumulative job reductions no.: occur at start of year		47	118	237	237	237
Surplus \ (Deficit) post exceptionals	(486)	(3,294)	(7,367)	441	444	445
Cash C\F	17,976	9,697	(1,062)	(1,371)	(1,178)	(982)

The ultimate job loss number remains the same but the profile is deferred. This leads to excess cost and cash burn, particularly in 2013 -14 when 50% of the redundancy payments are made.n.b. the pension strain profile has not been flexed in this scenario or 6.3& 6.4 below.

The delay in process reduces the cost of Yr0 activity to £1.9m; which although funded by SFC is well below the current forecast of £3.7m. The difference will not be available for carry forward and the potential SFC funding will be lost. Yr1 & 2 VS activity will receive £4m of SFC funding support as documented in A4.1.

The level of cost is higher during the first two years post-merger due to excess salary payments, compared to income. This leads a requirement for some form of loan funding in addition to the amounts already in place. The College does recover to a position of accounting surplus and cash generation.

6.3 An alternative approach (1) – retain more staff

Delivery of the Base Case will be challenging, the level of job losses is substantial and may cut into core curriculum and community access capability.

An alternative option is to reduce job losses to 146 with teaching and non-teaching reductions set at 9%; management reductions remain at 60%. Key metrics below;

Reduce teach & n-t jobs reductions to 9%	2011-12 Yr 0	2012-13 Yr 1	2013-14 Yr 2	2014-15 Yr 3	2015-16 Yr 4	2016-17 Yr 5
Cumulative job reductions no.: occur at start of year		58	104	146	146	146
Surplus \ (Deficit) post exceptionals	(486)	(2,590)	(3,496)	(2,835)	(2,832)	(2,831)
Cash C\F	18,284	11,609	2,847	(738)	(3,821)	(6,902)

The delay in process reduces the cost of Yr0 activity to £2.6m; which although funded by SFC is below the current forecast of £3.7m. The difference will not be available for carry forward and the potential SFC funding will be lost. Yr1 & 2 VS activity will receive £4m of SFC funding support as documented in A4.1.

The extra cost of employment is not covered by income and theBase Case surplus of £400k p.a. is turned into an on-going deficit of £2.8m p.a. The College will spend more cash than it is generating, making it unable to finance new investment. The only way to keep the cash flow broadly neutral would be to curtail fixed asset investment of £3m – £4m p.a. – see A4.2

Any increases in payroll costs would further exacerbate the situation. Finally, the Bank is unlikely to accept this as a valid proposal and may seek early repayment of the long term loan or a guarantee from the Scottish Government.

6.4 An alternative approach (2) – Federated structure

An alternative to merger of the individual colleges could be a federated structure of colleges reporting into an Edinburgh District Regional Board.

This would have some advantages in cost saved on re brandingand the VS costs of senior staff. There would still be upfront investment in shared IT and communications. This option will struggle to deliver the cost savings required within the timescale available without substantial reductions in curriculum delivery in at least two of the colleges.

Looking forward a federated structure may also fail to produce the savings required as each college would require some level of individual administration and infrastructure to be maintained to emphasiseits “independence” whilst moving towards a shared service structure. Finally the continued existence of three separate legal entities could lead to an element of inefficiency and delay in the delivery of change.

The financial effects have been estimated below – the table sets out the reduced level of annual savings that may arise should a federated structure be preferred to full merger.

Federal model	**red. in saving**			**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Income reduction	0							
Mgt cost saving	10%			130	224	259	259	259
Teaching costs saving	10%			104	242	346	346	346
Non teaching cost saving	10%			99	148	247	247	247
Admin cost saving	10%			18	45	90	90	90
Total				**350**	**660**	**942**	**942**	**942**

The reduction in saving refers to the % saving targeted in the Base Case e.g. 60% saving in management costs becomes a 54% saving in this scenario. Overlaying this reduced level of cost saving activity onto the Base Case model produces the scenario below;

federal model	**2011-12 Yr 0**	**2012-13 Yr 1**	**2013-14 Yr 2**	**2014-15 Yr 3**	**2015-16 Yr 4**	**2016-17 Yr 5**
Cumulative job reductions no.: occur at start of year		81	147	213	213	213
Surplus \ (Deficit) post exceptionals	(486)	(1,865)	(3,584)	(545)	(542)	(540)
Cash C\F	17,976	11,126	4,150	2,855	2,063	1,273

The combined colleges will achieve small deficits over the plan period. The cash position also declines. It is unclear whether fixed asset investment would be managed at a regional level or within the colleges.

7. Risk analysis

The Base Case estimates future income based upon the latest information from the SFC and internal estimates on the potential for commercial and international growth.

The Base Case cost reductions reflect the reduced level of funding and intention for the College to demonstrate financial sustainability within three years of merger. The narrative in Section 4 and the detail of the assumptions in Appendix 3 outlines the scale of activities required to achieve sustainability.

There are risks to the Base Case Scenario and these are outlined below;

7.1 Inability to reduce staff numbers

The Base Case assumes a reduction of c.240 staff over the period fromQ2 2012 to Q3 2014. This needs to occur against a background of no compulsory redundancies.

If the College only achieves 2/3 of its targeted reduction the remaining staff will cost c£3m p.a.in excess of plan until they leave. Compulsory redundancy may be difficult in 2014 and beyond due to external political pressures.

Mitigation: Clarity externally and internally on the key drivers for future sustainability. Management capability and funding to enable deliveryof the changes required.

7.2 Bank loans and covenants.

At July 2011, ETC and JEC had bank loans of £7m and £12.8m respectively. ETC intends to repay its loan prior to the merger. JEC will have a long term fixed rate loan of £9.6mand a variable rate loan of £2.9m outstanding at the time of merger; these will require re-negotiation (or repayment).The fixed rate has been provided via the use of an interest rate swap, whilst this provides certainty on the scale of the annual repayment, early repayment of the loan may lead to break costs of c£1.2m

At the time of renegotiation Lloyds Bank may request additional fees (£50k- £100k), interest rate margins or security. In addition the bank will impose financial covenants on the College. If the covenants follow the current structure, they will seek to ensure that an operating deficit does not occur in three consecutive years and to agree the scale of any two year deficit, in advance, with the College.

Mitigation: Business plan shared with Lloyds Bank well before Vesting Date. College management team in place.

7.3 SFC merger implementation funding

The Base Case assumes the merger implementation costs of £14.7m.SFC merger funding will total a maximum of c£7.7m (+facilitation costs already paid of £0.6m).

Excess costs of implementation (£6.4m) are forecast to be met from the reserves of the College. Any reduction in the amount received will directly affect the reported surpluses and cash position of the College. The Base Case shows £4.3m of cash at July 2015.

Mitigation: Documented offer of funding from SFC with clarity on terms of drawdown and period of availability.

7.4 Staff costs, payroll taxes and pension contributions

The Base Case includes an estimate of the one-off and on-going cost of harmonisation of terms and conditions across the colleges. Merger funding will be sought for this activity. The amounts of £250k and £400k p.a. require validation. There is no estimate of costs for any national harmonisation activity.

The Base Case assumes no payroll cost increase in the year 2012-13 and 2013-14 with a 1% p.a. increase thereafter. There are three areas of risk arising. Staff and union action may drive a requirement for pay increases; HMRC may impose further increases to NI; and pension fund contributions may need to increase to cover deficits. Each 1% increase will add £330k p.a. to the College cost base.

Mitigation: Agreement with Unions on the changes to productivity that will be required if any pay increases above those within the plan are to be afforded.

Seek access to funds at National level to finance broader harmonisation activity.

7.5 External inflation

The Base Case assumes inflation on non-staff costs to run at 2% over the life of the plan. This is below the current level of inflation but in line with the latest BoE forecast (and target). Each 1% increase will add £190k to the College cost base.

Mitigation: National and regional procurement efficiencies may assist the college in reducing costs. Outsourcing of IT, payroll and some administrative functions may be appropriate.

7.6 Loss of UKBA status

At present both ETC and SCE have “Highly trusted sponsor” status from the UK Border Agency. There is increased scrutiny in this area and the potential for the College to lose this status leading to a reduced level of international students. The overall financial effect is difficult to model at this time but currently SCE generates c£ 1.6m of income from international business.

Mitigation: Analysis required to validate the value of international business to the College.

7.7 Loss of control

The Base Case assumes that the College will move rapidly to one management structure and integration activities across all areas will commence at merger, if not before. The challenge of integrating three colleges and the underlying financial and control systems should not be underestimated, particularly against a background of losing senior level experience and skills. In the short-term the College may need to invest in skills retention (e.g. agree but delay redundancy of key people to ensure continuity of BAU process and delivery of integration activities).

Mitigation: Detailed plan for integration to be developed, key resources to be identified.

Appendix 1: Financial model development

The financial model has been developed in MS Excel specifically for use in modelling the financial effects of the merger process. The model has been developed by Allardyce Consulting. The model produces an integrated forecast including I&E, Balance Sheet and cash flow information.

The model contains detail of the financial results of the three colleges and a merged position. Seven years of financial information have been provided. The audited position for the year ended July 2011 is included to provide a reference point. The budget position for the current year 2011-12 provides information on the scale of current activity (Yr0).

The forecast information runs from August 2012 to July 2017 (Yrs. 1-5). The assumption is that all material merger related activity will be complete within three years of the Vesting Day.

The actual and forecast information has been analysed in more detail than shown in the usual external reporting format to enable management to consider individual income and expenditure streams and to focus on those areas most likely to change and \ or those that can be influenced in the short and medium term.

The core financial forecasts of the colleges have been provided by the Heads of the Finance function. The forecasts and the assumptions underlying them are set out in Appendix 2.

The analysis and activity to merge and summarise this information has been undertaken by Allardyce Consulting in conjunction with MEB members. The Base Case position outlined in this paper reflects the workings contained in version “TWM draft 14090311” ofthe model.

The model will be subject to a review by Scott Moncrieff who will consider its mathematical integrity and comment on the validity of key assumptions and sensitivities.

Appendix 2: Base case model – core data

A2.1SCE forecast

Go to title page	SCE					
Go to monthly I&E report	**2011**	*2012*	*2013*	*2014*	*2015*	*2016*
Go to annual I&E	**Annual**	Annual	Annual	Annual	Annual	Annual
Go to monthly Cash Flow	**Results**	Budget	Forecast	Forecast	Forecast	Forecast
Go to annual Cash Flow	**1 Aug 10**	1 Aug 11	1 Aug 12	1 Aug 13	1 Aug 14	1 Aug 15
	31 Jul 11	31 Jul 12	31 Jul 13	31 Jul 14	31 Jul 15	31 Jul 16
Units = £'000	**Y-1**	Y0	Y1	Y2	Y3	Y4
			Reduction	Reduction	Reduction	
Income			0.0%	0.0%	0.0%	0%
SFC grants category 1 (GIA & Fee Waiver)	**16,836**	15,769	14,217	14,217	14,217	14,217
SFC grants category 2 (Other Grants)	**2,043**	2,037	1,849	1,052	1,052	1,052
SFC grants category 3 (release of deferred capital grant)	**915**	1,000	1,000	1,000	1,000	1,000
Tuition fees and education contracts	**1,175**	772	772	772	772	772
SAAS	**1,326**	1,500	1,500	1,500	1,500	1,500
Commercial and International Contracts	**2,756**	2,780	2,780	2,780	2,780	2,780
Other Income	**1,498**	1,361	839	819	819	819
Finance support Grant	**-**					
SFC Merger Support Grant	**-**	-	-	-	-	-
	26,549	25,219	22,957	22,140	22,140	22,140
Expenditure						
Senior management	**869**	869	869	869	869	869
Management	**1,598**	1,598	1,598	1,598	1,598	1,598
Teaching staff	**7,884**	7,602	7,533	7,487	7,322	7,322
Non-teaching staff	**5,618**	5,714	5,178	5,071	5,071	5,071
Temporary staff	**1,921**	1,855	1,810	1,559	1,559	1,559
Exceptional restructuring costs		-	-	-	-	-
Non-restructuring exceptional costs	**439**	190		**-**	-	-
Other operating expenses - Teaching	**1,418**	1,263	1,263	1,263	1,263	1,263
Other operating expenses - Premises	**1,638**	1,834	1,834	1,834	1,834	1,834
Other operating expenses - Admin & Central Services	**2,403**	2,584	2,343	2,330	2,330	2,330
Other operating expenses - Other	**337**	254	254	335	397	398
Other operating expenses - Development	**63**	100				
Depreciation	**1,287**	1,306	1,300	1,300	1,441	1,441
Finance / Merger Support Costs	**-**	-	-			
	25,475	25,169	23,982	23,646	23,684	23,685
Revised Surplus / (Deficit)	**1,074**	**50**	**(1,025)**	**(1,506)**	**(1,544)**	**(1,545)**

The SCE plan has been compiled utilising the following assumptions:

Income

Grant in Aid and Fee Waiver grants are assumed to run at “flat cash” from 2014 onwards

Other SFC Grants

- Strategic funds for Employment Engagement and English for Speakers of Other Languages only budgeted for this year.
- Assumed that European Recovery Funds for 2012-13 remain at the previous year’s level and no additional funding received thereafter.
- Beattie Resources for Inclusiveness in Technology & Education (BRITE) funding assumed to cease in 2013-14, which will be offset by a similar reduction in spend, mostly staffing.

Tuition Fees and Education Contracts have been maintained at 2011-12 forecast levels.

The increased activity in Higher Education provision has been maintained at a flat rate based on the 2011-12 levels

The Commercial and international output levels assumed constant. Other income assumes a significant reduction in strategic funding for West Edinburgh Action which is offset by a similar value in cost reductions mainly staffing.

Expenditure

All staffing classifications include salary, national insurance and pension costs. There is no general inflationary pay award included in any year.

All Teaching staff are assumed to deliver 22 class contact hours per week with the exception of Heads of Section who deliver 11, and Senior Lecturers who deliver 17.

The budget for support staff includes a provision of £100,000 for the impact of Job Evaluation. We have provided £190,000 in 2011-12 for further Voluntary Redundancies, the cost saving of which will derive in 201-13 and future years.

The staff cost saving arising from the reduction in WSUMs activity is assumed to derive from temporary teaching costs.

There is no inflationary cost allowance for expenditure s it is assumed that these costs will be absorbed through various on-going efficiency initiatives.

North Campus Development

There is an increase in depreciation, lifecycle and running costs in respect to the North Campus Development, these costs are assumed to be offset by staff savings resulting from new ways of working and curriculum delivery.

A2.2 JEC forecast

Go to title page
Go to monthly I&E report
Go to annual I&E
Go to monthly Cash Flow
Go to annual Cash Flow

Units = £'000	JEC						
	2011	2012	2013	2014	2015	2016	2017
	Annual	Annual	Annual	Annual	Annual	Annual	Annual
	Results	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	1 Aug 10	1 Aug 11	1 Aug 12	1 Aug 13	1 Aug 14	1 Aug 15	1 Aug 16
	31 Jul 11	31 Jul 12	31 Jul 13	31 Jul 14	31 Jul 15	31 Jul 16	31 Jul 17
	Y-1	Y0	Y1	Y2	Y3	Y4	Y5
				Extrapolated figures			
Income							
SFC grants category 1 (GIA & Fee Waiver)	**12,981**	11,552	10,415	10,415	10,415	10,415	10,415
SFC grants category 2 (Other Grants)	**344**	423	371	216	216	216	216
SFC grants category 3 (release of deferred capital grant)	**950**	995	995	995	995	995	995
Tuition fees and education contracts	**1,339**	1,392	1,492	1,492	1,492	1,492	1,492
SAAS	**1,139**	1,081	1,081	1,081	1,081	1,081	1,081
Commercial & International	**1,435**	1,474	1,034	1,134	1,134	1,134	1,134
Other income	**215**	130	130	130	130	130	130
Finance Support Grant	**800**	**800**	**800**	**800**	**800**	**800**	**800**
SFC merger support Grant	-	-	-	-	-	-	-
Total Income	**19,203**	17,847	16,318	16,263	16,263	16,263	16,263
Expenditure							
Senior management	**387**	470	470	470	470	470	470
Management	**1,680**	968	926	926	926	926	926
Teaching staff	**4,736**	4,948	4,947	4,947	4,947	4,947	4,947
Non-teaching staff	**3,726**	3,347	3,065	3,065	3,065	3,065	3,065
Temporary staff	**549**	578	525	370	370	370	370
Exceptional restructuring costs							
Non-restructuring exceptional costs	**832**		-	-	-	-	-
Other operating expenses - Teaching	**1,039**	932	932	932	932	932	932
Other operating expenses - Premises	**1,546**	1,537	1,537	1,537	1,537	1,537	1,537
Other operating expenses - Admin & Central Services	**1,381**	1,545	1,546	1,546	1,546	1,546	1,546
Other operating expenses - Other	**676**	653	535	635	635	635	635
Other operating expenses - Development	**-**	100	100	100	100	100	100
FRS 17 costs	**-**	-	-	-	-	-	-
Depreciation	**1,628**	1,689	1,689	1,689	1,689	1,689	1,689
Interest payable	**745**	800	800	800	800	800	800
Total Expenditure	**18,925**	17,567	17,072	17,017	17,017	17,017	17,017
Unadjusted Surplus \ (Deficit) - after grant reductions	**278**	**280**	**(754)**	**(754)**	**(754)**	**(754)**	**(754)**

In 2010/11 JEC put into place a financial framework to address the associated financial risks following the Government's announcement to reduce FE funding by 10.4% in the year 2011/12.

To secure its continuing viability the College reacted to these significant cuts by reducing its operating costs by £1.3m. Most of these savings came from the staff budget, predominantly from restructuring management areas, although some savings were released from support and academic areas. In conjunction with its core staff reduction, JEC sought to increase its commercial income and also outsource its catering provision saving approximately £60k in recurring operational costs.

As a result of these actions, although total income shows a drop from £19.2m (2011) to £17.9m (2012) the target surplus remains at £280k.

In 2013 it has been assumed that there will be an increase in tuition fees, and commercial / international income of £200k, off-set by a further reduction in Grant-in-Aid funding of £960k (8.4%) and a decrease in Grant-in-Aid (a subsequent impact of the 10.4% funding reduction) of £180k, a reduction of ESF funded activity of £51k, and a net increase in operating expenditure of £47k. On the basis that the merged College will collectively deal with the SFC funding cuts within the New College financial strategy, JEC is currently reflecting a deficit of £754k In the following year to 2014, ESF activity is assumed to reduce by a further £155k although commercial/international income is forecast to rise by £100k; the operational expenditure budget will reduce by net £55k. The forecast operational deficit remains at £754k, not including the effect of further Grant-in-Aid reductions which will be considered as integral to the New College financial strategy.

For the financial periods from 2015 to 2017, it is assumed that a flat budget position will perpetuate reflecting annual operational deficits of £754k, until the financial strategy is implemented.

The detail of the contents of the income and expenditure headings is included in Appendix 2.6

A2.3: ETC forecast

	ETC						
Go to title page	**2011**	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Go to monthly I&E report	**Annual**	Annual	Annual	Annual	Annual	Annual	Annual
Go to annual I&E	**Results**	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
Go to monthly Cash Flow	**1 Aug 10**	1 Aug 11	1 Aug 12	1 Aug 13	1 Aug 14	1 Aug 15	1 Aug 16
Go to annual Cash Flow	**31 Jul 11**	31 Jul 12	31 Jul 13	31 Jul 14	31 Jul 15	31 Jul 16	31 Jul 17
Units = £'000	**Y-1**	Y0	Y1	Y2	Y3	Y4	Y5
				Extrapolated figures			
Income			560				
SFC grants category 1 (GIA & Fee Waiver)	**23,689**	21,244	18,697	18,697	18,697	18,697	18,697
SFC grants category 2 (Other Grants)	**496**	-	560	-	-	-	-
SFC grants category 3 (release of deferred capital grant)	**775**	780	780	780	780	780	780
Tuition fees and education contracts	**1,058**	952	952	952	952	952	952
SAAS	**1,740**	1,948	1,948	1,948	1,948	1,948	1,948
Commercial & International	**4,302**	3,245	2,925	2,925	2,925	2,925	2,925
Other income	**1,758**	1,279	1,387	1,387	1,387	1,387	1,387
Finance Support Grant	**41**	**-**	**-**	**-**	**-**	**-**	**-**
SFC merger support Grant	-	-	-	-	-	-	-
Total Income	**33,859**	29,448	27,249	26,689	26,689	26,689	26,689
Expenditure							
Senior management	**212**	220	220	220	220	220	220
Management	**680**	680	680	680	680	680	680
Teaching staff	**12,296**	9,407	9,407	9,407	9,407	9,407	9,407
Non-teaching staff	**6,550**	6,626	6,626	6,626	6,626	6,626	6,626
Temporary staff	**-**	55	55	55	55	55	55
Exceptional restructuring costs							
Non-restructuring exceptional costs	**1,084**	751	751	751	751	751	751
Other operating expenses - Teaching	**1,684**	1,222	1,222	1,222	1,222	1,222	1,222
Other operating expenses - Premises	**2,491**	2,381	2,131	2,131	2,131	2,131	2,131
Other operating expenses - Admin & Central Services	**4,771**	4,835	4,835	4,835	4,835	4,835	4,835
Other operating expenses - Other	**731**	465	465	465	465	465	465
Other operating expenses - Development	**-**	-	-	-	-	-	-
FRS 17 costs	**-**	-	-	-	-	-	-
Depreciation	**2,702**	2,785	2,785	2,785	2,785	2,785	2,785
Interest payable	**284**	-	-	-	-	-	-
Total Expenditure	**33,485**	29,427	29,177	29,177	29,177	29,177	29,177
Unadjusted Surplus \ (Deficit) - after grant reductions	**374**	**21**	**(1,928)**	**(2,488)**	**(2,488)**	**(2,488)**	**(2,488)**

JG to check numbers and draft appropriate commentary

A2.4 Base case model: Combined forecast with reduced SFC funding

	Merged						
Go to title page							
Go to monthly I&E report	**2011**	***2012***	*2013*	*2014*	*2015*	*2016*	*2017*
Go to annual I&E	**Annual**	**Annual**	Annual	Annual	Annual	Annual	Annual
Go to monthly Cash Flow	**Results**	**Budget**	Forecast	Forecast	Forecast	Forecast	Forecast
Go to annual Cash Flow							
	31 Jul 11	**31 Jul 12**	31 Jul 13	31 Jul 14	31 Jul 15	31 Jul 16	31 Jul 17
Units = £'000	Y-1	**Y0**	Y1	Y2	Y3	Y4	Y5
			10.8%				
			43,329	5.6%	5.6%		
Income			~~8.5% dec~~	dec	5.6% dec		
SFC grants category 1 (GIA & Fee Waiver)	**53,506**	48,565	43,329	**40,903**	**38,612**	38,612	38,612
SFC grants category 2 (Other Grants)	**2,883**	2,460	2,780	1,268	1,268	1,268	1,268
SFC grants category 3 (release of deferred capital grant)	**2,640**	2,775	2,775	2,775	2,775	2,775	2,775
Tuition fees and education contracts	**3,572**	3,116	3,216	3,216	3,216	3,216	3,216
SAAS	**4,205**	4,529	4,529	4,529	4,529	4,529	4,529
Commercial & International	**8,493**	7,499	6,739	6,839	6,839	6,839	6,839
Other income	**3,471**	2,770	2,356	2,336	2,336	2,336	2,336
Finance Support Grant	**841**	800	800	800	800	800	800
SFC merger support Grant	**see I&E analysis below**				-	-	-
Total Income	**79,611**	**72,514**	**66,524**	**62,666**	**60,375**	**60,375**	**60,375**
Expenditure							
Senior management	**1,468**	1,559	1,559	1,559	1,559	1,559	1,559
Management	**3,958**	3,246	3,204	3,204	3,204	3,204	3,204
Teaching staff	**24,916**	21,957	21,887	21,841	21,676	21,676	21,676
Non-teaching staff	**15,894**	15,687	14,869	14,762	14,762	14,762	14,762
Temporary staff	**2,470**	2,488	2,390	1,984	1,984	1,984	1,984
Exceptional restructuring costs	**see I&E analysis below**					-	-
Non-restructuring exceptional costs	**2,355**	941	751	751	751	751	751
Other operating expenses - Teaching	**4,141**	3,417	3,417	3,417	3,417	3,417	3,417
Other operating expenses - Premises	**5,675**	5,752	5,502	5,502	5,502	5,502	5,502
Other operating expenses - Admin & Central Services	**8,555**	8,964	8,724	8,711	8,711	8,711	8,711
Other operating expenses - Other	**1,744**	1,372	1,254	1,435	1,497	1,497	1,498
Other operating expenses - Development	**63**	200	100	100	100	100	100
FRS 17 costs	**-**	-	-	-	-	-	-
Depreciation	**5,617**	5,780	5,774	5,774	5,915	5,915	5,915
Interest payable	**1,029**	800	800	800	800	800	800
Total Expenditure	**77,885**	72,163	70,231	69,840	69,878	69,878	69,879
Unadjusted Surplus \ (Deficit) - after grant reductions	**1,726**	**351**	**(3,707)**	**(7,174)**	**(9,503)**	**(9,503)**	**(9,504)**

The financial information and forecasts produced by the individual colleges has been merged and is presented above.

On 21st September 2011 the Scottish Government issued its budget review for the period 2012-2015. The review outlined that grants for the FE sector would be reduced by over 14% over the period. Subsequently the reduction funding to colleges was increased to c.20%. The model above reflects the expected reduction and timing outlined in the review by showing reductions in the Grant category 1 line.

The outturn figures show substantial losses occurring in the periods 2012 - 2013 and beyond. The College (or the individual colleges) would be unable to cope with size and on-going profile of losses arising from the reduced grant income unless changes are made to the underlying costs and business model. The potential changes are detailed within Appendix 3.

A2.5: Income & Expenditure definitions

INCOME	**Description**
SFC grants category 1	GIA, Fee waiver
SFC grants category 2	Other SFC Grants
SFC grants category 3 (release of deferred capital grant)	as is
Tuition fees and education contracts	Summable tuition - International, Business development, managing agents
SAAS	as is
Research grants and contracts	
Other income	EU Projects, other grants, operational income, Club
Endowment and investment income	as is
EXPENDITURE	
Core Staff Salaries	Staffing costs re Permanent teachers, Management and Administration staff, Technicians, Librarians, Catering, Tradesmen, Ancillary, Janitors and Learning Assistants
Temporary & Agency Staff Costs	Staffing costs re Temporary teachers, Fitness Instructors, Greener Living Assistant, Readers & Scribes, Bliss & EH15 Commercial agency staff
Retirement & Exceptional Staff Costs	Exceptional restructuring costs for the financial year
Teaching Activities (including Childcare)	Faculty / Centre consumables, examination fees, learning resources periodicals, student support FE childcare payments, DSA expenditure, student support costs and payments to other partners
Refectories and Residences	Refectory and residency provisions, beverages, crockery & napery, linen, laundry and vending machine costs
Property Costs	Repairs and maintenance costs, upkeep of grounds, utilities, insurance, security costs, cleaning services and small non-capitalised project works
Administration Costs	Costs incurred whilst travelling on business, training course fees, recruitment, office equipment, printing and stationery, telephones, postage, fees and subscriptions, contributions to Employer Associations and Student Union and hospitality costs
Accommodation	Fixtures and fittings, waste disposal, sports facility costs, general tools and equipment, drinking water supplies and Health and Safety equipment
Computing	Non-capitalised computing expenditure, maintenance agreements
Agency & Contract Services	Legal fees, other professional & consultancy services, audit (both internal & external) fees and payroll, accounting and procurement service costs
Transport	Primarily College shuttle bus costs, coupled with vehicle leases, fuel costs, taxi hires, vehicle repairs and the costs of the electric car project
Marketing	All College marketing costs (including graduation costs)
Unrecoverable VAT	Unrecoverable VAT charges
Depreciation	Depreciation costs
Finance Charges (including bank fees)	Interest on enhanced pensions, bad debt charges and costs of banking services
Interest on debt	Interest repayable on bank debt
* Other Projects (Mainly Community projects)	Costs associated with various projects

Appendix 3:Management actions to improve the financial position

The schedule below builds on A2.4 and summarises the financial effect of the management actions required to deliver merger and ensure viability of the College.

Go to title page
Go to monthly I&E report
Go to annual I&E
Go to monthly Cash Flow
Go to annual Cash Flow

		Merged						
		2011	***2012***	*2013*	*2014*	*2015*	*2016*	*2017*
		Annual Results	**Annual Budget**	Annual Forecast	Annual Forecast	Annual Forecast	Annual Forecast	Annual Forecast
		31 Jul 11	**31 Jul 12**	31 Jul 13	31 Jul 14	31 Jul 15	31 Jul 16	31 Jul 17
Units = £'000		**Y-1**	**Y0**	Y1	Y2	Y3	Y4	Y5
				10.8%				
				43,329	5.6%	5.6%		
Income				**~~8.5% dec~~**	**dec**	**5.6% dec**		
SFC grants category 1 (GIA & Fee Waiver)		**53,506**	48,565	43,329	**40,903**	**38,612**	38,612	38,612
SFC grants category 2 (Other Grants)		**2,883**	2,460	2,780	1,268	1,268	1,268	1,268
SFC grants category 3 (release of deferred capital grant)		**2,640**	2,775	2,775	2,775	2,775	2,775	2,775
Tuition fees and education contracts		**3,572**	3,116	3,216	3,216	3,216	3,216	3,216
SAAS		**4,205**	4,529	4,529	4,529	4,529	4,529	4,529
Commercial & International		**8,493**	7,499	6,739	6,839	6,839	6,839	6,839
Other income		**3,471**	2,770	2,356	2,336	2,336	2,336	2,336
Finance Support Grant		**841**	800	800	800	800	800	800
SFC merger support Grant		**see I&E analysis below**				-	-	-
Total Income		**79,611**	**72,514**	**66,524**	**62,666**	**60,375**	**60,375**	**60,375**
Expenditure								
Senior management		**1,468**	1,559	1,559	1,559	1,559	1,559	1,559
Management		**3,958**	3,246	3,204	3,204	3,204	3,204	3,204
Teaching staff		**24,916**	21,957	21,887	21,841	21,676	21,676	21,676
Non-teaching staff		**15,894**	15,687	14,869	14,762	14,762	14,762	14,762
Temporary staff		**2,470**	2,488	2,390	1,984	1,984	1,984	1,984
Exceptional restructuring costs		**see I&E analysis below**					-	-
Non-restructuring exceptional costs		**2,355**	941	751	751	751	751	751
Other operating expenses - Teaching		**4,141**	3,417	3,417	3,417	3,417	3,417	3,417
Other operating expenses - Premises		**5,675**	5,752	5,502	5,502	5,502	5,502	5,502
Other operating expenses - Admin & Central Services		**8,555**	8,964	8,724	8,711	8,711	8,711	8,711
Other operating expenses - Other		**1,744**	1,372	1,254	1,435	1,497	1,497	1,498
Other operating expenses - Development		**63**	200	100	100	100	100	100
FRS 17 costs		**-**	-	-	-	-	-	-
Depreciation		**5,617**	5,780	5,774	5,774	5,915	5,915	5,915
Interest payable		**1,029**	800	800	800	800	800	800
Total Expenditure		**77,885**	72,163	70,231	69,840	69,878	69,878	69,879
Unadjusted Surplus \ (Deficit) - after grant reductions		**1,726**	**351**	**(3,707)**	**(7,174)**	**(9,503)**	**(9,503)**	**(9,504)**
initial surplus figures assuming flat cash		*1,726*	*351*	*(3,707)*	*(4,748)*	*(4,786)*	*(4,786)*	*(4,787)*
1. Commercial growth: income	2.0%			135	139	140	140	140
1. Commercial growth: margin	10%			**13**	**27**	**41**	**55**	**69**
1a Extra dev costs	manual			**(100)**	**(100)**	**(100)**	**(100)**	**(100)**
2. Senior mgt structure changes	60%			**468**	**935**	**935**	**935**	**935**
3a. Academic mgt structure changes	60%			**637**	**1,020**	**1,274**	**1,274**	**1,274**
3b. Coporate mgt structure changes	60%			**337**	**539**	**673**	**673**	**673**
4. Teaching changes	17.5%			**1,153**	**2,690**	**3,842**	**3,842**	**3,842**
5. Non Teaching changes	18%			**1,098**	**1,647**	**2,745**	**2,745**	**2,745**
6 Temp staff changes	30%			**-**	**-**	**746**	**746**	**746**
7. Harmonisation costs	excep							
8. Admin & central services - non staff costs	10%			**179**	**448**	**896**	**896**	**896**
Overall improvement				**3,785**	**7,206**	**11,055**	**11,069**	**11,083**
9. Variable loan - interest saving				**87**	**87**	**87**	**87**	**87**
Revised surplus		**1,726**	**351**	**165**	**119**	**1,639**	**1,653**	**1,666**
	%			0.0%	0.0%	1.0%	1.0%	1.0%
inflation on staff costs	£k			**-**	**-**	***330***	***333***	***336***
	%			2.0%	2.0%	2.0%	2.0%	2.0%
inflation on variable non staff costs	£k			***374***	***380***	***380***	***387***	***395***
Revised inflation adjusted surplus pre exceptionals		**1,726**	**351**	**(209)**	**(261)**	**930**	**933**	**934**
Exceptional costs - net		**1,285**	**-**	**-**	**-**	**-**	**-**	**-**
Surplus\ deficit post exceptionals		**3,011**	**351**	**(209)**	**(261)**	**930**	**933**	**934**

The detailed assumptions supporting the numbers included in the schedule above are set out in this section.

A3.1 Other income growth and development costs

1. Comm & Int	**Income**	**Margin**
initial plan 2017	6,839	684
cum. improvements	710	71
revised plan 2017	**7,549**	**755**
	check	755

The College will seek to grow its Commercial and international income. A core growth assumption of 2.0%p.a has been applied to the 2012 budget level of income. The new business is assumed to deliver an on-going margin of 10%.

In the short –term, there is likely to be a downturn in non-grant income but this will stabilise through the life of the plan.

Development expenditure (equipment etc.) will be required to support the level of activity. A figure of £100k p.a. has included in the merged business case to fund this, this equates to total funding of £200k p.a. from 2013

Risks:

i. Government guidance may focus colleges on UK students only

A3.2 Streamlining senior management

2. Senior mgt structure				
Base cost 2011-12	**1,559**	current operation costs		
assume a reduction of senior mgt costs post merger				
New structure cost	**624**			
Saving	**935**	**60%**		
	Yr1	**Yr2**	**Yr3**	
Saving delivery rate	**50%**	**100%**	**100%**	**av sal + oncosts £k**
£K saving	468	935	935	**90**
Jobs	**5.2**	**10.4**	**10.4**	

The College will implement a small senior management team comprising Principal and a number of direct reports covering the key functional areas. This team will have a substantially lower cost base than the current teams, generating a saving equivalent to 60% of the cost base by the end of the three year merger period – 31st July 2015.

The box above has two variable elements which should be explained at this stage as the same process is used throughout the model

Saving delivery rate – this estimates the rate at which the savings will be achieved. In this section it is assumed that a number of the existing senior team will remain in the college for a period in Yr1 to aid the merger process – hence only 50% of the potential saving is achieved in Yr1. Y2 would see the new team fully in place with no extra costs

Av Salary + oncosts – this estimates the average cost of a member of this group and is used to calculate the estimate job reductions.

Risks:

i.The management structure provides little capacity for new initiatives and external activities – this may lead to increased costs within the next level of the management team or may reduce the options for future growth or change.

A3.3 Academic management structure changes

3a. Academic Mgt Structure changes				
Base cost 2011-12	**3,246**			
Less: Corp Mgr SCE	- 604			
Less Corp mgr JEC	- 518			
Current cost	**2,124**			
New structure cost	**850**	**assumed reduction**		
Saving	**1,274**	**60%**		
Ac Mgt as % of total mgt	**65%**			
	Yr1	**Yr2**	**Yr3**	
Saving delivery rate	**50%**	**80%**	**100%**	**av sal + oncosts £k**
£K saving	637	1,020	1,274	**50**
Jobs	**12.7**	**20.4**	**25.5**	

The cost of corporate management has been deducted – see 3.3b below. The revised cost has been subjected to a reduction of 60%.

Risks:

i.The basis of reduction has not been verified by an underlying curriculum vision or structure.

ii The new academic management structure will need to be in place quickly after Vesting Day if subsequent curriculum changes and the relevant savings are to be delivered and the new curriculum delivery process is to be planned

A3.4 Corporate management structure changes

3b. Corporate Mgt Structure changes				
Base Cost 2012-13	**1,122**			
New Structure cost	**449**			
Saving £k	**673**	**60%**	**Target**	
Corp mgt as % of total	**34%**			
	Yr1	**Yr2**	**Yr3**	
Saving delivery rate	**50%**	**80%**	**100%**	**av sal + oncosts £k**
£K saving	337	539	673	**50**
Jobs	**6.7**	**10.8**	**13.5**	

The base cost reflects the costs transferred from A3.3. Detailed work is required to analyse the current structure and develop a structure for the New College. As a placeholder an assumption of a 60% reduction by the end of 2015 has been inserted. There will be a need to support implementation of change and the migration of systems and processes. The saving rate of 50% in Yr1 and 80% in Yr2 reflects this.

Risks:

i.The corporate management team will include responsibility for key support areas and business growth – the forecast level and rate of reduction may be difficult to achieve. As a counter to this, an early loss of key individuals and skills may hamper change activity.

A3.5 Teaching

4. Teaching				
Base cost 2011-12	**21,957**			
Saving a - merger £k	***2,745***	*12.5%*		
Saving b - red. delivery	***1,098***	*5.0%*		
Total saving a+b	**3,842**	**17.5%**		
	Yr1	**Yr2**	**Yr3**	
Saving delivery rate	**30%**	**70%**	**100%**	**av sal + oncosts £k**
£K saving	1,153	2,690	3,842	**40**
Jobs	**28.8**	**67.2**	**96.1**	

Teaching is the major activity and cost area of the college. The scale of grant reductions is such that the college cannot remain viable unless expenditure on teaching is reduced.

The current estimate acts as a placeholder and gives an indication of the level of cost reduction required.

Risks:

i. Detailed work is required to understand the curriculum efficiencies that will arise on merger; the areas where grant funding will no longer be available and the opportunities for improved productivity of teaching and physical assets.

ii. The early VS activity may lead to resource shortage on existing courses in 2012 -13

A3.6 Non-teaching staff

5. Non teaching				
Base cost 2011-12	**15,687**	detail required		
New structure cost	**12,942**			
Saving	**2,745**	**17.5%**	**Target**	
	Yr1	**Yr2**	**Yr3**	
Saving delivery rate	**40%**	**60%**	**100%**	**av sal + oncosts £k**
£K saving	1,098	1,647	2,745	**30**
Jobs	**36.6**	**54.9**	**91.5**	

As a placeholder an assumption of a 17.5% reduction by the end of 2015 has been inserted. As with corporate management in S3b, there will be a need to support implementation of change and the migration of systems and processes. The saving rate of 20% in Yr1 and 50% in Yr2 reflects this. There is likely to be a need to stop providing some ancillary services.

Risks:

i.Detailed work is required to analyse the current structures and develop a structure for the College

A3.7 Temporary staff

6. Temp Staff			
Base Cost 2011-12	**2,488**		
Amended to reflect input mgt approach - implementation - Yr3			
Saving	**746**	**30%**	**Target**
	Yr1	**Yr2**	**Yr3**
Saving delivery rate	**0%**	**0%**	**100%**

As set out within A3.5 there is a lot of work to be done to analyse and deliver a structured approach to curriculum delivery and the related savings.

The temporary staff budget should reduce substantially once this work has been performed but in the short term temporary staffing is likely to be required to cover gaps in academic and management capability. The forecast assumes no reduction in this cost areas in the first two years of the plan, with a 30% reduction thereafter. .

Risks:

i. Mix of skills may make some changes more difficult (the low rate of reduction assumed in the permanent and temporary costs provides a buffer for this)

A3.8 Admin & central services: non staff costs

8. Admin & central services: non staff costs			
Base cost 2011-12	**8,964**		
New cost	**8,068**		
Saving	**896**	**10%**	**Target**
	Yr1	**Yr2**	**Yr3**
Saving delivery rate	**20%**	**50%**	**100%**
£K saving	179	448	896

There will be opportunities to reduce central costs e.g. licence fees post-merger but detailed work is required to understand the size of the opportunity and the work required to make the reduction. A placeholder of 10% by the end of the planning period has been assumed with a low rate of cost reduction – 20% in Yr1.

Risks:

i. No analysis of current cost base at this stage

A3.9 Harmonisation costs

Completion of the merger process will start a process of harmonisation of existing terms and conditions of the current staff. This work may be overtaken by activity to introduce National contracts but it is prudent to estimate the potential harmonisation cost to the College as a consequence of merger.

The schedule below sets out the current FTE information and utilises the derived average salaries to calculate the difference between the pay levels at the individual colleges. The effect of job reduction is estimated to calculate the number of staff who could be affected in 2014-15.

It is assumed that all staff will be incentivised with a £250 payment to sign a new contract in 2014 a one-off cost to the College of £258k.

The salary uplift is assumed, in the main, to apply to JEC staff. The core level of uplift has been reduced by 50% to cover staff turnover. A high level estimate of £433k p.a. cost increase due to harmonisation has been applied to the Base Case from 2015.

7. Harmonisation costs		**£k**	
2011 Final accounts	**FTE (No)**	**Total cost**	**Av cost**
ETC FTE	551	19,738	35.8
SCE FTE	469	17,742	37.8
JEC FTE	342	10,910	31.9
	1,362	**48,390**	**35.5**
Budget 2012 - to validate			
ETC FTE	474	16,988	35.8
SCE FTE	462	17,459	37.8
JEC FTE	323	10,311	31.9
Starting point Vesting date	**1,259**	**44,758**	**35.6**
2013-15 staff reductions	**(237)**	**(9,471)**	**40.0**
Staff for harmonisation	**1,022**	**35,287**	**34.5**
initial cost - all staff £ 250		**256**	**total**
ongoing costs		Av-JEC/50%	**1.3**
Staff affected	30%		
	307	**402**	op cost 2015+

Risks

iThe analysis has no underlying HR information to provide validation and reflects a high level estimate only.

Appendix 4:Other key assumptions

This appendix considers the key external factors that will affect the College

A4.1 SFC Funding to support the merger process

The SFC has indicated that merger implementation funding of c£7.7m will be available to the College. An additional £0.6m has already been paid to support facilitation costs.

The cost of merger activity is forecast at £14.7m, including facilitation.The Base Case assumes that the difference between the cost of merger activity and the funding received will be met from Edinburgh College reserves.

The Base Case assumes that the SFC will release £3.7m in advance of the Vesting Date to support the voluntary severance activity required prior to the merger – as set out in the table in S1.3 and narrative in S4.1

Base Case model: Merger Costs & SFC funding

		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Facilitation Costs	**Total**	**Yr 0**	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**
Phase 1 - 2 colleges - released	199	199					
Phase 2 - 3 colleges - released	397	397					
Phase 2-3 CTF	129	129					
Total Facilitation Cost	**725**	**725**					
SFC Facilitation Funding	**596**	**596**					
Implementation costs	**Total**	**Yr 0**	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**
Integration activity - IT \ Branding	**2,000**	308	900	792			
Voluntary Severance	**9,471**	3,692	3,138	2,640			
Voluntary severance - pension strain	**1,000**	400	300	300			
T&C Harmonisation	**1,462**	-	-	256	402	402	402
Total Implementation Cost	**13,933**	**4,400**	**4,338**	**3,988**	**402**	**402**	**402**
SFC Implementation funding	**7,692**	**3,692**	**3,138**	**862**			
Total Merger Cost	**14,658**	5,125	4,338	3,988	402	402	402
Total SFC Funding	**8,288**	4,288	3,138	862	-	-	-

A 4.1.1 Staff changes

Theplan assumes that the College needs to reduce staff costs by £9.5m over the period to 2014-15. The detail of the savings proposed is contained within A3.

The assumption underlying the Base Case is that, on average, the VS schemes will cost the College the equivalent of one years employment cost, which in most cases is 12 months' salary plus 23% to cover employers NI and pension contributions. In addition pension strain costs will have to be paid in cash to the local government pension fund for those (non-teaching) staff that are members of that scheme and choose to retire early.

The expected cost of severance is therefore £9.5m plus a high level estimate of £1m to cover pension strain; thus £10.5m.

The VS scheme utilised may lead to the potential for higher than 1: 1 expenditure during Yr0 as the process of removing senior, often longer serving employees commences. The actual cost profile will be monitored and compared to the forecast by the HR teams with reporting to the Partnership Board.

A4.1.2 Finance Support Grant

JEC currently receives an amount of c£800k p.a. from SFC as additional grant funding. This funding provides support for interest and capital payments on the fixed rate mortgage of c£9.6m and the variable rate loan of c£2.9m currently owed by JEC to LloydsTSB.

The SFC has agreed (separate to the merger process) to continue with this grant funding until the end of financial year 2018. The Base Case assumes that the £800k will continue to be provided throughout the five year life of the plan.

A4.2 Fixed Asset Investment

A summary of the expected fixed asset investments is set out below.

Base Case model assumptions

Fixed Asset investment

		2011-12 Budget £k	2012-13 Yr 1	2013-14 Yr 2	2014-15 Yr 3	2015-16 Yr 4	2016-17 Yr 5
Property Expenditure							
SCE - North campus		500	3,000	1,500	-	-	-
ETC - Forthside		-	1,000	1,500			
Other		-	500	500	1,000	500	500
Total Propoerty		500	4,500	3,500	1,000	500	500
Other FA Expenditure	SCE	400	1,250	1,250	1,250	1,250	1,250
	JEC	200	500	500	500	500	500
	ETC	400	1,250	1,250	1,250	1,250	1,250
		1,000	3,000	3,000	3,000	3,000	3,000
	Total	1,500	7,500	6,500	4,000	3,500	3,500
SFC Capital funding		1,000	2,106	1,000	1,000	1,000	1,000

The SCE investment in the North Campus and the associated effect on depreciation and running costs is already included within the Base Case scenario.

The College will need to continue investment in premises and other fixed assets if it is to continue to meet its educational commitments and modernise the curriculum and delivery processes. Fixed asset expenditure of £25m is forecast over the plan.

The individual colleges have been allocated SFC Capital Grant for 2012-13 totalling £2.1m. The plan assumes Capital Grant of £1m p.a. in the later years of the plan.

There is some uncertainty over the allowed usage of this cash and the current assumption is that all Capital Grant received will be spent on qualifying fixed assets in the year received.

The figures for other asset investments and the SFC Capital Grant are initial estimates and require validation.

A4.3Key economic variables

A4.3.1 Inflation

The base case contains assumptions on the rate of inflation in respect of staff costs and external costs. These are summarised in the table below;

Other variables	2012-13 Yr 1	2013-14 Yr 2	2014-15 Yr 3	2015-16 Yr 4	2016-17 Yr 5
staff cost inflation %	0.0%	0.0%	1.0%	1.0%	1.0%
non staff cost inflation %	2.0%	2.0%	2.0%	2.0%	2.0%

The forecasts produced by the individual colleges do not overtly recognise inflation and to an extent the broadly flat line approach to expenses reflects a commitment to cost reduction in the range 3-5% p.a. given current inflation rates.

The Base Case assumes inflation on non-staff costs to run at 2% over the life of the plan. This is below the current level of inflation but in line with the latest BoE forecast (and target).

The risk analysis in Section 7 covers the potential effects of any movements in the rates of inflation.

A4.3.2 Staff costs

College salaries have been frozen (bar contractual increments) for the past two years and this will continue in the current financial year. A small increase of 1% is assumed in Yr 3 and beyond. The plan requires the College to reduce staffing numbers but there may be pressure on salaries if the economy does move out of recession.In addition there may be need to pay increased payroll taxes or pension contributions

A4.3.3 Non staff variable costs

An estimate of the external cost inflation of 2% p.a. for Yrs. 1-5 is included in the Base Case.

A4.4 Key accounting variables

A4.4.1 FRS 17

The costs (and improvements) relating to FRS 17 pension valuations appear to be outside the control of the College. A figure has not been inserted into the Base Case model at this stage but the Board needs to be aware of the potential for material costs to arise. This is not a cash related cost (in the short term) hence a substantial unexpected charge would be unfortunate but manageable.

A4.4.2 Accounting policies

The College will need to adopt appropriate accounting policies. The key areas affected are likely to be Fixed Assets and Pension accounting.

The Base Case model assumes that there will be no material changes to reported financial information arising from the adoption of one set of accounting policies.