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Revealed: Scots colleges' 54m financial black hole widens by 74% in two years

Martin Williams
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SCOTLAND'S colleges have a £54m black hole in finances which has widened by £23m in two years as the public services auditor warned of "long term implications" for their financial sustainability.

New figures reveal that the gap between income and expenditure on the colleges estate has widened by 74% since 2017/18 when there was a £31m gap.

The deficit in 2019/20 represented 7% of the colleges' total income of £745m.

And Audit Scotland, the spending watchdog, forecast that gap will widen because of what public sector finance watchdogs described as "costs outwith the sector's immediate control", such as pensions and the declining state of buildings, which has resulted in rising maintenance costs.

The analysis of over 20 Scottish colleges took place before the Covid-19 crisis which is expected to further hit college finances.

Shona Struthers, chief executive of Colleges Scotland, said the analysis showed the need for "increased sustainable funding" for colleges.

According to the analysis, the Scottish Government's funding of colleges stood at £615m - a 2% real terms annual increase.

The public services auditor said that if the colleges did not have the issues with pensions and aging property - it would have had an adjusted £3m surplus in 2019/20.

City of Glasgow College promo video

But Stephen Boyle, the Auditor General has warned: "Robust long-term financial planning by colleges will be critical to achieving financial sustainability. Auditors have highlighted a significant number of colleges that need increased funding, cost cutting - or both - to deliver balanced budgets in the future.

"The effects of the Covid-19 pandemic are likely to be felt in colleges for years to come. This includes longer-term implications for colleges' financial sustainability, the experience of students and staff, the college estate and the role of the sector in supporting Scotland's recovery and renewal. Responding to this will be challenging, but also offers opportunities to learn from what is working well to enable future change."

Audit Scotland said that management teams have been able to furlough staff, which has resulted in some colleges delaying "difficult decisions" around severance.

West College Scotland registered the widest shortfall in 2019/20 at £7.4m, followed by City of Glasgow College (-£4.7m), Edinburgh College (-£4.6m), Forth Valley College (£4.5m) and New College Lanarkshire (-£4.4m).

Dumfries and Galloway College's £2m black hole equated to 14.1% of its total income - the widest gap in Scotland, followed by West College Scotland (-12.9%), Forth Valley College (-11.2%) and Lews Castle College (10.6%).

Last year Audit Scotland warned that money allocated for buildings and infrastructure would fall short of the estimated costs of maintaining the college estate.

While colleges faced increasing cost pressures, the increase in Scottish government revenue funding for 2019-20 had only covered the additional costs of harmonising pay and conditions across the sector - excluding cost-of-living increases and increases in employers' pension contributions.

#ChooseCollege video featuring Edinburgh College

In 2019, 12 incorporated colleges were forecasting recurring financial black holes by 2022-23.

Audit Scotland says that that with the Scottish Funding Council's ongoing review of the college and university sectors, "significant changes" to the wider sector are also likely.

"Work to review and revise arrangements for the regional strategic college bodies in Glasgow, the Highlands and Islands,

and Lanarkshire is also ongoing."

Shona Struthers, chief executive of Colleges Scotland said: "Before the Covid-19 pandemic there was a need for increased sustainable funding for colleges, and that need has not gone away.

"The figure of a multi-million pound funding gap – because of costs outwith the direct control of colleges, like pensions and depreciation of assets – is familiar to colleges and every year we work incredibly hard to find efficiencies. "Colleges have been recognised for being very good value for money, operating in tight margins, and without the ability to borrow or carry forward any surpluses. The education and training colleges provide is a great investment in our young people and in the workforce for the future.

"We will continue to work with the Scottish Government and Scottish Funding Council to highlight the need for sustainable funding, and to bring long-term investment into colleges in Scotland."

She also said that the real-terms increase in revenue funding last year had helped put colleges in a "better financial position" than had originally been forecast.

"The pandemic has undoubtedly impacted students and staff, not least with the shift to online delivery of some learning and teaching. However, colleges have been working incredibly hard over the past year to ensure that safety, high quality education, and student welfare have all been protected," she said.

In January, a further £10 million was allocated by the Scottish Government to universities and colleges for income lost in providing rent rebates.

The Scottish Funding Council was also repurposing £5 million of student support funding towards discretionary funding for Further Education students in the college sector.

The return of national bargaining to the Scottish college sector and the subsequent move towards a harmonisation of pay and conditions, which was to lead to lecturers being moved onto a pay scale towards salaries of over £40,000, significantly increased staff costs for colleges in 2019 – something sector leaders said would increase the pressure on institutions.

Just a few weeks ago members of the EIS-FELA teaching union and employer representatives came to an in a dispute over the role of lecturers, ending weeks of strike action.

The union had said colleges were planning to replace lecturers with lower qualified, lower-paid staff in a bid to save money. Employers said there was no such plan.

The Scottish Funding Council, the Scottish Government quango that charged with funding Scotland 26 colleges and 19 universities said: "We work closely with colleges to support their continued success and viability.

"Assessing and managing the financial health of colleges is a dynamic process, and the adjusted operating position for the year 2019/20 now shows a surplus of over £3 million, an improved position from the forecast deficit of £9 million.

"Colleges have a key role to play in Scotland's economic recovery and this has been recognised with increased investment in colleges through the recent Scottish Government budget settlement for 2021-22."

Minister for further education Jamie Hepburn said: "We know our colleges face significant challenges as a result of the pandemic and we are working closely with them to mitigate the effects of the crisis.

"The college sector received over £30 million in additional funding in 2020-21 and the college budget has been increased by £35.7 million in 2021-22 to support sustainability of the sector and mitigate against the effects of the pandemic.

"The Scottish Funding Council works closely with the institutions to monitor their financial health."

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