

## Colleges Cash and Reserve Levels 2011/12 – Key Findings

Thursday 7 March 2013

The *Report of the Review of Further Education Governance in Scotland* by Professor Russel Griggs is frequently quoted as suggesting available college reserve levels of around £200m. Recent analysis of the college sector July 2012 year end accounts has updated this position, and indicates that the sector is operating in a very tight cash position, with reserves far lower than previously stated – with most of these reserves being held with specific plans for future investment in the colleges estate.

Funds which colleges have to spend have to be understood in terms of both cash and reserves. Cash is the money in hand and in the bank that the college can access. This is expected to meet all the day to day costs of operations, as well as have some extra flexibility should there be any additional costs not known when budgeted – such as urgent repairs to buildings or equipment, to meet obligations on paying invoices on time, or to ensure there is enough to manage if there is unexpected loss of income, as almost 30% of income comes from non-government sources.

For 2011/12 colleges had £178m in cash, to cover £131m of short-term liabilities – leaving £47m. In responding to Colleges Scotland, members indicated that a further £5.1m is committed for spending in the future. The Scottish Funding Council (SFC) provides guidance that colleges should aim to have, as a minimum, the equivalent of two months cash available to cover expenditure. The £42m remaining would equate to roughly 19 days. These funds can be a cushion, and having that cushion is prudent and good practice.

Reserves, on the other hand, are not cash. They cannot be withdrawn like funds in a bank account. Some are expected to be used to fund certain future commitments, such as pensions, and some are restricted. Also, of the total reserves in colleges, £230m is showing the increased value of estates – to access that money would only be possible through colleges selling their buildings. This is commonly known as the revaluation reserve.

The remainder is just over £100m – which has been accumulated for different reasons: for long-term loan repayments, or to be put towards planned large projects such as new campus buildings or student accommodation. Reserves can only be accessed if a college plans to spend more money than it will make, and has cash available to do so.

Colleges told us that of that £108m reserves, £38m is earmarked for future spend on new facilities or other investment in their estates. That leaves around £70m. Two other colleges indicated they will spend reserves on meeting the costs of mergers, but were not able to specify the exact figure yet.

Further funds will likely go towards the nine mergers expected to take place over the next two years – involving 20 colleges. Some reserves have already been spent in mergers that have taken place, often matching central funding support. The cost of these future mergers is expected to be partly met by SFC and Scottish Government, who will contribute around £54m. Costs will exceed that, and will likely be met from remaining college reserves.

Audit Scotland, when reviewing college accounts from 2010/11, stated colleges were operating in very tight margins, and the accounts from 2011/12 show these margins are going to be tighter still, with very little flexibility. Reserves are not a sustainable source of funding.

**Some facts:**

- 100% of colleges provided their financial information for 2011/12, 41 colleges in total (including the three land-based colleges now forming SRUC).
- Of these, 38 had positive reserves.
- Three had negative reserves. Taking account of pension liabilities, this number rises to 13.
- Only four colleges had reserves above £10m.
- The total value of the sector is just under £1bn, held mostly as land and buildings.
- The total reserve position is made up of revalued assets (£230m) and income and expenditure reserves (£108m).
- Deferred capital is (£627m) which has already been spent on assets, is released to off-set depreciation.
- The sector had long-term loan and provision liabilities of over £160m.

Colleges Scotland  
March 2013