



 Scotland's Colleges

Finance CoP
Briefing Paper
Comprehensive Spending Review

January 2011

Comprehensive Spending Review

Introduction

On 20th October 2010, Chancellor George Osborne announced plans for the UK's Comprehensive Spending review, which means public spending cuts of £81 billion for the country.

Scotland

In Scotland, the cuts were detailed in "Scotland's Spending Plans and Draft Budget 2011-12" published in November 2010. Compared with spending in 2010/11, the budget has been cut in 2011-12 by £1.3 billion, over £500 Million revenue and about £800 Million capital expenditure. In total between 2011/12 and 2014/15 we will see spending cuts of 11% in real terms and a 36% cut on the capital budget in the same period. See *Appendix A for details*.

College specific

The UK Comprehensive Spending review indicated that Further Education systems spend is being cut by one quarter from £4.3 billion to £3.2 billion by 2014-15. As with the universities, these cuts are likely to force many institutions into mergers and restructuring as a means of staying financially viable. (*Financial times 21/10/2010*)

In the draft Scottish budget for 2011/12, within the office of the Education and Lifelong Learning portfolio, the year on year cut in cash terms on budgets is £168 million on resource and £65.8 million on capital.

In order to reduce the spending across the portfolio, decisions regarding cuts have been made. The Scottish Funding Council's (SFC) budget is falling and the Scottish Government has agreed with the Further Education (FE) and Higher Education (HE) sectors that they will work collaboratively and efficiently to manage this reduction without reducing the target overall learning opportunities.

In line with the position in England, the SFC's main research excellence grant will be protected in cash terms.

In England, charges are proposed for college students. The Scottish Government are not proposing this measure. The Government is guaranteeing that no existing student will see their living costs support decrease in 2011/12.

In England, there is no protection for the education of 16 – 19 year olds. This section will bear the brunt of the Department of Education's cuts. The Education Maintenance Allowance (EMA), a benefit paid to young people of this age to encourage them to stay in education, will be abolished. The payment, which now costs £550m, will be replaced by a scheme that costs £50m. According to the Institute for Fiscal Studies, the EMA's impact was "quite substantial". It led to a 7.4 percentage points rise in the number of young men eligible for the benefit who stayed in education for an extra two years. (*Financial times 21/10/2010*). In Scotland, the EMA scheme will continue.

The overall resources to the FE and HE sectors in Scotland will be reduced. The Government asks that the sector extract maximum value from the unprecedented levels of investment they have received over the past four years by managing these reductions through greater efficiency and collaborative working.

Detailed spending plans as announced in November 2010 from the Scottish Government are as follows: -

Scottish Government draft budget 2011/12

	2010 – 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
Scottish Further and Higher Education Funding Council (SFC)	1,786.1	1,570.3	(215.8)	(12.1)

Detailed spending plans at 2010-11* prices are as follows:

	2010 - 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
Scottish Further and Higher Education Funding Council	1,786.1	1,541.0	(245.1)	(13.7)

*values are amended by Scottish Government to take into account the effect of inflation

A more detailed breakdown of the cuts announced by the Scottish Government is detailed below:

	2010-11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
Current funding for Further Education Colleges	578.2	544.7	(33.5)	(5.8)
Capital funding for Further Education Colleges and Higher Education Institutions	209.2	91.0	(118.2)	(56.5)
Current funding for Higher Education Institutions	989.3	926.2	(63.1)	(6.4)
SFHEFC Administration	9.4	8.4	(1.0)	(10.6)
Total	1,786.1	1,570.3	(215.8)	(12.1)
Of which				
Resource	1,576.9	1479.3	(97.6)	(6.2)
Capital	209.2	91.0	(118.2)	(56.5)

Subsequent to the Scottish Government draft budget, details of which are noted above, the SFC on 21 December 2010 announced detailed plans on the allocation of their 2011-12 budget in response to the request made by the Secretary for Education and Lifelong Learning to provide as much stability and certainty as possible following unprecedented budget cuts in the FE sector.

The SFC allocation of funding for 2011-12 (excluding capital) will be £528M. This differs slightly to the draft budget of £544.7M shown on page 2. The SFC budget is broken down as follows:

Latest Information on Funding for Colleges

	2010-11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
General Funding				
Teaching and Fee Waiver				
Main teaching grant	461.6	414.3	(47.3)	(10.2)
Economic Downturn	8.4	8.4	-	-
APUC	1	1	-	-
Total	471	423.7	(47.3)	(10.2)
Student support				
Bursary	69	69.3	0.3	0.4
Further Education discretionary fund (FEDF) and childcare fund (CCF)	14.9	14.9	-	0.1
Total	83.9	84.2	0.3	0.3
TOTAL GENERAL FUNDS	554.9	507.9	(47.0)	(8.5)
Strategic Funding				
Strategic Funds	26.1	13.9	(12.2)	(46.8)
Spend to save funds	-	5.6	5.6	
TOTAL STRATEGIC FUNDS	26.1	19.5	(6.6)	(25.2)
OVERALL TOTAL	<u>581.0</u>	<u>527.4</u>	<u>(53.6)</u>	<u>(9.2)</u>

The detailed FE budgets show a reduction of some 8.5% in general funding and a reduction of 25.2% in strategic funding. It should be noted that the Main teaching grant has been cut by 10.2%. Overall the funding reduction is 9.2% for 2011-12 compared to 2010-11. There is no definitive FE budget for 2012-13 or 2013-14 but it is thought reductions in the following two years may be in the region of 5-10% per annum.

The Scottish Government indicated that they expected an 11% increase in Scottish Public Spending, however the real term cuts for the Scottish Funding Council for 2011/12 is 13.7% which is higher than expected for the sector and also higher than some of the other sectors in Scotland as noted in Appendix B.

SFC announced that they expected the sector as a whole to achieve the same Weighted Student Units of Measurement (WSUMs) targets as last year (modified to reflect the changes to school-college activity and other minor adjustments). In reality the majority of the College's in Scotland have had their WSUMs target reduced by 5.6 to 5.7%. SFC has confirmed that there will be a wider leeway of 5% before clawbacks are considered for any individual college. However the reduced target means that there will be reduced funder numbers in colleges in 2011/12

What does this mean for colleges?

As well as the cuts in funding as detailed above, colleges are faced with some cost increases which will also have an impact in 2011/12. These include the following: -

- Increase in VAT rate of 2.5% to 20%
- Increase in National Insurance contributions of 1%

Detailed below are some trends that may be seen in the FE/HE sector in Scotland in light of the budgeted cuts and the Scottish Governments indication that they want to preserve the numbers of core college and university student places through collaborative and efficient working.

- Mergers
- Restructuring
- Shared Services/Collaborative projects

As well as seeing these trends occur, each individual college will suffer a real and immediate impact of these proposed funding cuts. In reality colleges will need to take other steps in order to cut their costs and also to try and increase their income from other sources. Some examples of measures to cut costs are detailed below.

- Reduction in non-essential estate maintenance
- Staff cuts
- Reduction in other staff costs e.g. non-essential training and development costs
- Reduction in teaching activity to meet reduction in WSUMs targets
- Reduction in any non-essential materials and resources for the college

In addition there will be a reduction on expenditure on capital investment due to the cuts in capital funding.

Alternative funding sources

The FE/HE sector in Scotland is heavily dependent on Government funding received via the SFC. In order to plug the gap left by the Government cuts on funding, the following are possible alternative sources of funding to the FE/HE sector.

- Increase in commercial income
- Increase in tuition fees and education contracts income
- Increase in other revenue grant income

A separate paper could be prepared to investigate possible future trends/scenarios and alternative funding sources in greater detail.

Appendix A

	2010-11	2011-12	Cash terms cut 2010-11 to 2011-12	2012-13	2013-14	2014-15	Real terms cut 2010-11 to 2014-15
	£M	£M	%	£M	£M	£M	%
Resource (DEL)	25,931	25,401	(2.0)	25,787	26,011	26,166	(8.1)
Capital (DEL)	3,293	2,506	(23.9)	2,475	2,237	2,318	(25.9)
Total (DEL)	29,224	27,907	(4.5)	28,262	28,248	28,484	(11.3)
Estimated GDP deflators %		1.9		2.3	2.6	2.7	

Appendix B

Comparison with other sectors (Cuts are as announced in Scottish Government's draft budget for 2011/12)

Education and Lifelong Learning

	2010 - 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
Scottish Further and Higher Education Funding Council	1,786.1	1,570.3	(215.8)	(12.1)
Learning	126	156.9	30.9	24.5
Children, Young People & Social Care	96.9	95.4	(1.5)	(1.5)
Student Awards Agency for Scotland (SAAS)	534.6	516.6	(18.0)	(3.3)
Other Lifelong Learning	277.9	244.4	(33.5)	(12.1)

Office for the First minister

	2010 - 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
Europe and External Affairs	16.7	16.1	(0.6)	(3.6)
Culture and Gaelic	194.2	174.9	(19.3)	(9.9)
Corporate and Central budgets	9.5	8.2	(1.3)	(13.7)
Historic Scotland	49.3	47	(2.3)	(4.7)
National Archives of Scotland	10.1	8.9	(1.2)	(11.9)

Finance and Growth

	2010 - 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
Air Services in Scotland	35.1	35.3	0.2	0.6
Committees, commissions and other expenditure	31.4	18.4	(13.0)	(41.4)
Concessionary Fares and Bus Services	255.1	255.3	0.2	0.1
Enterprise, Energy and Tourism	450.3	423.8	(26.5)	(5.9)
Ferry Services in Scotland	101.9	109	7.1	7
General Registry Office for Scotland	21.9	19	(2.9)	(13.2)
Motorways and Trunk Roads	544.1	557.6	13.5	2.5
Other Transport Policy, Projects and Agency Administration	76.3	67.1	(9.2)	(12.1)
Planning	5.3	4.1	(1.2)	(22.6)
Rail Services in Scotland	842.8	779.4	(63.4)	(7.5)
Scottish Public Pensions Agency	3,242.2	3,241.6	(0.6)	(0.1)
Third Sector	35.5	27	(8.5)	(23.9)
Water and Climate Change	62	(88)	(150.0)	(242.0)

Health and Wellbeing

	2010 - 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
Health	11,181.9	11,359.8	177.9	1.6
Housing and Regeneration	488	393.8	(94.2)	(19.3)
Equalities and Social Inclusion	27.5	27.5	-	-
Sport	54.1	66.4	12.3	22.7
Food Standards Agency Scotland	10.9	10.9	-	-

Justice

	2010 - 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
Community Justice Service	30.1	30.3	0.2	0.7
Courts, Judiciary and Tribunal Support	51.1	50	(1.1)	(2.2)
Criminal Injuries Compensation	28.1	25.5	(2.6)	(9.3)
Scottish Resilience	20.7	18.3	(2.4)	(11.6)
Legal Aid	167.9	154.1	(13.8)	(8.2)
Police Central Government	237	210.4	(26.6)	(11.2)
Drugs and Community Safety	36	35.3	(0.7)	(1.9)
Accountant in Bankruptcy	5.2	3.2	(2.0)	(38.5)
Police and Fire pensions	273.5	273.5	-	-
Scottish Prison Service	469.9	365.5	(101.4)	(22.2)
Miscellaneous	18.4	18.2	(0.2)	(1.1)
Scottish Court Service	93.5	79.9	(13.6)	(14.5)
Office of the Scottish Charity Regulator	3.6	3.3	(0.3)	(8.3)

Rural affairs and the environment

	2010 - 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
EU Support and Related Services	155.9	138.2	(17.7)	(11.4)
Research, Analysis and Other Services	95.7	82	(13.7)	(14.3)
Marine and fisheries	66.7	61.3	(5.4)	(8.1)
Environmental and Rural services	196.1	186.4	(9.7)	(4.9)
Forestry Commission	55.1	47.7	(7.4)	(13.4)
Forest Enterprise	24.9	23.8	(1.1)	(4.4)

Administration

	2010 - 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
Scottish Government Staff	167.2	152	(15.2)	(9.1)
Accommodation	19.8	17.8	(2.0)	(10.1)
Other Office Overheads	42.8	38.6	(4.2)	(9.8)
Training	5.4	4.9	(0.5)	(9.3)
Office of the Queen's printer for Scotland	0.1	0.1	-	-
Capital Charges	16.7	15.1	(1.6)	(9.6)
Capital ICT Projects	7.4	5.5	(1.9)	(25.7)
Other Capital Expenditure	2.6	2.0	(0.6)	(23.1)

Crown Office and Procurator Fiscal

	2010 - 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
Crown Office and Procurator Fiscal	118.2	108.2	(10.0)	(8.5)

Local Government

	2010 - 11 Budget £M	2011-12 Draft Budget £M	Reduction in funding £M	% Reduction in funding £M
General Resource Grants	8,742.3	8,354.7	(387.6)	(4.4)
Non-Domestic Rates (NDR) and other AME Grants	2,076.3	2,179.5	103.2	5.0
Support for Capital	843.2	691.8	(151.4)	(18.0)
Other local government	324.5	322	(2.5)	(0.8)

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